February 21, 2023

More green shoots in Canadian inflation in January

- Headline CPI growth slowed to 5.9% in January; food inflation rose but energy inflation slowed
- Core measures that provides better gauge at underlying inflation pressures improved on a 3-month rolling basis
- Firm labour market and spending data exerting upward price pressure – but not yet enough to push interest rates higher

RBC Inflation Watch: a tracker of key indicators on price trends in Canada.

Read Report

Canadian headline CPI edged lower again in January, to 5.9% year-over-year as higher food inflation were more than offset by slower price growth for energy products and other goods and services. Growth in grocery prices ticked slightly higher again in January, to 11.4% year-over-year. That is still an exceptionally high rate of price growth, but lower agricultural commodity prices and easing global supply chain pressures are expected to slow food price growth this year. Energy inflation continued its fast deceleration, dropping to 5.4% in January that's despite a small resurgence in gasoline prices with offset coming from lower natural gas and electricity prices. Excluding the more volatile food and energy components, "core" CPI dipped below 5% for the first time since April 2022. Price growth for health and personal care related goods and services continued to rise at a rapid pace (+6.2% year-over-year). But car purchasing related inflation kept moderating, likely thanks to added vehicle supply as the global semi-conductor shortage moderates. Rent inflation was little changed but still elevated. Mortgage interest expenses continued to surge, but was offset by lower inflation for home buying costs as home resale prices continued to decline.

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639s
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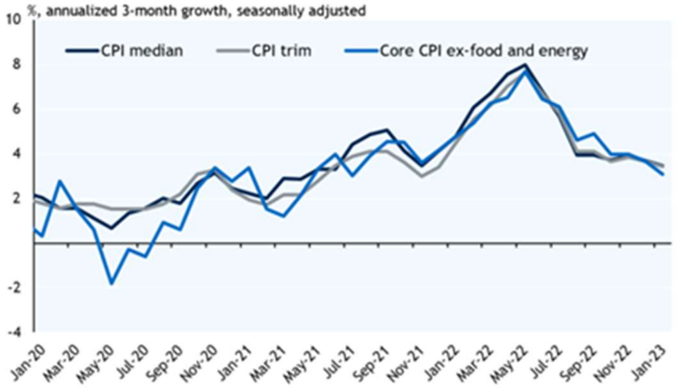
The rapid increase in commodity prices and supply chain disruptions that drove much of the initial surge in inflation last year has continued to ease. Commodity prices for agriculture, metal and energy products have all been tracking lower and closer to their pre-pandemic levels. And shipping time and costs have fallen considerably. Domestically-driven price pressures have also shown early signs of easing, albeit at a more moderate pace. The 3-month average growth in the BoC's preferred median and trim inflation measures – designed to look through volatility in individual product prices to better gauge underlying price pressures – are running at around 3.5% on a 3-month annualized basis. That’s still above the BoC’s 1% to 3% inflation target but are well below peak levels last year. Firmer labour market data (Canada added a strong 150k jobs in January) and resilience in household spending reaffirm that further easing in inflation pressures will likely be slower than the declines to-date. But the impact of interest rate hikes over the last year will continue to flow through to increase household debt payments and slow spending this year. We continue to expect the BoC to hold the overnight rate at 4.5%, until the end of this year.

"Core" inflation measures points to slower underlying price presures in Canada



Source: StatCan, RBC Economics

Canadian CPI Inflation

	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
			m/m % change		
All Items CPI	0.1	0.7	0.1	-0.6	0.5
Food	0.7	0.2	1.2	0.3	1.7
Energy	-4.4	6.2	-1.5	-7.9	1.3
All items ex-food & energy	0.3	0.3	0.1	-0.1	0.2
			y/y % change		
All Items CPI	6.9	6.9	6.8	6.3	5.9
Food	10.3	10.1	10.3	10.1	10.4
Energy	14.0	16.2	13.9	7.3	5.4
All items ex-food & energy	5.4	5.3	5.4	5.3	4.9
BoC 'Core' Measures					
CPI-Trim	5.4	5.4	5.5	5.3	5.1
CPI-Median	5.1	5.2	5.3	5.2	5.0
CPI-Common	6.5	6.5	6.8	6.6	6.6

Source: Statistics Canada, RBC Economics