

Economics

# ECONOMIC FLASH!

[economics.cibccm.com](http://economics.cibccm.com)

June 22, 2022

## Canadian CPI (May): No rest for the weary

by **Andrew Grantham** [andrew.grantham@cibc.com](mailto:andrew.grantham@cibc.com)

Consumer price index (% chg)	21:Q4	22:Q1	Mar	Apr	May
Year/year rate (unadjusted)	4.7	5.8	6.7	6.8	7.7
Monthly rate (unadjusted)	-	-	1.4	0.6	1.4
Monthly rate (SA)	-	-	1.0	0.9	1.1
Three-month rate (SAAR)	-	-	10.0	11.1	12.5
CPI-trim (year/year rate)	3.6	4.4	4.8	5.2	5.4
CPI-median (year/year rate)	3.2	3.9	4.2	4.6	4.9
CPI-common (year/year rate)	2.5	3.1	3.3	3.5	3.9

Source: Statistics Canada

- There was no rest for those of us growing weary of escalating inflationary pressures in May. Headline CPI rose by 1.4% month-over-month, taking the annual rate up from an already elevated 6.8% to an even more gravity-defying 7.7% (consensus +1.0% m/m, 7.3% y/y). While food and energy drove much of the headline increase during the month, price pressures in rebounding services meant that, even excluding food and energy, inflation was very strong. The continuation of sharp and broadly based price pressures makes a 75bp hike from the Bank of Canada a near certainty, and likely means that the peak in interest rates will be higher than we previously anticipated.
- Food prices continued to rise, although the 0.5% monthly seasonally adjusted increase was weaker than had been seen in the earlier US release. Gasoline surged during the month after a brief respite in April, with the 12% increase the single largest contributor to the overall increase in CPI during the month. Fuel oils (+21.5%) was also one of the top five contributors to the increase. The average of the Bank of Canada's three core measures rose further from 4.4% to 4.7%.
- Even excluding food/energy, price pressures remained very strong, with a seasonally adjusted 0.6% matching the increase seen in the prior month and taking the year-over-year rate on that breakdown to 5.2% (from the 4.6% in the prior month). The rebound in services activity appears to be helping drive price pressures, with traveller accommodation (+14%) the second largest contributor to the overall monthly change in unadjusted CPI, behind gasoline.
- Within the shelter component of CPI, higher rates are showing up in mortgage interest costs (+0.66% m/m vs +0.19% last month), but the negative impact on house prices is not yet being seen. Other owned accommodation costs, which includes real estate agent fees, actually rose by a modest 0.2% in May. Homeowners' replacement costs also continued to increase, albeit at a slower pace than in prior months, due to the higher costs facing builders of new homes.
- Today's release included a reweighting of the CPI basket and the introduction of used car prices as a separate line item for the first time. On a month-over-month basis, the purchase of new passenger vehicles rose 0.1% and purchase of used passenger vehicles rose 2.2% in May. Statistics Canada noted that today's headline figure would have been broadly the same without the introduction of used vehicle prices.

## Implications & actions

**Re: Economic forecast** — With little respite from high gasoline prices on average in June, and with food prices likely to continue to increase, headline inflation should easily surpass 8% next month. However, with commodity prices starting to trend lower amid concerns of a global slowdown, inflation should finally moderate in late summer and into the fall. Headline CPI was already running well above the Bank of Canada's April projections prior to today, and so this release makes a 75bp move at the next meeting a near certainty and suggests that the peak in interest rates could be higher than the 2.75% we had previously predicted.

**Re: Markets** — Bond yields rose immediately after the release, but settled to be little changed as today's stronger than expected inflation figure was overshadowed somewhat by growing concerns of a global recession and the resulting weakness in commodity prices.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, "CIBC") and (d) in the United States either by (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada, and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

© 2022 CIBC World Markets Inc. All rights reserved. Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC