

June 22, 2022

## May Canadian inflation highest since 1983

- Headline CPI rose to 7.7% year-over-year upon accelerations across all major categories
- Excluding food and energy products, prices growth rose to 5.2%
- Broadening inflation pressures will keep the BoC on aggressive hiking path

**The 7.7% headline year-over-year CPI growth rate** was above ours and consensus expectations of a 7.4% increase, and the highest print in almost 4 decades. Growth in food prices held flat from April at an elevated 8.8% but prices for gasoline again surged higher, to 48% above last year on a 9.5% (seasonally adjusted) increase just over April to May. By our count, these products along with other goods including furniture that are subject to turbulence in global commodity markets and supply chain constraints have been driving around half of Canadian inflation. Excluding food and energy products, core CPI growth ticked higher to 5.2% in May despite a slowdown in home-purchasing related expenses following rapidly cooling resale activities. Offsetting that weakness were broadly-based price accelerations in home operations and furnishings, clothing and footwear as well as travel services

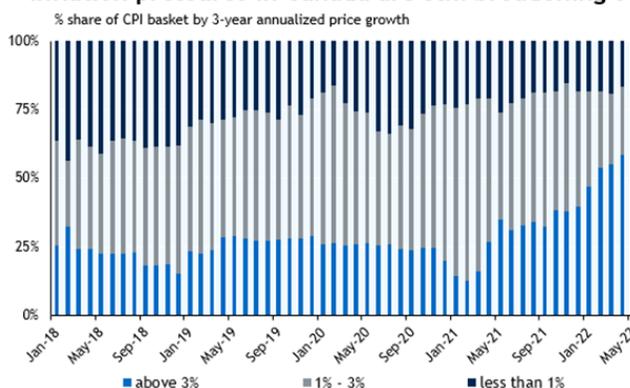
**Needless to say, inflation pressures continue to broaden out.** By our count, over 60% of the CPI basket was seeing price growth at a faster rate than the 3% top range of the Bank of Canada's inflation target versus pre-pandemic (3-year ago levels) in May. The share was less than half of that in 2019. There have been early signs of easing supply chain constraints, as ocean transport time narrows and container shipping costs have ticked lower in recent months. Central banks globally have been, and are expected to continue to, reign in monetary support faster to tame overheating consumer demand and ease inflation momentum. The Bank of Canada in its June policy statement fully expected inflation to rise higher in the near-term. However today's reading combined with a surprise 75bp hike from the U.S. Fed earlier this month has raised the odds of a similar 75bp hike from the BoC in July.

### Canadian CPI Inflation

	Jan-22	Feb-22	Mar-22	Apr-22	May-22
<i>m/m % change</i>					
All Items CPI	0.9	1.0	1.4	0.6	1.4
Food	1.4	1.3	0.9	0.9	0.8
Energy	3.1	4.7	7.5	0.6	8.5
All items ex-food & energy	0.6	0.6	0.9	0.6	0.9
<i>y/y % change</i>					
All Items CPI	5.1	5.7	6.7	6.8	7.7
Food	5.7	6.7	7.7	8.8	8.8
Energy	23.1	24.1	27.8	26.4	34.8
All items ex-food & energy	3.5	3.9	4.6	4.6	5.2
<b>BoC 'Core' Measures</b>					
CPI-Trim	4.1	4.4	4.8	5.2	5.4
CPI-Median	3.6	3.8	4.2	4.6	4.9
CPI-Common	2.9	3.1	3.3	3.5	3.9

Source: Statistics Canada, RBC Economics

### Inflation pressures in Canada are still broadening out



Source: StatCan, RBC Economics

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