

Canada Watch

Upside surprise in core inflation is likely to keep BoC on hold in June

Key takeaways

- Headline fell to 1.7% yoy in April from 2.3% in March driven by energy prices. Upside surprise in core driven by services.
- Core surprise is likely to keep BoC on hold in June due to inflation buildup. For year-end we still expect inflation at 2.0%.
- Rates: CAD rates shift higher across the curve. FX: Rising core inflation should support CAD.

Headline fell sharply to 1.7% yoy due to energy prices...

Consumer Price Index (CPI) inflation in April came in slightly above expectations at 1.7% yoy (E. 1.6%, BofAe 1.6%), although it fell sharply relative to March's (2.3% yoy) (Exhibit 1). April's print was explained by lower energy prices (-12.7% yoy) on the back of (1) the removal of the consumer carbon price (i.e., federal fuel charge), effective April 1, which made prices of gasoline (-18.1% yoy) and natural gas (-14.1% yoy) fall; and (2) lower international oil prices. However, excluding energy, CPI rose to 2.9% yoy, up from 2.5% yoy a month ago (Exhibit 2), with travel tours (6.7% yoy) and food purchased from stores (3.8% yoy) putting upside pressure on inflation. In seasonally adjusted terms, inflation fell -0.2% mom sa, down from 0.0% in March.

... but core surprised and is now above 3.0%

The average of the two core measures (trimmed and median) surprised to the upside at 3.15% yoy (E. 2.85%), up from 2.85% a month ago. Core inflation has been on an upward path since December, breaching the 3.0% threshold for the first time since May 2024. The median measure rose to 3.2% yoy (vs. 2.9% in March), while the trimmed measure rose to 3.1% yoy (vs. 2.8% in March). Services' inflation explains part of the upside surprise in core, as it went up to 3.5% yoy (vs. 3.1% in March) on the back of a sharp rise in financial services (4.4% yoy). Mortgage interest costs (6.8% yoy) and rent (5.2% yoy) contributed as well to the services' print. Meanwhile, goods' inflation fell to -0.5% yoy (vs. 1.3% yoy in March). "Buy Canada" may potentially explain the increase in core.

We continue to expect inflation around the 2.0% target

After incorporating April's print to our forecast, we continue to expect inflation at 2.0% by end-2025 and end-2026 (Exhibit 6, Exhibit 7). We see downside pressures to headline inflation coming from lower energy prices, the removal of the consumer carbon tax, a resilient CAD, and a slowdown in activity due to the trade conflict with the US.

BoC: On hold on June 4 as core keeps rising

We expect the BoC to leave its policy rate unchanged at 2.75% on June 4. We build our case on the back of rising core inflation, which is already above 3.0%. Granted, [the labor market remains weak \(see report\)](#), but [the BoC has stressed that it is "waiting for clarity" \(see report\)](#), and in our view, it will need confidence that core is controlled before cutting further. Looking ahead, we expect the BoC to cut to 2.00% by end-2025 as economic weakness brings core inflation down.

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Macro
Canada

Carlos Capistran
LatAm and Canada Economist
BofAS
+1 646 743 2921
carlos.capistran@bofa.com

Ralph Axel
Rates Strategist
BofAS
ralph.axel@bofa.com

Katie Craig
Rates Strategist
BofAS
katie.craig@bofa.com

Howard Du, CFA
G10 FX Strategist
BofAS
+1 646 743 7017
yuhao.du@bofa.com

Global Economics Team
BofAS

Canada Economics
BofAS

[See Team Page for List of Analysts](#)

Glossary

CPI = Consumer Price Index

E. = Bloomberg Consensus estimate

nsa = not-seasonally adjusted

sa = seasonally adjusted

mom = month-over-month

yoy = year-over-year

BoC = Bank of Canada

StatCan = Statistics Canada

GST = Goods and Services Tax

Rates: Higher across the curve

Canadian rates shifted higher across the curve following the above-expectations inflation print. Market expectations of a 25bp cut at the June BoC meeting declined from 64% to 32% priced, according to BoC OIS (overnight index swap), given the higher-than-expected core inflation print. Market pricing of terminal (2y1y fwd swap) pushed out 10bp of cuts and is now at 2.62% following the print, in line with pre-tariff announcement levels. We recommend clients fade any near-term pricing of BoC cuts, as it will take time for core CPI to come back down below 3%, in line with our economists' forecast.

Tariff de-escalation over recent weeks has also helped to remove roughly one cut from the market pricing of terminal, but policy uncertainty remains a risk. CAD rates remain notably steeper since the initial Feb. 1 tariffs on Canada and Canadian swap spreads have tightened on tariff risk – especially at the back end of the curve – as markets priced in more govt bond supply off the back of expected fiscal stimulus. We expect CAD swap spreads to continue to tighten as CAD swap spreads are also strongly correlated to US swap spreads, which we expect will continue to tighten at the back-end due to growing US fiscal deficits.

