



# Holman

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# 2025 CA INFLATION FORECAST

Insights and strategies to position your fleet for success in 2025 and beyond.

# INFLATION

Economic inflation and the impact it has on the lifecycle of a vehicle continues to be a significant concern for fleet managers and executives alike. This whitepaper outlines the current economic environment and the impact it has on the lifecycle of a vehicle throughout its four stages: **Buy, Drive, Service, and Sell**. Additionally, this paper addresses the outlook of the economic landscape and suggests action plans to mitigate potential future impacts.

## Canadian Consumer Price Index



The Canadian Consumer Price Index (CPI) has historically followed the Bank of Canada's target of 2.00% annual inflation. Since dropping to a low of -0.40% in May 2020, the annual CPI steadily rose until peaking at 8.10% in June 2022. The CPI then fell steadily to a low of 2.80% in June 2023, remaining around that point until falling again, with the index currently at 1.80% as of December 2024.

## What is the outlook for Canadian inflation going forward?

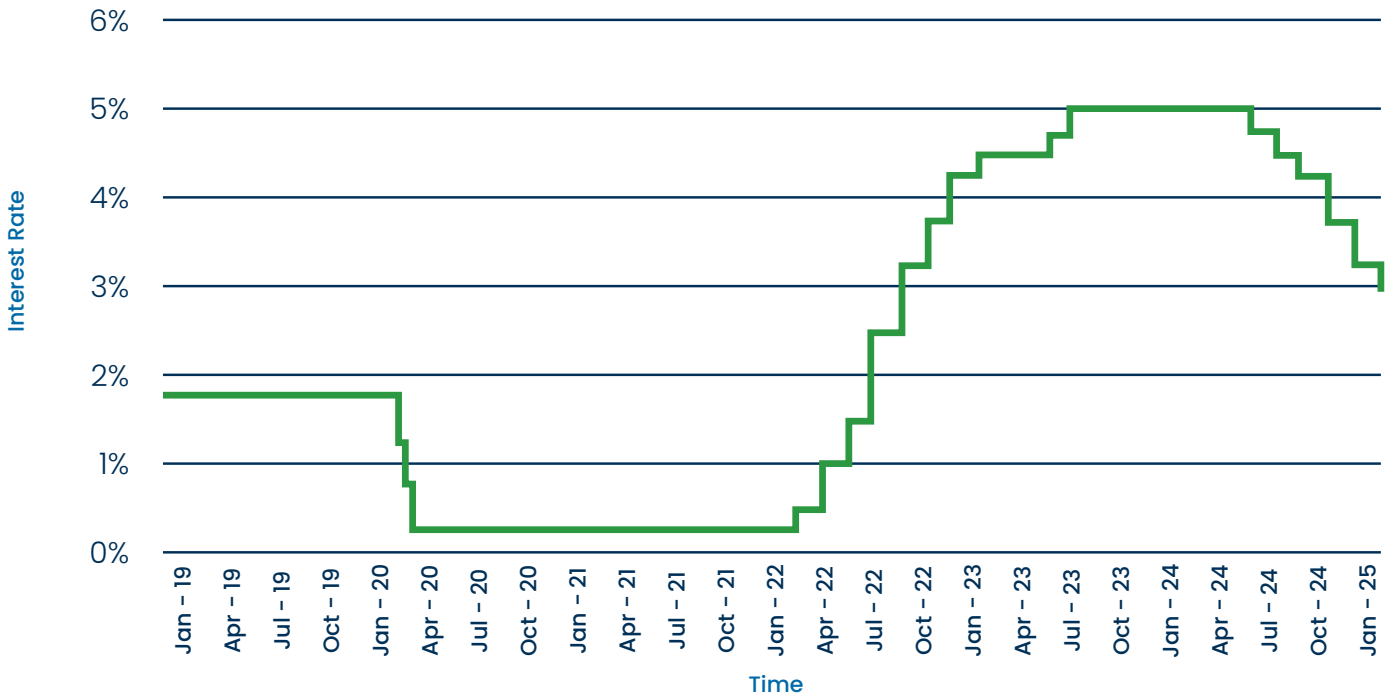
On January 29th, 2025, Tiff Macklem, Governor of the Bank of Canada, stated that inflation has remained close to 2% in recent months, business and consumer expectations have largely normalized and there is no longer evidence of broad-based inflationary pressures. Shelter price inflation remains elevated but it is gradually coming down. While some volatility in CPI inflation is expected due to temporary tax measures, the Bank of Canada's forecast is that inflation will remain close to the 2% target over the next two years.

