

## Canada: Core inflation remains tame in December

By Matthieu Arseneau

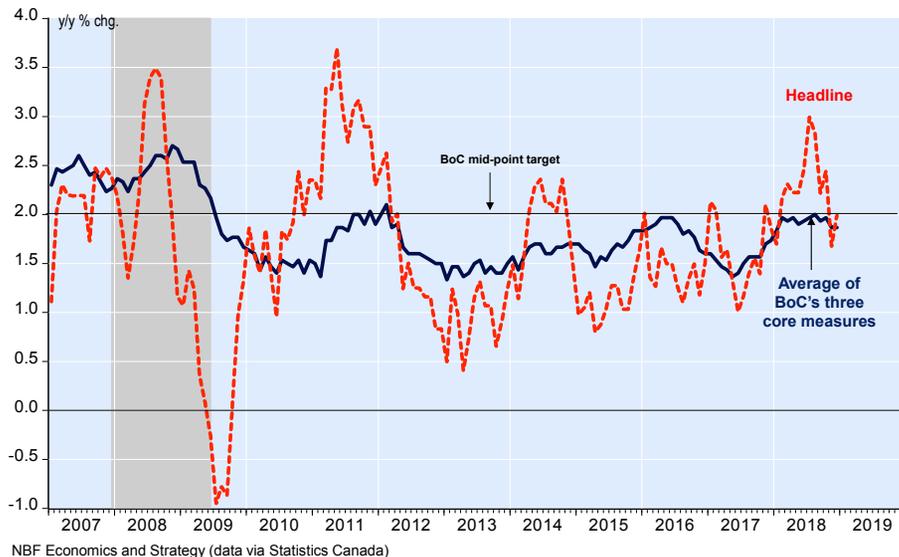
Inflation came in well above expectations in December. A weakness was expected as gasoline prices dropped significantly in December but that was more than offset by a 0.4% jump in ex-food and energy. The CPI increase, however, was far from being widespread among components. We note that air transportation experienced a 4.6 standard deviation rise in December (+22.6%), the consequence of the new source of data used by Statistics Canada since April. By our calculation, air transportation explains no less than 0.3% of the monthly rise in ex. food & energy index. The Bank of Canada's preferred measures, which are less affected by strong moves in specific components, registered much tamer increases. Case in point, our in-house replication of CPI-Trim and CPI-median both rose only 0.12% on a month-to-month basis in December (seasonally adjusted). On a 3-month annualized basis, CPI-Trim and CPI-median are running respectively at 1.7% and 1.4%, a sharp contrast with the ex. food and energy index surging 3.5% (right chart). In such a context, the Bank of Canada can remain patient and assess the impact of the recent deterioration of financial conditions before raising rates again.

### HIGHLIGHTS:

- Canada's consumer price index declined 0.1% (not seasonally adjusted) in December, taking the year-on-year inflation rate up to 2.0% (from 1.7%), which was above consensus calling for 1.7% (left chart).
- In seasonally adjusted terms, CPI rose 0.2% as rises in food, household ops, clothing, healthcare, recreation and alcohol/tobacco more than offset the decline in transportation. Shelter was flat.
- The Bank of Canada's preferred core measures on a year on year basis were as follows: 1.9% for CPI-trim (in line with consensus), 1.8% for CPI-median (one tick below consensus) and 1.9% for CPI-common (in line with consensus).
- On a regional basis, the annual headline inflation rate is significantly above the national average in British Columbia (+3.0%) vs. well below in Quebec (+1.1%). Annual inflation in Ontario (+2.3%) and Alberta (+2.1%) was closer to the national average.

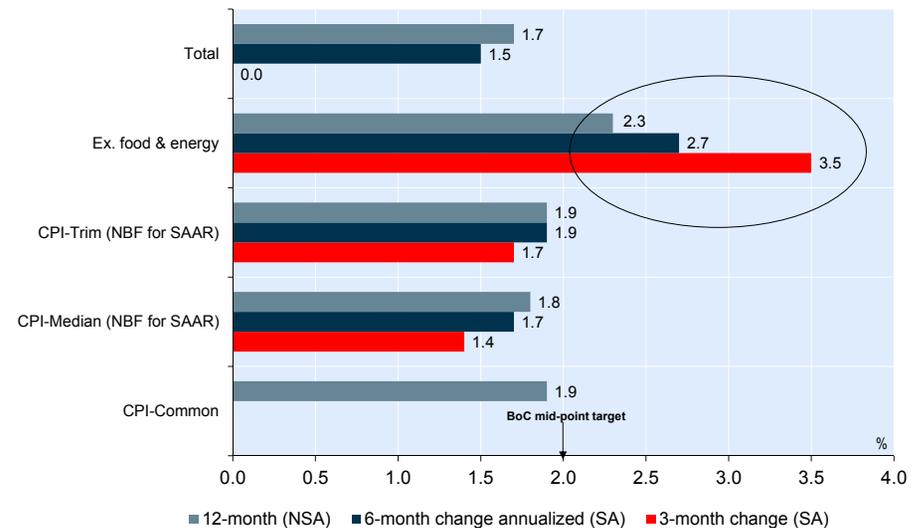
### Canada: Core inflation slightly below target

Consumer price index



### Canada: Ex. food and energy exaggerating underlying inflation

CPI inflation (%)



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