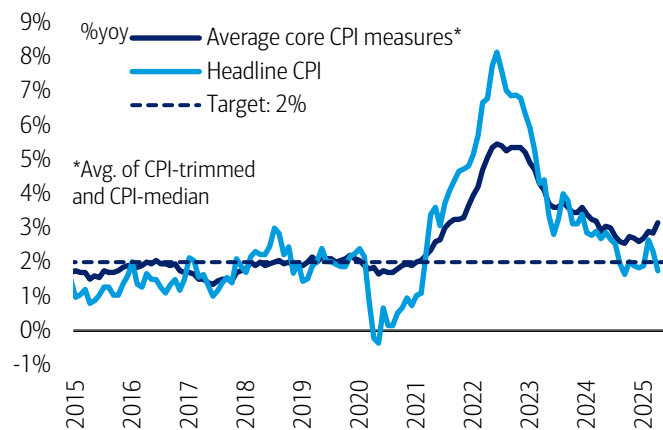
FX: Rising core inflation should support CAD

While lower energy prices drove headline CPI lower, core inflation measures rose above 3% with both goods and services components contributing to the increase. USD/CAD depreciated by about 20 pip on the back of this CPI report and should have more room to fall in the near term. Further pricing-out of near-term BoC rate cut probability for the upcoming meeting in two weeks should lead to USD/CAD falling toward an 1.38-handle, closer to our current year-end forecast for this pair (see [Liquid Insight: Loonie beyond tariffs 13 May 2025](#)).



Exhibit 1: Headline and core inflation are diverging due to energy

Headline and core inflation (%yoy)

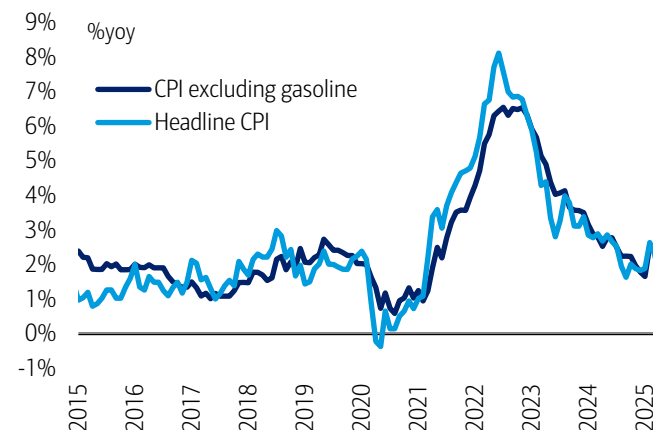


Source: BofA Global Research, Stat Canada, Haver

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Exhibit 2: CPI excl. gasoline rose, suggesting a buildup in inflation

Headline Inflation and CPI excluding gasoline (%yoy)



Source: BofA Global Research, Stat Canada, Haver

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Exhibit 3: Transportation was the main downward contributor to inflation, mostly due to lower gasoline prices

CPI heatmap: % mom nsa

Component

	Apr-25	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24	Apr-24
Headline	-0.1%	0.3%	1.1%	0.1%	-0.4%	0.0%	0.4%	-0.4%	-0.2%	0.4%	-0.1%	0.6%	0.5%
Food	0.4%	1.7%	1.9%	-0.5%	-1.8%	0.5%	0.1%	0.0%	-0.1%	0.3%	0.5%	0.9%	-0.2%
Shelter	-0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.7%	0.1%	0.4%	0.2%	0.3%	0.4%	0.5%
Household Operations/Furnishings/Equipment	0.8%	-0.3%	0.9%	1.5%	-1.1%	-0.9%	0.2%	-0.2%	-0.4%	0.5%	0.0%	0.1%	0.5%
Clothing and Footwear	-0.2%	1.6%	1.6%	0.0%	-3.0%	-0.8%	2.4%	0.9%	-0.6%	-0.6%	-1.9%	0.0%	0.8%
Transportation	-1.5%	-0.3%	0.3%	-0.2%	1.8%	0.3%	0.4%	-2.4%	-1.4%	1.3%	-0.2%	0.1%	1.6%
Health and Personal Care	0.5%	0.1%	0.5%	-0.1%	-0.2%	-0.2%	0.0%	0.5%	0.2%	0.0%	-0.3%	0.8%	1.1%
Recreation, Education and Reading	-0.2%	-0.8%	3.4%	-0.6%	-0.7%	-0.5%	0.0%	-0.4%	-0.9%	1.2%	-1.5%	2.3%	-0.7%
Alcoholic Beverages and Tobacco Products	0.2%	2.3%	1.5%	-0.6%	-2.4%	0.2%	0.1%	-0.1%	0.8%	-0.1%	0.1%	0.3%	0.5%

