



Firm June inflation likely to sideline Bank of Canada

Canadian CPI inflation nudged higher on both a headline and core basis in June pointing to both tariff and domestically driven price pressure. Combined with firm economic data as of late, the door for a Bank of Canada policy rate cut on July 30 has likely slammed shut.

Headline CPI rose 1.9 per cent y/y, up from 1.7 per cent in both April and May, while prices rose 0.1 per cent m/m (0.2 per cent, seasonally- adjusted). While headline growth was below two per cent, it continues to reflect the effect of the carbon tax removal on April 1, which will continue to dampen y/y growth over the next year. Y/y growth in the CPI was 2.3 in March. Moreover, core measures of inflation remained elevated, with the Bank of Canada's median- and trim- measures at 3.1 and 3.0 per cent, y/y. Short-term growth trends accelerated to a 3- month annualized trend of 3.4 per cent, which is too high for the Bank's comfort.

Looking at the underlying details of the inflation figures, the uptick reflected a range of factors. Driving the increase was energy and less drag from gasoline prices which fell 13.4 per cent y/y, compared to a 15.5 per cent drop in May. However, natural gas price declines deepened. There was also tariff related upward pressure on durable goods including vehicle prices, with the purchase value up 4.1 per cent from 3.2 per cent, and lease prices up 5.5 from 5.0 per cent, and furniture (up 3.3 per cent). Clothing and footwear price growth accelerated from 0.5 to 2.0 per cent, with travel accommodation up 1.1 per cent after a 2.2 per cent drop in May as Canadians stayed north of the border.

That said, households saw some relief from a slowdown in food prices, which edged up 0.1 per cent m/m, with y/y growth slowing to 2.9 per cent from 3.4 per cent. Store-bought food decelerated to 2.8 per cent from 3.3 per cent, including a sharp slowdown in fruit (from 3.8 per cent to 2.1 per cent), while fresh vegetables fell outright from a year ago by 3.1 per cent, and dairy products slowed to 1.7 per cent. There was also further relief for cellular services, with prices down 7.2 per cent (likely owing in large part to better services/more data). On the housing side, shelter cost inflation slipped from 3.0 per cent to 2.9 per cent, although rent growth accelerated to 4.7 per cent from 4.5 per cent. It is likely that rents will see some easing of trend given excess supply and lower demand in the housing market. Dragging on shelter costs were mortgage interest, which slowed to 5.6 per cent y/y from 6.2 per cent, and a drop in homeowner replacement costs. Excluding shelter, CPI inflation was 1.5 per cent y/y, compared to 1.2 per cent in May.

Despite a mix in price pressures across segments, the key story for June remained uncomfortably high core inflation likely to keep the Bank on the sidelines later this month, particularly given last week's robust labour market report, and potential upside price risks from tariffs. Markets have been paring expectations for rate cuts for some time, and now are pricing in about one cut for the remainder of the year. That said, the outlook remains uncertain. We are still of the view that the economy contracted mildly in the second quarter, and a deeper downturn could emerge in the third quarter. The latest threats of tariff hikes in August remain another potential source of economic weakness, while the housing market prices and rents are already declining and should filter through the shelter component slowly. That said, the Bank will remain in a holding pattern until more signs of lower inflation and slowing economy emerge.

