



Inflation slowdown continues through December

Peak inflation looks to be firmly behind us although levels remained elevated in December. Canada's rate of inflation decelerated into year-end as headline consumer price index (CPI) inflation fell to 6.3 per cent (y/y) and compared to 6.8 per cent in November. This was the slowest pace since February and the trend has eased since June. The monthly drop in aggregate prices of 0.6 per cent was the steepest since April 2020, however seasonally-adjusted prices nudged down by only 0.1 per cent.

December's pullback was heavily influenced by lower gasoline prices which likely put smiles on the faces of many motorists while dampening enthusiasm of Tesla owners. The price at the pump plunged 13 per cent from November and cut y/y growth to 3.0 per cent from 13.7 per cent in November as global pressures weighed on crude prices.

Disinflationary pressures were more benign among most of other products, but signs of slowing are evident. After a strong increase in November, growth in food prices slowed (0.3 per cent m/m) but remained high at 10.1 per cent y/y. Consumers saw some relief in meat and dairy prices from November but the stress of food costs on budgets remains high. Meanwhile, shelter costs decelerated from a 7.2 per cent y/y rate to 7.0 per cent, as declining home prices impacted homeowner depreciation. That said, this was offset by higher mortgage interest costs which jumped to 18.0 per cent y/y from 14.5 per cent in November. The pace of rent increases also slowed to 5.8 per cent (down 0.1 per cent).

Durable goods prices, which soared early in the pandemic, are softening as supply chain challenges iron out and higher interest rates (and weaker housing market) curb demand. Durable goods prices fell 1.0 per cent m/m and y/y growth narrowed to 4.7 per cent. Furniture prices fell 1.6 per cent m/m, while y/y growth slowed from 8.1 per cent to 6.4 per cent. Appliances fell 4.1 per cent m/m and 12-month growth fell to 2.8 per cent from 7.4 per cent in November. Vehicle prices are also slowing.

While goods prices slowed sharply, services prices remained more stubborn with prices up 5.6 per cent y/y compared to 5.8 per cent in November. While reflecting some impact from shelter costs, service price inflation tends to align more with wage growth and is more persistent. Measures of core inflation tracked by the Bank of Canada slowed with the common-core down to 6.6 per cent y/y from 6.8 per cent, while both the trim (5.3 per cent) and median (5.0) measures fell 0.1 per cent. Broadly, core remains elevated and well above the Bank's 1 to 3 per cent target range.

December's inflation reading remained constructive and the softening trend remains consistent with a near-term peak in the Bank's policy rate. That said, core inflation remains elevated and given strength in the labour market and near-term inflation expectations, another hike next week is likely.

Canada Consumer Price Index

Period	2022M10	2022M11	2022M12
<i>All-Items</i>			
Actual y/y %ch.	6.9	6.8	6.3
Actual, m/m %	0.7	0.1	-0.6
Seas. adj., m/m %	0.6	0.3	-0.1
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	5.3	5.4	5.3
Goods	8.4	8.0	6.9
Services	5.4	5.8	5.6
Food	10.1	10.3	10.1
Shelter	6.9	7.2	7.0
Gasoline	17.8	13.7	3.0
<i>Bank of Canada Core Measures</i>			
Shelter	6.9	7.2	7.0
Common	6.5	6.8	6.6
Trim	5.3	5.4	5.3
Median	4.9	5.1	5.0

Bryan Yu

Chief Economist
Central 1 Credit Union
byu@central1.com