



Headline inflation steady at 1.7 per cent, core measures slip

There was mild relief in Canadian inflation patterns in May as headline growth in prices held steady at 1.7 per cent and core inflation measures moderated to 3.0 per cent. While the latter heads in the right direction, levels remain firm and further deceleration will be needed to move the Bank of Canada off its holding pattern.

May's headline inflation of 1.7 per cent y/y was consistent with April's reading, and market consensus. Prices rose 0.6 per cent m/m (0.2 per cent s.a.). Like April, headline y/y growth continued to be weighed down by the permanent removal of the carbon tax, which will remain a factor for the next year until it falls out of the 12-month comparison. Excluding the impact of indirect taxes, CPI inflation edged up to 2.3 per cent y/y from 2.2 per cent.

The latest inflation details were relatively tame in May with few signs that tariffs and retaliatory tariffs are driving rapid growth in prices for consumers. Food prices rose 0.5 from April (unadjusted) but slowed y/y to 3.4 per cent from 3.8 per cent. Both store-bought foods and restaurant meals decelerated with the former leading the way. There was a broad deceleration amongst key food products, growth in meat prices fell from 5.6 to 5.2 per cent, fruit prices slowed from 5 per cent to 3.8 per cent, and vegetables came in at 1.0 per cent. Among other goods, beer prices were steady at 3.2 per cent y/y; wine accelerated to 2.2 per cent. Gasoline prices rose 1.8 per cent m/m and provided some upward pressure to inflation but came in 15 per cent lower than a year ago. This compared to an 18 per cent decline in April.

Tariff impacted segments also showed some moderation in growth with sporting and exercise equipment slowing 11 per cent to 5.6 per cent, with toys and games flat from a year ago but accelerating from the deflationary trends in prior months. That said, vehicle prices accelerated from 4.6 to 4.9 per cent. Canada had imposed 25 per cent tariffs on non-CUSMA U.S. made vehicles which is seeping into prices north of the border.

On the housing front, shelter related prices decelerated to 3.0 per cent from 3.4 per cent. This was owed to a slump in rent to a 4.5 per cent rate from 5.2 per cent, with mortgage interest high but decelerating to 6.2 per cent y/y, and replacement costs down 0.3 per cent. Weaker housing demand from lower population growth was likely a factor, as were declines in interest rates.

In other segments, relatively stronger inflation patterns persisted in health services (4.2 per cent), and personal care services (3.5 per cent). In contrast, tourism related pricing fell which could reflect weaker US tourism costs and pull back by Canadians on discretionary purchases driving downward pressure.

Bank of Canada core measures of inflation (both trim and median) decelerated monthly to 0.2 per cent and eased on a year-over-year basis to 3.0 per cent. This remains a touch too high as the Bank targets two per cent but is headed in the right direction. It remains too early to make a high conviction call for the July 30 rate meeting given another cycle of monthly data to come. The Bank will likely need some additional signs of inflation softening, which is still likely to come as the economy slows with the tariff hit, but whether that comes in time remains to be seen.

