

Canada Watch

Core inflation remains sticky in December

Key takeaways

- Inflation in December increased to 3.4% yoy driven by base effects in gasoline prices. We update our forecasts.
- Core inflation increased to 3.7% (avg. of two core measures), far from the "further and sustained easing" BoC is looking for.
- We expect slightly higher inflation in 2024 and BoC to start cutting in 1H. June is our baseline given sticky core inflation.

Gasoline base effects drove headline in December

Consumer Price Index (CPI) inflation was in line with expectations at 3.4% yoy in December (E. 3.4%, BofA 3.4%), but above the 3.1% observed in November (Exhibit 1). This increase is largely explained by base effects in gasoline prices, which grew by 1.4% yoy, despite falling -4.4% mom nsa. CPI excluding gasoline decreased to 3.5% yoy in December from 3.6% a month ago (Exhibit 2). On a monthly basis, inflation was in line with expectations at -0.3% mom nsa (E. -0.3%, BofA -0.2%). The main driver besides gasoline was travel tours at -18.2% mom nsa (Exhibit 3, Exhibit 4). On a seasonally adjusted basis, CPI rose 0.3% mom sa, unchanged from a month ago.

Core remains very sticky

The average of the two core measures (trimmed and median) increased to 3.65% yoy, up from a revised 3.55% in November. Trimmed mean increased to 3.7% (vs. 3.5% in November), while after revision the median remained unchanged at 3.6% (Exhibit 5). This increase is mainly explained by goods inflation at 2.4% yoy (vs. 1.4% in November). Services inflation decreased to 4.3% yoy from 4.6% a month ago, where telephone services at -20.6% explain much of its reduction. We continue to expect the economic deceleration to bring core inflation slowly down.

We revise our inflation forecasts to the upside

We incorporate December's print to our inflation forecasts. We now expect headline inflation for end-2024 at 2.5% yoy, up from 2.4%. We expect headline inflation to hit the 2% target in 1H 2025, and continue to expect headline inflation for end-2025 at 2.0% yoy (Exhibit 6, Exhibit 7).

December's print reinforces our call: BoC cuts in June 2024

We expect the Bank of Canada's (BoC) next movement to be a cut, as the economy and the labor market continue to weaken. Going forward, we believe the BoC will start cutting in June, since the December's print is still far from the "further and sustained decline in core inflation" the BoC is looking for. Furthermore, results from the Business Outlook and Consumer Expectations Surveys show inflation expectations remain above target. The main risk to our view is that core regains downward momentum, and the BoC decides to change language in March and starts cutting in April.

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Glossary

CPI = Consumer Price Index

E. = Bloomberg Consensus estimate

nsa = not-seasonally adjusted

sa = seasonally adjusted

mom = month-over-month

yoy = year-over-year

BoC = Bank of Canada

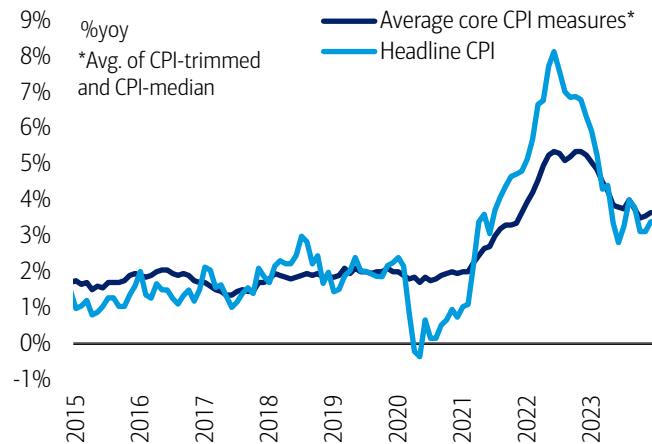
StatCan = Statistics Canada

CPI and the Fed pushed inflation-linked rates up

Following the print, Canadian inflation-linked rates initially shifted 4 to 5bps higher across the curve, while the breakeven curve was little changed. Rates later reversed most of the move until Fed Governor Waller headlines drove yields higher in US and CA. On the day, CA nominal yields are now 12 to 14bps higher across the curve, with real yields moving in line. Since just before the print, market pricing for a cut in March moderated to 28% from around 48% previously, and total cuts in 2024 declined by around 16bps to 128bps in total.