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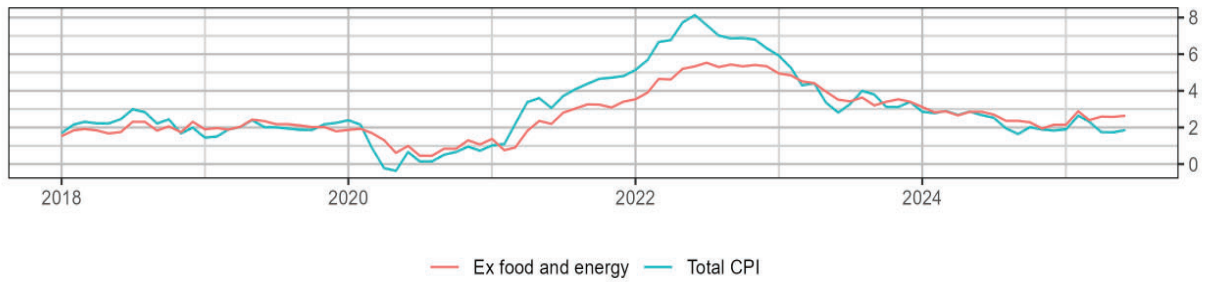
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| Jun/2025 | Canada Consumer Price Index | | | | | |
|------------------------------|-----------------------------|--------------|---------|---------------|--------------|--------------------|
| Indicator | m/m ch. | prior m/m ch | y/y ch. | prior y/y ch. | 3m ann % ch. | prior 3m ann % ch. |
| All-items, actual | 0.1 | 0.6 | 1.9 | 1.7 | | |
| All-items, s.a. | 0.2 | 0.2 | 1.9 | 1.8 | 0.7 | -0.2 |
| Ex food and energy | 0.1 | 0.6 | 2.6 | 2.6 | | |
| Ex food and energy, s.a. | 0.3 | 0.3 | 2.6 | 2.5 | 3.4 | 2.4 |
| Select Products and Services | | | | | | |
| Goods | 0.1 | 0.5 | 0.5 | -0.1 | | |
| Services | 0.1 | 0.7 | 3.0 | 3.2 | | |
| Food | 0.1 | 0.5 | 2.9 | 3.4 | | |
| Gasoline | -0.7 | 1.9 | -13.4 | -15.5 | | |
| Shelter | 0.2 | 0.0 | 2.9 | 3.0 | | |
| Rent | 0.4 | 0.2 | 4.7 | 4.5 | | |
| Mortgage Interest | 0.2 | 0.2 | 5.6 | 6.2 | | |
| Homeowners Replacement | -0.4 | -0.3 | -0.9 | -0.3 | | |
| CPI Ex Shelter | 0.0 | 0.8 | 1.5 | 1.2 | | |
| Bank of Canada Core Measures | | | | | | |
| Core Common | | | 2.6 | 2.6 | | |
| Core Median | | | 3.1 | 3.0 | | |
| Core Trim | | | 3.0 | 3.0 | | |
| Core Median, s.a. | 0.3 | 0.2 | 3.1 | 3.0 | 3.4 | 3.0 |
| Core Trim, s.a. | 0.2 | 0.2 | 3.0 | 3.0 | 3.4 | 3.0 |

Inflation Indicators

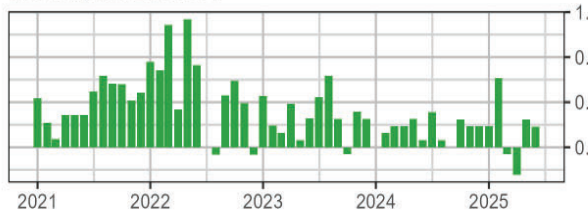
CPI Inflation, y/y % change

Last data point: 2025-06-01



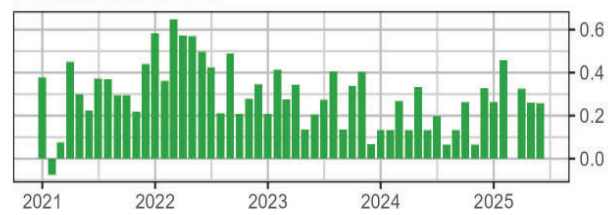
CPI sa, m/m % ch

Last data point: 2025-06-01



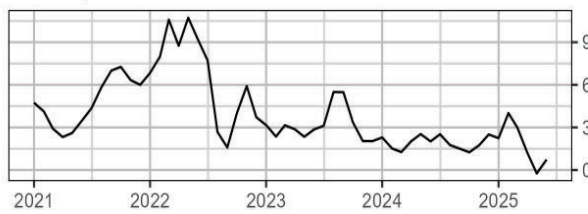
CPI ex food/energy sa, m/m % ch

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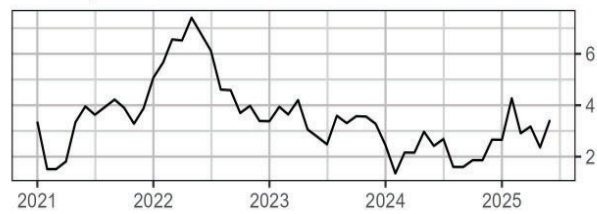
CPI sa, 3m ann. % ch

