

Economics

ECONOMIC FLASH!

economics.cibccm.com

January 21, 2024

Canadian CPI (December): A taxing read

by **Andrew Grantham** andrew.grantham@cibc.com

Consumer price index (% chg)	24:Q3	24:Q4	Oct	Nov	Dec
Year/year rate (unadjusted)	2.0	1.9	2.0	1.9	1.8
Monthly rate (unadjusted)	-	-	0.4	0.0	-0.4
Monthly rate (SA)	-	-	0.3	0.1	0.2
Three-month rate (SAAR)	-	-	1.5	1.7	2.8
CPI-trim (year/year rate)	2.5	2.6	2.6	2.6	2.5
CPI-median (year/year rate)	2.5	2.6	2.7	2.6	2.4

Source: Statistics Canada

- Canadian inflation edged lower in December, albeit solely due to the GST/HST tax holiday that began mid-month. Indeed, excluding the impact of that, headline CPI would have accelerated back above 2%, driven by base effects in gasoline prices and higher prices for travel tours and accommodation linked in part to Taylor Swift's Vancouver concerts. Through taxing monthly volatility, however, underlying inflationary pressures are close to 2% and we continue to forecast a 25bp cut from the Bank of Canada next week.
- The -0.4% m/m drop in prices, for a 1.8% y/y rate, was broadly in line with consensus expectations, and Statistics Canada stated that without the tax change the year-over-year figure would have been 2.3%. Roughly 10% of the inflation basket was affected by the tax exemption, with restaurant, alcohol and toys & games prices all seeing price declines on the month. As the tax break came into affect mid-month, a further impact is expected to be seen in January when prices during the full month were subject to the lower rate.
- In areas not impacted by the tax change, travel services and accommodation accelerated, albeit partly driven by increases in BC linked to the Taylor Swift concert. On a monthly basis, prices for traveler accommodation services in BC surged by 62%. Shelter price inflation continues to ease, with rents rising by 0.25% m/m and easing to 7.1% year-over-year (from 7.7%). The 0.4% m/m rise in mortgage interest cost was the weakest since April 2022, although inflation in that area was still 11.7% year-over-year.
- Core measures of the inflation are generally less impacted by temporary factors such as the GST holiday, and continued to trend close to 2% in December. The Bank of Canada's old CPI-X measure, which excludes indirect tax changes, posted a seasonally adjusted advance of 0.3% m/m, but an annual rate still below the 2% target at 1.8%. The BoC's CPI-trim and median measures of inflation were also likely less impacted than the headline by temporary factors, and decelerated to 2.4% and 2.5% year-over-year (in line with consensus expectations).

Implications & actions

- Re: Economic forecast** — Canada's inflation data is only going to get harder to dissect in January, with the full month impact from the GST/HST tax break taking hold. Any news on the tariff front will also muddy the picture for inflation ahead. However, through the volatility it still appears that core price pressures are low enough, and the economy weak enough, to justify a 25bp reduction in interest rates from the Bank of Canada next week.

- **Re: Markets** — The Canadian dollar and bond yields were lower prior to the data due to overnight tariff threats from President Trump, and the on-consensus data did little to direct attention away from that threat.

CIBC Capital Markets is a trademark brand name under which Canadian Imperial Bank of Commerce ("CIBC"), its subsidiaries and affiliates (including, without limitation, CIBC World Markets Inc., CIBC World Markets Corp. and CIBC Capital Markets (Europe) S.A.) provide different products and services to our customers around the world. Products and/or services offered by CIBC include corporate lending services, foreign exchange, money market instruments, structured notes, interest rate products and OTC derivatives. CIBC's Foreign Exchange Disclosure Statement relating to guidelines contained in the FX Global Code can be found at www.cibccm.com/fxdisclosure. Other products and services, such as exchange-traded equity and equity options, fixed income securities and futures execution of Canadian securities, are offered through directly or indirectly held subsidiaries of CIBC as indicated below.

Distribution

This report is written by the economics team at CIBC Capital Markets and is not the product of a CIBC Capital Markets research department. This report is issued and approved for distribution: (a) in Canada, by CIBC World Markets Inc., a member of the Canadian Investment Regulatory Organization, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund; and (b) in the United States, by either: (i) CIBC World Markets Inc. for distribution only to U.S. Major Institutional Investors ("MII") (as such term is defined in SEC Rule 15a-6) or (ii) CIBC World Markets Corp., a member of the Financial Industry Regulatory Authority. U.S. MIIs receiving this report from CIBC World Markets Inc. (the Canadian broker-dealer) are required to effect transactions (other than negotiating their terms) in securities discussed in the report through CIBC World Markets Corp. (the U.S. broker-dealer).

This report is provided, for informational purposes only, to institutional investor and retail clients of CIBC World Markets Inc. in Canada and does not constitute an offer or solicitation to buy or sell any securities discussed herein, including (without limitation) in any jurisdiction where such offer or solicitation would be prohibited.

The distribution of this report in the United Kingdom is being made only to, or directed only at, persons falling within one or more of the exemptions from the financial promotion regime in section 21 of the UK Financial Services and Markets Act 2000 (as amended) ("FSMA") including, without limitation, to the following:

- authorised firms under FSMA and certain other investment professionals falling within article 19 of the FSMA (Financial Promotion) Order 2005 ("FPO") and directors, officers and employees acting for such entities in relation to investment;
- high value entities falling within article 49 FPO and directors, officers and employees acting for such entities in relation to investment; and
- persons who receive this presentation outside the United Kingdom.

The distribution of this report to any other person in the United Kingdom is unauthorised and may contravene FSMA. No person falling outside such categories should treat this report as constituting a promotion to them or rely or act on it for any purposes whatsoever. This report is distributed solely to eligible counterparties or professional clients and not retail clients as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018.

For all other jurisdictions, this report is distributed solely to institutional clients and not retail clients as defined by the applicable securities legislation and regulation to which CIBC Capital Markets may be subject in any jurisdiction.

Miscellaneous

This report does not take into account the investment objectives, financial situation or specific needs of any particular client of CIBC. Before making an investment decision on the basis of any information contained in this report, the recipient should consider whether such information is appropriate given the recipient's particular investment needs, objectives and financial circumstances. CIBC suggests that, prior to acting on any information contained herein, you contact one of our client advisers in your jurisdiction to discuss your particular circumstances. Since the levels and bases of taxation can change, any reference in this report to the impact of taxation should not be construed as offering tax advice; as with any transaction having potential tax implications, clients should consult with their own tax advisors. Past performance is not a guarantee of future results.

The information and any statistical data contained herein were obtained from sources that we believe to be reliable, but we do not represent that they are accurate or complete, and they should not be relied upon as such. All estimates and opinions expressed herein constitute judgments as of the date of this report and are subject to change without notice.

This report may provide addresses of, or contain hyperlinks to, Internet web sites. CIBC has not reviewed the linked Internet web site of any third party and takes no responsibility for the contents thereof. Each such address or hyperlink is provided solely for the recipient's convenience and information, and the content of linked third-party web sites is not in any way incorporated into this document. Recipients who choose to access such third-party web sites or follow such hyperlinks do so at their own risk.

Unauthorized use, distribution, duplication or disclosure without the prior written permission of CIBC World Markets Inc. is prohibited by law and may result in prosecution.

CIBC Capital Markets and the CIBC Logo Design are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC