



Economic Commentary

February 18 2025

Headline inflation nudges up but economic risk on the rise

Canadian CPI inflation came in mixed in January but remained moderate as dampening effects of the temporary GST tax holiday were offset by higher energy prices, particularly gasoline and natural gas. Total CPI inflation nudged up to 1.9 per cent in January from 1.8 per cent in December, to remain below the mid-point of the Bank of Canada's target range, while tracking below the Bank's Q1 projection. Monthly prices rose 0.1 per cent on an actual and seasonally- adjusted basis, marking a mild increase and rising in line with consensus estimate. Bank of Canada core measures of inflation nudged higher to 2.7 per cent y/y from 2.6 per cent (median-measure) and 2.5 per cent (trim-measure), with annualized monthly growth at 2.7 per cent.

Inflation was lifted in large part by higher energy costs. Gasoline prices rose 4.0 per cent m/m and accelerated to 8.6 per cent y/y from 3.5 per cent in December. Part of this owed to a near 26 per cent increase in Manitoba which re-introduced its gas tax after a temporary suspension, while natural gas prices jumped 6 per cent during the month lifting y/y growth to 4.8 per cent compared to a 5.5 per cent decline in December. Excluding energy, inflation was 1.7 per cent.

The GST-tax holiday continued to dampen prices among various goods and services. Food prices fell 0.5 per cent m/m, and 0.6 per cent y/y. This was due to restaurant meals which saw the full benefit of the tax measures with a 5.1 per cent y/y decline, while store-bought food prices rose 1.9 per cent as incremental impacts were lower. Clothing prices fell 1.9 per cent, while alcohol prices were also lower (3.6 per cent).

On the housing front, shelter price growth was unchanged at 4.5 per cent, but owed to higher operating costs and the increase in natural gas prices. Rents fell by 0.1 per cent m/m and decelerated to 6.3 per cent from 7.1 per cent y/y, suggesting immigration measures may have curbed demand. Mortgage interest costs fell to 10.2 per cent y/y from 11.7 per cent. Excluding shelter, broad inflation remains low at 0.9 per cent y/y.

Distortions from the tax holiday continued to impact headline inflation in January as the policy ended February 15. CPI inflation will revert higher. That said, key inflation measures remain within the Bank's target band, and with shelter costs easing outside energy, and signs of moderating wage growth, we remain of the view that the Bank will continue to cut. We expect the policy rate to fall to 2.0 per cent in anticipation of implementation of tariffs, although tariff rates will be lower than previously threatened. Weaker economic growth through lower exports, investment and feedback effects through the economy overshadows upside risk to inflation from retaliatory tariffs. Economic risk remains to the downside with potential for deeper cuts.

Bryan Yu

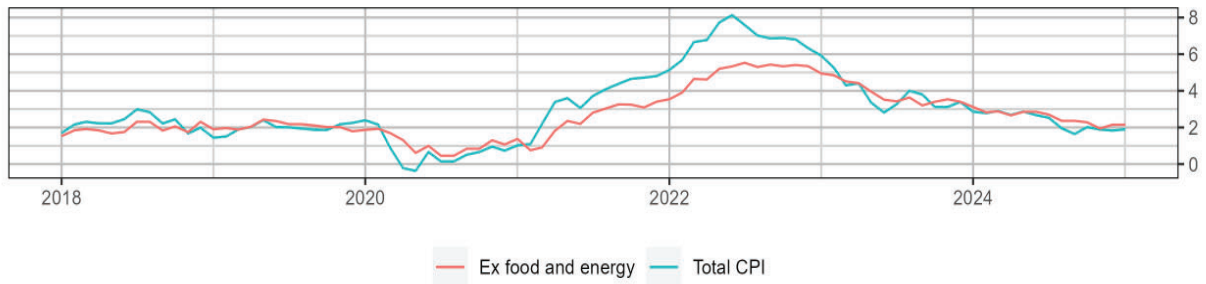
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Jan/2025	Canada Consumer Price Index					
Indicator	m/m ch.	prior m/m ch	y/y ch.	prior y/y ch.	3m ann % ch.	prior 3m ann % ch.
All-items, actual	0.1	-0.4	1.9	1.8		
All-items, s.a.	0.1	0.2	1.9	1.8	1.7	2.5
Ex food and energy	-0.1	-0.1	2.2	2.1		
Ex food and energy, s.a.	0.1	0.3	2.2	2.2	2.1	2.7
Select Products and Services						
Goods	1.0	-0.9	0.9	-0.1		
Services	-0.7	0.1	2.8	3.5		
Food	-0.5	-1.8	-0.6	0.6		
Gasoline	4.0	-0.6	8.6	3.5		
Shelter	0.3	0.3	4.5	4.5		
Rent	-0.1	0.3	6.3	7.1		
Mortgage Interest	0.2	0.4	10.2	11.7		
Homeowners Replacement	0.0	0.1	0.0	0.0		
CPI Ex Shelter	-0.1	-0.7	0.9	0.7		
Bank of Canada Core Measures						
Core Common			2.2	2.0		
Core Median			2.7	2.6		
Core Trim			2.7	2.5		
Core Median, s.a.	0.2	0.2	2.7	2.6	3.0	3.4
Core Trim, s.a.	0.2	0.3	2.7	2.5	3.1	3.7

