



CPI inflation sinks a full point to 3.4 per cent

There was relief for Canadian in May on the inflation front. As anticipated, headline consumer price inflation retreated sharply in May due to a drop in gasoline prices from a year ago. On a 12-month basis, growth in the consumer price index fell to 3.4 per cent from 4.4 per cent in April, which was consistent with forecast consensus. This is the lowest since June 2021. Moreover, the trend looks to have abated with seasonally-adjusted price growth slowing to only 0.1 per cent after a 0.5 per cent increase the prior month, and excluding food and energy, 0.2 per cent, which was down from 0.3 per cent.

Downward pressure on headline inflation owed to gasoline prices, which fell 18.3 percent from a year ago and 0.8 percent from April. Prices had soared a year ago with the invasion of Ukraine by Russia which have since retreated. More broadly energy prices fell 12.4 per cent from a year ago.

Excluding energy, prices were 4.6 per cent higher than a year ago, compared to 5.1 per cent in April. Consumers continued to face excessive pressures at the grocery aisle where store-bought food prices rose nine per cent from a year ago and 0.9 per cent month-to-month. Bakery and cereal product prices accelerated and were up 14 per cent year-over-year, while produce prices were up 6-7 per cent, and meat rose 6.3 per cent. Growth in restaurant meals picked up but were more modest at 6.3 per cent.

Food and energy are the most visible of the goods impacting consumers. Outside these segments, goods price inflation continued to ease to 3.3 per cent. Clothing and footwear prices were up only 0.7 per cent from a year ago, furniture and furnishings are flat, and appliance prices have declined from a year ago. This reflects the slowdown in housing demand and improved supply chains. Health care goods and personal product prices remained elevated.

Service prices, which are of key concern for the inflation and monetary policy outlook, remain uncomfortably high. Year-over-year growth slipped to 4.6 per cent from 4.8 per cent. The shelter component of the index rose 4.7 per cent. Rent costs were up 5.7 per cent and down only slightly from 6.1 per cent in April. On the owned accommodation front, prices accelerated from 5.1 per cent to 5.5 cent. Much of this is inflicted by the Bank of Canada with mortgage interest costs up 29 per cent year-over-year, while homeowner replacement costs have fallen below year ago levels on a softer housing market. Extracting mortgage interest costs suggests all-items inflation is closer to 2.5 per cent. Air transportation costs have declined from a year ago, but travel services are still 11 per cent higher.

For monetary policy, trends in core inflation were positive, albeit still firm. Year-over-year growth in the Bank of Canada core measures decelerated as monthly price momentum slowed. The core-common was particularly high at 5.2 per cent, with trim and median measures slipping below four per cent. Excluding food and energy, prices slowed to 4.0 per cent. Headline inflation is likely to show further progress as base period effects of energy prices continue to dampen this year's figures. That said, shelter costs are likely to pick up slightly due to self-inflicted pain from recent rate hikes flowing through mortgage interest costs and higher home prices also lift replacement costs.

We thought the June rate hike was unnecessary and more patience from the Bank was warranted given the lags of rates on the real economy. May's CPI deceleration suggests pressures are indeed easing. Nevertheless, inflation (core and otherwise) is arguably still too high for the Bank to be comfortable, and given its June decision, another hike is still likely in July.

Canada Consumer Price Index

Period	2023M03	2023M04	2023M05
<i>All-Items</i>			
Actual y/y %ch.	4.3	4.4	3.4
Actual, m/m %	0.5	0.7	0.4
Seas. adj., m/m %	0.3	0.5	0.1
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	4.5	4.4	4.0
Goods	3.6	4.0	2.1
Services	5.1	4.8	4.6
Food	8.9	8.3	8.3
Shelter	5.4	4.9	4.7
Gasoline	-13.8	-7.7	-18.3
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	5.9	5.7	5.2
Trim	4.4	4.2	3.8
Median	4.5	4.3	3.9
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	2.6	3.7	3.4
Exc. food and energy	3.4	4.2	3.6

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