Canada's annual inflation rate rises as cost of airfares, vegetables offset lower gas prices

By Andy Blatchford

January 18, 2019 – *The Globe and Mail / The Canadian Press*

Canada's annual inflation rate saw an unexpected acceleration to two per cent last month as higher costs for airfares and fresh vegetables offset cheaper prices at the pump, Statistics Canada said Friday.

Year-over-year prices picked up their pace in December after inflation was just 1.7 per cent in November, the agency said in its latest consumer price index. A consensus of economists had expected inflation to register 1.7 per cent for December, according to Thomson Reuters Eikon.

But even as overall inflation advanced at a faster clip last month, the average of three core inflation readings remained flat at 1.9 per cent, close to the Bank of Canada's ideal two per cent target.

Experts believe Friday's core figures mean there's no inflation-fuelled urgency for the Bank of Canada to raise its trend-setting interest rate.

"They will see that there's no acceleration in [core] inflation, so they can be patient in the coming months," National Bank of Canada deputy chief economist Matthieu Arseneau said of the central bank governing council in an interview.

"For the Bank of Canada, the focus has changed a bit [to be] more on growth for the coming months, so I think that for now (the inflation) report is less important."

Core inflation, which excludes more-volatile components like gasoline, is the Bank of Canada's preferred measure. The central bank, which can raise its rate as a way to keep inflation from climbing too high, pays close attention to the core numbers ahead of its policy decisions.

"Despite the upside surprise to headline inflation, core measures continued their 2018 theme of slow and steady," TD senior economist Brian DePratto wrote in a research note to clients Friday.

"These may be somewhat backward-looking indicators, but the message remains clear: There are few signs of fundamental inflationary pressure at the moment."

A closer look at the numbers showed that lower gas prices, down 8.6 per cent last month, kept headline inflation from being even higher. Excluding gasoline, inflation was 2.5 per cent in December.

Compared with a year earlier, Statistics Canada said Canadians paid 14.9 per cent more for fresh vegetables and 28.1 per cent more last month for air transportation – mostly due to higher travel prices during the holidays.

Mr. DePratto noted that observers should remain cautious about year-on-year airfare comparisons because Statistics Canada introduced a methodology change for the category in early 2018.

Inflation was also up last month due to a 7.5 per cent boost in mortgage interest costs, a 3.8 per cent increase in restaurant bills and 5.1 per cent rise in passenger vehicle insurance premiums.

Among the main downward forces on prices, consumers paid 5.6 per cent less for hotels, 4.1 per cent less for natural gas and 5.7 per cent less for digital computing devices and equipment.

By region, Statistics Canada said year-over-year prices increased last month at a faster pace in seven provinces compared with November. Only Newfoundland and Labrador, Nova

Scotia and New Brunswick saw prices rise at a slower rate.

Overall, the stronger December inflation reading could come as a surprise for the Bank of Canada, which said last week that it was expecting the measure to continue slowing down to stay below two per cent throughout 2019, mostly because of lower gas prices.

The bank did note, however, that the weaker Canadian dollar could apply some upward pressure on inflation. The Bank of Canada aims to keep inflation within a target range of one to three per cent.

Bank of Canada governor Stephen Poloz kept his benchmark interest rate unchanged last week at 1.75 per cent as the economy navigates what he described as a temporary period of softness created by a recent, sharp decline in world oil prices.

Mr. Poloz reiterated that more rate increases will still be necessary “over time.” He has introduced five rate hikes since mid-2017 in response to the stronger economy.