



Economic Commentary

January 19 2026

December CPI inflation climbs but temporary tax exemptions a key driver

Headline consumer price inflation accelerated in December to 2.4 per cent and away from the mid-point of the Bank of Canada's targeted range. However, underlying patterns were modest as the increase driven by the temporary GST/HST exemptions in effect from mid-December 2024 through mid-February. Seasonally adjusted CPI growth rose from 0.2 per cent to 0.3 per cent, but the 3-month growth trend across the various headline and core- measures generally eased with core- measures below 2 per cent.

The increase in year-over-year headline inflation from 2.2 to 2.4 per cent largely owed to base year effects as exemptions temporarily reduced GST/HST on about 10 per cent of goods the prior year. This included items like restaurant meals, groceries, some alcohol, toys, children's clothing, and other items. As a result, year-over-year inflation will revert lower after February data is released. This lift was evident in food prices which rose 6.2 per cent y/y, compared to 4.2 per cent in November, even as monthly growth slowed to 0.1 per cent. Most of the upward pressure on food inflation came from restaurants, where household benefitted heavily from the tax holiday. Restaurant food prices rose 8.5 per cent y/y, compared to 3.3 per cent in November. Alcohol and children's clothing also saw significant gains.

Assessing other key price segments, grocery prices rose to 5.0 per cent from 4.7 per cent but held level from November. Many fresh food products are already zero-weighted for tax. Prices were relatively steady m/m for meat products, although meat was up 13.6 per cent y/y with beef up 16.8 per cent. Fruit decelerated y/y from 4.1 to 3.8 per cent, and vegetables were level. Coffee was up 31 per cent y/y. Packaged food rose at a faster rate, related to tax exemptions.

Gasoline prices were also favourable in December and remained a key factor holding lower inflation. The price at the pump fell 7.1 per cent m/m and 13.8 per cent y/y. Underlying crude prices had fallen sharply in December due to global oversupply. Excluding gasoline, inflation was 3.0 per cent.

On the shelter front, inflation decelerated to 2.1 per cent to 2.3 per cent. Most of this owed to impacts of deceleration in mortgage interest costs (from 2.7 per cent to 1.7 per cent y/y), and an outright decline in homeowners' replacement cost (1.7 per cent). Rent increased from 4.7 to 4.9 per cent, even as market rents have decelerated, suggesting CPI inflation is capturing re-pricing of rent due to some turnover from old to newer units, and some modest upside in rent- controlled markets.

The latest inflation print won't do much to sway the Bank of Canada in either direction and consistent with a hold later this month. The Bank's core median- (2.5 per cent) and trim- (2.7 per cent) measures of inflation are within the 1-3 per cent band, and the 3- month trend has slipped below 2 per cent. While wage growth is still a touch high, economic and political uncertainty is again on the rise which could suppress economic activity. We still anticipate that a hike is the next move, although timing is more likely to be near year- end.

Bryan Yu

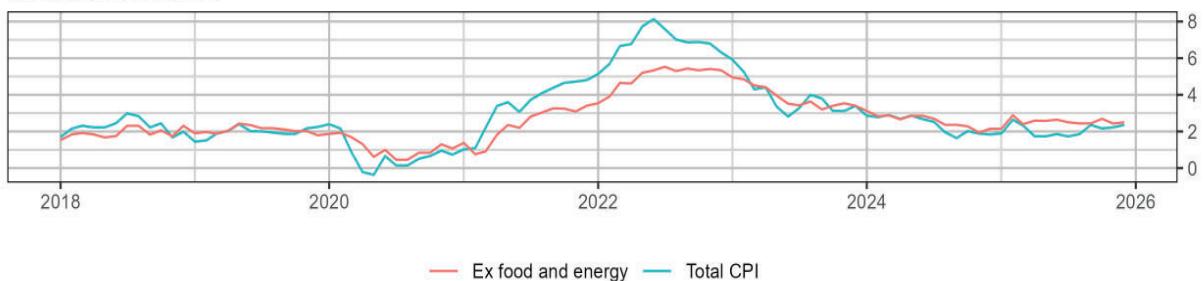
Chief Economist
Central 1 Credit Union
byu@central1.com

