Canadian CPI (June): Just Lacking Energy

Canadian inflation decelerated in June, but that was largely a reflection of lower gasoline and energy prices more generally. Indeed, excluding energy, CPI was 2.6% year-over-year, in contrast to the 2.0% headline print, and so with gasoline prices turning from a drag to a slight positive before year-end, inflation is likely to be headed higher again particularly in Q4. However, with the Bank of Canada’s three core measures still averaging 2%, that won’t be a major concern for policymakers.

Food price inflation remained firm in June, largely due to higher meat and vegetable prices compared to a year ago. The latter has been seeing strong price gains for a while now, thanks to unfavourable weather in agricultural regions.

Higher insurance costs this year have also been adding to headline CPI. Passenger insurance premiums rose another 1.4% on the month, taking the year-over-year pace to almost 9%. Increases in this area had averaged around 1% year-over-year between 2014 and 2018 and were linked by Statistics Canada to the rising cost and frequency of claims associated with weather-related events. Homeowners’ insurance (+6.3% y/y) is also currently well above the pace of headline inflation.

Traveler accommodation and air transportation costs were among the highest increases compared to the prior month, but volatility in these areas in June wasn’t as great as seen last year following a change in methodology regarding how air fares are collected. Rent inflation, meanwhile, continued to show a stronger trend than it has in prior years, which could be linked to a methodology change at the start of 2019.

One area that we had pegged as a downside risk in June, owing to the introduction of unlimited data plans at some cell phone providers, was telephone services. However, prices in this area
were down only slightly on the month, with the annual pace actually accelerating. Still, this is an area to keep watching in the months ahead.

- Released alongside the CPI figures, manufacturing sales for May rose by 1.6% - a strong increase, albeit a little weaker than had been expected after a surge in manufactured exports. The 1.7% rise in volume terms suggests, however, that the sector will still give a decent boost to monthly GDP.

Implications & Actions

**Re: Economic Forecast** — With energy prices headed higher in the months to come, as we lap weaker figures a year ago, headline inflation will accelerate back above 2% by the end of the year. However, with some of the factors supporting ex-energy inflation likely to prove temporary, we should see a deceleration again in 2020 back toward the mid-point of that target. And with the BoC’s three core measures still averaging very close to 2%, it will be growth and developments regarding global risks that will drive policy discussion.

**Re: Markets** — Today’s data were close to expectations and so had limited market reaction.