

ECONOMIC NEWS

Canada: A Mid-Summer's Ease in Inflation

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HIGHLIGHTS

- ▶ Consumer prices rose 0.1% in July, pushing the annual rate of inflation up to 7.6% from 8.1% in June.
- ▶ The notable monthly decrease in gasoline (-9.2%) helped push headline inflation lower even as food and shelter rose 0.7% and 0.4% respectively.
- ▶ Excluding food and energy, prices are 5.5% higher than they were a year earlier. The three-month annualized rate of seasonally-adjusted ex-food and energy inflation sat at 6.4%, suggesting that underlying inflation remains hot.
- ▶ The Bank of Canada's three core measures of inflation averaged 5.3% year-over-year.

Excluding food and energy, inflation was still almost triple the Bank of Canada's 2% target. The average of the Bank of Canada's three core measures also jumped to a record 5.3%, although some of that was due to a sharp rise in the core-common component indicator which is looking increasingly unreliable.

IMPLICATIONS

While some of that above-target inflation might represent lingering supply issues, most of it is demand driven and needs to be dealt with by monetary authorities. So, while the Bank of Canada won't be conducting another 100bp hike, we continue to see central bankers raising rates another 50bps in September.

COMMENTS

Canadians looking at today's consumer price data will be breathing a sigh of relief. For the first time since June 2021, the annual rate of inflation stands lower than it was in the prior month. The 0.1% rise in prices unadjusted for seasonality in July left headline inflation running at 7.6%, which was in line with consensus and down from 8.1% in June. It's looking more and more like inflation will undershoot the Bank of Canada's forecast for the third quarter to average 8.0%.

The decline in gasoline prices was notable, falling by 9.2% from the previous month. But this is no time to become complacent. Although core inflation seems to be reaching a plateau, it remains unacceptably high. There was significant strength in some of the reopening sectors, with travel tour prices up 25% and accommodation up 10%. Food prices also continued to march higher, rising by 0.7% seasonally adjusted.

Despite the deceleration in headline inflation, above-target price growth remains broad-based. Over 75% of the components within the basket are rising faster than 3% on an annual basis and more than half of components are up more than 5%.

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