ECONOMIC NEWS

Canada: New Year, Potentially a New Trend in Inflation

By Marc Desormeaux, Principal Economist

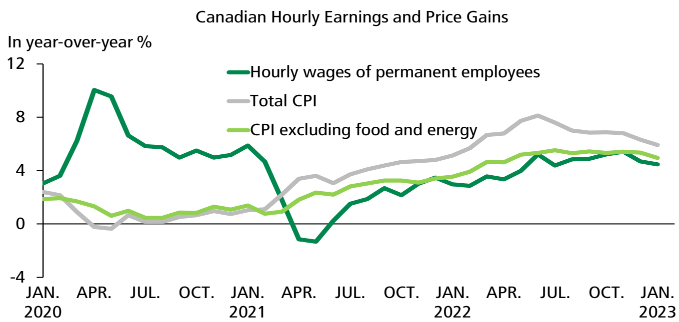
HIGHLIGHTS

- Consumer prices rose 0.5% in January, coming in below consensus to lower the annual rate of inflation to 5.9%. That was the first annual rate of price growth under 6% since February of last year.
- Gasoline prices decelerated again, to 2.9% versus year-earlier levels—the weakest gain in two years.
- Food prices rose by 10.4%, the fifth consecutive month more than 10% above year-earlier levels.
- Excluding food and energy, prices rose by only 0.1% on a seasonally-adjusted basis. Over the past twelve months, that translated into a 4.9% rate of core CPI growth, the softest since April 2022. Shelter costs showed signs of easing, with assistance from lower electricity prices.
- On a 12-month basis, the Bank of Canada's trim and median measures edged lower to reach 5.1% and 5.0%, respectively. In three-month annualized terms, both measures both eased to sit at 3.5%.

COMMENTS

Inflation is still a country mile away from the 2% target, but January's print was one of the most optimistic since the start of our current inflationary predicament. We're encouraged by the continued easing of multiple measures of core inflation, although it's far too early to declare victory.

GRAPH
Prices and Wages Easing Despite January Hiring Spree



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

IMPLICATIONS

The Bank of Canada has now received two very different signals from the month of January. On the one hand, a robust employment report suggested that more work may be necessary to bring inflation to heel. By contrast, January inflation data, combined with signs of easing wage gains to begin 2023 imply the painful medicine of sharply higher interest rates is having its desired impact. The Bank has stressed that to ditch the current plans to pause rate hikes, it needs an "accumulation of evidence" that inflation isn't cooperating. Today's print suggests it just might be able to avoid any further rate increases.

Desjardins Economic Studies: 514-281-2336 or 1-866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics