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Canadian CPI (February): Extending the good news

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Consumer price index (% chg)	23:Q4	23:Q4	Dec	Jan	Feb
Year/year rate (unadjusted)	3.7	3.2	3.4	2.9	2.8
Monthly rate (unadjusted)	-	-	-0.3	0.0	0.3
Monthly rate (SA)	-	-	0.3	-0.1	0.1
Three-month rate (SAAR)	-	-	2.3	1.8	1.3
CPI-trim (year/year rate)	3.7	3.6	3.7	3.4	3.2
CPI-median (year/year rate)	3.8	3.5	3.5	3.3	3.1

Source: Statistics Canada

- There was unambiguously good news on the inflation front in Canada in February, with the headline CPI pace easing by a tick to 2.8% y/y, against the consensus expectation for an acceleration to 3.1%, and our forecast for a 3.0% pace. That included a softening in grocery store prices and cellular services, and price pressures also looked softer when excluding volatile categories, as the Bank of Canada's CPI trim and median measures decelerated by two ticks each, to 3.2% and 3.1% y/y, respectively, while CPIX fell by 0.1% m/m and is now running at a 2.1% y/y pace. This is the second month in a row in which inflation has looked softer than expected, and with ample evidence that higher interest rates are working to tame inflation, the Bank of Canada is on track to start cutting interest rates in June.
- On a monthly basis, the headline index rose by 0.1% SA, reflecting some mixed readings on volatile underlying components. Gasoline prices rebounded, along with airfares, while grocery store price inflation, at 2.4% y/y, is running at the slowest pace seen since mid-2021, as prices fell by 0.5% m/m SA. Shelter prices were up by 0.6% m/m SA as natural gas and fuel oil prices rebounded, although rent and mortgage interest costs decelerated in monthly terms, and are running at 8.2% and 26% y/y, respectively.
- The Bank of Canada will look through the volatile categories mentioned above, with other core measures providing a better signal of inflation stemming from underlying demand. On that score, virtually every core measure looked more encouraging. Services ex. shelter inflation slowed to 1.6% y/y, showing that the sluggishness in consumer demand is working to tame inflation in that area, which also suggests a further slowdown in wage inflation ahead, something that the Bank is looking for in order to trim interest rates.

Implications & actions

Re: Economic forecast — This report is clearly encouraging from the Bank of Canada's perspective. It is the last inflation report that policymakers will receive before the April forecast update and announcement, and will allow policymakers room to sound more dovish at that meeting, even though they will likely want to wait to see more evidence of the labour market loosening before pulling the trigger on interest rate cuts 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.