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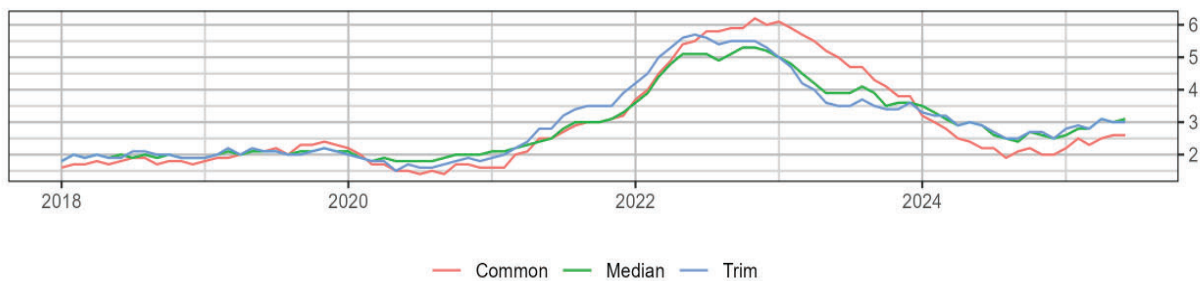
CPI ex food/energy sa, 3m ann. % ch

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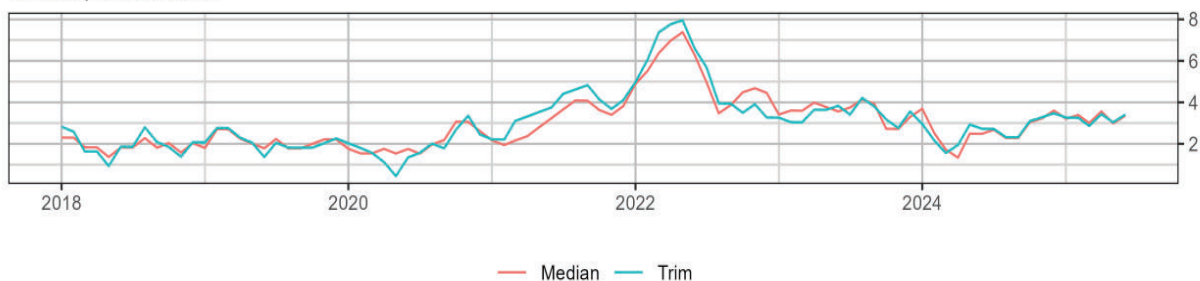
Bank of Canada Core Inflation, y/y % change

Last data point: 2025-06-01



Bank of Canada Core Inflation, 3m ann % change

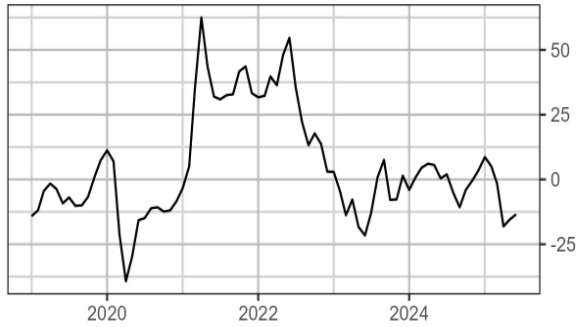
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Inflation Trends by Segment