# BUY

To buy right, commercial fleets should analyze vehicle and equipment performance data to determine the optimal vehicles that result in a predictable budget and increased reliability. Key factors affected by inflation and impacting the buy stage of vehicle management are the interest rates involved in funding and the pricing of new vehicles.

## INTEREST RATES

### Bank of Canada Target Overnight Rate



The Bank of Canada's target overnight interest rate was at 1.75% just prior to the onset of the COVID Pandemic. The target rate was immediately dropped to 0.25% in March 2020 in a bid to stimulate the Canadian economy and was at that level until March 2022. As inflation began to peak in mid-2022, the Bank of Canada increased the target rate steadily until reaching a high of 5.00% in July 2023. With inflation now close to 2.00%, the target rate has recently dropped to 3.00% as of late January 2025.

# What is the outlook for Canadian interest rates going forward?

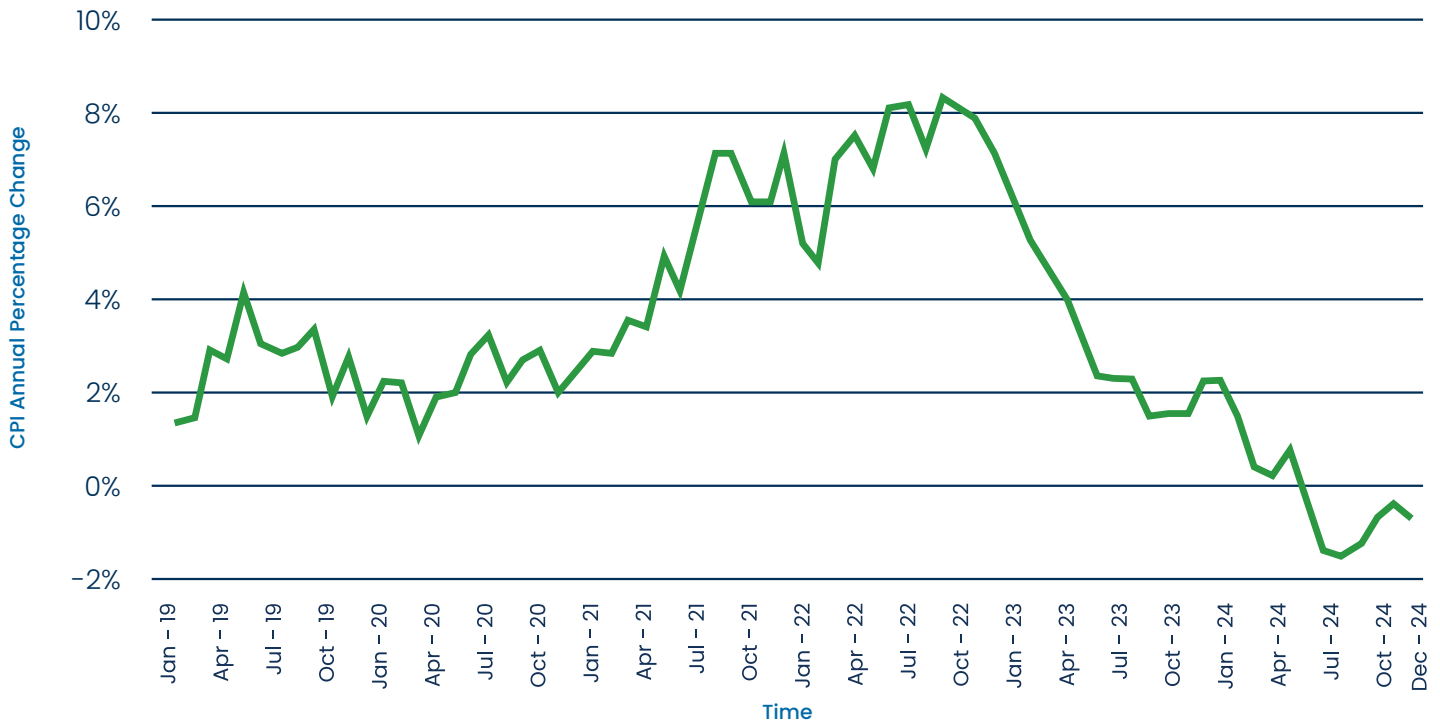
On January 29th, 2025, the Bank of Canada decided to reduce the target overnight interest rate by 25 basis points to 3.00%. The target rate has been reduced by 2.00% since June 2024. Tiff Macklem, Governor of the Bank of Canada, stated that US trade policy is now a major source of uncertainty with many possible scenarios. Any trade conflict could potentially hurt economic activity in Canada and put upward pressure on inflation. Monetary policy cannot offset the impact of tariffs but can be used to help the economy adjust. Downward pressure on inflation from weakness in the economy would be weighed against upward pressure on inflation from higher input prices and supply chain disruptions.

