



### Headline inflation drops to lowest level since March 2021

As anticipated, inflation slowed again in June, providing some comfort for consumers and the Bank of Canada through the summer months. Growth in the consumer price index fell to a year-over-year pace of 2.8 per cent, down from 3.4 per cent in May. This was the lowest headline reading since March 2021 (2.2 per cent) and lower than our U.S. neighbour (3.0 per cent). Moreover, trends continued in the right direction with prices up a mild 0.1 per cent from May (both unadjusted and seasonally-adjusted measures), although core measures showed more persistence and volatility.

The latest inflation figures were again dragged lower by a sharp drop-off in energy prices from a year ago, partly due to the base effect of last year's war-induced increase. Despite rising 1.9 per cent from May, gasoline prices were 21.7 per cent lower than a year ago, with broader energy prices down 14.6 per cent. Growth in food prices also decelerated monthly (from 0.5 to 0.3 per cent) but households continued to feel the pinch at the grocery aisle. Food prices rose 8.3 per cent year-over-year, which was consistent with May, although grocery prices accelerated slightly to 9.1 per cent. Specifically, consumers continue to feel pain when it comes to fruit (10.4 per cent), vegetables (8.2 per cent), and baked goods (12.9 per cent). Excluding both food and energy, prices rose 3.5 per cent year-over-year, which was down from 3.9 per cent.

Shelter-related cost pressures for households remained strong at 4.8 per cent year-over-year, up from 4.7 per cent in May. The tight housing market put further pressure on the rental market (5.7 per cent). Ownership-related costs rose 5.4 per cent which was consistent with May, but entirely reflects the impact of higher interest rate hikes as mortgage costs jumped 30.2 per cent from a year ago while replacement costs fell because of modestly lower home values. The impact on inflation from mortgage costs should not be understated. Excluding this component, total consumer price inflation was 2.0 per cent. Shelter is contributing significantly to services price inflation.

Among other items, the latest numbers are showing further disinflation of household operation costs (up 0.5 per cent year-over-year) amidst a plunge in cellular phone costs and lower childcare costs, while furniture costs have declined, and appliance prices have flattened. Similarly, clothing and footwear prices are unchanged from a year ago. Vehicle prices (up 2.3 per cent) have slowed after the pandemic run up, airfares have declined, although travel accommodations are still running hot at 12.9 per cent. Broadly goods price inflation continued to decelerate (from 2.1 per cent to 1.4 per cent), while services-prices were up a hefty 4.2 per cent as shelter costs propelled the numbers.

A look at core measures of inflation showed a mixed picture and a bit of stickiness in bringing down underlying inflation. As noted, the classic definition (ex. food and energy) slowed to 3.5 per cent from 3.9 per cent and rose only 0.1 per cent from May. The annualized 3-month trend came in at a modest 2.6 per cent. However, Bank of Canada preferred measures remained sturdy and nudged lower on a year-over-year basis by only 0.1 per cent. Growth remained well above target with the common measure at 5.1 per cent, the trim at 3.7 per cent, and median 3.9 per cent. On a 3-month trend basis, the trim accelerated to 4.0 per cent and median slipped to 3.6 per cent, with both remaining on the high side but likely to edge down in coming months.

June's inflation print was encouraging in our view as headline numbers slowed sharply, although core measures were a touch stronger than hoped. It is also worth repeating that outside mortgage costs, inflation is well behaved and sits right in the middle of the Bank of Canada target inflation range. There are no immediate ramifications for monetary policy as the next rate announcement is in September with another round of economic and inflation data informing that decision, but today's data points to further inflation progress.

## Canada Consumer Price Index

Period	2023M04	2023M05	2023M06
<i>All-Items</i>			
Actual y/y %ch.	4.4	3.4	2.8
Actual, m/m %	0.7	0.4	0.1
Seas. adj., m/m %	0.5	0.0	0.1
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	4.4	4.0	3.5
Goods	4.0	2.1	1.4
Services	4.8	4.6	4.2
Food	8.3	8.3	8.3
Shelter	4.9	4.7	4.8
Gasoline	-7.7	-18.3	-21.6
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	5.7	5.2	5.1
Trim	4.2	3.8	3.7
Median	4.4	4.0	3.9
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	3.7	3.1	2.6
Exc. food and energy	4.2	3.3	2.5

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