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Canadian CPI (May): A step in the right direction

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Consumer price index (% chg)	24:Q4	25:Q1	Mar	Apr	**May**
Year/year rate (unadjusted)	1.9	2.3	2.3	1.7	1.7
Monthly rate (unadjusted)	-	-	0.3	-0.1	0.6
Monthly rate (SA)	-	-	-0.1	-0.2	0.2
Three-month rate (SAAR)	-	-	3.0	1.2	-0.2
CPI-trim (year/year rate)	2.6	2.9	2.9	3.1	3.0
CPI-median (year/year rate)	2.6	2.7	2.8	3.1	3.0

Source: Statistics Canada

- Headline price pressures picked up in Canada in May, but the Bank of Canada's key core measures of trim and median decelerated notably, which is a step in the right direction towards a July cut. The headline index picked up to 0.6% m/m (in non-seasonally adjusted terms, and +0.2% m/m seasonally adjusted) matching our forecast, and a tick above the consensus, leaving the annual rate unchanged at 1.7% y/y. More importantly, CPI trim and median both decelerated to 0.2% m/m SA, from 0.4% in the prior month, leaving the annual rates a tick slower at 3.0% for each, in line with the consensus expectation. The Bank of Canada will want that progress to be maintained in the next report in order to feel comfortable cutting in July.
- Helping the slowdown in core measures was a cooling in rent prices to +0.1% m/m SA. A cooling had already been shown in private industry data for major cities amidst the condo supply surge and population slowdown. That left the annual rate for rent at 4.5%, the slowest pace seen since Q4 2022. Private indices show that rents are down by 3-4% y/y in Toronto, although the CPI hasn't picked that impact up yet, with rents in the CPI in Toronto up 1.6% y/y and 3% y/y in Ontario as of May. Elsewhere within the shelter index, mortgage interest costs came in at 0.2% m/m, with the annual rate decelerating to 6.2%. A continued slowing in these shelter measures will help to offset the upside to goods prices from tariffs ahead, as rent and mortgage interest costs are the two largest upward contributors to the annual rate currently.
- Food price inflation had been boosting the BoC's preferred core measures, and it slowed sharply to 0.3% m/m SA, after being lifted by counter tariff measures previously, with the annual rate down four ticks to 3.4%. Specifically, fresh fruit and vegetable prices dropped, offsetting an acceleration in meat prices. The appreciation in the Canadian dollar over the last few months is helping to contain food prices amidst tariffs. Goods inflation outside of food and energy rose to 0.3% m/m SA, which may be picking up some tariff passthrough. Given that there many exemptions to Canada's counter tariff measures (mainly for intermediate goods from the US used in manufacturing in Canada), the tariff passthrough into Canada's CPI will stem largely from finished goods imported from the US that were subject to US tariffs, in addition to food.
- The progress in the Bank of Canada's trim and median measures was echoed in the CPIX index (which excludes volatile items and indirect taxes), as it also slowed to 0.2% m/m SA, from 0.4% in the prior month, leaving the annual rate steady at 2.5%, and the three-month annualized pace at 1.8%. The rise in the unemployment rate isn't yet being picked up in the services ex. shelter index, as it's still sitting at 3.4% y/y (+0.8% m/m SA in May), and the share of CPI items rising at above 3.0% y/y also increased.

Implications & actions

Re: Economic forecast — The Bank of Canada will need to see the moderation in core measures maintained in the next report to deliver the July cut that we expect. Tariff impacts will become more evident in the releases ahead, but we look for waning demand tied to the rise in the unemployment rate to provide an offset, along with the appreciation in the Canadian dollar, and a deceleration in shelter inflation.

Re: Markets — There was little market reaction to the data, as it was largely on consensus and doesn't lean definitively towards a July cut (but also doesn't negate one), and there are still several key data releases before the July 30th meeting that will be inputs into the BoC's decision.