Economics

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Canadian CPI (June): Mixed core messages

by **Andrew Grantham** andrew.grantham@cibc.com

Consumer price index (% chg)	23:Q1	23:Q2	Apr	May	Jun
Year/year rate (unadjusted)	5.1	3.5	4.4	3.4	2.8
Monthly rate (unadjusted)	-	-	0.7	0.4	0.1
Monthly rate (SA)	-	-	0.5	0.0	0.1
Three-month rate (SAAR)	-	-	3.7	3.1	2.6
CPI-trim (year/year rate)	4.8	3.9	4.2	3.8	3.7
CPI-median (year/year rate)	4.9	4.1	4.4	4.0	3.9

Source: Statistics Canada

- Canadian inflation decelerated to 2.8% year-over-year in June, from 3.4% in the prior month and two ticks below the consensus estimate (3.0%). However, with the deceleration in headline inflation largely due to gasoline prices being compared to the very peaks witnessed in 2022, and with core measures of inflation showing decidedly mixed measures, the weaker headline figure doesn't mean we can sound the all clear for interest rates just yet.
- Headline CPI rose by 0.1% in June on both a seasonally adjusted and unadjusted basis. The 2.8% annual rate was the lowest since March 2021, with the deceleration mainly due to gasoline prices which were down 21.6% year-over-year in June following an 18.3% decline in May. A smaller monthly increase in car prices this year compared to last year also helped bring the headline year-over-year rate lower, as supply chain disruptions have eased relative to 2021. Mortgage interest costs remained the primary driver of year-over-year inflation, and excluding that component inflation sat at exactly 2.0% in June.
- Excluding food and energy, prices rose by a mere 0.1% m/m for a second month in a row on a seasonally adjusted basis. Our preferred measure of core inflation, which excludes mortgage interest costs as well because these are being directly affected by BoC rate hikes, showed prices were little changed on the month and up only 1.6% on a three-month annualized basis. The old Bank of Canada core measure CPI-X showed a deceleration to 2.6% on a three-month annualized basis. However, the gap between some of these traditional core measures and the Bank of Canada's new core measures appears to be widening again, with these new measures still suggesting a stickiness of underlying price pressures well above the 2% inflation target. Indeed, CPI-trim and median both printed above consensus expectations in June, with the average accelerating to a 3.8% pace on a three-month annualized basis (from 3.7% in the prior month).

Implications & actions

Re: Economic forecast — Headline inflation will likely creep back above 3% in the coming months, as base effects from lower gasoline prices become less generous. However, it was the stickiness of core inflation measures which was a concern for the Bank of Canada, and with CPI-trim and median showing little further progress towards the target band there remains a very real risk that interest rates could be raised again after the summer. With our preferred core measures of inflation already showing clearer signs of waning price pressure, we continue to think that the Bank of Canada is overshooting what was necessary in order to bring price pressures under control, and see inflation dipping below 2% in the second half of next year (three quarters earlier than the Bank's MPR forecast for a return to 2% by mid-2025).

Re: Markets — Bond yields and the Canadian dollar both settled slightly lower following the release, but the moves were fairly muted likely due to the somewhat mixed message provided by the core readings.