ECONOMIC NEWS

Canada: An Inflation Print We Needed, If Not the One We Deserved

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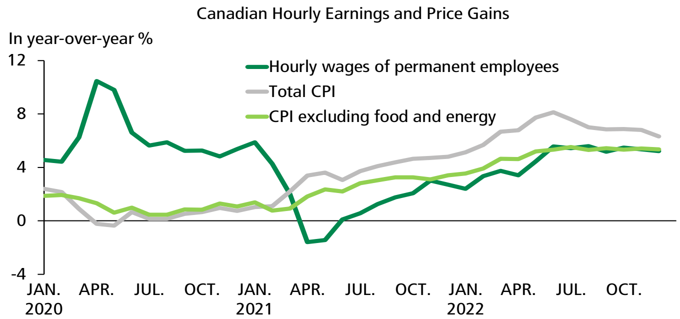
HIGHLIGHTS

- Consumer prices fell 0.6% in December to lower the annual rate of inflation to 6.3%. That was the slowest pace of year-over-year price growth since February of last year.
- The December drop completes a challenging year for Canadians' pocketbooks. Total CPI rose by 6.8% on average in 2022—the sharpest climb in 40 years.
- Canadians caught another break at the pumps in December, as gasoline prices fell to 13.1% month-over-month.
- Food prices eased slightly to 11% versus year-earlier levels, following an 11.4% gain in November.
- Excluding food and energy, prices rose by 0.3% on a seasonally-adjusted basis. On an annual basis, that corresponded to a 5.3% rate of core CPI growth, slightly below the 5.4% reported in November (graph).
- The Bank of Canada's trim and median measures came in slightly softer on a 12-month basis at 5.3% and 5%, respectively. In three-month annualized terms, trim cooled from 4.2% in November to 3.6% last month, while median edged up to 4.3% from 4.2% a month earlier.

GRAPH
Flattening Core Inflation and Wages



CPI: Consumer price index
Sources: Statistics Canada and Desjardins Economic Studies

COMMENTS

Canadians continue to feel the pinch, but December was one of the most optimistic prints yet in the long and painful fight for price stability. Further softening in the Bank of Canada's measures of underlying inflation suggests that the economic drag created by higher interest rates is indeed having its desired effect. Weaker gasoline prices were widely expected given recent moderation in commodity prices but nonetheless offer more help for Canadians' wallets.

IMPLICATIONS

The release does not alter our view that the Bank of Canada will raise rates by 25 basis points next week. Last month's strong jobs report and yesterday's survey results showing still-elevated inflation expectations argue for more tightening. After that, we think the central bank will pause its hiking cycle to survey the effects of last year's rapid increase in borrowing costs. We still believe that Canada will experience a mild recession this year, which should help to bring prices down.

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