



# Economic Commentary

March 18 2025

## Canadian inflation shoots higher in February

Canada's headline inflation rate shot higher in February as the end of the federal sales tax holiday pushed prices back up alongside increases in other goods and services segments. Total CPI inflation reached 2.6 per cent year-over-year, up from 1.9 per cent in January, with monthly prices up 1.1 per cent. On a seasonally-adjusted basis, prices increased 0.7 per cent with the 3-month annualized rate at 4.3 per cent.

Driving increased inflation were products and services most affected by the tax holiday, and in regions with the combined sales tax (HST). Declines in food prices reversed with a 1.6 per cent year-over-year increase, compared to a 0.6 per cent decrease in January. Not all food products were impacted by the holiday, with many foods already untaxed. Store-bought food prices rose 2.8 per cent y/y, compared to 1.9 per cent in January, with cereals seeing a larger increase. That said, fruit prices accelerated to 4.7 per cent y/y, and meat prices have increased sharply. Restaurant meals were a main beneficiary of the tax holiday, and a 5.1 per cent price decline in January narrowed to 1.4 per cent in February. Alcohol prices fell 1.0 per cent y/y, compared to 3.1 per cent in January. Clothing prices growth narrowed from 1.9 per cent to -0.1 per cent, as tax benefits rolled off children's clothing and footwear.

In contrast, there were some offsetting contributions. Gasoline prices held steady on a month-to-month basis, with year-over-year growth decelerating to 5.1 per cent from 8.6 per cent, owing in part to economic concerns and declining oil prices. Natural gas prices also slowed to a 1.8 per cent pace from 4.8 per cent. In contrast, travel services soared to 12.7 per cent y/y from 5.1 per cent, even as airfare costs fell 4.4 per cent and accommodations declined 2.2 per cent (consistent with January).

Growth in shelter costs continued to contribute to elevated inflation levels, but growth decelerated during the month to 4.2 per cent from 4.5 per cent y/y. Declines were recorded across rent, mortgage interest and replacements costs reflecting softening of the broad market and lower interest rates. Further deceleration in rent and mortgage interest costs are anticipated.

Given policy impacts, February inflation had quite a few moving parts which also contributed to higher core inflation. The Bank of Canada's core- median and -trim measures both came in at 2.9 per cent, with seasonally-adjusted 3-month trends above at 3.4 and 3.3 per cent. Excluding food and energy, inflation came in at 2.9 per cent, and excluding shelter, inflation was at 2.0 per cent. Nevertheless, the key message is that inflation has firmed significantly and is coming in above well above the Bank of Canada's MPR forecast (2.1 per cent). Prior to the tax holiday, inflation sat near two per cent. More upward price pressure is expected as the tax holiday ended mid- February, while going forward, the trade and tariff war that has already commenced and a weak Canadian dollar is likely to boost prices. A tariff driven slowdown in the economy is expected to have disinflationary effects, but upward price pressures occur earlier which could stall further rate cuts. The Bank of Canada will have a difficult job ahead balancing these competing factors, but we expect further cuts to occur in coming quarters.

