DATA COMMENTARY · JULY CPI

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Inflation edged back up to 3% in July.

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THE TAKE

> “Inflation is flirting once again with the top of the Bank of Canada’s control band. Interest rates could rise in the coming months if inflation persists above 3%, but for now, the central bank can dismiss it as a temporary pick-up.”

— JAY ZHAO-MURRAY · CHIEF ECONOMIST · SIBLEY CREEK

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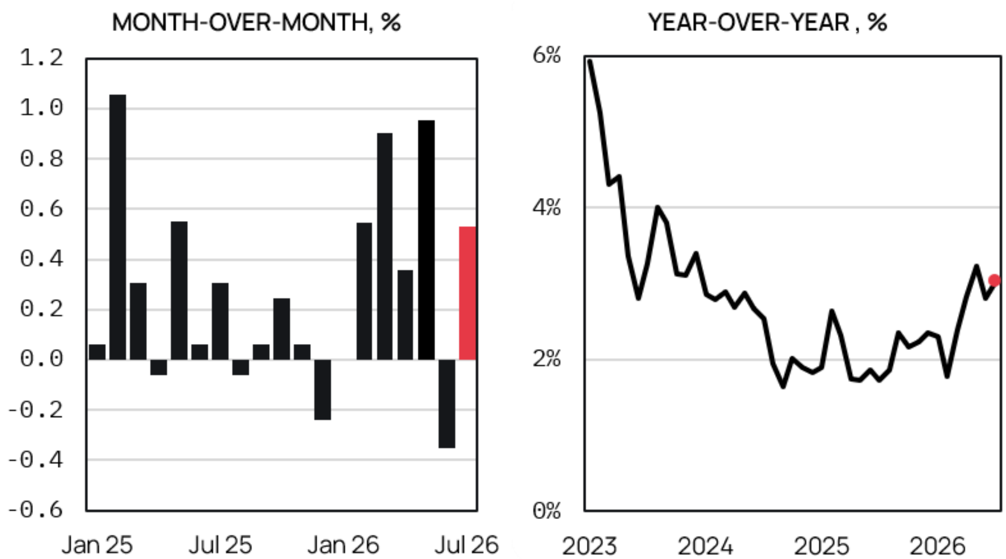
Inflation picks up

Headline inflation rose back to 3% in July, reaching the upper band of the Bank of Canada's control range for the second time this year. Elevated prices for fuel (Hormuz) and travel tours (World Cup) drove the acceleration. Groceries, meanwhile, slowed to 3.2% y/y, having peaked at 5% in December. Breadth was moderate, with 5 of 8 major components accelerating in July. On a monthly basis, prices accelerated by a brisk 0.5%, pared back to 0.3% after adjusting for seasonality.

The central bank's preferred measure of core inflation edged slightly higher as well. CPI-trim held flat at 1.9%, while median and common both rose one tenth of a percent, to 2% and 2.7% respectively. Note that CPI-common has been deprioritized as an indicator since the pandemic.

Inflation hits 3% for the second time this year.



Source: Statistics Canada, Sibley Creek calculations.

Fresh fruit prices surge as grocery inflation moderates

Fruit was the main subcategory of foods going against the trend. Prices rose by nearly 5% (+4.7%) in a single month, the fastest monthly gain since 2011. Berries and melons drove the increase, the statistics agency said. Fresh vegetables and frozen chicken increased at slower paces, while prices for cereal products fell outright.

Bank of Canada won't react

With inflation still technically within the realm of the central bank's 1-3% control band and the main upward drivers being known, temporary factors, it's unlikely that the Bank of Canada will adjust its monetary policy in response. That said, the balance of risks tilts hawkish, given that inflation is running hotter than the bank's 2% target.

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