Dec/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		-0.2	0.1	2.4	2.2		
All-items, s.a.		0.3	0.2	2.3	2.2	2.7	3.2
Ex food and energy		0.0	-0.4	2.5	2.4		
Ex food and energy, s.a.		0.3	0.1	2.6	2.6	2.3	2.3
Select Products and Services							
Goods		-1.2	0.6	1.2	1.5		
Services		0.5	-0.3	3.3	2.8		
Food		0.1	1.3	6.2	4.2		
Gasoline		-7.1	1.8	-13.8	-7.8		
Shelter		0.1	0.1	2.1	2.3		
Rent		0.5	0.2	4.9	4.7		
Mortgage Interest		-0.2	0.1	1.7	2.3		
Homeowners Replacement		0.1	-0.4	-1.6	-1.6		
CPI Ex Shelter		-0.4	0.1	2.5	2.2		
Bank of Canada Core Measures							
Core Common				2.8	2.8		
Core Median				2.5	2.8		
Core Trim				2.7	2.9		
Core Median, s.a.		0.0	0.1	2.5	2.8	1.5	2.2
Core Trim, s.a.		0.1	0.1	2.7	2.9	1.9	2.4

Inflation Indicators

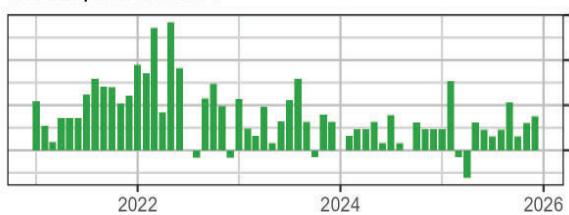