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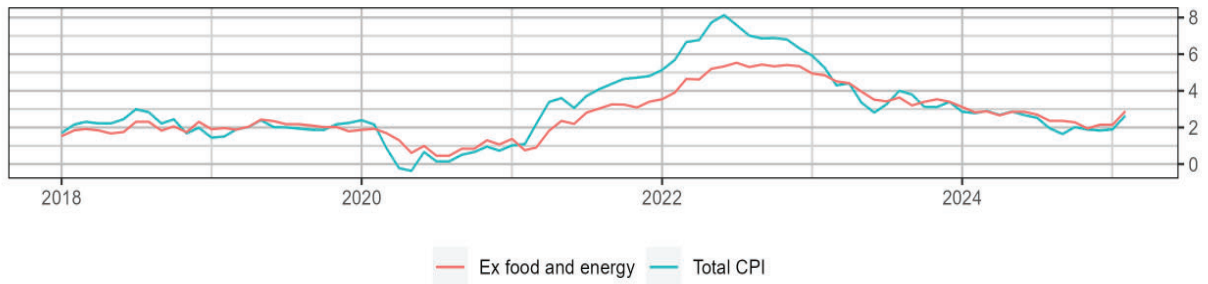
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Feb/2025		Canada Consumer Price Index				
Indicator	m/m ch.	prior m/m ch	y/y ch.	prior y/y ch.	3m ann % ch.	prior 3m ann % ch.
All-items, actual	1.1	0.1	2.6	1.9		
All-items, s.a.	0.7	0.2	2.6	2.0	4.3	2.2
Ex food and energy	0.9	-0.1	2.9	2.2		
Ex food and energy, s.a.	0.5	0.3	2.7	2.3	4.5	2.7
Select Products and Services						
Goods	0.8	1.0	1.5	0.9		
Services	1.2	-0.7	3.6	2.8		
Food	1.9	-0.5	1.3	-0.6		
Gasoline	0.6	4.0	5.1	8.6		
Shelter	0.2	0.3	4.2	4.5		
Rent	0.3	-0.1	5.8	6.3		
Mortgage Interest	0.2	0.2	9.0	10.2		
Homeowners Replacement	-0.1	0.0	0.0	0.0		
CPI Ex Shelter	1.4	-0.1	2.0	0.9		
Bank of Canada Core Measures						
Core Common			2.5	2.2		
Core Median			2.9	2.7		
Core Trim			2.9	2.7		
Core Median, s.a.	0.3	0.2	2.9	2.7	3.4	3.2
Core Trim, s.a.	0.3	0.3	2.9	2.7	3.3	3.3

# Inflation Indicators

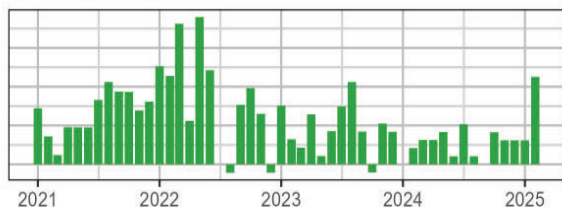
## CPI Inflation, y/y % change

Last data point: 2025-02-01



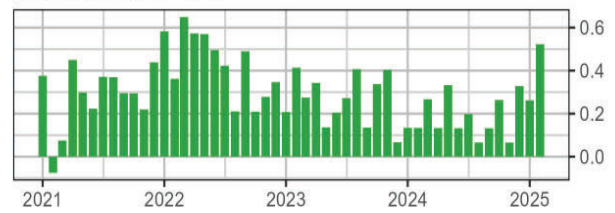
## CPI sa, m/m % ch

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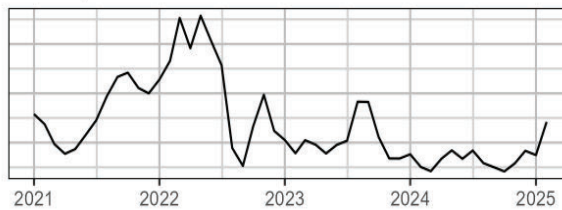
## CPI ex food/energy sa, m/m % ch

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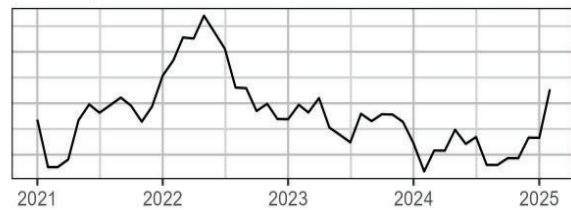
## CPI sa, 3m ann. % ch