Inflation Indicators

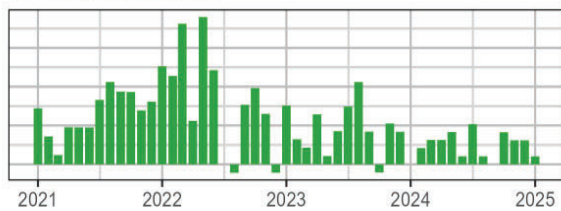
CPI Inflation, y/y % change

Last data point: 2025-01-01



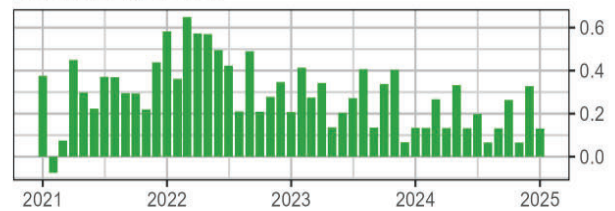
CPI sa, m/m % ch

Last data point: 2025-01-01



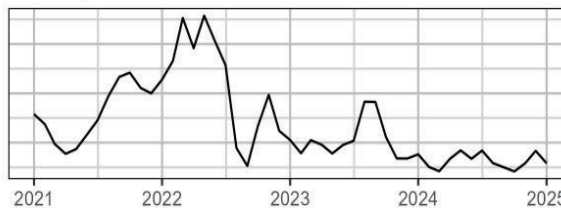
CPI ex food/energy sa, m/m % ch

Last data point: 2025-01-01



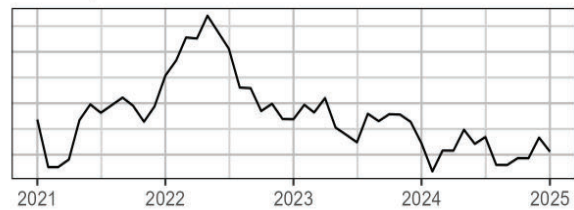
CPI sa, 3m ann. % ch

Last data point: 2025-01-01



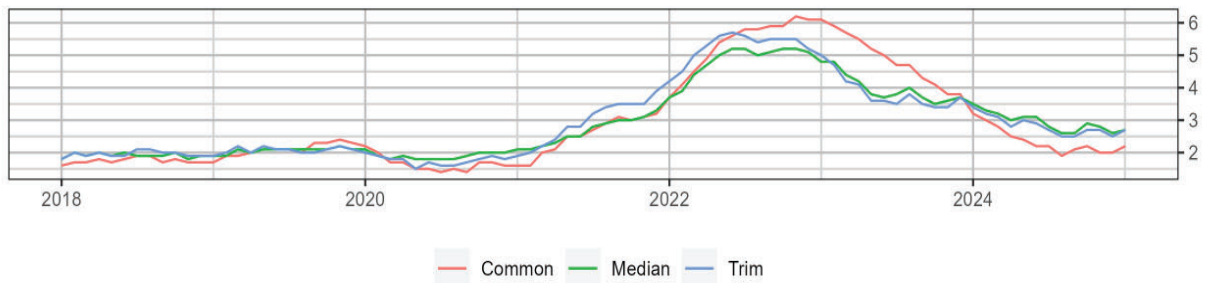
CPI ex food/energy sa, 3m ann. % ch

Last data point: 2025-01-01



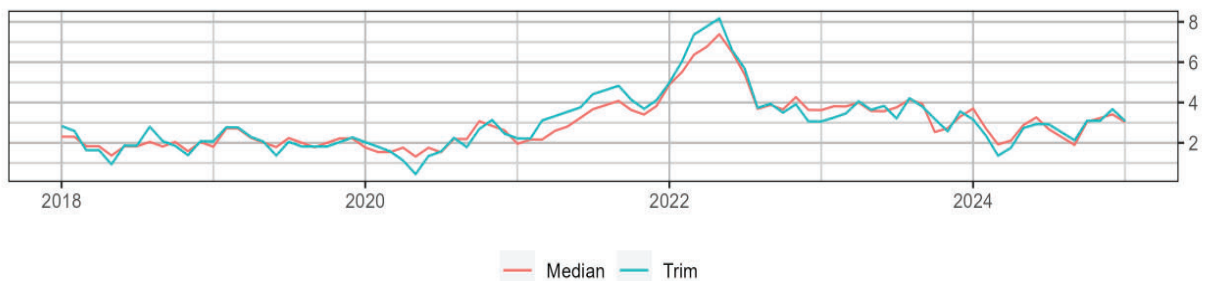
Bank of Canada Core Inflation, y/y % change

