

Economics

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## Canadian CPI (May): Old news

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Consumer price index (% chg)	25:Q4	26:Q1	Mar	Apr	May
Year/year rate (unadjusted)	2.2	2.2	2.4	2.8	3.2
Monthly rate (unadjusted)	-	-	0.9	0.4	1.0
Monthly rate (SA)	-	-	0.5	0.4	0.5
Three-month rate (SAAR)	-	-	2.9	4.2	5.4
CPI-trim (year/year rate)	2.9	2.3	2.2	2.0	2.0
CPI-median (year/year rate)	2.8	2.4	2.3	2.1	2.1

Source: Statistics Canada

- Canadian inflation accelerated more than consensus expectations in May but, with oil and gasoline prices now well off their previous highs, this should prove to be the peak and as such viewed as old news. Even the stronger ex-food/energy reading this month was impacted by the prior spike in oil prices, with travel tours and air transportation the main positive contributors to the acceleration. Given the slack still in the Canadian economy, we continue to expect that the Bank of Canada will look through this temporary spike in inflation and keep interest rates on hold throughout the remainder of this year.
- Headline inflation accelerated to 3.2% year-over-year, which was up from 2.8% in the prior month and a couple of ticks above the consensus forecast. On the month, prices rose by 1.0% in unadjusted terms (0.8% consensus) and 0.5% after seasonal adjustment.
- Once again, gasoline was the main source of inflationary pressure, and excluding that one area the year-over-year rate of CPI would have been a much more modest 2.2%. However, inflation ex-gasoline was up from 2.0% in the prior month, with ex food/energy CPI rising a seasonally adjusted 0.3% m/m and the annual rate ticking up to 1.6%.
- But even that could at least partly be linked to a pass through from the previous spike in oil prices, as travel tours and air transportation both swung into positive territory on a year-over-year basis. Airfares rose 7.4% year-over-year, which was the strongest increase since February 2023. Other areas putting upward pressure on ex food/energy inflation included computer equipment, software and supplies, where prices rose 3.9% year-over-year which Statistics Canada suggested was driven by heightened global demand from AI datacentres.
- Elsewhere, shelter inflation remained soft, even though mortgage interest costs edged up on a month-over-month basis for the first time since November. Rent inflation, which had looked unusually strong relative to market asking rates, decelerated further and, at 3.5% year-over-year, is now at its lowest since early 2022.
- While ex food/energy inflation looked a little stronger in May, other measures of core inflation held steady with CPI-Trim and CPI-Median at 2.0% and 2.1% respectively. An average of four core measures (also including CPI-X) showed underlying inflation in line with the Bank's target at 2.0%. The proportion of the inflation basket rising more than 3% y/y rose slightly, but that again picked up the fuel-driven acceleration in airfares.

## Implications & actions

**Re: Economic forecast** — Headline inflation should have peaked and, based on current gasoline prices, could fall back to around 3% next month. However, core measures of inflation are likely to accelerate modestly further in the months ahead, as airfares over the peak summer travel months pick up even more of the fuel-driven fare increases, and as the FIFA World Cup temporarily boosts prices in areas such as hotels and spectator sports. But the low starting point for core measures of inflation on a year-over-year basis should enable the Bank of Canada to look through any near-term acceleration and we continue to see interest rates on hold throughout the remainder of 2026.

**Re: Markets** — Canadian bond yields rose slightly following the data release, however the move was fairly small with investors realising that the acceleration was largely old news.

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