Last data point: 2025-02-01



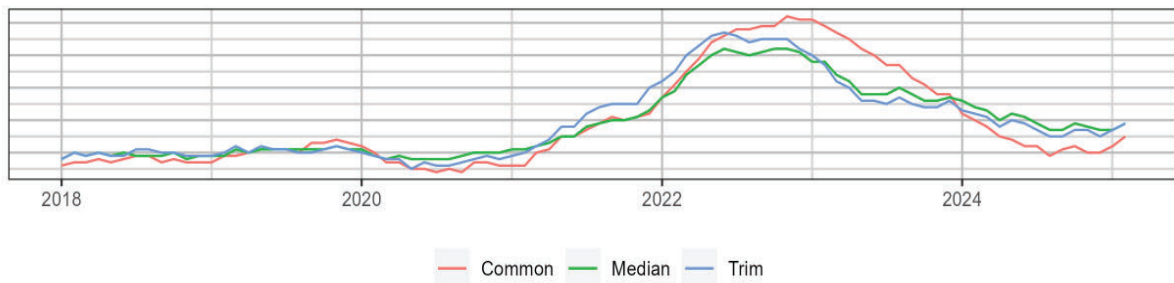
## CPI ex food/energy sa, 3m ann. % ch

Last data point: 2025-02-01



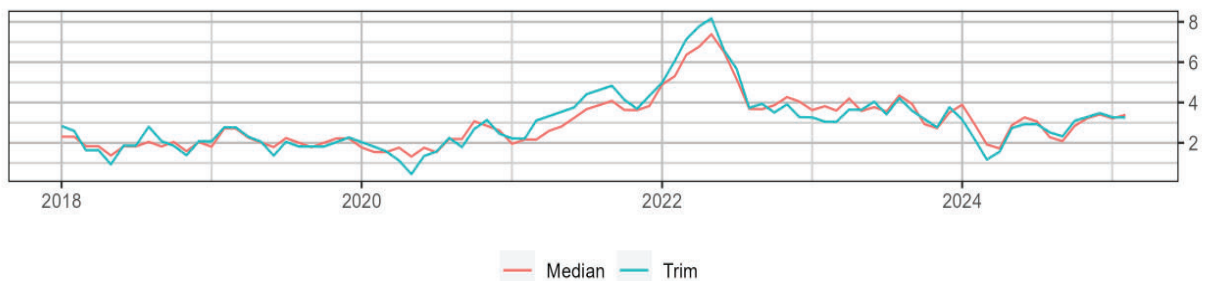
## Bank of Canada Core Inflation, y/y % change