## How can commercial fleets mitigate the impact of higher interest rates?

- Fleet managers and company executives should explore unique options including alternate funding sources, refinancing, and leveraging the equity within their fleet.
- Commercial fleets should leverage the financial and analytical resources available through their FMC partnerships.

# NEW VEHICLES

## Canadian CPI - Purchase of Passenger Vehicles



The Canadian CPI for the purchase of passenger vehicles fluctuated between 1.00% and 3.00% until starting to climb sharply in December 2020. The annual CPI reached a high of 8.37% in September 2022 before falling steadily and reaching the current low of -0.71% in December 2024.



## What is the outlook for Canadian new vehicle pricing going forward?

Per AutoTrader's price index, in September 2024, the average new vehicle retail transaction price in Canada was \$66,560, down \$1,257 or 1.90% from September 2023. A corresponding rise in OEM incentives is due in part to higher inventories, prompting manufacturers and dealers to offer more discounts. In addition, affordability continues to improve as interest rates for new vehicles have been decreasing from their peak in November 2023. This all reflects a trend towards more competitive pricing and improved buying conditions.

## How can commercial fleets mitigate the impact of higher new vehicle pricing?

- Fleet managers need to have in place a sufficient, consistent, and correctly allocated replacement strategy.
- An up front total cost of ownership (TCO) analysis should be performed to select vehicles that meet both job specifications and budget requirements.
- Be prepared to think creatively and explore innovative cost-effective alternatives to current vehicles and configurations.
- Work closely with OEMs to optimize vehicle pricing and take advantage of factory ordering rather than relying on dealer stock purchases.
- Adopt strategies from a maintenance and downtime/productivity standpoint to maximize the useful life of your vehicles.

# DRIVE

To drive right, commercial fleets should monitor utilization and driver behavior to help increase efficiency for overall fleet performance. Key factors affected by inflation and impacting the drive stage of vehicle management are the costs of gasoline and electricity.

## GASOLINE

### Canadian Monthly Retail Gasoline Price



The Canadian monthly retail price for gasoline hovered around \$1.00/litre before starting to climb slowly in January 2021, peaking at \$2.07/litre in June 2022. The price has since dropped to a low of \$1.44/litre in December 2022 and is currently at \$1.51/litre as of December 2024.

### What is the Canadian outlook for gasoline pricing going forward?

According to Kalibrate Technologies, retail gasoline prices will likely increase in the spring as demand picks up and refiners switch to more expensive summer-blended fuel. Canada's annual carbon tax increase and the reinstatement of suspended or reduced provincial petroleum taxes will also drive prices higher. However, lower crude oil prices in 2025 will lead to lower retail gasoline prices - roughly 1.5 cents per litre lower overall compared to 2024.

# ELECTRICITY

## Canadian CPI – Electricity



The Canadian CPI for electricity prices held steady between 2.00% and 3.00% before starting to fluctuate in early 2020, reaching a low of -4.44% in January 2021 and a high of 8.88% in January 2022. The CPI has since fallen to a low of -2.31% in February 2023 before climbing to a high of 12.33% in August 2023, then falling again with the current CPI at 1.13% as of December 2024.

## What is the Canadian outlook for electricity pricing going forward?

Potential changes to provincially regulated electricity prices in 2025 include a possible 3.00% increase in Quebec (as was the case in 2024 as well). In October 2024, Ontario announced rate decreases of close to 13.00% along with the Ontario Electricity Rebate to be set at 13.10%. Nova Scotia increased rates by 2.40% in January 2025.

