March 21, 2023

Slowing Canadian inflation keeping BoC on the sideline

- Headline CPI growth eased to 5.2%, thanks to lower energy inflation
- Bank of Canada's "core" measures continued to improve on a 3-month rolling basis; scope of price pressure narrowed
- Inflation still a concern, but positive trends will keep the Bank of Canada on the sideline

Headline CPI dropped lower to 5.2% in February, lower than consensus expectations. Much of the decline was driven by lower energy prices, which declined on a year-over-year basis (-0.6%) for the first time in two years as gasoline prices fell. Food inflation eased slightly in February, to 9.7% after hovering at just over 10% for almost two quarters. Year-over-year growth in grocery prices and dining expenses both eased. Excluding food and energy related components, "core" CPI slowed to 4.8% year over year thanks to lower inflation for home and car-buying related expenses. Offsetting some of that easing was firmer inflation for mortgage interest expenses (+23.9%), which continued to surge following earlier increases in interest rates.

Elevated inflation rates continue strain the cost of living for Canadian households. But the scope of price pressures has, on balance, continued to narrow / improve. Our own CPI diffusion index showed fewer goods and services were impacted by abnormally high inflation in February. The BoC's preferred core measures – CPI trim and median – grew at an average of 3.5% annualized rate over the last three months – still above the 2% inflation target but way down from peak levels closer to 8% last year.

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The Bank of Canada set a relatively high bar to restart interest rate hikes after foregoing an increase in the overnight rate for the first time in a year in March. Recent financial market turmoil has, if anything, raised that bar higher. In the March policy statement, the Bank reiterated their expectations for CPI inflation to slow to around 3% in the middle of this year. We continue to expect that slowing consumer spending will further ease price pressures ahead, weakening the economic backdrop while keeping the BoC on the sideline until the end of 2023.

Canadian CPI Inflation

	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23
			m/m % change		
All Items CPI	0.7	0.1	-0.6	0.5	0.4
Food	0.2	1.2	0.3	1.7	0.6
Energy	6.2	-1.5	-7.9	1.3	-1.2
All items ex-food & energy	0.3	0.1	-0.1	0.2	0.5
			y/y % change		
All Items CPI	6.9	6.8	6.3	5.9	5.2
Food	10.1	10.3	10.1	10.4	9.7
Energy	16.2	13.9	7.3	5.4	-0.6
All items ex-food & energy	5.3	5.4	5.3	4.9	4.8
BoC 'Core' Measures					
CPI-Trim	5.4	5.5	5.3	5.1	4.8
CPI-Median	5.2	5.3	5.2	5.0	4.9
CPI-Common	6.5	6.8	6.6	6.6	6.4

Source: Statistics Canada, RBC Economics