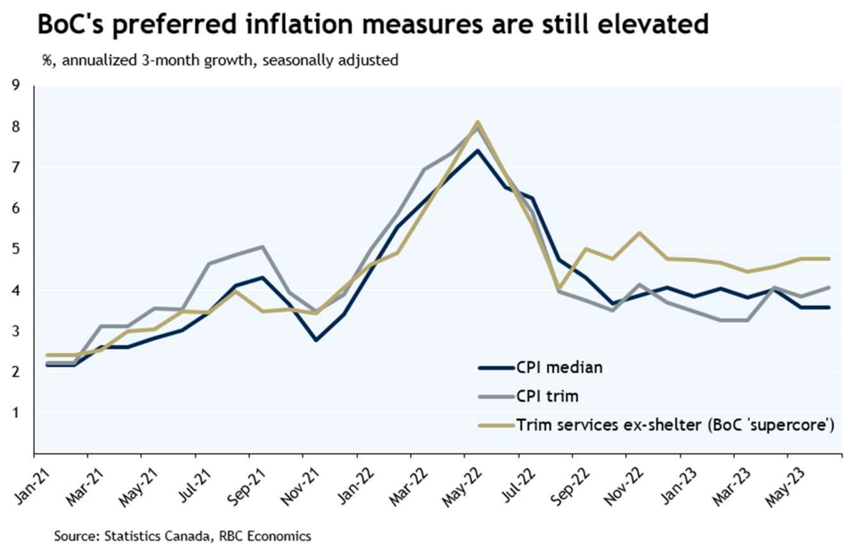
July 18, 2023

Annual Canadian inflation slowed to 2.8% in June

- Headline CPI slowed to 2.8% year-over-year in June, led by lower energy prices compared to a surge a year ago. That's a tad below with our and consensus expectations and just under the top-end of the Bank of Canada's 1% to 3% target range.
- Prices for gasoline and fuel oil were both much lower - 21.6% and 31.5% respectively, below their levels last June.
- Food and mortgage interest costs continued to drive a large part of inflation in Canada. CPI for food at 8.3% was unchanged from May, and still elevated. On a month over month basis however the pace of food price growth (+0.3%) continued to ease in June and was the lowest in a year. CPI for mortgage interest cost kept climbing, to 30.1% above a year ago in June.
- Excluding food and energy products, prices rose by 3.6% from last year, down from 4% in May. Slower price growth in travel services (-2.2%) and telecommunications like cellphone and internet bills (-8%) all contributed to the moderation.
- Still, the BoC's preferred 'core' measures (designed to provide a better gauge of underlying broader domestic inflation pressures) remained sticky at rates above the central bank's inflation target. The average 3-month annualized rate of increase in the BoC's preferred CPI-trim and median measures ticked slightly higher, to 3.9%. The newly introduced "*super core*" (trim services prices ex-shelter)



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continues to run particularly hot, at an annualized 4.8% on a three-month basis in June and matching the pace in May.

- Similarly, the breadth of inflation pressures has also been stalling at levels that are still much wider than pre-pandemic. In June, close to 60% of the basket still seeing above 3% inflation on a three-month annualized basis, unchanged from late 2022.

- **Bottom line:** Expectations for headline inflation rate to slow back to target range by mid-2023 have largely been correct. But the BoC's preferred core measures are proving much stickier, in part supported by resilience in domestic consumer spending. The BoC last week acknowledged that higher rates are already having an impact, just not to the extent as expected to-date. The central bank is also clearly willing to hike interest rates further if necessary. We continue to expect the full impact of rate hikes to-date to come through gradually, slow spending over the second half of this year and for that to push the central bank back on the sidelines with no additional interest rate hikes this year.

Canadian CPI Inflation

	Mar-23	Apr-23	May-23	Jun-23
		m/m % change		
All Items CPI	0.5	0.7	0.4	0.1
Food	0.2	0.4	0.8	0.1
Energy	0.7	3.4	-0.8	1.4
All items ex-food & energy	0.6	0.5	0.4	0.0
		y/y % change		
All Items CPI	4.3	4.4	3.4	2.8
Food	8.9	8.3	8.3	8.3
Energy	-6.9	-4.2	-12.4	-14.6
All items ex-food & energy	4.5	4.4	4.0	3.5

Source: Statistics Canada, RBC Economics

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