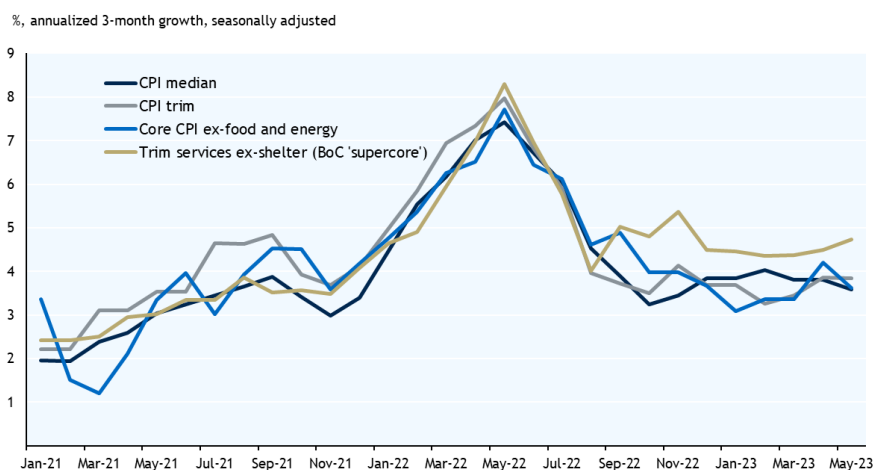


June 27, 2023

Canadian inflation rate slowed sharply in May

- After a surprise acceleration in April, headline inflation growth in Canada slowed to 3.4% year-over-year in May. Over 60% of that slowdown can be traced back to lower energy prices (-12.4% year-over-year) with both gasoline and fuel oil prices well below levels a year ago.
- The 'headline' inflation rate is likely to fall further in June – potentially down to the top end of the Bank of Canada's 1% to 3% target range – as energy prices this year continue to compare to very high year-ago levels. Beyond that, further slowing in broader inflation readings all the way back to the 2% target will be much harder to come by.
- The BoC's preferred CPI-trim and median measures both eased substantially in May (to 3.8 and 3.9%, respectively year-over-year, on relatively small 0.2% one-month increases from April). But the newly introduced "super core" (or CPI trim services ex-shelter) was still running hot, and actually accelerated on a 3-month rolling average basis in May. Overall, the breadth of inflation pressures was little-changed, still well-above pre-pandemic levels.
- Mortgage interest and home rent prices continued to drive a rising share of total consumer price growth. Inflation for mortgage interest costs at 29.9% in May was the highest on record. Those costs will continue to rise as higher interest rates flow gradually through to household mortgage payments with a lag as contracts are renewed. And

BoC's key inflation measures little changed in May



Source: Statistics Canada, RBC Economics

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home-buying related expenses ticked higher in May, with higher home resale prices increasing realtor and broker commissions.

- Food inflation at 8.3% was still elevated, and little changed in May. The plateauing came after consecutive easing earlier in spring. Price growth for dining out accelerated, offsetting slower growth in groceries prices. Moving forward, that dynamic should continue to play out with businesses in the accommodation and food services sector facing more acute labour shortage issues.
- **Bottom line:** Although slowing, underlying inflation trends in Canada are still running well-above the BoC's 2% target. Higher interest rates are cutting into household purchasing power, but spending to-date has been firm. Labour market conditions are also more resilient than expected in 2023 to-date. GDP data and the BoC's own Q2 Business Outlook Survey later this week will be watched closely for signs that the economy is losing momentum. But absent a large downside surprise from those data releases, we continue to expect the bank to hike the overnight rate by another 25 bp in July, before stepping back the sideline for the rest of this year.

Canadian CPI Inflation

	Feb-23	Mar-23	Apr-23	May-23
	<i>m/m % change</i>			
All Items CPI	0.4	0.5	0.7	0.4
Food	0.6	0.2	0.4	0.8
Energy	-1.2	0.7	3.4	-0.8
All items ex-food & energy	0.5	0.6	0.5	0.4
	<i>y/y % change</i>			
All Items CPI	5.2	4.3	4.4	3.4
Food	9.7	8.9	8.3	8.3
Energy	-0.6	-6.9	-4.2	-12.4
All items ex-food & energy	4.8	4.5	4.4	4.0

Source: Statistics Canada, RBC Economics