



Inflation slows in January, provides breathing room for Bank of Canada conditional pause

Canadian consumer price inflation slowed more than expected in January despite strength in the labour market. Headline CPI inflation fell to 5.9 per cent, year-over-year, down from 6.3 per cent in December and the first sub- 6.0 per cent reading since February 2022.

However, some of this improvement is surface deep. Base year effects drove some of the deceleration as prices jumped in January 2022, potentially owing to the Omicron wave, supply chain issues, and increased tensions prior to the onset of the Russia invasion of Ukraine.

Monthly prices bounced higher by 0.5 per cent after declining 0.6 per cent in December but was still lower than consensus forecast. On a seasonally-adjusted basis, prices accelerated to a 0.3 per cent m/m increase from a zero reading in December suggesting prices are still firming. Still, excluding food and energy, the trend has continued to slow.

By product type consumers paid more for gasoline (+4.7 per cent m/m; 2.9 per cent y/y) and food prices (+1.7 per cent m/m; 10.4 per cent y/y). The latter was the main contributor to headline inflation. Specifically, food price growth was driven by strong monthly growth for staples such as dairy (+2.1 per cent m/m) and vegetables (+3.2 per cent m/m) and meat (+3.4 per cent). Restaurant prices also gained traction with pass through of costs. Gasoline prices rebounded after a sharp December decline.

Outside of food and energy, price pressure fell from 5.3 per cent y/y to 4.9 per cent and rose a more modest 0.2 per cent m/m. Annualized this is below 3 per cent. Shelter costs were steady at 0.1 per cent m/m and slowed to a 6.6 per cent y/y from 7.0 per cent in December. However, this largely reflects depreciation of owned housing and lower prices, as rents continued to track higher (0.5 per cent m/m) and mortgage interest costs surged 2.5 per cent. In terms of money out of pocket, households continued to pay more.

Patterns were more constructive among other goods and services. Clothing prices fell 1.7 per cent from December and 1.1 per cent year-over-year. Travel service fell 1.6 per cent m/m but remained sharply higher than a year ago by 16 per cent, while services such as childcare and housekeeping services fell 2.7 per cent and nearly 8 per cent from a year ago. Costs of vehicle purchases also steadied.

On a core inflation basis, patterns decelerated. The Bank of Canada's preferred core-common measure was unchanged at 6.6 per cent while the trim and median measures fell 0.2 points to 5.1 and 5.0 per cent. Levels remain far above the Bank of Canada's target.

Despite some caveats in the report, deceleration in the latest CPI inflation data is good news for the Bank of Canada and its conditional commitment to hold its policy rate steady, offsetting in part a string of strong economic data in both the Canadian and U.S. labour market. Inflation pressures are likely to ease further with a slowing economy although the labour market remains an upside risk to inflation.

Canada Consumer Price Index

Period	2022M11	2022M12	2023M01
<i>All-Items</i>			
Actual y/y %ch.	6.8	6.3	5.9
Actual, m/m %	0.1	-0.6	0.5
Seas. adj., m/m %	0.3	0.0	0.3
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	5.4	5.3	4.9
Goods	8.0	6.9	6.4
Services	5.8	5.6	5.3
Food	10.3	10.1	10.4
Shelter	7.2	7.0	6.6
Gasoline	13.7	3.0	2.9
<i>Bank of Canada Core Measures</i>			
Common	6.8	6.6	6.6
Trim	5.5	5.3	5.1
Median	5.3	5.2	5.0

Bryan Yu

Chief Economist
Central 1 Credit Union
byu@central1.com