

DATA COMMENTARY · MAY CPI

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Inflation hits 3.2% as gasoline climbs.

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THE TAKE

“Inflation broke out of the Bank of Canada’s control band as gas prices rose to levels not seen since Russia invaded Ukraine. Still, with an Iran peace deal in the works and energy markets pulling back, the bank will be able to argue that it should continue to look through the shock.”

— JAY ZHAO-MURRAY · CHIEF ECONOMIST · SIBLEY CREEK

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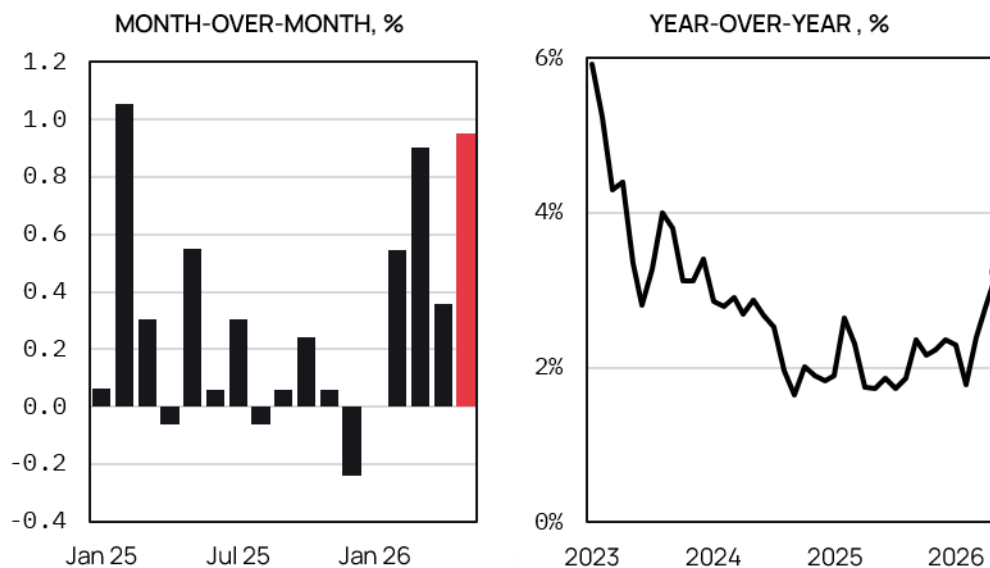
Inflation beats expectations

Inflation rose to 3.2% in May, up another four tenths of a percent from April. Gasoline was the driver once again: fuel prices rose 5.6% on the month and are 33.2% higher than a year ago. Both core-trim and core-median held steady, at 2% and 2.1%, respectively. Core-common rose two tenths to 2.7%, but the Bank of Canada has downplayed the value of this indicator since the pandemic.

The monthly impulse was strong at 1% m/m, though half the gain was driven by seasonal patterns.

After gasoline, the main upward contributors in May were travel tours (+16.9%) and traveller accommodation (+17.8%). With the World Cup having kicked off in June, these components are likely to show a continued increase in next month's CPI report.

Headline inflation rose to 3.2% on higher gas prices.



Source: Statistics Canada, Sibley Creek calculations. Seasonally adjusted.

Looking at the top eight aggregates, just food and transportation—which represent a bit more than a third of the basket when combined—are rising faster than 3% year-on-year, suggesting the breadth of inflation is still somewhat limited (though this needs confirming on a disaggregated basis).

The Middle East conflict has produced conflicting headlines of late, with Iran claiming to have closed the Strait of Hormuz again shortly after the US claimed it was reopened. Still, oil prices have pulled back considerably since the two countries signed a memorandum of understanding to end the war. WTI front-month futures are trading below \$75 per barrel, and gasoline futures have declines as well.

With headline inflation outside of the Bank of Canada's 1-3% control band, the central bank faces a communications challenge as it justifies its holding stance. That said, the bank should be able to argue that with energy prices reversing and a peace deal in the works, it can continue to look through the shock.

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