January 20, 2017

TD Economics

Data Release: Higher prices at the pumps raise Canadian inflation in December

- Canadian consumer price inflation accelerated to 1.5% (year-on-year) in December, up from 1.2% the prior month, but below the consensus forecast for 1.7%.
- A rebound in gasoline prices was the main source of price growth. Gasoline prices rose 5.5% (y/y) after declining 1.7% in November, bringing the transportation index to 3.0% (from 1.4% in November). As it has been for some time, shelter costs remained an important source of price growth, up 3.0% (the same rate as November).
- Food prices, on the other hand, subtracted from inflation, falling 1.3% from last December, led by declines in fresh fruit and vegetables.
- Of the Bank of Canada's new trio of core inflation measures, only CPI-common accelerated in December to a modest 1.4% (from 1.3% in November). CPI-median held steady at (a revised) 2.0%, while CPI-trim remained at 1.6%.

Key Implications

- Rising energy prices will continue to push the headline rate of inflation up over the next several months. This is largely a base effect following from the sharp decline in oil prices a year ago.
- Once again the message in the three core inflation measures was consistent, showing limited broad price pressures across the Canadian economy. Inflation is likely to remain benign over the next year, reflecting continued economic slack and a slow rotation in growth drivers.
- While faster growth in the U.S. should help to raise prospects for the Canadian economy and keep inflation close to the Bank of Canada's target, the risk is that this is offset by protectionism that limits this traditionally important channel. Should this occur, we would expect the Bank of Canada to react by further easing policy.

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