Bryan Yu

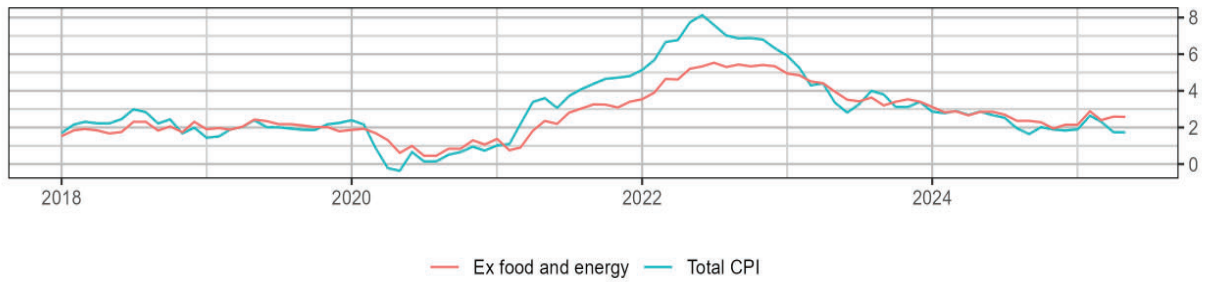
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May/2025	Canada Consumer Price Index					
Indicator	m/m ch.	prior m/m ch	y/y ch.	prior y/y ch.	3m ann % ch.	prior 3m ann % ch.
All-items, actual	0.6	-0.1	1.7	1.7		
All-items, s.a.	0.2	-0.2	1.8	1.8	-0.2	1.2
Ex food and energy	0.6	0.5	2.6	2.6		
Ex food and energy, s.a.	0.3	0.3	2.5	2.6	2.4	3.2
Select Products and Services						
Goods	0.5	-1.0	-0.1	-0.5		
Services	0.7	0.6	3.2	3.5		
Food	0.5	0.4	3.4	3.8		
Gasoline	1.9	-10.2	-15.5	-18.1		
Shelter	0.0	-0.1	3.0	3.4		
Rent	0.2	0.7	4.5	5.2		
Mortgage Interest	0.2	0.2	6.2	6.8		
Homeowners Replacement	-0.3	0.0	-0.3	0.1		
CPI Ex Shelter	0.8	-0.1	1.2	1.1		
Bank of Canada Core Measures						
Core Common			2.6	2.5		
Core Median			3.0	3.1		
Core Trim			3.0	3.1		
Core Median, s.a.	0.2	0.4	3.0	3.1	3.0	3.6
Core Trim, s.a.	0.2	0.4	3.0	3.1	3.0	3.2

Inflation Indicators

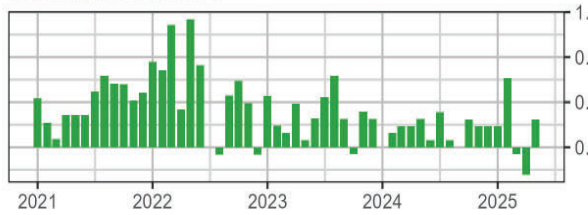
CPI Inflation, y/y % change

Last data point: 2025-05-01



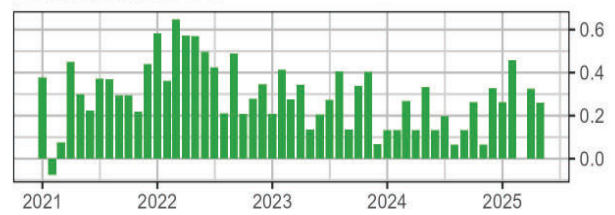
CPI sa, m/m % ch

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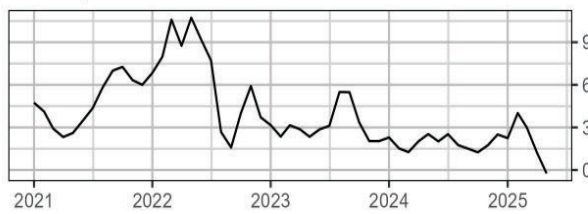
CPI ex food/energy sa, m/m % ch

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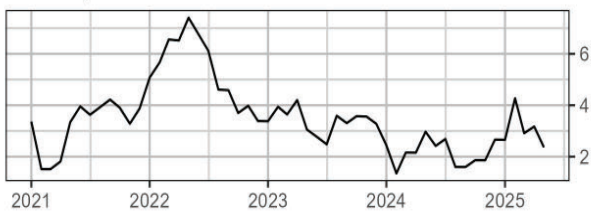
CPI sa, 3m ann. % ch