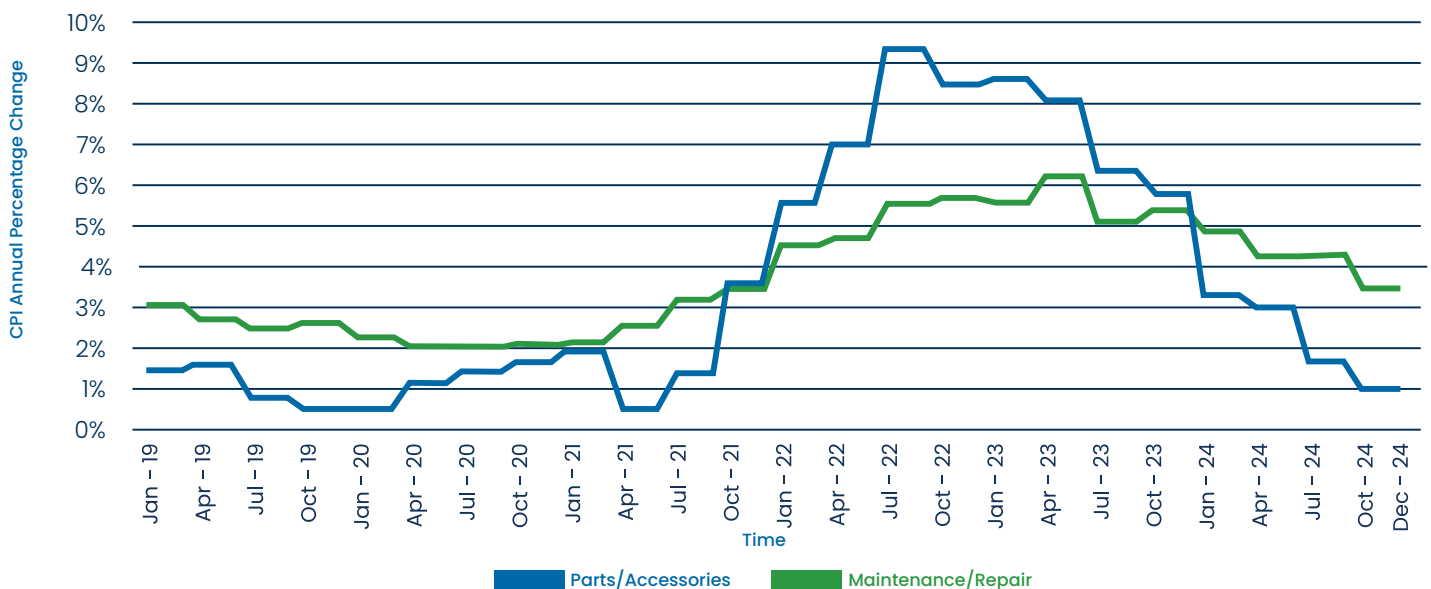
## How can commercial fleets mitigate the impact of fluctuating energy costs?

- Perform the due diligence up front to select vehicles that are fuel efficient yet meet both job specifications and budgetary requirements.
- Telematic devices can be leveraged to monitor utilization and provide visibility to driver behaviors such as idling and speeding.
- Prioritize charging during off-peak hours for better electricity pricing.
- Explore battery storage solutions that charge during off-peak hours and supply vehicles during peak hours.
- Negotiate better electricity pricing in geographic regions where possible.

# SERVICE

To service right, commercial fleets should utilize analytics to focus on a predict and prevent methodology to control operating costs and downtime. Key factors affected by inflation and impacting the service stage of vehicle management are the costs of parts, labor, preventive maintenance, and repairs.

## Canadian CPI - Parts/Accessories vs Maintenance/Repairs



The Canadian CPI for parts and accessories fluctuated between 0.50% and 2.00% before falling to a low of 0.44% in April 2021, rising to 9.44% in July 2022 before dropping to 0.85% in October 2024. The annual CPI for maintenance and repairs fell from just below 3.00% to a low of 1.95% in July 2020, then peaked at 6.21% in April 2023 before dropping to 3.41% as of October 2024.

## What is the Canadian outlook for vehicle parts, maintenance, and repairs pricing going forward?

One of the areas hardest hit by inflationary pressures is vehicle parts, maintenance, and repair costs, putting tremendous strain on already stretched operating budgets. Technical labor shortages remain acute, placing upward pressure on costs. Parts availability is



improving but remains a challenge. The average cost for maintenance at a dealership has risen from \$432 to \$465 in the past year, while a similar repair at an independent vendor has increased from \$262 to \$273. Maintenance and repair costs are expected to continue to exceed the overall inflation rate in 2025.

