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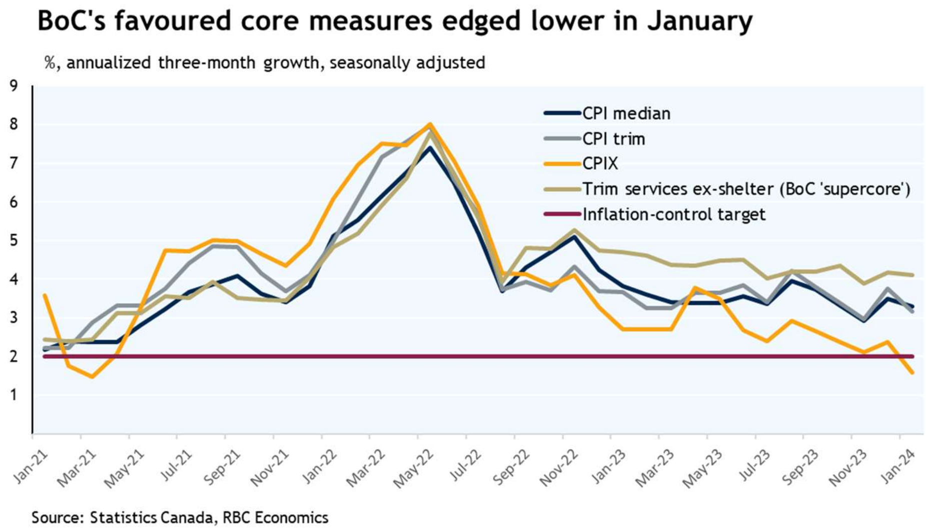
Economic Update

February 20, 2024

Canadian January CPI growth edged into the BoC's target range

- CPI growth decelerated to 2.9% year-over-year from 3.4% in December – back under the top end of the Bank of Canada's (BoC) 1% to 3% target range for the first time since June 2023.
- Energy and food price growth continued to slow, but the Bank of Canada's preferred 'core' measures of broader inflation pressures also unexpectedly slowed.



- Energy prices fell 2.7% from a year ago on lower gasoline prices (1.0% lower than in December, and 4.0% lower than they were a year ago) and a drop in residential natural gas prices in Alberta and Saskatchewan (the latter due to the provincial government dropping the carbon tax from natural gas billing).
- Food inflation also slowed on 'base-effects', from 5.0% to 3.9% (year-over-year). Much of that slowdown came from food purchased in stores, where price growth slowed to 3.4% from 4.7% in December. Price growth for dining out also dipped to 5.1% in January.
- Excluding food and energy components, inflation slowed to 3.1%. The Bank of Canada's preferred core median and trim measures also slowed, to 3.3% and 3.4% above year-ago levels, respectively. The more recent (and closely watched by the BoC) 3-month annualized growth rates for both also decelerated.
- Airfare prices declined by -14.3% from the prior year. That also marked the tenth consecutive decline. Prices for clothing and footwear were 1.3% lower than levels from a year ago, potentially reflecting discounting of winter clothing after a milder than usual winter in much of the country.
- The scope of inflationary pressures was little changed on a monthly basis, but still much narrower than peak pandemic levels. The share of CPI basket growing at more than 5% has declined from the peak of 68% in May 2022 to 28% in January 2024.

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- The effect of past rate hikes feed into consumer prices persistently with a lag. Year-over-year growth in mortgage interest costs edged lower in January were still up 27.4% from a year ago, and account for about a quarter of total price growth. Home rent prices continue to rise but another component under shelter – homeowners' replacement costs inched lower on slower house price growth
- **Bottom line:** The first CPI report in 2024 came in softer than expected with the breadth of inflation still showing signs of gradual easing, but also still wider than would be consistent with the Bank of Canada's 2% inflation target. Shelter inflation will remain sticky as higher interest rates feed through to mortgage interest costs with a lag and undersupply of housing continues to boost rent prices. The most likely path for inflation going forward is still lower with per-capita GDP and consumer spending continuing to decline. But a strong start to 2024 for labour markets gives the BoC more leeway to wait for firmer signs that inflation is getting back under control before pivoting to interest rate cuts. As of now, our base case assumes the BoC starts to lower interest rates around mid-year.

Canadian CPI

	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
m/m % change (not seasonally adjusted)					
All Items CPI	-0.1	0.1	0.1	-0.3	0.0
Food	-0.1	-0.1	0.6	0.3	0.7
Energy	-1.0	-4.6	-1.9	-2.6	-1.1
All items ex-food & energy	-0.1	0.5	0.2	-0.3	-0.1
y/y % change					
All Items CPI	3.8	3.1	3.1	3.4	2.9
Food	5.9	5.6	5.0	5.0	3.9
Energy	5.4	-5.4	-5.7	-0.4	-2.7
All items ex-food & energy	3.2	3.4	3.5	3.4	3.1

Source: Statistics Canada, RBC Economics