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Canadian CPI (July): Door to further cuts remains wide open

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Consumer price index (% chg)	24:Q1	24:Q2	May	Jun	Jul
Year/year rate (unadjusted)	2.8	2.7	2.9	**2.7**	**2.5**
Monthly rate (unadjusted)	-	-	0.6	**-0.1**	**0.4**
Monthly rate (SA)	-	-	0.2	**0.1**	**0.3**
Three-month rate (SAAR)	-	-	2.8	**2.3**	**2.8**
CPI-trim (year/year rate)	3.1	2.8	2.9	**2.8**	**2.7**
CPI-median (year/year rate)	2.9	2.6	2.6	**2.6**	**2.4**

Source: Statistics Canada

- Canadian inflation continued to ease in July, keeping the door to further interest rate cuts wide open. Headline inflation eased to 2.5% year-over-year, on the back of a 0.4% NSA (0.3% SA) increase in prices on the month, with both of those figures matching consensus expectations. Core measures of inflation were also muted, with CPI-trim and CPI-median both advancing by only 0.1% on the month and easing slightly more than anticipated on a year-over-year basis. With inflationary pressures fading away but concerns about the weakening labour market growing, we continue to forecast three further 25bp cuts by the Bank of Canada at the remaining meetings this year.
- Gasoline prices were the largest contributor to the monthly increase in prices, rising 2.4%. However, prices also increased during the same month of 2023, and as a result the annual rate of inflation in that category remained fairly muted at 1.9%. Food price inflation held pretty steady at 2.7% year-over-year in July.
- Air transportation, travel tours and hotel prices rose on the month, but these seasonal increases were smaller than is typical in July and as a result declines were seen on a year-over-year basis. For example, air transportation prices increased by 8.4% m/m, with this rise falling short of last year's 13.6% gain. The smaller monthly price increases this year in these areas of discretionary services spending could be a sign of the impact of weak consumer demand.
- Mortgage interest costs are still adding notably to inflation even as interest rates have started to come down, with the 0.9% monthly increase actually the strongest since April (albeit well below the increases seen throughout most of 2022 and 2023). However, the last Bank of Canada interest rate cut only came in late July, while the decline in term rates recently was more of an August story. Because of that we still see scope for smaller monthly gains in mortgage interest costs ahead. Excluding the mortgage component, inflation would have been only 1.8% year-over-year in July.
- Other elements of shelter price inflation have weakened somewhat in recent months, with rent prices rising by only 0.2% m/m and easing slightly on a year-over-year basis. Homeowner replacement costs and "other owned accommodation expenses" which broadly follow house prices both saw a month-on-month decline in July.
- Core measures of inflation were fairly subdued in July, with ex-food/energy prices up only 0.2% on a seasonally adjusted basis, even with mortgage interest costs still advancing. The Bank of Canada's preferred CPI-trim and CPI-median both increased by a slight 0.1% m/m, and eased to 2.7% and 2.4% respectively on a year-over-year basis. Both of those annual rates were the lowest since April 2021.

Implications & actions

Re: Economic forecast — Inflationary pressures continue to fade, and were it not for the continued upward pressure from mortgage interest costs inflation would have been in-line with a 2% target in every month since the start of the year. With inflation appearing to be under control, the Bank of Canada has more leeway to set policy in response to downside risks to the economy stemming from the rise in the unemployment rate. We continue to forecast three further 25bp interest rate cuts at the remaining BoC meetings of 2024.

Re: Markets — Even though financial markets were already priced for three 25bp cuts from the Bank of Canada between now and the end of the year, bond yields and the Canadian dollar still fell slightly following today's release.

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