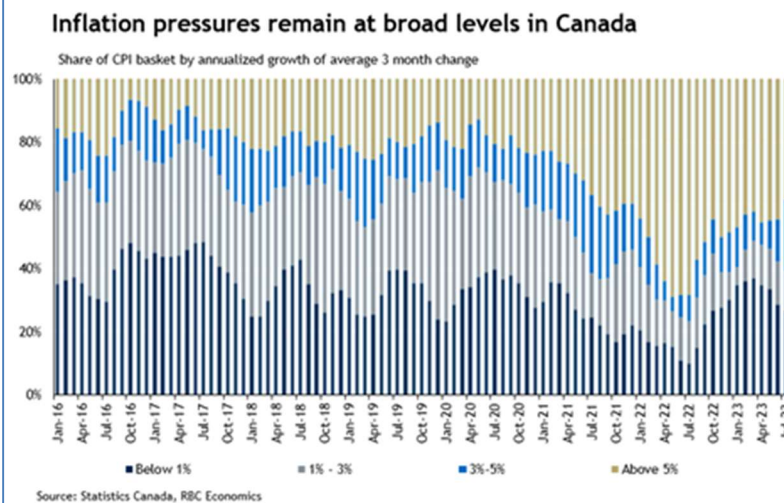


August 15, 2023

Canadian inflation pressures persisting in July

- Headline CPI rose to 3.3% year-over-year in July boosted by higher energy prices.
- Gasoline prices were very little changed month-over-month in July and still more than 10% below levels a year ago. But that year-over-year decline was smaller than in June (-21.6%). Electricity prices rose substantially, to 11.7% above a year ago in July upon a price surge in Alberta due to high summer demand and phasing out of provincial price supports.
- Overall energy prices were still down 8.1% from a year ago in July, but should continue to rise in the near-term with oil (and gasoline) prices tracking higher to-date in August.
- Food inflation dropped to 7.8% in July from 8.3% in June. That rate itself is still high but is expected to continue to ease, to around 5% by the end of this year as earlier lower raw food commodity prices and easing supply chain pressures pass through to retail price growth with a lag.
- Excluding food and energy products, CPI ticked lower to 3.4% from 3.5% in June on a year-over-year basis, higher than our expectations ahead of the release. Price growth for costs associated with owned accommodation accelerated again. That includes another record high increase for mortgage interest cost at 30.6% year-over-year, and rising (but still negative) annual growth in CPI for other owned accommodation (-1.4%) as home prices rebound.
- The BoC's preferred 'core' measures (designed to provide a better gauge of underlying broader domestic inflation pressures) showed slight improvements on an average 3-month annualized rate



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basis. CPI-trim and median measures are averaging at a lower 3.5% in July, comparing to 3.9% in June. Trim services prices ex-shelter (so-called “super core”) eased to 4.2% from 4.8% in the prior month on the same average 3-month annualized basis.

- Price pressures have broadened slightly over the last few months with a rising share of the CPI basket once again seeing inflation at above the top end of the BoC’s 1% to 3% target range.
- **Bottom line:** Easing in BoC’s ‘core’ CPI measures in July is welcome after months of sticky prints at higher levels but is far from enough to signal that this period of above-normal inflation is at an end. The Bank of Canada in July signaled a data-dependent, meeting-by-meeting approach when it comes to future rate decisions. And the data is not yet fully suggesting that they’ve done enough, as inflation pressures are proving more persistent. The BoC is clearly willing to hike interest rates further if needed. But more signs are starting to point to a weaker economy (output growth looks set to contract in June and the unemployment rate has risen by half a percentage point since April). We look for a softening economy to ease inflation pressures further going forward, and expect the odds are still tilted towards the Bank of Canada foregoing another increase in the overnight rate in September.

Canadian CPI Inflation				
	Apr-23	May-23	Jun-23	Jul-23
	<i>m/m % change</i>			
All Items CPI	0.7	0.4	0.1	0.6
Food	0.4	0.8	0.1	0.4
Energy	3.4	-0.8	1.4	1.7
All items ex-food & energy	0.5	0.4	0.0	0.5
	<i>y/y % change</i>			
All Items CPI	4.4	3.4	2.8	3.3
Food	8.3	8.3	8.3	7.8
Energy	-4.2	-12.4	-14.6	-8.2
All items ex-food & energy	4.4	4.0	3.5	3.4

Source: Statistics Canada, RBC Economics