ECONOMIC NEWS

# Canada: Falling Headline Inflation Masks Sticky Core Pressures Lurking Below

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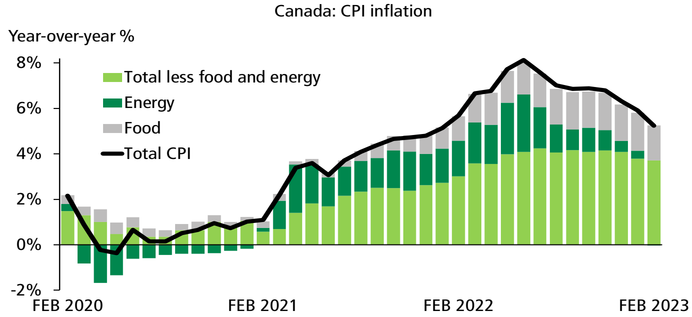
## HIGHLIGHTS

- Total CPI inflation posted a seasonally-adjusted monthly advance of 0.1% in February. This translated into a gain of 5.2% over the year-ago level—the slowest pace of annual price growth since January 2022 and the largest deceleration in inflation since April 2020. Both were lower than the consensus of forecasters had expected.
- Much of February's below-consensus inflation print can be chalked up to the falling cost of energy. On a monthly basis, energy prices fell by 1.2%, helping to drive the first year-over-year decline since January 2021 (-0.6%).
- On the flip side, food prices advanced another 0.6% in February, a sharp deceleration from January's 1.7% gain. This helped to bring the year-over-year change down from 10.4% in January to 9.7% - the slowest pace in annual growth since July 2022.
- Excluding food and energy, prices were 4.8% higher in February than they were a year earlier, a modest deceleration from January's 4.9%. However, on a monthly basis, this frequently-used measure of core inflation accelerated two ticks above the January pace to +0.3% (sa). That caused the three-month annualized rate of inflation in this traditional measure of core CPI to accelerate to 3.4% from 3.1%. While elevated shelter costs are part of the story, services inflation excluding shelter remains troublingly high as well.
- Notably, the Bank of Canada's key measures of core CPI inflation – the trim and median – decelerated to 4.8% and 4.9%, respectively, in February from 5.0% or slightly higher in January. However, on a three-month, annualized basis, a better gauge of current price pressures, the average of the Bank of Canada's core trim and median measures remained steady at roughly 3.5%.

**GRAPH**
**Energy weighs on headline CPI inflation in Feburary but core CPI inflation remains sticky**




Sources: Statistics Canada and Desjardins Economic Studies

## IMPLICATIONS

Leadership at the Bank of Canada said they would need to see an 'accumulation of evidence' that inflation is not evolving in line with their forecast to move from their current protracted pause. The goods news is that inflation continues to decelerate. The bad news is it's the result of lower commodity prices, as core CPI remained sticky in February by several measures. This may put the Bank in a bit of a tough spot, as the labour market remained tight and wage growth reaccelerated in February, whereas real GDP growth looks set to pick up at the start of 2023 (see our most recent *Economic and Financial Outlook* for details). However, deteriorating financial market conditions on the back of a series of banking system issues in the US and Europe suggests risks to financial stability are a material concern. This reinforces the Bank's current holding pattern.

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