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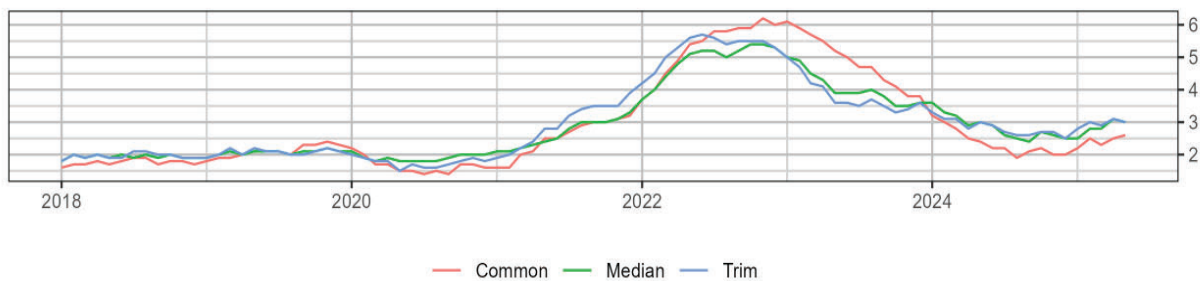
CPI ex food/energy sa, 3m ann. % ch

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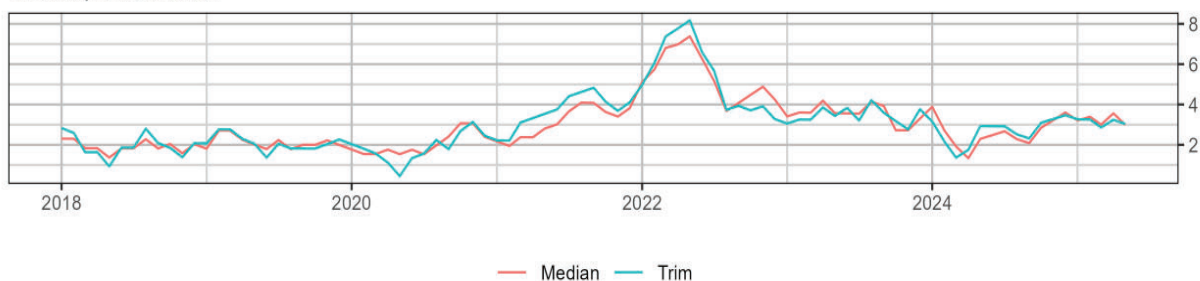
Bank of Canada Core Inflation, y/y % change

Last data point: 2025-05-01



Bank of Canada Core Inflation, 3m ann % change

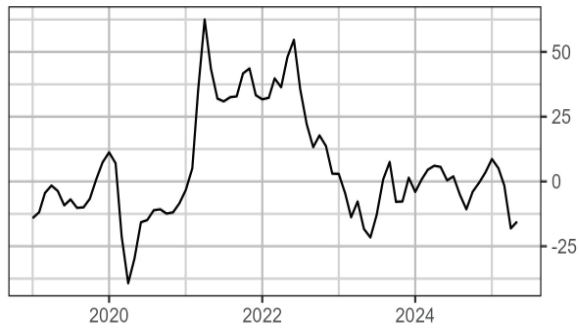
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Inflation Trends by Segment

