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Canadian CPI (Jul): Nothing to worry about

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Consumer price index (% chg)	26:Q1	26:Q2	May	Jun	**Jul**
Year/year rate (unadjusted)	2.2	2.9	3.2	2.8	**3.0**
Monthly rate (unadjusted)	-	-	1.0	-0.4	**0.5**
Monthly rate (SA)	-	-	0.4	-0.1	**0.3**
Three-month rate (SAAR)	-	-	5.1	2.9	**2.6**
CPI-trim (year/year rate)	2.3	2.0	2.0	1.9	**1.9**
CPI-median (year/year rate)	2.4	2.0	2.1	1.9	**2.0**

Source: Statistics Canada

- Canadian inflation reaccelerated a touch more than consensus expectations in July, although with that move driven by higher gasoline prices and airfares it shouldn't be a concern to policymakers at the Bank of Canada. Core measures of inflation remain around the 2% mark on a year-over-year basis, supporting the current on hold stance as we seek more clarity regarding the future path of oil prices and Canada-US trade.
- The 3.0% headline reading was a tick higher than consensus expectations, up from 2.8% in the prior month, and was driven by a 0.5% monthly change in prices (0.3% after seasonal adjustment). A partial rebound in gasoline prices drove the headline acceleration, and excluding that area inflation held at 2.2% for a third straight month.
- Airline fares and travel tours also rose and added to the annual inflation rate, although those moves still reflect the passthrough from the initial spike higher in global energy prices, as flights purchased with higher fares are now being taken, as well as potentially a continued impact from the FIFA World Cup. Airfares rose by 12% year-over-year in July, up from 9.6% in the prior month, while inflation in travel tours accelerated to 15.1% from 6.8%. With StatsCan suggesting that there was still an impact from the World Cup on fares to the US in July, the acceleration in July could be partly unwound next month.
- The increases in airfare and travel tour prices contributed to ex food/energy CPI increasing by 0.25% seasonally adjusted in July, with the annual rate ticking up to 1.9% (consensus 1.8%). However, the Bank of Canada's old preferred measure of core inflation, CPI-X, advanced by a somewhat tamer 0.18% in large part because that also excludes airline fares. CPI-trim and median both increased by 0.2% and were a tick higher than consensus expectations on a year-over-year basis, although at 1.9% and 2.0% respectively they continue to point to fairly subdued underlying inflationary pressures. The average of these four measures of inflation remained consistent with a 2% inflation target, coming in at 0.22% m/m, 2.0% y/y and 1.9% on a 6-month annualized basis.
- Partially offsetting the increases in airline fares and travel tours, rents fell by 0.5% in July with the annual inflation rate in that category easing to 2.5% from 3.5% in the prior month. Food inflation edged down slightly to 3.0%, from 3.5% in June.

Implications & actions

Re: Economic forecast — While there's still plenty of uncertainty regarding future oil and gasoline price moves, so far average prices in August are tracking close to July's level, which should see headline inflation hold at or close to

July’s print. The generally subdued readings for core inflation on a year-over-year basis mean that there's no rush for the Bank of Canada to raise interest rates, and policymakers have plenty of time to assess oil price fluctuations, how the tariff situation plays out and whether the rebound in economic activity we are currently witnessing can be sustained. We continue to forecast no change in the overnight rate until around mid-2027.

Re: Markets — Canadian bond yields rose slightly following the data release, while the loonie continued its recent strengthening against its US counterpart.

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