CPI Inflation, y/y % change

Last data point: 2025-12-01



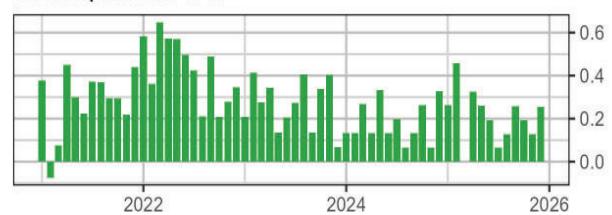
CPI sa, m/m % ch

Last data point: 2025-12-01



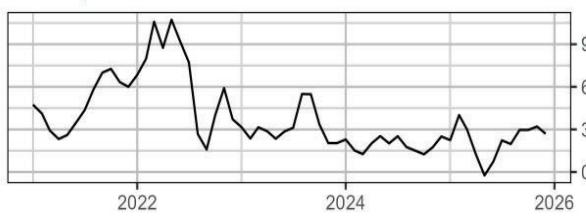
CPI ex food/energy sa, m/m % ch

Last data point: 2025-12-01



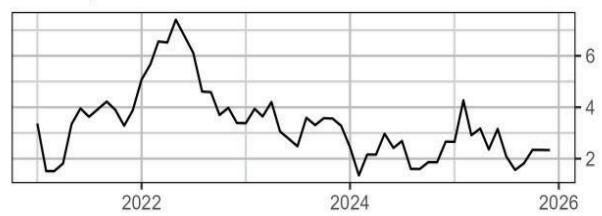
CPI sa, 3m ann. % ch

Last data point: 2025-12-01



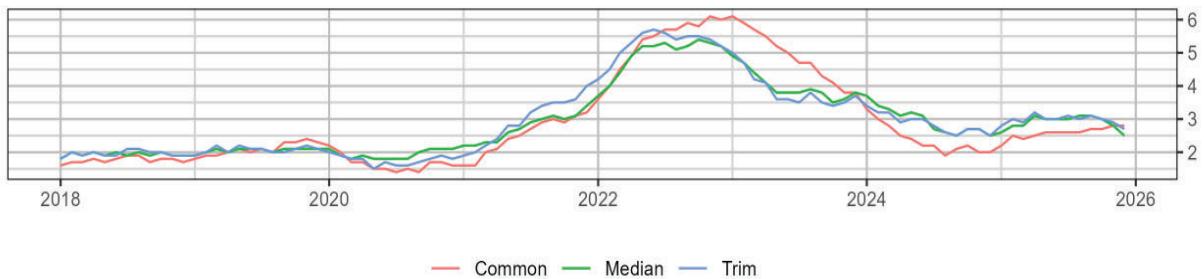
CPI ex food/energy sa, 3m ann. % ch

Last data point: 2025-12-01



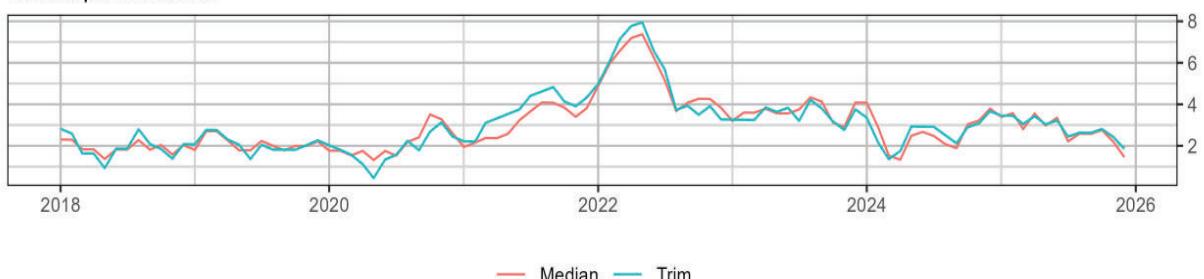
Bank of Canada Core Inflation, y/y % change

Last data point: 2025-12-01



Bank of Canada Core Inflation, 3m ann % change

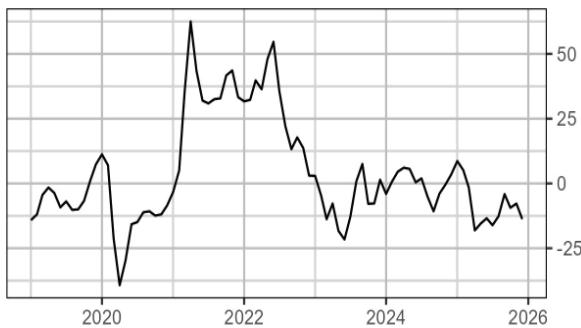
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Inflation Trends by Segment