Exhibit 1: Headline and core inflation

Headline and core inflation increased at 3.4% and 3.65% yoy, respectively

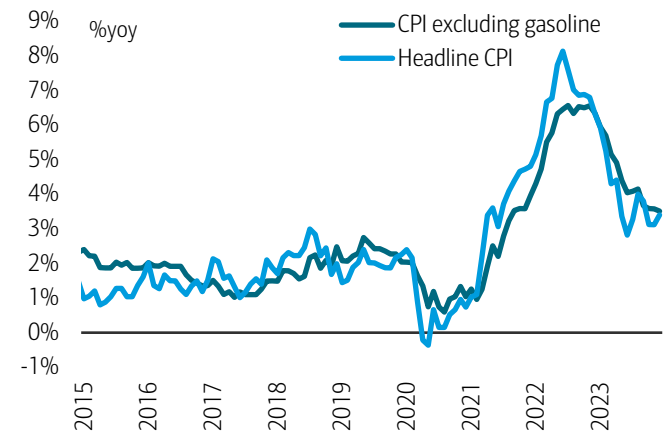


Source: BofA Global Research; Stat Canada, Haver

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Exhibit 2: Inflation excluding gasoline

Gasoline price pushed headline. Inflation excl. gasoline fell to 3.5% yoy.



Source: BofA Global Research; Stat Canada, Haver

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Exhibit 3: % mom nsa CPI heatmap

Transportation prices rebounded in December. Nevertheless, gasoline fell by -4.4% mom, scoring 4 consecutive months decreasing

Component	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22
Headline	-0.3%	0.1%	0.1%	-0.1%	0.4%	0.6%	0.1%	0.4%	0.7%	0.5%	0.4%	0.5%	-0.6%
Food	0.3%	0.6%	-0.1%	-0.1%	-0.1%	0.4%	0.1%	0.8%	0.4%	0.2%	0.6%	1.7%	0.3%
Shelter	0.4%	0.5%	0.9%	0.5%	0.8%	0.7%	0.5%	0.4%	0.6%	0.4%	0.2%	0.1%	0.4%
Household Operations/Furnishings/Equipment	-0.9%	-0.3%	0.0%	-0.7%	0.3%	-0.3%	-0.6%	-0.5%	0.3%	0.4%	1.1%	-0.4%	-0.8%
Clothing and Footwear	-2.2%	0.7%	0.1%	0.9%	1.1%	-1.0%	-1.7%	0.4%	0.7%	1.3%	1.9%	-1.1%	-2.6%
Transportation	0.6%	-0.6%	-1.4%	-1.0%	0.7%	1.3%	1.2%	-0.2%	1.5%	0.7%	-0.4%	0.7%	-2.6%
Health and Personal Care	-0.5%	0.1%	-0.1%	0.1%	0.4%	0.1%	0.3%	0.2%	1.4%	0.5%	0.4%	0.6%	0.0%
Recreation, Education and Reading	-3.4%	-0.4%	0.9%	-0.5%	-0.9%	2.1%	-0.8%	1.9%	0.2%	1.1%	0.9%	0.7%	-1.4%
Alcoholic Beverages and Tobacco Products	-0.5%	0.4%	0.1%	0.1%	0.4%	0.4%	0.1%	0.5%	0.2%	0.9%	0.4%	1.2%	-0.2%

Source: BofA Global Research; Stat Canada, Haver

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Exhibit 4: % yoy CPI heatmap

Average core CPI measures increased, while shelter and food prices keep putting upward pressure. Gasoline (through Transportation) drove headline

