



### Canadian inflation: Another move in the right direction

Canadian inflation declined again in February in another constructive sign that pressures continue to abate. Headline growth in prices came in at 5.2 per cent which was down from 5.9 per cent in January and lower than consensus forecast of 5.4 per cent. Price levels rose 0.4 per cent m/m (0.1 per cent s.a.) which slowed from January.

The slowdown in seasonally-adjusted prices is particularly noteworthy as the 3-month change in price fell to 1.6 per cent annualized, which was slowest since early in the pandemic. However, excluding food and energy, growth nudged back up to 3.4 per cent after slowing in January but still near the 1-3 per cent target band.

Price momentum broadly took a step back across product segments. Gasoline prices fell 1 per cent from January with a y/y decline of 4.7 per cent compared to a 2.9 per cent increase the prior month. Broader energy prices also declined. Food prices rose at a slower pace, but households continued to face severe pressure at grocery aisles (10.6 per cent y/y) particularly when it came to growth in fresh produce prices.

12-month growth in shelter costs remained excessive at 6.1 per cent but slowed from 6.6 per cent. Much of this improvement owes to pass through of weaker home prices through depreciation (homeowners replacement cost) which fell 0.2 per cent m/m, and to 3.3 per cent y/y. Rent nudged down to 5.4 per cent y/y but rose 0.6 per cent m/m. A tight market is going to keep this growth sticky. Moreover, mortgage interest costs jumped 2.2 per cent m/m and accelerated to 23.9 per cent y/y due to rate hikes.

In other noteworthy moves, childcare prices plunged 6.3 per cent m/m and 14.2 per cent y/y due to federal-provincial agreements, a good sign for households and one that may also curb inflation in the future through an expanding labour supply. Health and personal care products were unchanged on a y/y basis at 6.2 per cent. Travel services costs remained strong at 16.3 per cent y/y as prices jumped 6.5 per cent over the month.

While there were mixed patterns, goods prices cooled more rapidly to 5.3 per cent y/y from 6.4 per cent in January, while service prices were more stubborn holding steady at a similar 5.3 per cent. The Bank of Canada's core measures of inflation all declined from January, albeit the core-common measure came in at an elevated 6.4 per cent from 6.6 per cent. Nevertheless, inflation is heading in the right direction and should provide the Bank of Canada further comfort in its conditional rate pause. Moreover, strained banking conditions in the U.S. and lower interest rate expectations has curbed fears of a lower Canadian dollar and import price inflation. Inflation remains too high however to entertain a cut.

## Canada Consumer Price Index

Period	2022M12	2023M01	2023M02
<b>All-Items</b>			
Actual y/y %ch.	6.3	5.9	5.2
Actual, m/m %	-0.6	0.5	0.4
Seas. adj., m/m %	0.0	0.3	0.1
<b>CPI by Select Product Group, y/y % ch.</b>			
Exc. food and energy	5.3	4.9	4.8
Goods	6.9	6.4	5.3
Services	5.6	5.3	5.3
Food	10.1	10.4	9.7
Shelter	7.0	6.6	6.1
Gasoline	3.0	2.9	-4.7
<b>Bank of Canada Core Measures, y/y % ch</b>			
Common	6.6	6.6	6.4
Trim	5.3	5.1	4.8
Median	5.2	5.0	4.9
<b>3-mth trend, seasonally-adjusted (ann.)</b>			
All-Items	3.4	2.4	1.6
Exc. food and energy	3.7	3.1	3.4

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