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Canadian CPI (May): Some light relief

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Consumer price index (% chg)	22:Q4	23:Q1	Mar	Apr	**May**
Year/year rate (unadjusted)	6.7	5.1	4.3	4.4	3.4
Monthly rate (unadjusted)	-	-	0.5	0.7	0.4
Monthly rate (SA)	-	-	0.3	0.5	0.1
Three-month rate (SAAR)	-	-	2.6	3.7	3.4
CPI-trim (year/year rate)	5.4	4.8	4.4	4.2	3.8
CPI-median (year/year rate)	5.2	4.8	4.5	4.3	3.9

Source: Statistics Canada

- While food price increases remained strong, tamer core readings of inflation point to some light relief for Canadian consumers, and for the Bank of Canada as it decides if, or when, to raise interest rates again. Our base case remains for policymakers to pause in July, and to deliver a final 25bp rate hike in September, as price pressures still remain elevated, but we await further data on growth this week to see how underlying demand is faring as well.
- Headline prices rose by 0.4% in May (not seasonally adjusted) for an annual rate of 3.4%. The year-over-year rate was a deceleration from 4.4% in the prior month, although that was mainly due to base effects from gasoline prices, as last May represented close to peak prices at the pumps. Food price increases remained stronger than those seen stateside, with another 0.5% SA m/m increase in May matching that of the prior month. Looking at the detail within food prices, grocery store prices accelerated to 0.5% SA m/m, and restaurant prices surged by 0.7% SA m/m.
- The good news in today's release came from slightly softer core measures of inflation. CPI excluding food/energy rose by 0.2% seasonally adjusted, and excluding mortgage interest costs as well, the 3-month annualized rate decelerated to 2.8% (having spiked up to 3.4% in April). While the Bank of Canada's preferred core measures continue to run hotter, at 3.9% and 3.8% y/y for median and trim, respectively, they were at least slightly below consensus expectations.
- Elsewhere, the detail was somewhat of a mixed bag, with the annual pace of inflation down sharply in household operations/furnishings, clothing, and car purchases. Some other areas including discretionary services saw increases in the pace of annual inflation (health and personal care), or only modest decelerations (recreation services). There is so far little evidence of consumers showing resistance to higher prices. But with the unemployment rate set to rise further ahead as the impact of past rate hikes materializes more, household spending power will wane, dampening demand for these discretionary items.

Implications & actions

Re: Economic forecast — Headline inflation will ease again in June, as gasoline prices are compared to the peaks of last year, with a sub-3% print likely. However, inflation could accelerate slightly again after that, particularly if food prices continue to climb, and as the base effects from energy prices become less favourable. Overall, today's data don't change the fact that inflation is running hotter than the Bank's prior April MPR forecasts. However, the tamer core readings suggest that policymakers may be able to wait a little longer rather than following up June's hike with another move as early as July, and we therefore continue to expect policymakers to wait until September to deliver a final 25bp hike.

Re: Markets — Even though today's data release was in-line with consensus expectations, the easing of some core price pressures saw bond yields fall and the Canadian dollar depreciate, as odds of a further 25bp hike in July eased back close to a 50/50 call.