Economics

# ECONOMIC FLASH!

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## Canadian CPI (December): A taxing read

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| 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.