



Inflation pops higher again, but core measures hold steady

Canada's inflation reading shifted sharply higher in July to complicate the Bank of Canada's rate decision next month. Consumer Price Index (CPI) inflation accelerated to 3.3 per cent year-over-year, compared to 2.8 per cent in June. This was the highest since April (4.4 per cent). On a month-to-month basis, prices sped up to 0.6 per cent (0.5 per cent seasonally-adjusted). The increase in headline inflation reflected gasoline prices as the effects of last year's surge rolled off, although mortgage interest costs continued to soar, and food prices rose.

Gasoline prices were a key driver of the upswing in the year-over-year increase. While up a modest 0.9 per cent from June, the year-over-year drop narrowed sharply from 21.6 per cent in June to 12.9 per cent in July. Gas prices spiked last June with the war. Excluding gasoline prices, CPI inflation rose 4.1 per cent year-over-year. That said, there are many other moving parts in the inflation print.

Food prices remained robust with a year-over-year increase of 7.8 per cent. This was a slower pace than the 8.3 per cent rate in June, but seasonally-adjusted monthly growth increased to 0.4 per cent from 0.3 per cent. Households continue to face severe pressure at the grocery aisles (+8.5 per cent, year-over-year), led by vegetables and cereals/baked products. Electricity prices were also up 11.7 per cent, year-over-year, from 5.8 per cent in June but owed to the end of temporary rebates and price caps in Alberta.

Shelter prices also accelerated to 5.1 per cent year-over-year from 4.8 per cent in June. However, this pressure was self-inflicted pain from the Bank of Canada's own interest rate hikes. Rent growth remained high but decelerated to 5.4 per cent. In contrast, owned accommodation costs rose from 5.4 to 5.9 per cent as growth in mortgage interest costs touched a new high of 30.5 per cent. Excluding mortgage interest costs, inflation was at 2.4 per cent, which was higher than June at 2.0 per cent but well behaved.

Segments with lower inflationary pressure included clothing and footwear (1.0 per cent), vehicle prices (2.6 per cent), a sharp decline in travel services (-5.3 per cent), and airfares (-12 per cent). More broadly, goods prices were up 2.3 per cent from 1.4 per cent in June, while services nudged up to 4.3 per cent.

While July's headline print is unwelcome news for those hoping for interest rate relief, there was a silver lining observed amongst core inflation measures. Excluding food and energy (classic core), year-over-year growth slipped to 3.4 per cent from 3.5 per cent and the annualized three-month gain stayed at 2.5 per cent (seasonally-adjusted). The Bank's three core measures broadly decelerated but remained high with the common-core down 0.2 pp to 4.8 per cent, with the trim measure down 0.1 pp to 3.6 per cent. The median measure was unchanged at 3.7 per cent. On a seasonally-adjusted basis the median and trim measures rose 0.3 per cent month-to-month, which was consistent with June.

July's inflation reading highlights the challenges in returning to the Bank's inflation target of 1-3 per cent, and elevated inflation means higher rates will be with us for some time. Another hike in September is a risk but this inflation report also follows the soft labour market report and other signs of an economic slowdown. At the same time, wage growth is still high and feeding into services prices. With cumulative rate hikes still working through the economy, we expect the Bank of Canada to hold steady in September as it walks the fine line between fighting inflation and pushing the economy into an unnecessary recession.

Canada Consumer Price Index

Period	2023M05	2023M06	2023M07
<i>All-Items</i>			
Actual y/y %ch.	3.4	2.8	3.3
Actual, m/m %	0.4	0.1	0.6
Seas. adj., m/m %	0.0	0.3	0.5
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	4.0	3.5	3.4
Goods	2.1	1.4	2.3
Services	4.6	4.2	4.3
Food	8.3	8.3	7.8
Shelter	4.7	4.8	5.1
Gasoline	-18.3	-21.6	-12.9
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	5.2	5.1	4.8
Trim	3.8	3.7	3.6
Median	3.7	3.7	3.7
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	3.1	3.1	3.1
Exc. food and energy	3.3	2.5	2.5

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