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# ECONOMIC FLASH!

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## Canadian CPI (October): Measured progress in core measures

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| 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.