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TD Economics

Data Release: Inflation right on target in January

- Canadian inflation picked-up in January to 2.0% year-on-year (from 1.6% in December), right on the Bank of Canada's target. The increase in headline inflation largely reflects the fading impact of lower energy prices, as retail gasoline prices are now up 2.1% y/y.
- Core inflation was also slightly higher in January, again right on the Bank's 2% target, up from 1.9% in December.
- Stronger inflationary pressures were seen across most major categories, with food and transportation contributing the most to the acceleration. Food prices are up 4.0% y/y, as the closely watched fresh vegetable prices rose by 23% y/y. The transportation component was driven higher primarily by gasoline prices, but the cost of purchasing a car also played a role (+4%y/y).
- The only category to lose steam in January was clothing and footwear, where prices are 0.3% lower than a year ago. Clothing prices had been in inflationary territory for the past 18 months, in part due to a weaker loonier raising the price of imported clothing.
- All provinces experienced an acceleration in inflation pressures in January, with gasoline being the main factor across the board.

Key Implications

- Inflation is not the Bank of Canada's challenge, growth is. As such, today's retail sales numbers are arguably more important to Canada's outlook, and the Bank of Canada's monetary policy calculus. The Bank is firmly in wait-and-see mode, as it gauges whether the pick-up in non-energy exports, and modest growth in other non-energy sectors of the economy are enough to lead the next leg up in Canada's growth.
- A long-standing tug of war continues in Canada's inflation numbers. On the one side, a weaker loonie is pulling up prices for goods from veggies to new cars, while lower energy prices and a slower economy are tugging price pressures down. (Gasoline prices may have lifted headline inflation in January, but with prices at the pump lower again in February, we expect the year-on-year comparison will turn negative again in the next report.) Underlying it all, inflationary pressures are quite modest in the Canadian economy due to a larger amount of economic slack, after 2015's recession. We expect only modest growth in 2016, which should see inflationary pressures remain muted for quite some time.

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