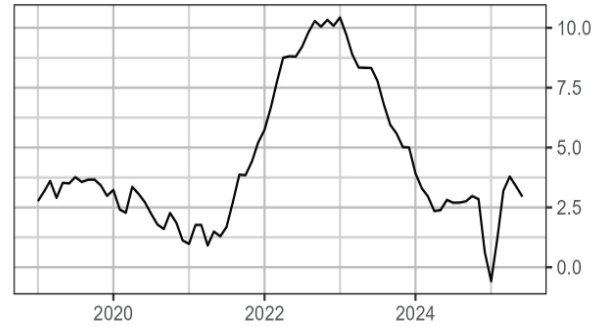
Gasoline, y/y % ch

Last data point: 2025-06-01



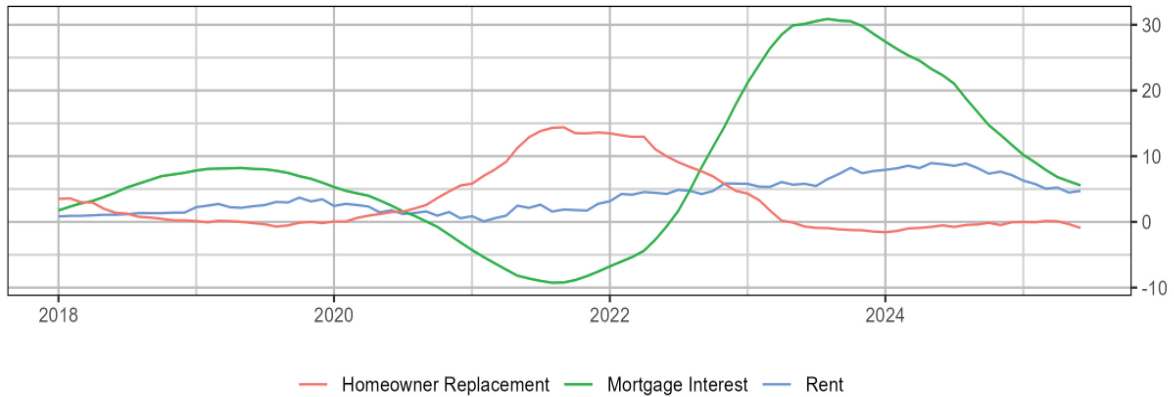
Food, y/y % ch

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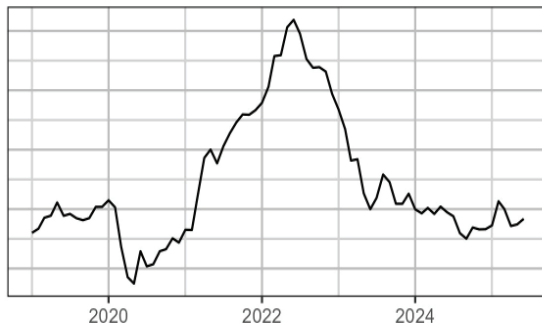
Shelter Inflation by Key component, y/y % change

Last data point: 2025-06-01



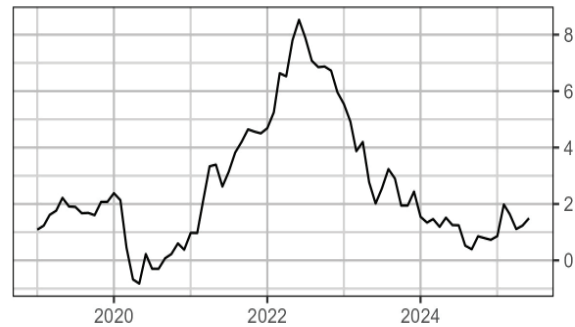
CPI ex mortgage, y/y % ch

Last data point: 2025-06-01



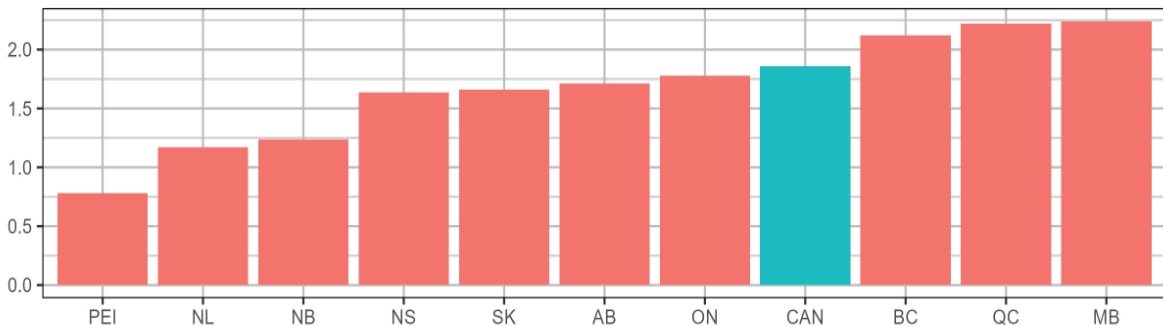
CPI ex shelter, y/y % ch

Last data point: 2025-06-01



CPI Inflation by Province, y/y %

Last data point: 2025-06-01



Statistics Canada, Central 1