

Economics

ECONOMIC FLASH!

economics.cibccm.com

November 21, 2023

Canadian CPI (October): Measured progress in core measures

by **Katherine Judge** katherine.judge@cibc.com

Consumer price index (% chg)	23:Q2	23:Q3	August	September	October
Year/year rate (unadjusted)	3.5	3.7	4.0	3.8	3.1
Monthly rate (unadjusted)	-	-	0.4	-0.1	0.1
Monthly rate (SA)	-	-	0.6	0.1	-0.1
Three-month rate (SAAR)	-	-	6.0	5.5	2.8
CPI-trim (year/year rate)	3.9	3.8	4.0	3.7	3.5
CPI-median (year/year rate)	4.2	4.0	4.2	3.9	3.6

Source: Statistics Canada

- Annual inflation eased further in Canada in October, with the 3.1% pace in line with the consensus expectation. The sharp deceleration from 3.8% in the prior month was mostly the result of lower gasoline prices, while mortgage interest costs (MIC), rent, and food prices continued to be the largest drivers of annual inflation. Looking at the Bank of Canada's preferred measures of inflation, both CPI-trim and median decelerated (to 3.5% y/y and 3.6% y/y, respectively), suggesting that price increases are becoming more concentrated, namely in shelter costs. Indeed, CPI ex. food, energy, and MIC remained at 2.2% y/y, and decelerated to 1.8% in three-month annualized change terms. Looking ahead, a weak economic backdrop should work to limit prices further in these measures, and could allow the BoC to start cutting rates as early as Q2 next year.
- The acceleration in service price inflation to 4.6% y/y from 3.9% also reflected some other one-off factors that aren't tied to underlying demand. Property taxes, which are priced annually in October, rose by 4.9% y/y, while electricity prices in Alberta increased by 45% y/y. The price of travel tours also surged by 11% y/y, but that pace likely won't be sustained given the crunch that consumers are feeling from higher interest rates, and the climb in the unemployment rate. Signs of disinflation on a recovery in supply continued in the airline industry, as air fares were down by 19% y/y.
- On the goods side, prices decelerated to 1.6% y/y from 3.6%, but even when excluding food and energy, there was a notable deceleration, to 1.7% y/y from 2.4%. That reflects continued improvements in supply, as the inventory-to-sales ratio exceeded its pre-pandemic level in Q2 and is likely to rise further as constraints on production from wildfires and the port strike reverse in the coming months. That also reflects fading demand, with retail sales extending their lacklustre performance as consumers continue to devote more of income to higher interest payments.
- With population growth and high interest rates boosting new entrants into the rental market, the cost of renting surged by 8.2% y/y amidst the housing supply shortage. That makes shelter the main source of inflation, as CPI ex. shelter is running at a 1.9% y/y pace.

Implications & actions

Re: Economic forecast — The headline CPI index isn't likely to show much progress by the end of year, as base effects could see it jump in December after a temporary further reprieve in November, with a large drop in energy prices from a year-ago dropping out of the annual calculation. However, the Bank of Canada will be more focused on its preferred core measures of trim and median, which should continue to decelerate on weak domestic demand, allowing policymakers to start cutting interest rates as early as Q2 next year.

Re: Markets — There was little market reaction to the data, as the figures were in line with the consensus expectation, although markets continue to place too little odds on BoC cuts next year in our view.

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.

© 2023 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.

The CIBC logo and "CIBC Capital Markets" are trademarks of CIBC, used under license.

CIBC Capital Markets – PO Box 500, 161 Bay Street, Brookfield Place, Toronto, Canada M5J 2S8 – Bloomberg @ CIBC