

ECONOMIC RESEARCH AND STRATEGY



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Canadian January CPI Inflation Report – A Bumpy Deceleration

Despite January's strong 0.5% month-over-month gain, headline CPI stood at 5.9% year-over-year. The latter represents the slowest rate since March 2022 and a marked deceleration from last June's peak of 8.1%.

Services CPI, up 0.1% month-over-month, increased at the slowest pace in six months although it is attributable mostly to a mix of temporary and bumpy factors. First, air fares plunged by 20% after the busy December Holiday season. Second, the Alberta government offered additional rebates on electricity bills, effective until April. Third, the federal-Ontario childcare plan lowered daily fees paid by families.

After falling by 1.7% month-over-month in December, goods CPI re-accelerated 1% in January. Gasoline prices, also volatile, shifted from a negative drag to a positive driver. After plunging by 3.7% in November and 13.1% in December, gas pump prices climbed 4.7% in January despite the complete removal of the provincial sales tax by the Alberta government effective until at least the end of June. Food prices jumped by 1.7% in January alone, the highest month-over-month figure since 2008, maintaining the year-over-year figure above 10% for the fifth consecutive month. In a great article published mid-November, Statistics Canada found that higher wages, supply chain disruptions, the Russian invasion of Ukraine and poor global weather conditions are among factors that fueled food prices in 2021-22. At least, the Food and Agriculture Organization global food price index, usually a leading indicator of food prices at the consumer level, has slowed considerably over the past year.

Excluding food and energy, CPI increased by 0.2% month-over-month in January, bringing down the year-over-year rate to 5% for the first time since April 2022. BoC officials will find support in their conditional pause in core measures because they strip the noise from the trend and usually are a good indicator of future total inflation. Core CPI-trim fell by an encouraging 0.2pp for the second consecutive month to 5.1%, the lowest figure since March 2022. Core CPI-median has begun to turn the corner at the end of 2022, falling by 0.1pp in December and 0.2pp in January to reach 5%.



Bottom Line: Total CPI inflation is on track to average approximately 5.0% in 2023Q1 as we expect further deceleration in February and March. The bar is high for the BoC to hike in the near term as the January MPR projects 5.4% for the same period. Near-term inflation dynamics reinforce the conditional pause until at least the mid-March BoC policy decision. We see total CPI inflation grinding lower, below 3% by mid-year, although the process is expected to stay bumpy. The drop in headline CPI inflation will become more apparent soon due to the base-year effect of substantial price increases related to the beginning of the Russian invasion of Ukraine. At the same time, however, tight labor market conditions indicate inflationary stickiness delaying a persistent, convincing return to 2% inflation.

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