Cdn. Consumer Price Index (January)

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ECONOMIC RESEARCH

HARRIS | BMO Nesbitt Burns | BMO Capital Markets

Dr. Sherry Cooper, Chief Economist, BMO Financial Group

www.bmocm.com/economics

Canadian Inflation Feeling Bloated

Sal Guatieri, Senior Economist — 416-359-5295

Pumped by rising gasoline and food costs, and higher sales taxes in Quebec, Canadian consumer prices rose 0.3% in January (0.3% s.a.), though the yearly rate eased slightly to 2.3%. Stripping out indirect tax effects (mainly the Ontario/B.C. HST), headline inflation is only about 1.5%. Gasoline prices rose 3.5% in the month, and are up 13% in the past year (similar to the U.S. increase of 13.4%). Food prices are on the rise amid escalating agriculture costs, up 0.5% s.a., though the yearly rate remains in check at 2.1%. The core CPI was unchanged in January, taking the yearly rate down a notch to 1.4%--right in line with the Bank of Canada's Q1 estimate. Clothing prices continue to trend down, restrained by the strong Canadian dollar. Rents remained subdued in the month. Some upward pressure emerged from firmer costs of household operations and autos. Core prices rose 0.1% s.a., but the 3-month annualized trend is just 1.0%. Expect the core rate to edge down further in February given the easy comparison to last February's Olympic-sized hike in B.C. hotel rates.

	(month/month % change)			(3-mo. % chng: a.r.)	(12-mo. % chng)	
	Jan	**Dec**	**Nov**		**Jan**	**Dec**
All Items *	0.3	0.3	0.2	3.4	2.3	2.4
All Items (n.s.a.)	0.3	0.0	0.1			
Ex. Food & Energy *	0.2	0.1	0.0	1.1	1.6	1.6
Core	0.0	-0.3	0.0	-1.0	1.4	1.5
Food *	0.5	0.5	-0.2	2.9	2.1	1.7
Energy	1.4	1.9	0.6	16.6	9.0	10.5
Services	0.1	-0.1	0.1	0.3	2.6	2.5
Shelter *	-0.1	0.2	-0.2	-0.3	2.2	2.7
Alcohol & Tobacco *	0.4	0.0	0.1	2.1	3.1	2.6
Clothing & Footwear *	-1.1	0.7	-1.3	-6.8	-2.4	-2.0
Gasoline	3.5	2.3	1.7	34.9	13.0	13.0
Mort. Interest Payments	-0.3	-0.4	-0.2	-3.2	-2.4	-2.5

* seasonally adjusted

The Bottom Line: Underlying inflation remains dormant in Canada owing to some slack in the economy and the strong Canadian dollar. The core rate is below last year's average of 1.7% and the Bank of Canada's 2.0% target. That should buy the Bank some time to remain on the sidelines a little longer as it assesses the global economic situation, and we still expect no rate increase until July.

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