

Economics

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March 16, 2026

Canadian CPI (Feb): "Before" picture of inflation looks ideal

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Consumer price index (% chg)	25:Q3	25:Q4	Dec	Jan	Feb
Year/year rate (unadjusted)	2.0	2.2	2.4	2.3	1.8
Monthly rate (unadjusted)	-	-	-0.2	0.0	0.5
Monthly rate (SA)	-	-	0.3	0.1	0.1
Three-month rate (SAAR)	-	-	2.7	2.4	1.9
CPI-trim (year/year rate)	3.1	2.9	2.7	2.4	2.3
CPI-median (year/year rate)	3.0	2.8	2.6	2.5	2.3

Source: Statistics Canada

- The "before" picture of Canadian inflation ahead of the oil price shock should give the Bank of Canada some comfort as it looked tame overall. Headline inflation decelerated to 1.8% y/y from 2.3%. That was helped by base effects tied to last year's tax holiday ending, and reflected a 0.5% m/m non-seasonally adjusted advance (0.1% seasonally adjusted), with that being a little softer than the consensus expectation. The Bank of Canada's key core measures of trim and median, which weren't impacted by the tax holiday, matched our forecast, but were below the consensus expectation, as both decelerated to 2.3% (down from an average of 2.5% in the prior month). The tame report will be welcomed by policymakers ahead of the energy price shock, as it shows that labour market slack is keeping a lid on core prices, with the issue for the BoC being how long the oil price shock lasts and its magnitude.
- Adding CPIX into the mix, which also excludes the sales tax impacts, along with trim and median, showed that the average of these three core measures was running at a 3-month annualized pace 1.4%, with the six-month annualized pace right on target at 2.0%. Those were down from 1.5% and 2.2%, respectively, in the prior month.
- Shelter inflation continued its descent, at 1.5% y/y, with monthly prices flat, extending the recent trend. That included another drop in rents on the month and flat owned accommodation expenses. Rent inflation is still elevated on an annual basis at 3.9%, down from the peak of 9% in 2024, but is not yet reflecting the outright declines being shown by market based measures.
- Ahead of the oil price shock, gasoline prices were up in February, but were still sitting 14% below year-ago levels. That will clearly change with next month's data release, with a likely pass through to airfares and other transportation services. But its transmission into broader measures of core inflation should be contained by economic slack, particularly if the war is short lived.

Implications & actions

Re: Economic forecast —While the before picture looked good, the after picture of inflation following the start of the war could show headline inflation accelerating to roughly 3% y/y in the coming months. The magnitude and duration of the shock will be important for the BoC, however, it will take comfort in the fact that core service prices are being contained by labour market slack and decelerating shelter costs, which should keep policymakers on the sidelines this year.

Re: Markets — Bond yields fell on the downside surprises, as this lowers the odds of the BoC hiking this year.

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