

Economics

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Canadian CPI (January): A welcome start to 2024

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Consumer price index (% chg)	23:Q4	23:Q4	Nov	Dec	Jan
Year/year rate (unadjusted)	3.7	3.2	3.1	3.4	2.9
Monthly rate (unadjusted)	-	-	0.1	-0.3	0.0
Monthly rate (SA)	-	-	0.3	0.3	-0.1
Three-month rate (SAAR)	-	-	1.8	2.3	1.8
CPI-trim (year/year rate)	3.7	3.6	3.5	3.7	3.4
CPI-median (year/year rate)	3.8	3.5	3.5	3.5	3.3

Source: Statistics Canada

- Canadian inflation eased much more than expected in January, with evidence that weak consumption is finally starting to impact pricing in areas of more discretionary spending. Although measures of core inflation generally saw somewhat slower progress, headline CPI is now running well below the Bank's MPR forecast, and we continue to forecast a first interest rate cut in June.
- Headline CPI was flat on the month and eased to 2.9% on a year-over-year basis, with both of those readings well below the +0.4%/m/m and 3.3%/y/y expected by the consensus. Food price inflation eased, with the 0.1% seasonally adjusted increase on the month the weakest since March 2021. The 4% year-over-year rate was the slowest since November 2021. Gasoline prices fell slightly on the month and were also lower year-over-year as well.
- Having seen a larger than seasonally normal increase in December, airline fares fell by more than typical in January and were also down (-14%) on a year-over-year basis. Other inter-city transportation costs (including trains and buses) also saw a large decline. Clothing prices fell in January and at a sharper pace than in the prior month, which is not typical of normal seasonal patterns. On a seasonally adjusted basis, clothing & footwear prices slumped by 1.8%, which was the sharpest monthly decline since April 2020 during the start of the pandemic. Because of weakness in these areas, seasonally adjusted CPI excluding food/energy edged up by only 0.1%, even with a further solid rise in mortgage interest costs and a partial rebound in cell phone charges.
- Shelter prices, included the aforementioned increase in mortgage interest costs, remained firm. Rents increased by a further 0.7% (unadjusted) on the month and were up by 7.9% on a year-over-year basis. A modest decline in homeowners' replacement costs only provided a partial offset.
- Measures of core inflation eased as well, albeit generally not by as much as the headline figure. CPI trim and median remained elevated at 3.4% and 3.3% respectively year-over-year, although these were a couple of ticks lower than consensus expectations. The Bank's old CPI-X measure eased only a tick to 2.5%, from 2.6% in the prior month, largely because it excludes the big swing in airline fares and other transportation costs. CPI excluding shelter dropped to 1.5%, and has been below 2% now in three of the past four months.

Implications & actions

Re: Economic forecast — The unexpectedly large declines in airline fares and clothing prices may be a sign of weakness in consumer spending, but could also partly reflect some data volatility. However, even allowing for a partial

rebound, inflation in Q1 is still tracking below the Bank of Canada's MPR forecast (2.9% vs 3.2%). So even with GDP growth running somewhat stronger than they expected, we still anticipate that interest rate cuts will start in June.

Re: Markets — Bond yields fell and the Canadian dollar weakened as investors pulled forward expectations for a first interest rate cut from the Bank of Canada.

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