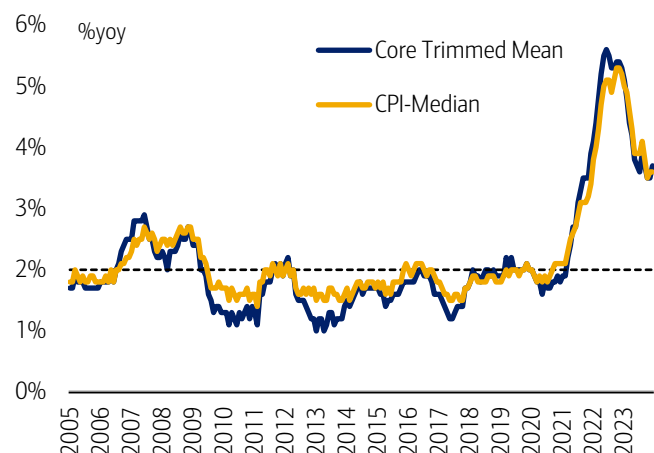
Component	Dec-23	Nov-23	Oct-23	Sep-23	Aug-23	Jul-23	Jun-23	May-23	Apr-23	Mar-23	Feb-23	Jan-23	Dec-22
Headline	3.4%	3.1%	3.1%	3.8%	4.0%	3.3%	2.8%	3.4%	4.4%	4.3%	5.2%	5.9%	6.3%
Food	5.0%	5.0%	5.6%	5.9%	6.8%	7.8%	8.3%	8.3%	8.3%	8.9%	9.7%	10.4%	10.1%
Shelter	6.0%	5.9%	6.1%	6.0%	6.0%	5.1%	4.8%	4.7%	4.9%	5.4%	6.1%	6.6%	7.0%
Household Operations/Furnishings/Equipment	-1.7%	-1.5%	-1.2%	-1.1%	0.0%	-0.1%	0.3%	1.1%	3.0%	3.3%	4.1%	3.7%	4.6%
Clothing and Footwear	0.9%	0.6%	-0.5%	1.0%	1.7%	1.0%	0.3%	0.7%	2.5%	2.4%	1.9%	0.4%	1.8%
Transportation	3.2%	-0.1%	-0.4%	3.2%	2.3%	-1.0%	-3.4%	-2.4%	1.3%	0.3%	3.1%	5.4%	6.0%
Health and Personal Care	3.7%	4.2%	4.9%	5.6%	5.8%	5.8%	6.2%	6.4%	6.4%	6.5%	6.2%	6.2%	6.1%
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Alcoholic Beverages and Tobacco Products	4.3%	4.6%	4.7%	5.3%	5.2%	5.3%	5.4%	5.5%	5.3%	5.4%	4.9%	4.7%	4.8%
Average core CPI measures													
Core Trimmed Mean	3.7%	3.6%	3.5%	3.8%	4.0%	3.8%	3.8%	3.9%	4.3%	4.5%	4.9%	5.1%	5.3%

Source: BofA Global Research; Stat Canada, Haver

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Exhibit 5: Core inflation measures

Core inflation increased. Services fell but goods had a broad-based uptick



Source: BofA Global Research; Stat Canada, Haver

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Exhibit 6: Inflation forecasts

We increase our inflation expectations for end-2024 to 2.5% from 2.4%



Source: BofA Global Research estimates, Stat Canada, Haver

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Exhibit 7: Monthly CPI forecasts (nsa)

We expect inflation at 2.5% by end-2024 and at 2.0% by end-2025

	Level	mom (%)	yoy (%)
2023: Dec	158.3	-0.3	3.4
2024: Jan	158.7	0.2	3.1
2024: Feb	159.6	0.6	3.3
2024: Mar	160.3	0.5	3.2
2024: Apr	160.9	0.4	2.9
2024: May	161.7	0.5	3.0
2024: Jun	162.0	0.2	3.0
2024: Jul	162.4	0.3	2.7
2024: Aug	162.6	0.1	2.5
2024: Sep	162.3	-0.2	2.4
2024: Oct	162.5	0.1	2.5
2024: Nov	162.7	0.1	2.4
2024: Dec	162.3	-0.2	2.5
2025: Jan	162.4	0.1	2.4
2025: Feb	163.2	0.4	2.3
2025: Mar	164.1	0.6	2.3
2025: Apr	164.4	0.2	2.2
2025: May	165.0	0.3	2.0
2025: Jun	165.3	0.2	2.1
2025: Jul	165.6	0.2	1.9
2025: Aug	165.7	0.1	1.9
2025: Sep	165.7	0.0	2.1
2025: Oct	165.6	-0.1	1.9
2025: Nov	165.6	0.0	1.8
2025: Dec	165.5	-0.1	2.0

Source: BofA Global Research estimates

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