Source: BofA Global Research, Stat Canada, Haver

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Exhibit 4: Shelter inflation continues to ease, but food inflation is on an upward trend since January

CPI heatmap: % yoy

Component

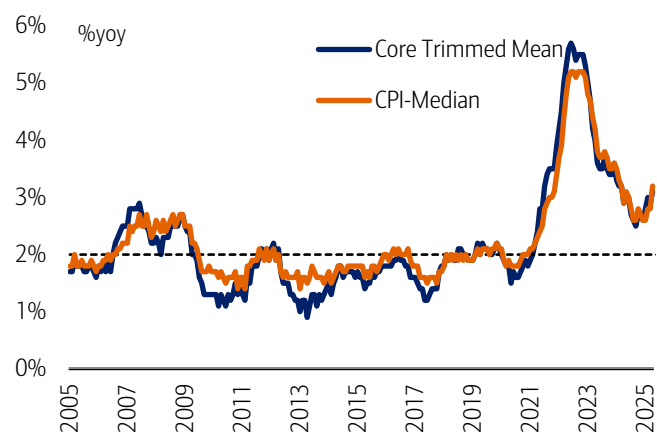
	Apr-25	Mar-25	Feb-25	Jan-25	Dec-24	Nov-24	Oct-24	Sep-24	Aug-24	Jul-24	Jun-24	May-24	Apr-24
Headline	1.7%	2.3%	2.6%	1.9%	1.8%	1.9%	2.0%	1.6%	2.0%	2.5%	2.7%	2.9%	2.7%
Food	3.8%	3.2%	1.3%	-0.6%	0.6%	2.8%	3.0%	2.8%	2.7%	2.7%	2.8%	2.4%	2.3%
Shelter	3.4%	3.9%	4.2%	4.5%	4.5%	4.6%	4.8%	5.0%	5.3%	5.7%	6.2%	6.4%	6.4%
Household Operations/Furnishings/Equipment	1.1%	0.8%	0.8%	-0.2%	-0.8%	-0.7%	-0.1%	-0.2%	-0.8%	-0.1%	-0.9%	-1.5%	-2.1%
Clothing and Footwear	-0.8%	0.2%	1.4%	-1.3%	-4.5%	-3.8%	-2.3%	-4.4%	-4.4%	-2.7%	-3.1%	-3.0%	-2.6%
Transportation	-1.9%	1.2%	3.0%	3.4%	2.3%	1.1%	0.2%	-1.5%	-0.1%	2.0%	2.0%	3.5%	3.1%
Health and Personal Care	1.9%	2.5%	2.4%	2.3%	3.1%	2.8%	3.1%	3.1%	2.6%	2.9%	3.0%	3.6%	3.0%
Recreation, Education and Reading	1.4%	0.9%	3.7%	1.9%	1.8%	-0.9%	-0.9%	0.0%	-0.2%	-0.2%	0.6%	1.3%	1.0%
Alcoholic Beverages and Tobacco Products	2.1%	2.4%	0.6%	-1.0%	0.7%	2.7%	3.0%	3.0%	3.1%	2.7%	3.1%	3.2%	3.4%
Average core CPI measures	3.2%	2.9%	2.9%	2.7%	2.6%	2.7%	2.8%	2.6%	2.6%	2.8%	3.0%	3.1%	2.9%
Core Trimmed Mean	3.1%	2.9%	3.0%	2.8%	2.6%	2.7%	2.7%	2.5%	2.6%	2.7%	3.0%	3.0%	2.9%

Source: BofA Global Research, Stat Canada, Haver

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Exhibit 5: Both core measures are on an upward trend

Core inflation measures (% yoy)



Source: BofA Global Research, Stat Canada, Haver

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Exhibit 6: We expect lower energy prices and weakening growth to keep inflation close to 2.0%

Inflation forecasts



Source: BofA Global Research estimates, Stat Canada, Haver

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Exhibit 7: We expect inflation at 2.0% yoy by end-2025 and end-2026

Monthly CPI forecasts (nsa)

