

Economics

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Canadian CPI (Jan): Quietly softening over the last six months

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Consumer price index (% chg)	25:Q3	25:Q4	Nov	Dec	Jan
Year/year rate (unadjusted)	2.0	2.2	2.2	2.4	2.3
Monthly rate (unadjusted)	-	-	0.1	-0.2	0.0
Monthly rate (SA)	-	-	0.2	0.3	0.1
Three-month rate (SAAR)	-	-	3.2	2.7	2.4
CPI-trim (year/year rate)	3.1	2.9	2.9	2.7	2.4
CPI-median (year/year rate)	3.0	2.8	2.8	2.6	2.5

Source: Statistics Canada

- One month does not make a trend, but January's data seems to be signalling a soft pace to price pressures has been quietly emerging over a more meaningful six month period. The headline index was flat on the month in non-seasonally adjusted terms (+0.1% m/m SA), leaving the annual rate a tick slower at 2.3% (vs. consensus expectation of 0.1% m/m and 2.4% y/y). Core measures were also generally softer than expected, with CPI-trim at 2.4% y/y (vs. 2.6% expected) and median at 2.5%, down a tick from an upward revision to the prior month. The average of four core measures (trim, median, ex. food/energy, and CPIX) showed that the 3-month annualized pace dropped to 1.5% from 2.0% previously, and the y/y pace decelerated by a tick to 2.5%. We continue to look for tame inflation prints ahead, as slower market rents are picked up in the index, and soft wage growth limits demand, but the BoC is likely to remain on hold as we expect more clarity on the trade front sometime this year will help drive a recovery in demand.
- The detail included mixed signals, with gasoline prices down sharply from a year-ago, while food prices were up given base effects relative to last year when there was a GST/HST holiday. A sizable increase in food prices will be dropping out of the annual calculation in February, and gasoline prices are still down sharply relative to last February, suggesting downside for headline inflation in next month's release.
- Shelter inflation decelerated to its slowest pace since 2021 at 1.7% y/y. That included softer mortgage interest costs, which dropped on the month and are sitting 1.2% above year-ago levels. Despite a sharp monthly deceleration in rents, that component is still up 4.3% y/y, far from the market-based rent measures that are showing declines in asking rents for major cities.
- Some volatile components were masked in the headline data, with airfares plummeting as per usual seasonal patterns in January, while cellular services inflation decelerated but remained elevated. That all added up to still-tame monthly readings on core measures, with CPIX and ex. food/energy prices up by 0.2% and 0.1% m/m SA, respectively.
- CPI-trim and median looked a touch softer than the aforementioned core measures, with both up by 0.1% m/m SA, suggesting that the softness was relatively broad based. The average 3-month and 6-month annualized pace of those measures dropped to 1.2% and 2.0%, respectively.

Implications & actions

Re: Economic forecast — 12-month core inflation measures that exclude the impacts of the GST/HST holiday are still in the mid-2% range cited by the Bank of Canada, and the six-month annualized trend is now sitting right on the 2% target. That's in line with constrained demand tied to weak wage growth and a substantial output gap. We expect the BoC to remain on hold as long as US trade frictions don't get worse, consistent with our base case, but the door would be open for further interest rate relief should broader tariffs be imposed on Canada at some point this year.

Re: Markets — Bond yields fell initially on the downside surprise to the headline, and the Canadian dollar weakened a bit, as the softness tilts the odds more towards the possibility of another cut this year.

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