Last data point: 2025-02-01



## Bank of Canada Core Inflation, 3m ann % change

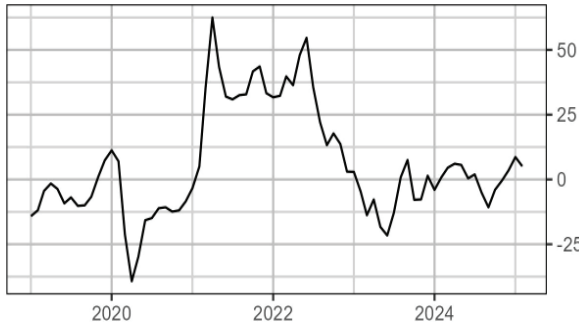
Last data point: 2025-02-01



# Inflation Trends by Segment

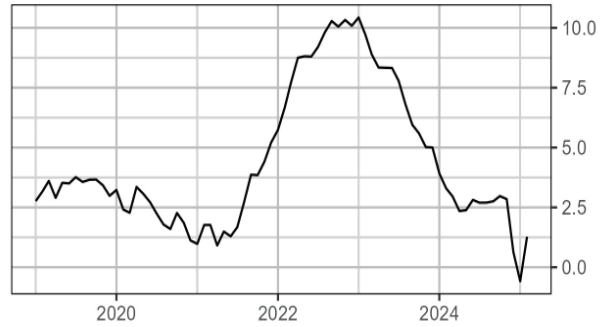
**Gasoline, y/y % ch**

Last data point: 2025-02-01



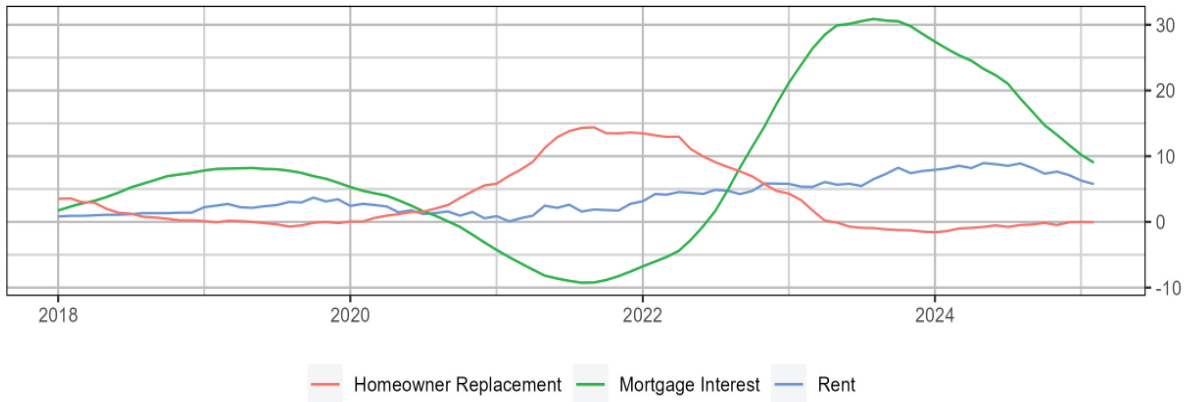
**Food, y/y % ch**

Last data point: 2025-02-01



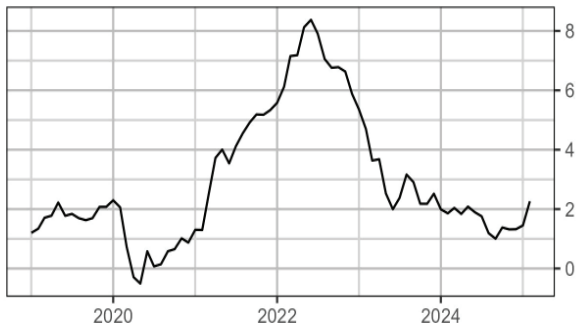
**Shelter Inflation by Key component, y/y % change**

Last data point: 2025-02-01



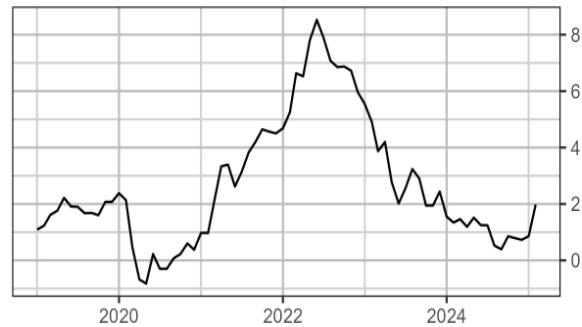
**CPI ex mortgage, y/y % ch**

Last data point: 2025-02-01



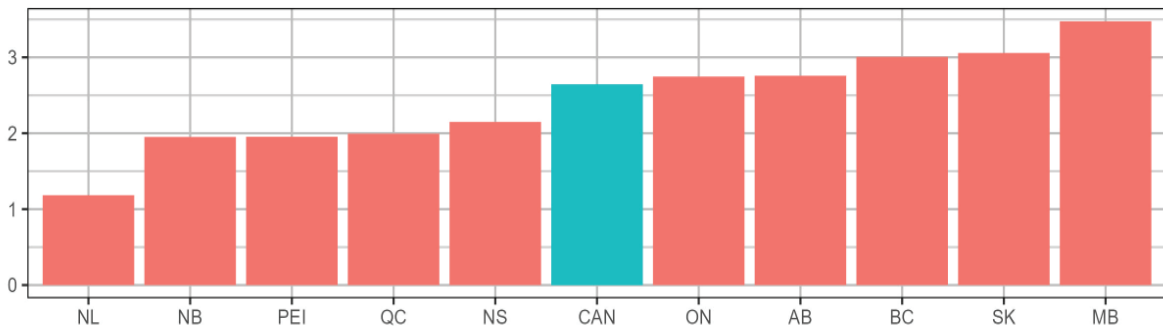
**CPI ex shelter, y/y % ch**

Last data point: 2025-02-01



**CPI Inflation by Province, y/y %**

Last data point: 2025-02-01



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