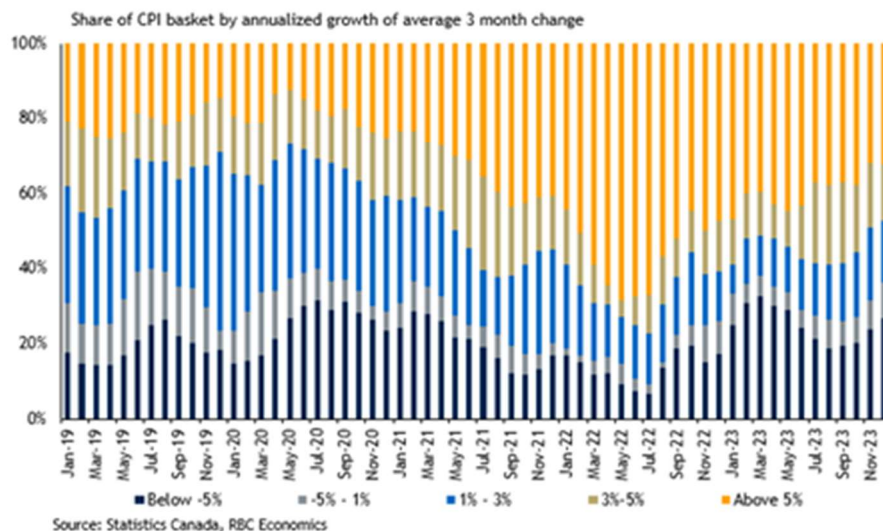


January 16, 2024

## December Canadian headline CPI rose to 3.4% on mixed details

- The increase in headline price growth to 3.4% in December (from 3.1% in November) matched expectations after surprising on the upside in November on a surge in travel tour prices.
- Details, though, were more mixed. The rise in headline inflation in December was driven by a rise in energy inflation to -0.4% - gasoline prices actually fell by 4%, but that was smaller than the drop last year in December.

### Scope of inflation pressures on balance still improving in Canada



- And food CPI growth held flat on a year-over-year basis from the 5% reading in November. On a seasonally adjusted month-over-month basis, food inflation after having moderated to 0.2% pace by late Q3 2023 started to reaccelerate into the end of last year. In December prices rose by a larger 0.4% from November, on increases from grocery items like meats and fruits. Price growth for dining out also picked up slightly in December.
- Excluding food and energy components, prices grew by 3.4% on a year-over-year basis, ticking lower from 3.5% in November to match the reading in October. But the Bank of Canada's preferred core measures showed no moderation – CPI trim rose higher to 3.7% in December from 3.5% while CPI median was unchanged at 3.6%. Monthly growth in both measures accelerated with 0.4% (seasonally adjusted) increases from November.
- The surprise increase in November travel services was more than reversed in December but acceleration was instead seen in airfares, car prices and rent costs. Airfare prices rose in December

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but were still 9.7% below a year ago. Also in December, the introduction of new 2024 model-year vehicles drove up prices for new vehicles to 3.4% above a year ago.

- Still, shelter inflation continues to account for a disproportionate share of price growth as past interest rate increases continue to pass through to mortgage costs with a lag. Shelter inflation rose to 6% in December on a yearly 7.7% increase in rents and 28.6% surge in mortgage interest costs (the latter now slightly off the peak of 31% in August).
- **Bottom Line:** Today's CPI report was more mixed than the headline reading would suggest. The acceleration in airfares and car price growth in December is unlikely to be repeated and strength in the shelter component, especially in rent prices also persists. Still, over on a three-month annualized basis the scope of inflation pressures continues to narrow/improve – suggesting on balance that price pressures were still unwinding. The quarterly release of the BoC surveys yesterday also provided more indications that price growth should continue to slow, as businesses plan for smaller / less frequent upward price adjustments in the year ahead amid a slower economic backdrop and sluggish consumer demand. We continue to expect the BoC to tread cautiously and watch the data carefully, but for further slowing inflation to allow a pivot to interest rate cuts around mid-year.

Canadian CPI Inflation				
	Sep-23	Oct-23	Nov-23	Dec-23
	<i>m/m % change</i>			
All Items CPI	-0.1	0.1	0.1	-0.3
Food	-0.1	-0.1	0.6	0.3
Energy	-1.0	-4.6	-1.9	-2.6
All items ex-food & energy	-0.1	0.5	0.2	-0.3
	<i>y/y % change</i>			
All Items CPI	3.8	3.1	3.1	3.4
Food	5.9	5.6	5.0	5.0
Energy	5.4	-5.4	-5.7	-0.4
All items ex-food & energy	3.2	3.4	3.5	3.4

Source: Statistics Canada, RBC Economics