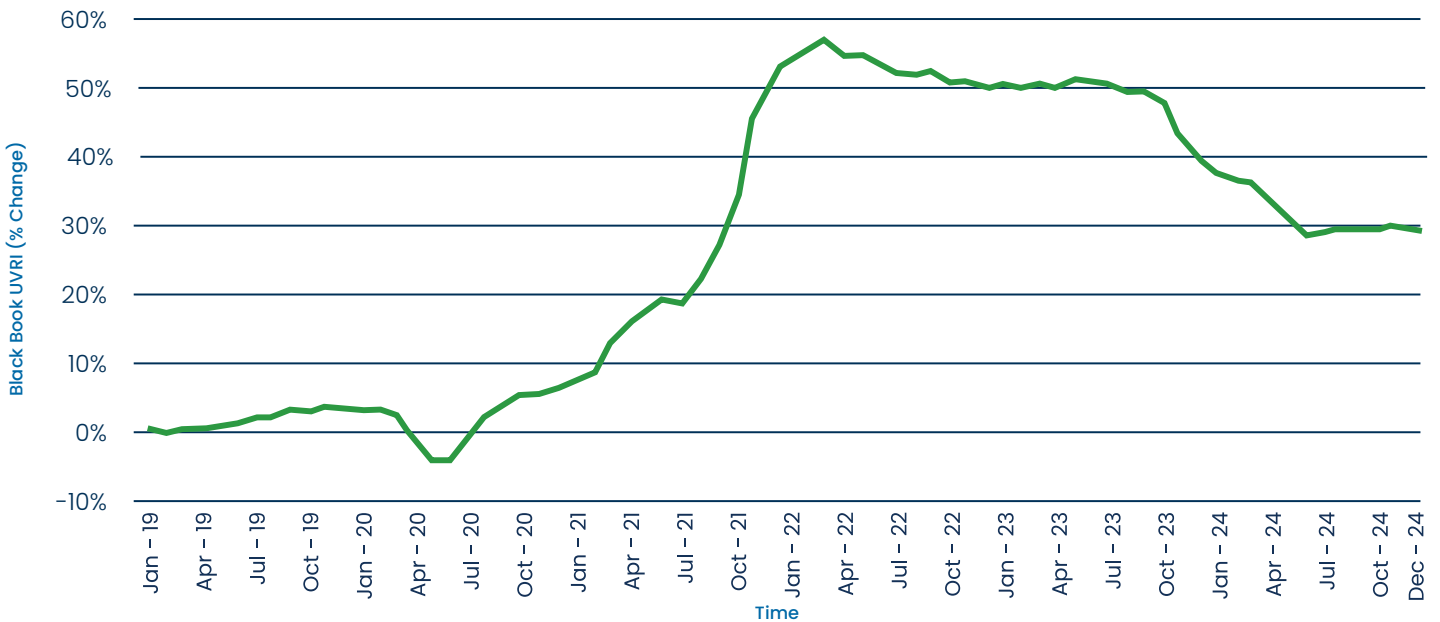
## **How can commercial fleets mitigate the impact of higher parts, maintenance and repair costs?**

- Prioritize preventative maintenance (PMs) as well as timely tire and brake replacements to avoid unscheduled repairs.
- Develop strategies for PM compliance, preferred vendor usage, and negotiated tire pricing.
- Match the type of repair to the appropriate vendor - i.e. use national account vendors for PMs, brake services, etc.; leverage OEM dealers for warranty repairs; mobile vendors for downtime critical assets.
- Establish controls to manage rental utilization and expense.
- Review data frequently for opportunities through maintenance reviews and vendor analyses.
- Maintain a consistent view of the aging vehicles within the fleet.

# SELL

To sell right, commercial fleet operators should utilize vehicle data to determine when repairs are no longer economical for older vehicles and adopt a replacement strategy. A key factor affected by inflation and impacting the sell stage of vehicle management is the pricing of used vehicles, particularly in wholesale markets.

## Canadian Black Book UVRI - % Change Since Jan-19



The Black Book Used Vehicle Retention Index (UVRI) measures the strength of used vehicle wholesale market values. The above chart represents the percentage change in Black Book UVRI as compared to January 2019. The UVRI remained relatively unchanged through early 2020 until beginning to climb from a low of -4.47% in May 2020 before reaching a peak of 56.84% in March 2022. The UVRI has since fallen gradually until reaching and stabilizing around the current low of 28.99% in December 2024.

