Economic Commentary

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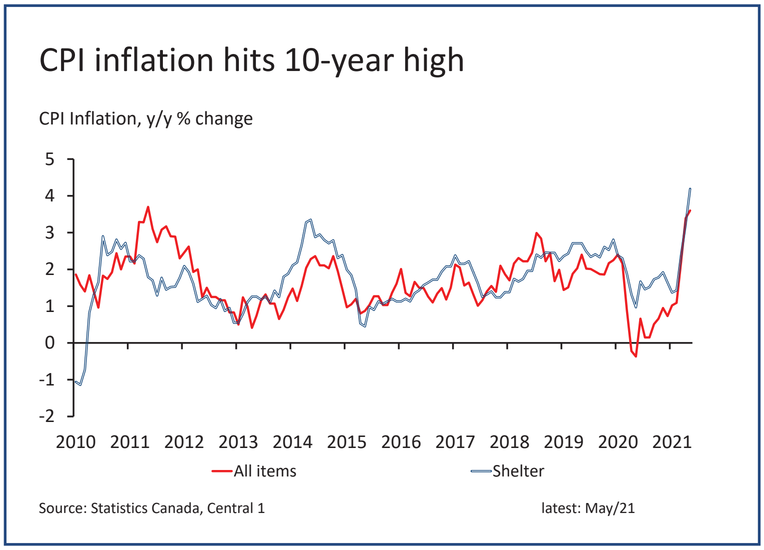
Economics

Broad price growth lifts May inflation



Consumer price inflation continued its ascent in May with consumer prices up 3.6 per cent year-over-year which was a touch above the consensus expectation and higher than April's 3.4 per cent reading. This marked the strongest 12- month gain in the consumer price index (CPI) since May 2011.

While base year effects of price declines early in the pandemic are still propping up headline growth, this was less of a factor than in April as price levels rebounded in part in May 2020. Rather, prices are on the rise and squeezing consumers with m/m growth in the seasonally- adjusted CPI coming in at a robust 0.4 per cent, following a 0.6 per cent increase in April.

The latest data pointed rising prices among a breadth of products and services. While gasoline prices were well ahead of year ago levels (43 per cent) it was not a driver of higher inflation reading as growth slowed from April. In contrast, shelter costs jumped to 4.2 per cent y/y and 0.7 per cent m/m (seasonally- adjusted). Homeownership costs jumped from a y/y increase of 2.7 per cent to 3.5 per cent as higher construction prices fed through replacement costs (up 11 per cent) and higher utilities, which was offset in part by lower mortgage interests (-8.2 per cent). Rent growth rose from 1.0 per cent to 2.5 per cent. Food prices rose 0.7 per cent (m/m) and 1.5 per cent y/y. Clothing and footwear jumped from a 1.8 per cent to 3.9 per cent increase, with a 0.4 per cent seasonally- adjusted m/m gain.

Given the wide spread gains, the Bank of Canada's three measures of core inflation all increased during the month, averaging 2.3 per cent compared to 2.1 per cent in April.

Going forward, base period factors will continue to roll off given a meaty 0.8 per cent m/m gain in June 2020. That said, momentum remains strong in recent months and there is valid concern that more of these gains could persist longer than expected. However, the flow through of supply chain disruptions will likely be transitory, as are price hikes associated with sector restarts (i.e. hotels and tourism). Wage growth will be important to monitor to assess persistence of inflationary pressures, and at this point, ongoing slack in the economy, elevated unemployment rates will likely move headline inflation lower and keep the Bank of Canada on the sideline for now.

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