Economic Commentary

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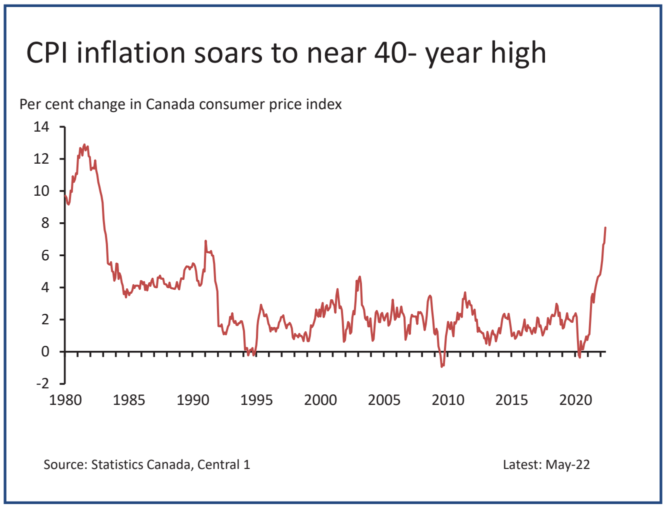
central 1 Economics

Nowhere to hide: Inflation rockets to 7.7 per cent in May

At least 1983 had some classics such as Scarface, Risky Business, and ET for consumers to escape the drumbeat of inflation news. 2022 is not so fortunate. May marked another incredible month for Canadian inflation which rocketed to a near 40- year high of 7.7 per cent and far outpaced already lofty expectations. This compared to a year-over-year gain of 6.8 per cent in April as the consumer price index surged 1.4 per cent from the prior month. This was among the highest monthly gains going back to the 1980's, dwarfed only by January 1991 and the introduction of the federal GST.



Consumers are seeing their purchasing power decimated with few options to evade pressure on non-discretionary spending, while rising wages are nowhere near a sufficient offset. Gasoline prices surged during the month on global oil price dynamics and supply issues stemming from the war. The price at the pump jumped 12 per cent on the month and are up a staggering 33 per cent since December and 48 per cent on a year-over-year basis. April y/y growth was 36 per cent. Food prices rose 0.8 per cent from April but held steady on a y/y basis at 8.8 per cent. Store-bought food was up 9.7 per cent y/y with broad-based strength highlighted by gains in meat (9 per cent), bakery and cereals (10.1 per cent), fruit (9.4 per cent) and vegetable (10.2 per cent).

Shelter costs rose 0.7 per cent m/m and 7.4 per cent y/y. The latter was in line with April. Housing will face mixed pressures going forward. While easing home prices will dampen homeowners' replacement (depreciation) costs, higher mortgage rates will rise. Rent is expected to continue to strengthen as buyers are shut out of homeownership from higher rates and population growth accelerates.

Meanwhile, prices of durables remained on the upswing signaling pressures from global supply chains and flow through of higher input costs. Furnishing and equipment prices rose 1 per cent from April and came in at 10.4 per cent y/y owing to rapid price growth for furniture. Re-opening trends and pressures to meet demand pushed up tourism- related prices with traveler accommodation prices up 41 per cent y/y.

Broadly goods prices were up 10 per cent, with durables up 10.4 per cent and non-durable goods up 13.8 per cent (owing largely to gasoline). Services prices rose to 5.2 per cent y/y from 4.6 per cent. Bank of Canada core measures of inflation were all accelerated well outside the target band of 1-3 per cent, with a high of 5.4 per cent for the trim measure and a low of 3.9 per cent for the common measure.

There is nowhere to hide for Canadian consumers adapting to the pressures of high inflation. The acceleration of inflation and its magnitude and breadth pencils in a 75- basis point hike by the Bank of Canada in July. While having little bearing on key drivers such as global oil prices and food pressures, the Bank is wary that inflation will further imbed into expectations, while keeping up with U.S. hikes will limit downward pressure on the Canadian dollar and import prices. A terminal rate move to 2.75 per cent is now expected by year-end before slowing global economic conditions and weaker durable goods pricing put the Bank on pause.

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