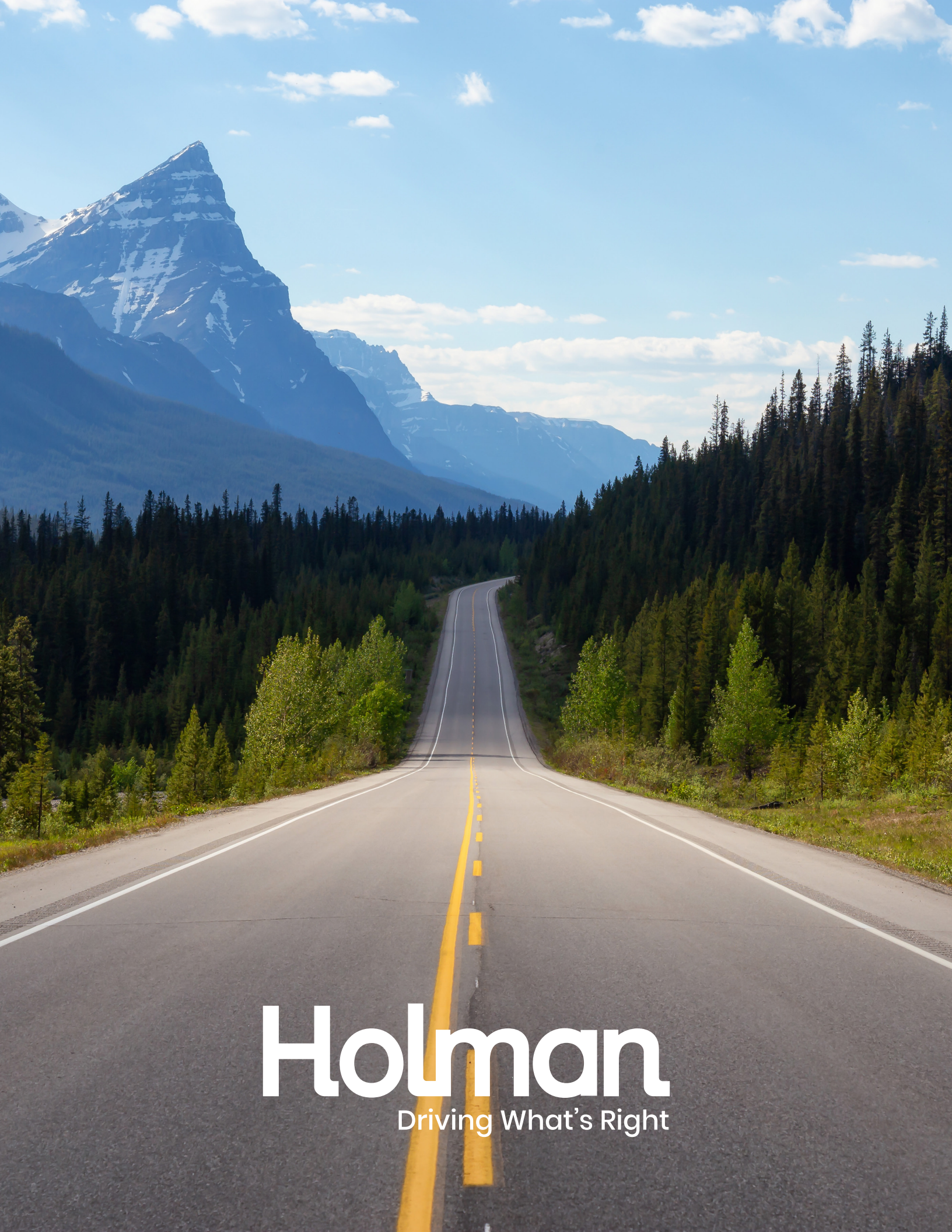


## **What is the Canadian outlook for used vehicle wholesale pricing going forward?**

Recent market data highlights a clear downward trend in wholesale used vehicle prices. This is due to several factors including inflationary pressures and interest rates as well as seasonal factors and high dealer inventory levels. The increase in new vehicle production has been slowly balancing the market, reducing the demand for used vehicles. Dealers are adjusting pricing strategies to remain competitive or using this opportunity to replenish their used vehicle inventory. If economic conditions stabilize, prices could gradually recover in early 2025.

## **How can commercial fleets mitigate the fluctuations in the pricing of used vehicles?**

- Fleet managers need to determine vehicle requirements and dispose of aging assets appropriately.
- Ensure vehicles are being properly utilized and maintained while keeping in mind parts delays and shortages.
- Avoid regional stockpiles of assets and prevent “graveyards” of unrepairable, immobile vehicles.



**Holman**  
Driving What's Right