Last data point: 2025-01-01



Bank of Canada Core Inflation, 3m ann % change

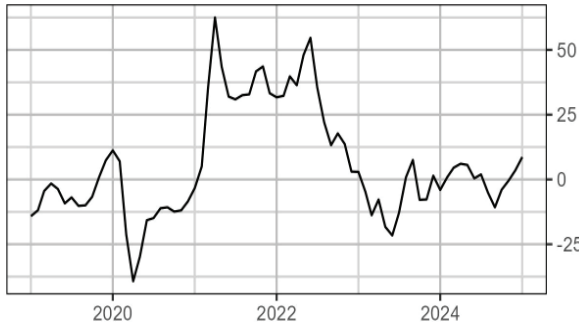
Last data point: 2025-01-01



Inflation Trends by Segment

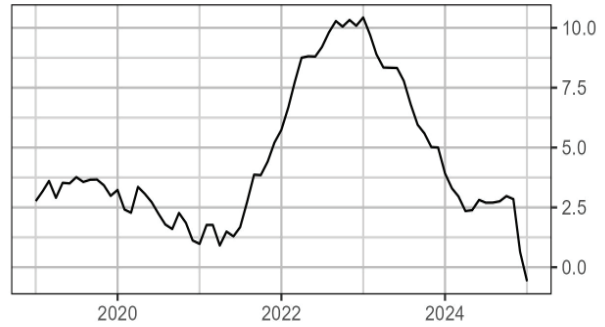
Gasoline, y/y % ch

Last data point: 2025-01-01



Food, y/y % ch

Last data point: 2025-01-01



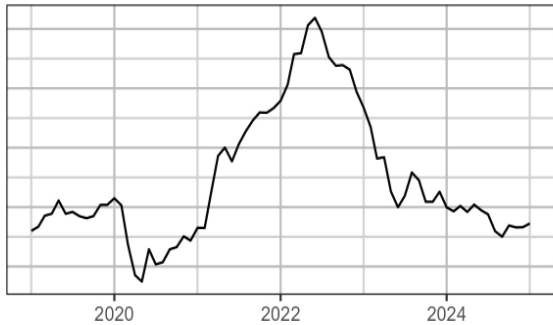
Shelter Inflation by Key component, y/y % change

Last data point: 2025-01-01



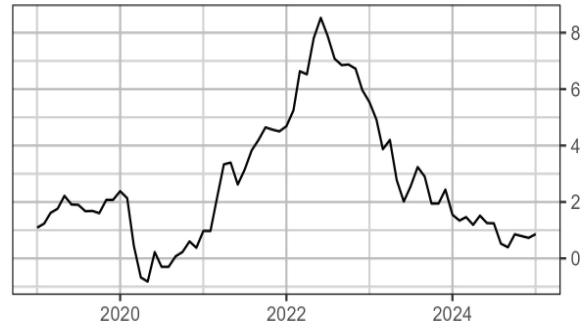
CPI ex mortgage, y/y % ch

Last data point: 2025-01-01



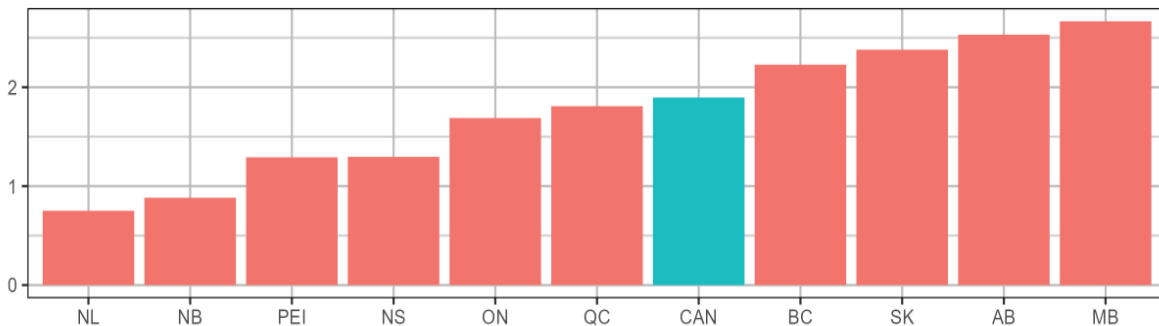
CPI ex shelter, y/y % ch

Last data point: 2025-01-01



CPI Inflation by Province, y/y %

Last data point: 2025-01-01



Statistics Canada, Central 1