

Core inflation trends higher

Total CPI: Latest (y/y): +1.9% (actual); +1.9% (consensus expectations); +2.1% (previous)
CPI-Common: Latest (y/y): +1.6%; +1.5% (previous)
CPI-Median: Latest (y/y): +1.9%; +1.9% (previous)
CPI-Trim: Latest (y/y): +1.9%; +1.8% (previous)

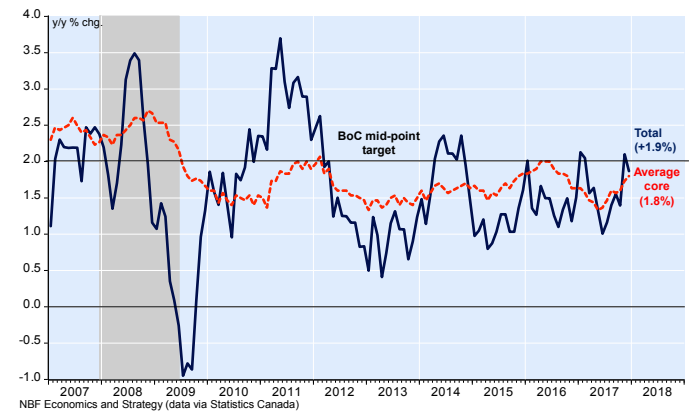
FACTS: Canada's consumer price index rose 0.2% (m/m) in December in seasonally adjusted terms but due to the base effect the year-on-year inflation rate declined two ticks to 1.9%. This was in line with consensus expectations. On a month-to-month basis, the increases in transportation (+0.6%), health and personal care (+0.5%), clothing (+0.5%), shelter (+0.2%), food (+0.2%) and alcohol/tobacco (+0.1%) more than offset the declines in household operations (-1.1%) and recreation (-0.3%). On a regional basis, Saskatchewan (+3.4%), New Brunswick (+2.9%) and Manitoba (+2.9%) registered the strongest annual inflation while Ontario (+1.5%), Newfoundland and Labrador (+1.7%) and Nova Scotia (+1.7%) lagged. Annual inflation in Quebec stood at 1.8%, and at 2.0% in Alberta and British Columbia. CPI excluding food and energy rose 0.2% in seasonally adjusted terms but the year-on-year inflation rate dropped one tick to 1.7%. On an annual basis, the CPI-trim stands at 1.9% (up 1 tick from 1.8%), CPI-Median at 1.9% (unchanged) and CPI-Common at 1.6% (up one tick from 1.5%).

OPINION: Headline inflation in Canada was essentially in line with expectations in December but core was somewhat stronger. Price pressures were relatively widespread as shown by 5 of the 8 major categories being up by at least 0.2% on the month. As a result, the annual average core now stands at 1.8%, its highest level in 14 months (first chart). According to our in-house replication of CPI-Trim and CPI-median, the recent momentum is even stronger. Both measures are running above the Bank of Canada mid-point target on a 6-month annualized basis (CPI-Trim at 2.2% and CPI-median at 2.1%, middle chart). We believe this new trend will persist reflecting a strong economy and labour market. The latest CFIB survey is showing that small businesses expect a 2.7% average wage increase over the next 12 months, way above the current expansion average of 1.6% (third chart).

Matthieu Arseneau

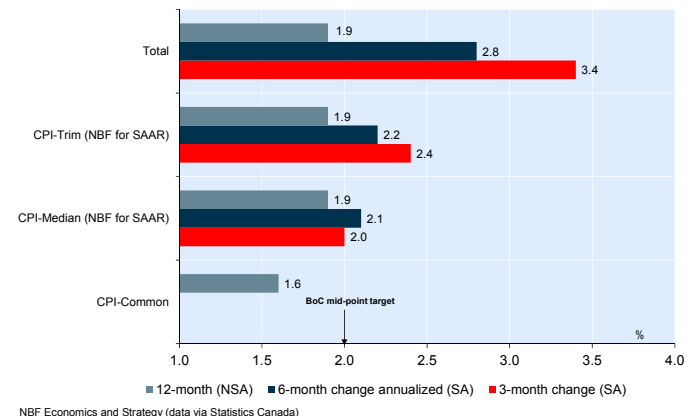
Canada: Perspective on the consumer price index

Total and average of the three core measures preferred by the Bank of Canada



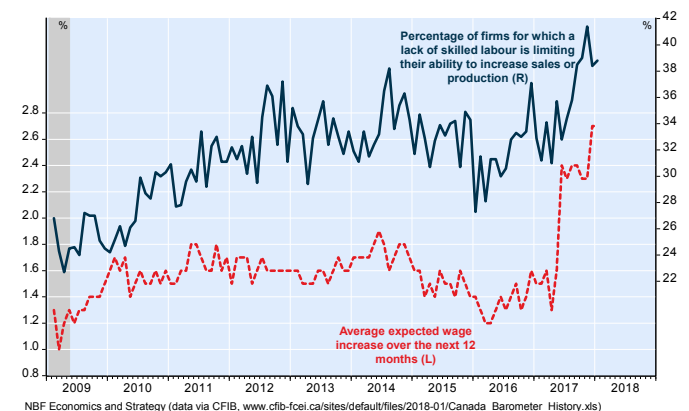
Canada: Recent momentum of different inflation measures

CPI inflation (%)



Canada: Businesses expect higher wage inflation

% of firms limited by a lack of skilled labour and average wage plans



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