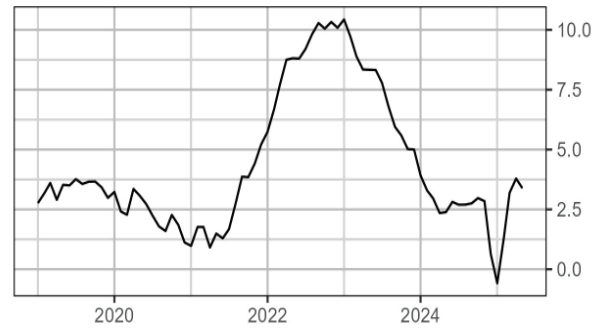
Gasoline, y/y % ch

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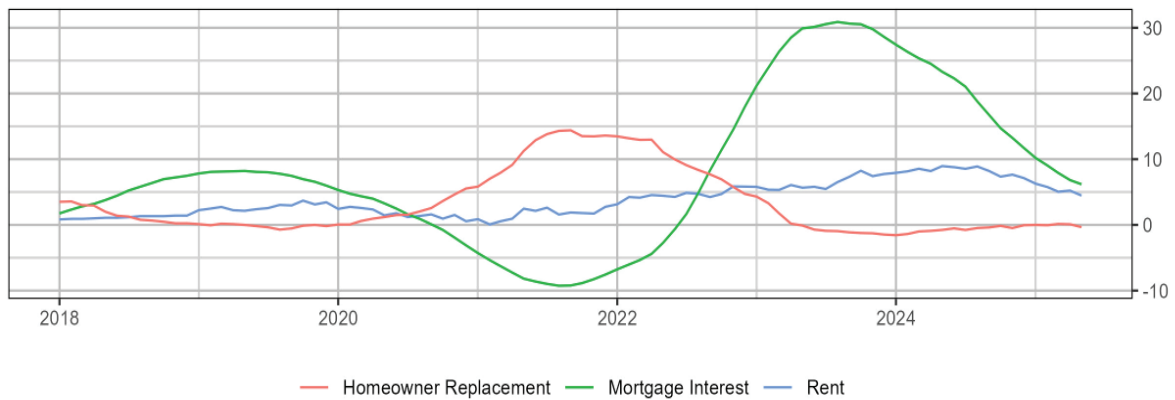
Food, y/y % ch

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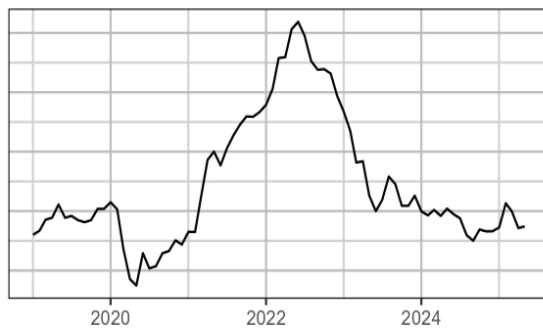
Shelter Inflation by Key component, y/y % change

Last data point: 2025-05-01



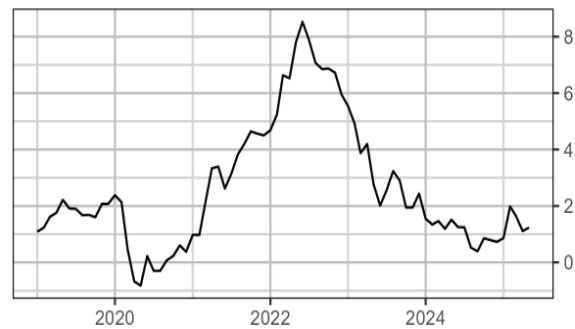
CPI ex mortgage, y/y % ch

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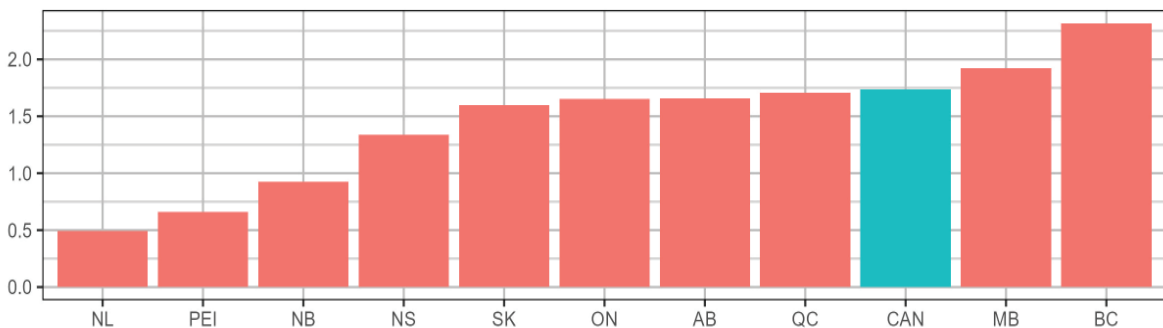
CPI ex shelter, y/y % ch

Last data point: 2025-05-01



CPI Inflation by Province, y/y %

Last data point: 2025-05-01



Statistics Canada, Central 1