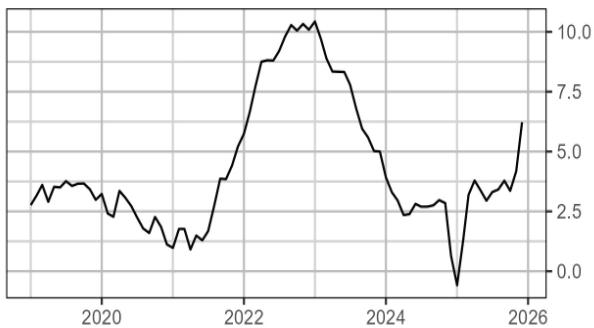
Gasoline, y/y % ch

Last data point: 2025-12-01



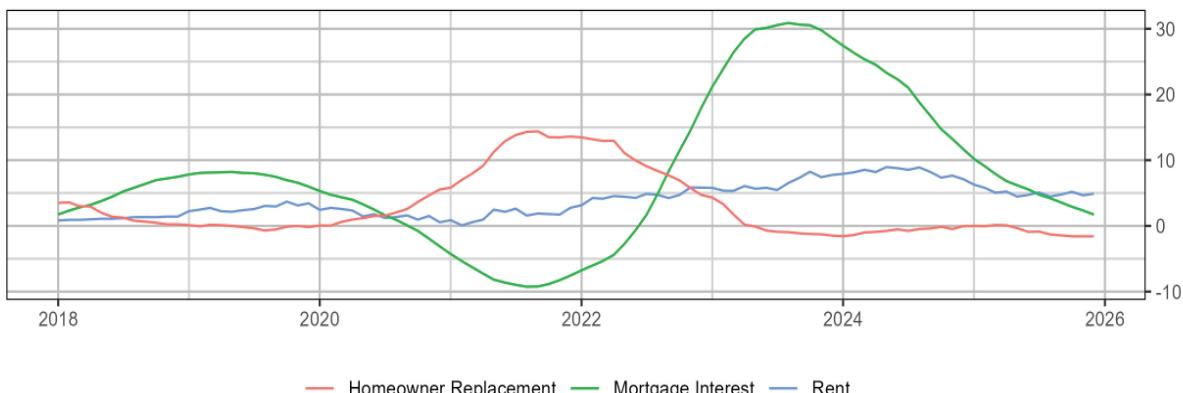
Food, y/y % ch

Last data point: 2025-12-01



Shelter Inflation by Key component, y/y % change

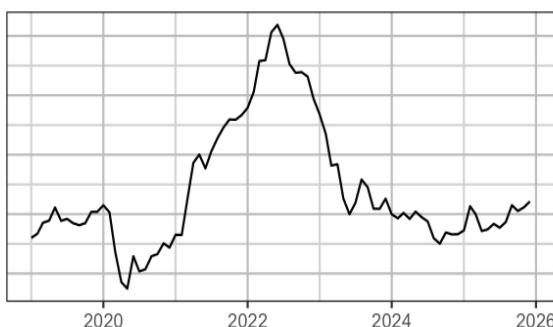
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— Homeowner Replacement — Mortgage Interest — Rent

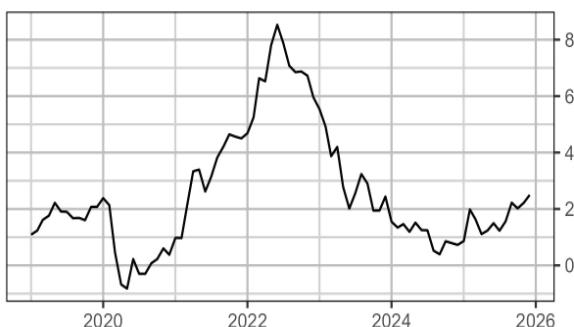
CPI ex mortgage, y/y % ch

Last data point: 2025-12-01



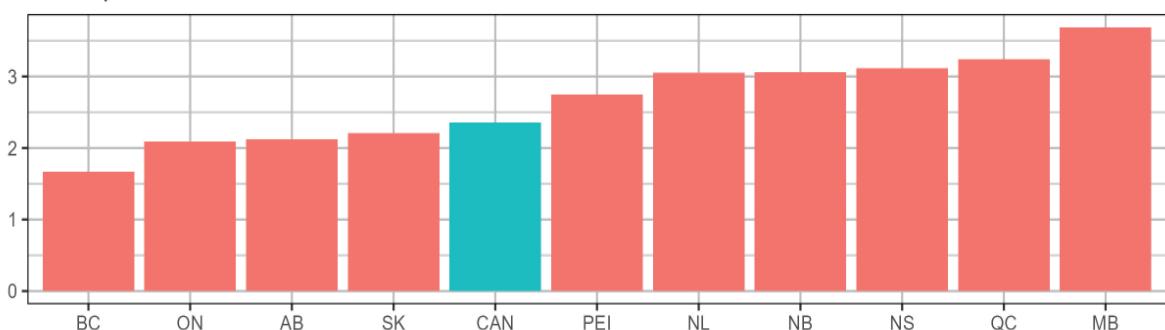
CPI ex shelter, y/y % ch

Last data point: 2025-12-01



CPI Inflation by Province, y/y %

Last data point: 2025-12-01



Statistics Canada, Central 1