

## Jump in Canadian inflation argues against rate cuts

Core inflation, as measured by the average of the Bank of Canada's three key measures, is the highest it's been since 2012. Combined with better domestic growth prospects for later in the year, this suggests the central bank is unlikely to head for policy easing for now, although a lot depends on how trade tensions evolve over coming months



Source: Shutterstock

Markets are beginning to price in Bank of Canada easing over the coming months, but for the time being, the latest inflation data argues against imminent rate cuts.

Headline inflation came in considerably on the upside rising 2.4% YoY in May, despite the ongoing drag from gasoline prices. Statistics Canada reported that gains were broad-based across all eight major components, with shelter, food and transport seeing heavy upward contributions. More importantly, the Bank of Canada's three main measures of core inflation reached their highest average since February 2012.

# 2.4%

## May Headline CPI

Year-on-year

Higher than expected

This better inflation trajectory comes as the domestic economic outlook is starting to look a little brighter. The lagged effect of the late-2018 oil price decline has largely worked its way through, and while prices have taken a hit over recent weeks, our commodities team expect them to edge higher through this year and next.

Meanwhile, the labour market is looking strong, and we expect some better news on exports and the housing market later in the year too. With the improved core inflation backdrop, there are few domestic reasons to ease monetary policy at this stage.

However, the external environment is looking a little trickier. We expect the Federal Reserve to signal rate cuts are coming at its meeting later today, while there is little optimism surrounding the global trade outlook. [Our team expects little to come](#) of the meetings planned between the US and China at next week's G20 summit.

### Bank of Canada unlikely to follow the Fed .. just yet

Despite the rapid switch in the monetary policy stance at the Fed and ECB, the Bank of Canada's [more upbeat tone at its May meeting](#) suggests they are unlikely to follow suit imminently.

Policymakers signalled they have growing confidence that the recent economic weakness is merely a 'soft-patch'. This latest inflation data reinforces our view that the BoC is likely to keep rates on hold for the rest of 2019, although a lot will depend on how the external environment evolves.

### Author

#### James Smith

Developed Markets Economist

[james.smith@ing.com](mailto:james.smith@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss

arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.