RBC Economics

Daily Economic Update

August 16, 2022

Canadian inflation dropped lower in July

- Headline CPI growth slowed to 7.6% (year-over-year) in July
- Lower gasoline prices led the decline, offsetting stronger natural gas and food costs
- Strength in travel and leisure services supported core (ex-food and energy) price growth, which rose to 5.5%
- Inflation to ease further, but not enough to derail the Bank of Canada from its currently aggressive hiking path

RBC Inflation Watch: a tracker of key indicators on price trends in Canada.

Read Report

Canadian year-over-year CPI growth saw its first moderation in over a year, falling to 7.6% in July from 8.1% in the prior month. The dip in the headline rate was entirely accounted for by lower gasoline prices, which dropped to around $1.85/liter by the end of July after breaking the $2 per liter mark in June. Other notable items that contributed to the downward inflation reading in July include home- buying related expenses, which have persistently trended lower since May following Bank of Canada interest rate hikes. Higher mortgage interest costs were able to offset some, but not all of that decline. Also in July, costs for food rose further to 9.2%. Prices for hotels (47.7%), travel tours (9.4%) and airfares (57.7%) also continued to surge above levels a year ago amid heated summer travel demand. Natural gas prices spiked, as earlier market price increases worked their way into regulated price increases, particularly in Ontario.

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Near-term headline inflation readings should continue to track gasoline prices lower. Indeed pump prices fell by another 6% just over the first two weeks of August. Meantime, more cooling in the housing market, easing global supply chain constraints and lower commodity prices will all work to ease price pressure for a wider array of products. It's not unreasonable to expect the headline CPI rate, together with the breadth of inflation pressure to be turning a corner. But the pace of inflation is still far above the Bank of Canada's comfort zone and consumer demand will likely need to soften a lot more for CPI growth to fully and sustainably return to the central bank's 1% to 3% target range. By our count, 62% of the consumer basket was still seeing inflation relative to pre-pandemic at an annual rate that's higher than 3%, the top end of the Bank's target range in July. We look for the BoC to hike the overnight rate by 75 bps in its next meeting in September, and bring it up to 3.5% subsequently by the end of this year.

Canadian CPI Inflation

	Mar-22	Apr-22	May-22	Jun-22	Jul-22
			m/m % change		
All Items CPI	1.4	0.6	1.4	0.7	0.1
Food	0.9	0.9	0.8	0.1	0.9
Energy	7.5	0.6	8.5	3.9	-5.4
All items ex-food & energy	0.9	0.6	0.9	0.4	0.6
			y/y % change		
All Items CPI	6.7	6.8	7.7	8.1	7.6
Food	7.7	8.8	8.8	8.8	9.2
Energy	27.8	26.4	34.8	38.8	28.0
All items ex-food & energy	4.6	4.6	5.2	5.3	5.5
BoC 'Core' Measures					
CPI-Trim	4.7	5.1	5.4	5.5	5.4
CPI-Median	4.1	4.5	4.8	4.9	5.0
CPI-Common	4.3	4.6	5.1	5.3	5.5

Source: Statistics Canada, RBC Economics