# Economic Commentary

July 20 2022



## Silver linings in an 8.1 per cent inflation print

Canadian inflation surged again in June to reach 8.1 per cent y/y and the highest reading since January 1983 when headline growth hit 8.2 per cent. While a mammoth print that is still ridiculously high, this was weaker than consensus expectations for an 8.4 per cent increase and momentum eased. On a month-to-month basis, prices rose 0.7 per cent, down from 1.4 per cent growth in May. Seasonally- adjusted prices rose 0.6 per cent, which was the slowest since December but still a robust pace.

June's increase reflected many of the usual suspects. Canadians felt the crush at the pump as higher oil prices underpinned a rise in gas prices (up 6.2 per cent m/m and 54.6 per cent y/y) and contributed to the upswing. This pressure will ease in July given a 10 pe cent drop in oil prices and lower pump prices. Meanwhile, accelerated price growth was also seen in vehicle prices (up 8.2 per cent) where challenging supply chains continue to factor into product availability, while demand for recreational travel and gnarled up operations has led to a huge increase in airfare of 25 per cent y/y while travel services rose 19 per cent.

Broadly however, consumers faced strong pressure across goods and services in June, albeit at rate comparable to May. Food prices inflation remained high at 8.8 per cent y/y, which was consistent with May and led by a 9.4 per cent increase at the grocery aisle. This was highlighted by an 11 per cent increase for bakery and cereal products, and 10 per cent increase for fish/seafood. Natural gas prices rose 26 per cent y/y. Furniture prices rose 10.5 per cent.

On the brighter side, the pace of shelter costs declined from 7.4 per cent in May to 7.1 per cent y/y. Rent growth eased to 4.3 per cent, while easing home prices is curbing growth in homeowners' replacement (depreciation) costs which rose at a slower 10 per cent from 11 per cent in June. Higher mortgage interest is (and will continue to be) an upward driver, which was down 0.6 per cent y/y but compared to -2.7 per cent in May, as higher interest rates bite.

Broadly, services-sector prices, which are stickier and more persistent, rose 5.3 per cent y/y and consistent with May, while goods prices rose to 11.2 per cent from 10.4 per cent on gas prices. Bank of Canada core measures of inflation inched only slightly higher to an average of 5 per cent, but all three remained firmly above the 1-3 per cent control range and led by CPI-trim of 5.5 per cent and the common measure at 4.6 per cent.
The softer than expected headline print and easing commodity price provides some relief for July inflation and moves against another large interest rate hike from the Bank of Canada come September. That said, with inflation still very high, we can expect to see a 50- basis point hike at that meeting and we continue to pencil in a year- end rate of 3.25 per cent.

**Bryan Yu**
Chief Economist
Central 1 Credit Union
byu@central1.com