



Inflation progress interrupted in May

Cold water was thrown on Canadian inflation progress as price levels unexpectedly accelerated in May, contrary to market expectations. Headline inflation rose to 2.9 per cent y/y, up from 2.7 per cent in April and above the consensus forecast for a decline to 2.6 per cent. Monthly prices rose 0.6 (or a seasonally-adjusted 0.3 per cent).

The primary driver of May's inflationary uptick was service prices which jumped to 4.6 per cent from 4.2 per cent in April, owing in large part to travel-related costs. Air transportation jumped 4.5 per cent, while travel tours jumped 6.9 per cent. Statistics Canada noted this was due to U.S. related activity, reflecting stronger pricing conditions south of the border with Canadians willing to pay. Year-over-year declines in cellular prices also provided upside pressure on prices.

Shelter costs remained a substantial driver of headline and services inflation with y/y growth at 6.4 per cent despite nudging lower from April. Ontario rents led to an acceleration in national rent growth to 9 per cent from 8.2 per cent, more than making up for a slip in mortgage interest costs which decelerated for a ninth month albeit at 23 per cent. Rising rents are due to supply-demand market dynamics and massive population growth.

Food and gasoline prices were tame. Gasoline prices slipped as expected reflecting broader international oil price trends. Prices fell 1.3 per cent m/m with y/y growth decelerated to 5.6 per cent. Food inflation was also steady at 2.4 per cent y/y compared to 2.3 per cent in April. Store-purchased food prices accelerated but held at a modest 1.5 per cent, with a notable uptick in meat as fruit and vegetable prices decelerated. Among other goods, deflationary pressure remained for furniture, furnishings and used autos. Goods were up 1.0 per cent y/y, which was consistent with April.

Core inflation measures watched closely by the Bank of Canada also moved in the wrong direction but still held below three per cent during the month. CPI-Trim rose 0.1 points to 2.9 per cent while the median measure rose 0.2 points to 2.8 per cent. The Core-common measure, however, fell 0.2 points to 2.4 per cent y/y. Excluding food and energy, which is a core metric used in many other countries, rose 0.2 points to 2.9 per cent. On a trend basis, prices accelerated with headline tracking a 3-month annualized change of 3.0 per cent, which was the highest since October, while Bank measures of median and trim inflation tracked closer to 2.5 per cent.

For the Bank of Canada, this was an unhelpful reading in its desire to reduce rates and view that inflation is easing. That said, this represents only one month of data and much of the inflation uptick was specific to Ontario rent, and several segments. Shelter challenges as we note will not be cured by high rates, and excluding shelter, inflation was still a mild 1.5 per cent. The path to target inflation was never going to be smooth and the latest numbers cut the likelihood of a July rate cut. That said, with several key data points to come in before the July decision, including GDP, labour markets and another CPI reading we expect momentum to slow, and we retain our call for a cut in July before pausing for at least one meeting thereafter.

Canada Consumer Price Index			
Period	2024M03	2024M04	2024M05
<i>All-Items</i>			
Actual y/y %ch.	2.9	2.7	2.9
Actual, m/m %	0.6	0.5	0.6
Seas. adj., m/m %	0.3	0.2	0.3
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	2.9	2.7	2.9
Goods	1.1	1.0	1.0
Services	4.5	4.2	4.6
Food	3.0	2.3	2.4
Shelter	6.5	6.4	6.4
Gasoline	4.5	6.1	5.6
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	2.9	2.6	2.4
Trim	3.1	2.8	2.9
Median	2.8	2.6	2.8
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	1.0	2.3	3.0
Exc. food and energy	1.6	2.2	3.2

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