



Rising prices everywhere wallop consumers in April

Canadian price inflation ran hot again through April with CPI inflation rising to 6.8 per cent y/y from 6.7 per cent in March and in line with consensus. Momentum remained exceptionally strong at a raging 0.6 per cent m/m (0.7 per cent seasonally- adjusted) with broad-based growth in prices. Headline y/y growth was the strongest since January 1991 when the GST was introduced. Prior to that, the last comparable reading was in 1983.

Rising prices fed through a swath of goods and services in April. Food prices jumped 0.9 per cent m/m and 8.8 per cent y/y. The latter was the highest since 1981 led by grocery prices (+9.7 per cent). Flow through of higher input costs, including wheat, fertilizer and other factors has contributed to soaring prices for meat (+10 per cent y/y), fruit (+8.3 per cent), baked goods (+11.3 per cent). Food pressures are unlikely to abate quickly.

Gasoline prices ticked lower by 0.7 per cent but followed an 11.8 per cent increase in March, while holding 36 per cent above year- ago levels. This is a temporary lull as gas prices have surged this month.

There was no shelter from shelter prices. Rent ticked slightly higher by 0.1 per cent m/m but came in at 4.5 per cent y/y. In contrast, homeownership costs jumped 1.2 per cent m/m and 7.6 per cent y/y. While mortgage interest was still down y/y, rising fixed and variable rates contributed to the first m/m gain since April 2020. Meanwhile, homeowner replacement costs accelerated by 1.5 per cent m/m and held near 13 per cent y/y. Shelter costs will see more persistent inflation as mortgage rates continue to climb and rent increases amidst higher demand.

Among other highlights (or lowlights), supply chain challenges continued to propel prices. Furniture prices (+12.5 per cent y/y), appliances (+12 per cent), and vehicle prices (+7.5 per cent) remained strong. That said, vehicle prices understate inflation as used car prices are not properly estimated. New Stats Canada methodology will adjust this in next month's data, but preliminary estimates are that used car prices were up 24 per cent, which will lift headline inflation by about 0.2 per cent. Ongoing re-opening of the economy, higher fuel costs and inventory issues have contributed to strong gains in airfares (8.5 per cent y/y) and rental car fees (+19 per cent).

Broadly, goods prices rose 0.4 per cent m/m but gained 9.1 per cent on a 12-month basis. Services- sector prices surged 0.9 per cent with growth of 4.6 per cent y/y. The Bank of Canada's three preferred core measures all rose (averaging 4.2 per cent) and exceeded the Bank's control range of 1-3 per cent. The CPI- common rose 0.2 per cent to 3.2 per cent, with the trim- measure at 5.1 per cent.

Headline inflation is set to increase again in May as a surge in gasoline prices fuel gains and shift in methodology to track used car prices contribute. Moreover, persistence of core inflation and services price growth is likely on higher input costs and wages. The Bank will need to move forcefully again at the June rate meeting with a hike of at least 50 basis points.

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