Canada: Highest inflation since 1983, but it may have peaked in Q2
By Matthieu Arseneau and Alexandra Ducharme

For the first time in 8 months, headline inflation surprised consensus expectations to the downside (8.1% versus 8.4% expected). While gasoline prices were still rising in June, food prices finally calmed down, recording their smallest monthly increase in a year. More important, however, was the moderation in the CPI excluding food and energy (+0.35%, m/m), which recorded its smallest increase since December 2021. This moderation in June is also confirmed by the evolution of the central bank’s preferred measures of inflation, which show their weakest monthly print since November 2021 (CPI-Trim at 0.36% and CPI-Med at 0.30%, left chart). Does this mean the BoC regrets being so aggressive last week with a jumbo rate hike? Not so fast. While this moderation is certainly reassuring for the central bank, it is important to remember that one month of data does not make a trend, and more importantly, the pace of core inflation has remained in June at an uncomfortable level for the central bank. Still strong hiring intentions in an extremely tight labor market reflected domestic demand that is still far too strong. The rate hikes that have taken place and the one we expect in September (75 bps) should help calm the boiling Canadian economy in the coming months. We believe that the central bank will be able to take a break afterwards to observe how the economy is coping with a policy rate at a level not seen in 15 years. The moderation in inflation that we anticipate should also contribute to the decision to go into wait-and-see mode. There has been some good news recently on the inflation front and we continue to believe that annual headline CPI peaked in the second quarter. In recent weeks, commodities have seen significant declines due to the slowing global economy. In Canada, gasoline prices are down 13% from their peak in early June. Moreover, lower global transportation costs and reduced supply chain pressures should ease pressure on good prices.

**HIGHLIGHTS:**
- Canada’s consumer price index increased 0.7% in June (not seasonally adjusted), two ticks below consensus expectations.
- In seasonally adjusted terms, headline prices increased 0.6% on gains in all categories. In order of amplitude, increases were as follows: Transportation (+1.5%), recreation/reading (+0.7%), shelter (+0.4%), healthcare (+0.4%), household operations (+0.2%), clothing & footwear (+0.2%), alcohol/tobacco (+0.2%) and food (+0.1%). Year on year, headline inflation clocked in at 8.1%, four ticks higher than the previous month, and was the strongest print since January 1983.
- On a provincial basis, the headline annual inflation rate was slightly above the national average in Alberta (+8.4%) and undershot it in Quebec (+8.0%), in Ontario (+7.9%) and in BC (+7.9%).
- On a 12-month basis, core inflation measures were as follow: 4.6% for CPI-common (up one tick vs. the prior month), 5.5% for CPI-trim (up one tick) and 4.9% for CPI-median (unchanged).
- As a result, the average of the three measures rose one tick to 5.0%, the highest on record (starting in January 1990, right chart).

---

**Canada: Moderation in core inflation indices**
1-month variation (%) in CPI-Trim and CPI-Median (in-house replications)

**Canada: Highest annual inflation since 1983**
Consumer price index, headline and average of the three core measures, annual change (%)
UK Residents

This Report is a marketing document. This Report has not been prepared in accordance with EU legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. In respect of the distribution of this Report to UK residents, NBF has approved the contents (including, where necessary, for the purposes of Section 21(1) of the Financial Services and Markets Act 2000). This Report is for information purposes only and does not constitute a personal recommendation, or investment, legal or tax advice. NBF and/or its parent and/or any companies within a affiliates of the National Bank of Canada group and/or any of their directors, officers and employees may have or may have had interests or long or short positions in, and may at any time make purchases and/or sales as principal or agent, or may act or may have acted as market maker in the relevant investments or related investments discussed in this Report, or may act or have acted as investment and/or commercial banker with respect hereto. The value of investments, and the income derived from them, can go down as well as up and you may not get back the amount invested. Past performance is not a guide to future performance. If an investment is denominated in a foreign currency, rates of exchange may have an adverse effect on the value of the investment. Investments which are illiquid may be difficult to sell or realise; it may also be difficult to obtain reliable information about their value or the extent of the risks to which they are exposed. Certain transactions, including those involving futures, swaps, and other derivatives, give rise to substantial risk and are not suitable for all investors. The investments contained in this Report are not available to retail customers and this Report is not for distribution to retail clients (within the meaning of the rules of the Financial Conduct Authority). Persons who are retail clients should not act or rely upon the information in this Report. This Report does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for the securities described herein nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. This information is only for distribution to Eligible Counterparties and Professional Clients in the United Kingdom within the meaning of the rules of the Financial Conduct Authority. NBF is authorised and regulated by the Financial Conduct Authority and has its registered office at 70 St. Mary Axe, London, EC3A 8BE. NBF is not authorised by the Prudential Regulation Authority and the Financial Conduct Authority to accept deposits in the United Kingdom.

U.S. Residents

With respect to the distribution of this report in the United States of America, National Bank of Canada Financial Inc. ("NBCFI") which is regulated by the Financial Industry Regulatory Authority (FINRA) and a member of the Securities Investor Protection Corporation (SIPC), an affiliate of NBF, accepts responsibility for its contents, subject to any terms set out below.

To make further inquiry related to this report, or to effect any transaction, United States residents should contact their NBCFI registered representative.

This report is not a research report and is intended for Major U.S. Institutional Investors only. This report is not subject to U.S. independence and disclosure standards applicable to research reports.

HK Residents

With respect to the distribution of this report in Hong Kong by NBC Financial Markets Asia Limited ("NBCFMA") which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 (dealing in securities) and Type 3 (leveraged foreign exchange trading) regulated activities, the contents of this report are solely for informational purposes. It has not been approved by, reviewed by, verified by or filed with any regulator in Hong Kong. Nothing herein is a recommendation, advice, offer or solicitation to buy or sell a product or service, nor an official confirmation of any transaction. None of the products issuers, NBCFMA or its affiliates or other persons or entities named herein are obliged to notify you of changes to any information and none of the foregoing assume any loss suffered by you in reliance of such information.

The content of this report may contain information about investment products which are not authorized by SFC for offering to the public in Hong Kong and such information will only be available to those persons who are Professional Investors (as defined in the Securities and Futures Ordinance of Hong Kong ("SFO")). If you are in any doubt as to your status you should consult a financial adviser or contact us. This material is not meant to be marketing materials and is not intended for public distribution. Please note that neither this material nor the product referred to is authorized for sale by SFC. Please refer to product prospectus for full details.

There may be conflicts of interest relating to NBCFMA or its affiliates' businesses. These activities and interests include potential multiple advisory, transactional and financial and other interests in securities and instruments that may be purchased or sold by NBCFMA or its affiliates, or in other investment vehicles which are managed by NBCFMA or its affiliates that may purchase or sell such securities and instruments.

No other entity within the National Bank of Canada group, including National Bank of Canada and National Bank Financial Inc., is licensed or registered with the SFC. Accordingly, such entities and their employees are not permitted and do not intend to: (i) carry on a business in any regulated activity in Hong Kong; (ii) hold themselves out as carrying on a business in any regulated activity in Hong Kong; or (iii) actively market their services to the Hong Kong public.

Copyright

This Report may not be reproduced in whole or in part, or further distributed or published or referred to in any manner whatsoever, nor may the information, opinions or conclusions contained in it be referred to without in each case the prior express written consent of NBF.