Economic Commentary

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Economics

Headline inflation moderates, core measures continue to firm

Headline consumer price inflation moved in the right direction in July dipping to a year-over-year pace of 7.6 per cent to provide minor comfort for Canadian consumers psyches bombarded by relentless increases since the beginning of the year. This compares to June's 8.1 per cent print, which looks to be the cycle peak. At the same time, the latest reading was still cold comfort for wallets as general price levels still crept up 0.1 per cent m/m (down from 0.7 per cent in June). Seasonally-adjusted price growth remained firm at 0.3 per cent, albeit slowing.

July's deceleration was driven by a steep decline in gasoline prices, mirroring patterns observed recently in U.S. data as global oil prices fell. Gas prices fell 9.2 per cent from June after spiking in the prior two months, and year-over-year growth narrowed to 35.6 per cent. Supply chain issues may also be improving with furniture prices edging lower by 0.7 per cent m/m.

In contrast, inflationary pressures among other key goods and services remained strong. Food prices accelerated 0.9 per cent m/m to lift y/y growth to 9.2 per cent from 8.8 per cent in June. Breakfast became a lot pricier with egg prices up 16 per cent y/y while bakery and cereals rose 13 per cent. Fruit prices rose 11.7 per cent. Like recent months, the recovery in tourism and leisure continued to fuel inflation as demand soared for flights and accommodation. Air travel costs surged 26 per cent m/m and 58 per cent y/y. Accommodations rose 10 per cent m/m and 47 per cent y/y.

Shelter costs rose in line with June with a 0.4 per cent m/m gain and y/y growth of 7 per cent. Rental costs accelerated with a 0.7 per cent m/m gain and 5 per cent y/y increase. Ownership costs were steady with rising mortgage interest costs being partly off set by slowing home prices and replacement costs. A bright spot for consumers has been clothing and footwear costs, which slipped 1.7 per cent from June, and year-over-year growth of 1.4 per cent.

Despite the drag from gasoline prices, inflation price momentum remains strong. Goods prices have slipped as expected, including peaking durable goods prices as supply chains improve, but y/y growth was still 9.6 per cent. Nevertheless, this downward trend should continue as gasoline prices have further declined into August. More persistent services prices accelerated 0.9 per cent m/m and came in at 5.7 per cent y/y, which could be harder to arrest as rental accommodation prices rise. Bank of Canada core measures were flat, but its preferred core-common measure accelerated from 5.3 to 5.5 per cent y/y.

While the trend is improving, elevated core measures and services-oriented prices means the Bank of Canada will continue its hike path to try to rein in inflationary excess. We continue to expect a 50-basis point hike at the Bank's September meeting and another 25-basis point by year end.

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