	Level	mom (%)	yoy (%)
2024: Dec	161.2	-0.4	1.8
2025: Jan	161.3	0.1	1.9
2025: Feb	163.0	1.1	2.6
2025: Mar	163.5	0.3	2.3
2025: Apr	163.4	-0.1	1.7
2025: May	164.2	0.5	1.7
2025: Jun	164.6	0.2	2.0
2025: Jul	164.9	0.1	1.7
2025: Aug	164.9	0.0	1.9
2025: Sep	164.6	-0.2	2.2
2025: Oct	164.9	0.2	1.9
2025: Nov	164.8	0.0	1.9
2025: Dec	164.4	-0.3	2.0
2026: Jan	164.5	0.0	2.0
2026: Feb	165.5	0.6	1.5
2026: Mar	166.2	0.4	1.7
2026: Apr	166.6	0.2	2.0
2026: May	167.3	0.4	1.9
2026: Jun	167.5	0.1	1.8
2026: Jul	167.9	0.2	1.8
2026: Aug	168.0	0.1	1.9
2026: Sep	167.8	-0.1	2.0
2026: Oct	168.0	0.1	1.9
2026: Nov	168.0	0.0	1.9
2026: Dec	167.7	-0.2	2.0

Source: BofA Global Research estimates, Stat Canada, Haver

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Research Analysts

Global Economics

North America Economics

Aditya Bhawe

US Economist
BofAS
aditya.bhawe@bofa.com

Stephen Juneau

US Economist
BofAS
stephen.juneau@bofa.com

Jeseo Park

US Economist
BofAS
jeseo.park@bofa.com

Developed Europe Economics

Ruben Segura-Cayuela

Europe Economist
BofA Europe (Madrid)
+34 91 514 3053
ruben.segura-cayuela@bofa.com

Evelyn Herrmann

Europe Economist
BofASE (France)
evelyn.herrmann@bofa.com

Chiara Angeloni

Europe Economist
BofA Europe (Milan)
chiara.angeloni@bofa.com

Alessandro Infelise Zhou

Europe Economist
BofASE (France)
alessandro.infelise_zhou@bofa.com

Japan Economics

Takayasu Kudo

Japan Economist
BofAS Japan
+81 3 6225 8592
takayasu.kudo@bofa.com

Australia Economics

Emerging Asia Economics

Helen Qiao

China & Asia Economist
Merrill Lynch (Hong Kong)
+852 3508 3961
helen.qiao@bofa.com

Jojo Gonzales ^^

Research Analyst
Philippine Equity Partners
jojo.gonzales@pep.com.ph

Pipat Luengnaruemitchai

Emerging Asia Economist
Kiatnakin Phatra Securities
pipat.luen@kkpfg.com

Benson Wu, CFA

China & Korea Economist
Merrill Lynch (Hong Kong)
benenson.wu@bofa.com

Chun Him Cheung, CFA

Emerging Asia FI/FX Strategist
Merrill Lynch (Hong Kong)
chunhim.cheung@bofa.com

EEMEA Cross Asset Strategy and Economics

David Hauner, CFA >>

Global EM FI/FX Strategist
MLI (UK)
+44 20 7996 1241
david.hauner@bofa.com

Mai Doan

CEE Economist
MLI (UK)
mai.doan@bofa.com

Vladimir Osakovskiy >>

EM Sovereign FI/EQ strategist
Merrill Lynch (DIFC)
vladimir.osakovskiy@bofa.com

Zumrut Imamoglu

Turkey & Israel Economist
MLI (UK)
zumrut.imamoglu@bofa.com

Tatonga Rusike

Sub-Saharan Africa Economist
MLI (UK)
tatonga.rusike@bofa.com

Jean-Michel Saliba

EEMEA Econ Head/MENA Economist
MLI (UK)
jean-michel.saliba@bofa.com

Merveille Paja

EEMEA Sovereign FI Strategist
MLI (UK)
merveille.paja@bofa.com

Mikhail Liluashvili

EEMEA Local Markets Strategist
MLI (UK)
mikhail.liluashvili@bofa.com

Latin America Strategy and Economics

Claudio Irigoyen

Global Economist
BofAS
+1 646 855 1734
claudio.irigoyen@bofa.com

David Beker >>

Bz Econ/FI & LatAm EQ Strategy
Merrill Lynch (Brazil)
david.beker@bofa.com

Jane Brauer

Sovereign Debt FI Strategist
BofAS
jane.brauer@bofa.com

Carlos Capistran

LatAm and Canada Economist
BofAS
carlos.capistran@bofa.com

Pedro Diaz

Caribbean Economist
BofAS
pdiaz2@bofa.com

Christian Gonzalez Rojas

LatAm Local Markets Strategist
BofAS
christian.gonzalezrojas@bofa.com

Lucas Martin, CFA

Sovereign Debt FI Strategist
BofAS
lucas.martin@bofa.com

Alexander Muller

Andean(ex-Ven) Carib Economist
BofAS
alexander.muller@bofa.com

Natacha Perez

Brazil Economist
Merrill Lynch (Brazil)
natacha.perez@bofa.com

Sebastian Rondeau

Southern Cone & Venez Economist
BofAS
sebastian.rondeau@bofa.com

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