

Economics

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Canadian CPI (June): Too firm for the BoC's liking

by **Ali Jaffery** ali.jaffery@cibc.com

Consumer price index (% chg)	25:Q1	25:Q2	Apr	May	June
Year/year rate (unadjusted)	2.3	1.8	1.7	1.7	1.9
Monthly rate (unadjusted)	-	-	-0.1	0.6	0.1
Monthly rate (SA)	-	-	-0.2	0.2	0.2
Three-month rate (SAAR)	-	-	1.2	-0.2	0.7
CPI-trim (year/year rate)	2.9	3.0	3.1	3.0	3.0
CPI-median (year/year rate)	2.7	3.1	3.1	3.0	3.1

Source: Statistics Canada

- The Canadian June CPI report showed price pressures likely remained a bit too firm for the BoC's liking. The headline index rose by 0.1% m/m (in non-seasonally adjusted terms, and +0.2% m/m seasonally adjusted) in line with consensus, and the annual rate moved up two ticks to 1.9% y/y partly due to base-year effects. The BoC's preferred core measures, CPI trim and median came in at 0.2% and 0.3% m/m SA respectively, keeping the annual rate for trim unchanged at 3.0% and median one notch higher at 3.1%. CPIX and CPI ex. food and energy also rose by 0.3% m/m in June. Shelter costs rose as rents surprisingly increased – although that series has become very volatile -- and core goods inflation remained elevated.
- On the heels of a good job report and somewhat firm price pressures, we expect the BoC to remain on pause in July because this is a central bank that by its own admission isn't very comfortable being forward-looking. Waiting until the fall will give them more time to observe cost pressures, the response of the economy to tariffs and the uncertainty shock, and perhaps most important, to have a clearer picture of Canada's tariff outcome.
- Firmer price pressures today reflected a mix of forces: further increases in goods, particularly for clothing and footwear and also an increase in shelter prices from the prior month. Judging by the government's list of retaliatory tariffs -- which covers a broad range of food categories, as well as clothing, household products, toys, art and intermediate inputs -- its likely that tariff-pass-through is part of the story for goods, along with some past depreciation of the Canadian dollar. But we don't necessarily see a lot of evidence of cost pressures building due to the "rewiring of trade", something the Bank of Canada is looking out for. We think its far to early to see that, with firms responding to evolving demand conditions and supply adjustments likely to happen more gradually.
- The rise in shelter comes off of a soft prior month but the rise in rental inflation flies in the face of the anecdotal evidence of the rental market cooling, especially in Ontario. But that series has been notoriously volatile since Statistics Canada revised the methodology prior to the pandemic. We expect the trend to be downward going forward and don't put too much weight on the jump in rental inflation this month.
- Overall, the increases in prices seen today don't really look very durable and look more like idiosyncratic price level adjustments, especially considering the widening slack, high economic uncertainty and slowing income gains. The President's latest tariff threat, even if obviously a negotiating tactic, only makes the downside risk to the economy greater. It also complicates the near-term outlook for inflation if tariffs do end up higher both on Canada and the rest of the world, but is the right response to keep monetary policy neutral to modestly restrictive? That seems like an

excessively cautious way to guard against expectations de-anchoring when headline line remains not far from target, with high costs for the economy and creating downside future risks for inflation.

Implications & actions

Re: Economic forecast — The Bank of Canada will want to see cost pressures contained and measures of underlying inflation cool a bit more before providing relief to the economy. We expect the Bank to remain on pause at its July decision.

Re: Markets — Yields modestly picked up after the release and CAD modestly appreciated before slipping back.

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