



Canada Inflation: Can't Stick the Landing

Canadian inflation showed an unwelcome increase in December as year-over-year growth in the consumer price index (CPI) accelerated and prices rose from November. Headline CPI inflation increased to 3.4 per cent, year-over-year, with seasonally- adjusted levels up 0.3 per cent from November. Unadjusted, prices fell 0.3 per cent. This was not unexpected however, with growth in line with the consensus and aligned with the pattern seen in the U.S. during the month but does point to some near-term stickiness.

Higher inflation during the month was owed largely to gasoline prices, which rose 1.4 per cent year-over-year, compared to 7.7 per cent reading the prior month. While gasoline prices have for four straight months, base year effects contributed to this as declines last December were relatively large. Excluding gasoline, CPI inflation edged down from 3.6 per cent to 3.5 per cent.

Among other goods and services, patterns were mixed. Food prices increased from November, but year-over-year growth held steady at 5.0 per cent, with steady growth in both store-bought and restaurant meals. Meat prices accelerated to 5.5 per cent, but baked goods and vegetable prices have settled down after huge gains earlier in the year.

Households continued to experience growth in shelter costs which increased from a 5.9 per cent rate to just shy of six per cent. Rents nudged up to a 7.7 per cent increase (driven by B.C. at 8.6 per cent), and while growth in ownership costs eased, growth was still firm at 6.7 per cent driven by a 28.6 per cent increase in mortgage interest costs. Shelter costs are reflect the combination of insufficient housing supply, coupled with massive population growth, and flow through of higher interest rates.

Other highlights included new vehicle prices which rose from 1.9 per cent to 3.4 per cent year-over-year. Air flight costs rebounded during the holidays, narrowing the year-over-year decline to 9.7 per cent from 17 per cent in November although accommodation costs have fallen sharply in recent months including December, pushing the 12-month change to -3.4 per cent.

Broadly, inflation held firm during the month when looking at various core measures and other cuts of data. Bank of Canada core-common (3.9 per cent) and median (3.7 per cent) were unchanged, although the trim measure rose from 3.5 to 3.7 per cent. That said, the classic core measure (excluding food and energy) nudged lower to 3.4 per cent in line with headline. The direct impact of interest rate hikes on inflation also warrants a mention as excluding mortgage interest, CPI growth sat at 2.5 per cent albeit up from 2.2 per cent in November.

December's uptick while expected points to some stickiness in inflation above three per cent. While further declines are anticipated with gasoline prices easing in January and an economic downdraft expected to curb inflation further, there remain risks. Housing picked up in December which could add some fuel, wage inflation remained strong in December, and ripple effects of the Suez Canal attacks could add to goods transport costs. That said, we retain our expectation for an April rate cut as the economic slowdown driven in part by the mortgage renewal wave curbs inflation risks and wage growth.

Canada Consumer Price Index

Period	2023M10	2023M11	2023M12
<i>All-Items</i>			
Actual y/y %ch.	3.1	3.1	3.4
Actual, m/m %	0.1	0.1	-0.3
Seas. adj., m/m %	0.0	0.3	0.3
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	3.4	3.5	3.4
Goods	1.6	1.4	2.4
Services	4.6	4.6	4.3
Food	5.6	5.0	5.0
Shelter	6.1	5.9	6.0
Gasoline	-7.8	-7.7	1.4
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	4.2	3.9	3.9
Trim	3.5	3.5	3.7
Median	3.5	3.6	3.6
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	3.1	1.5	2.3
Exc. food and energy	3.6	3.8	3.8

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