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TD Economics

Data Release: Rising gasoline prices push up Canadian inflation in January

- Canadian consumer price inflation accelerated to 2.1% (year-on-year) in January, well ahead of the consensus expectation for a 1.6% increase. Prices rose 0.9% month-on-month (compared to consensus call for 0.4%).

- Higher prices at the gasoline pump were the main contributor to the outsized gain. Gasoline prices were up 20.6% year-on-year. The sharp rise in the price of gasoline and other energy goods and services reflects both the rebound in oil prices, as well as new carbon levies in Alberta and Ontario. In Alberta, gasoline prices were up 33.9% while natural gas prices rose a toasty 42.3%.

- Despite the sharp move higher in headline inflation, core inflation measures remained benign: CPI-common fell to just 1.3% from 1.4%, CPI-median remained unchanged from a downwardly revised 1.9%, and CPI-trim edged up to 1.7% (from 1.6% previously). All core measures are year-over-year.

- The other category to see a notable acceleration in prices was the shelter index, which accelerated to 2.4% from 2.1% in December (y/y). The uptick was mainly due to rising homeowners' replacement costs, which rose 4.3% in the month.

- On the other side, Canadians are paying less for food. Food prices declined 2.1% in January from the same time last year, even more than the 1.3% decline in December.

Key Implications

- As far as headline inflation is concerned, oil prices give and they take away. Having said that, the sharp rise in inflation is less than meets the eye, reflecting the turnaround in the price of energy from its nadir at the beginning of 2016. While the rebound is likely to keep headline CPI above the 2.0% mark over the coming months, little of it is expected to pass through to core inflation, which should keep the Bank of Canada on the sidelines.

- The impact of carbon levies will nonetheless remain a component to watch for on headline prices. Since these measures are meant to raise the price of carbon year-after-year, they will not fall out of the inflation data the way a one-off price increases would. Over time, substitution away from energy products should reduce the impact of gains in energy prices on inflation, but this will take time to show up.

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