



Economic Flash!

January 18, 2019

Royce Mendes (416) 594-7354

Airline Fares Have Inflation Flying Temporarily Higher

All Items (% chg)	18:Q3	18:Q4	Oct	Nov	Dec
<i>Year/Year Rate (Unadjusted)</i>	2.7	2.0	2.4	1.7	2.0
<i>Monthly Rate (Unadjusted)</i>			0.3	-0.4	-0.1
<i>Monthly Rate (SA)</i>			0.3	-0.1	0.2
<i>Three-month Rate (SAAR)</i>			1.5	0.3	1.5
<i>CPI-Trim</i>	2.0	2.0	2.1	1.9	1.9
<i>CPI-Median</i>	2.0	1.8	1.9	1.8	1.8
<i>CPI-Common</i>	1.9	1.9	1.9	1.9	1.9

- Headline inflation bucked expectations for a soft print, but only because of a recent methodological change to the way airfares are calculated. That development should reverse itself in the coming months, as the change tends to exacerbate seasonal trends. As a result, there's little reason for markets to react heavily to the news, particularly given that the Bank of Canada's three core measures remained just a hair below the 2% target.
- The consumer price index fell 0.1% NSA (0.2% SA) in December, causing the headline rate of inflation to accelerate to 2.0% (prev. 1.7%), with a weaker monthly print falling out of the annual calculation. That was well ahead of expectations, but was driven in large part by the aforementioned methodology change that saw airline fares 22% higher in December. Together, airfares and travel tours accounted for all of the upside surprise versus expectations today.
- Excluding food and energy, those temporary factors left the index up 0.4% in seasonally adjusted terms, and running at an annual rate of 2.3%. But, so long as we see the move in airline fares reverse in the coming months, there shouldn't be many medium-term implications for the pace of inflation from today's surprise.
- Gasoline had been the key swing factor for consumer prices recently, and were again down roughly 5% in December. But the recent rebound in oil prices will have that portion of the consumer price basket adding some juice to the headline rate in the coming months, with further upside possible if, as we expect, global benchmark oil prices have a little more room to rebound this year.
- Looking through the messiness of airline fares and gas prices though, the Bank of Canada's three core measures remained just a hair below the 2% target, consistent with the range they've been in for the past year. The only notable item was a one-tick downward revision to the CPI-core

median rate to 1.8% for November, where it stood again in December. Overall, underlying price pressures appear consistent with a healthy, but not overheating, domestic economy.

Implications & Actions

Re: Economic Forecast – Headline inflation should cool back down in the coming months, as the upside surprise driven by temporary technical factors is reversed. On the flip side though, gasoline prices should actually begin to support headline prices in the next few releases. The lack of any material changes in the Bank of Canada’s core measures suggests that, despite all the volatility and surprises in headline inflation, the picture for underlying consumer price pressures hasn’t changed much in recent months.

Re: Markets – The Canadian dollar rallied and bonds sold off in the minutes after the release, but some of those moves have now been reversed as investors are likely digesting the fact that the headline acceleration was the result of a methodological change, and should therefore have little effect on central bank policy.

CIBC World Markets Inc., CIBC World Markets Corp., CIBC World Markets Plc., CIBC Australia Limited and certain other corporate banking and capital markets activities of Canadian Imperial Bank of Commerce operate under the brand name CIBC Capital Markets.

This report is issued and approved for distribution by (a) in Canada, CIBC World Markets Inc., a member of the Investment Industry Regulatory Organization of Canada, the Toronto Stock Exchange, the TSX Venture Exchange and a Member of the Canadian Investor Protection Fund, (b) in the United Kingdom, CIBC World Markets plc, which is regulated by the Financial Services Authority, and (c) in Australia, CIBC Australia Limited, a member of the Australian Stock Exchange and regulated by the ASIC (collectively, “CIBC”) and (d) in the United States either by (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 in any jurisdiction where such offer or solicitation would be prohibited. This document and any of the products and information contained herein are not intended for the use of private investors in the United Kingdom. Such investors will not be able to enter into agreements or purchase products mentioned herein from CIBC World Markets plc. The comments and views expressed in this document are meant for the general interests of wholesale clients of CIBC Australia Limited.

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.

© 2019 CIBC World Markets Inc. All rights reserved. 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.