CIBC CIBC CAPITAL MARKETS

Economics

ECONOMIC FLASH!

economics.cibccm.com

December 19, 2023

Canadian CPI (November): No easing ahead of the holidays

by **Andrew Grantham** andrew.grantham@cibc.com

Consumer price index (% chg)	23:Q2	23:Q3	Sep	Oct	Nov
Year/year rate (unadjusted)	3.5	3.7	3.8	**3.1**	**3.1**
Monthly rate (unadjusted)	-	-	-0.1	**0.1**	**0.1**
Monthly rate (SA)	-	-	0.1	**0.0**	**0.3**
Three-month rate (SAAR)	-	-	5.5	**3.1**	**1.5**
CPI-trim (year/year rate)	3.9	3.7	3.6	**3.5**	**3.5**
CPI-median (year/year rate)	4.0	3.9	3.7	**3.4**	**3.4**

Source: Statistics Canada

- A lack of easing in Canadian inflation means that the Bank of Canada won't be easing policy as early as financial markets had been expecting heading into today's release. However, if there was any good news from November's CPI report, it was that drivers of inflation are becoming more narrowly based, and as a result the Bank of Canada's preferred CPI-trim and median measures of core inflation continue to show softer trends than earlier in the year. Because of that we still expect a first interest rate cut in June of next year, even if headline inflation hasn't fully eased back to 2% by that time.
- Headline inflation failed to ease as expected in November, holding steady at 3.1% year-over-year on the back of a 0.1% month-over-month increase in prices (consensus 2.9% y/y, -0.1% m/m). Mortgage interest costs and rent remained two of the largest contributors to overall CPI on both an annual and monthly basis, although the monthly increase in rent during November was weaker than the sharp rise seen in October. CPI excluding mortgage interest costs was 2.2% year-over-year in November, which was unchanged from the prior month. Travel service costs didn't fall as much as is typical for this particular month, resulting in a stronger year-over-year rate of inflation. Excluding food/energy, CPI rose by a seasonally adjusted 0.4% for a second consecutive month albeit largely driven by rent and mortgage costs.
- However, even though headline measures of CPI were stronger than expected in November, there was further evidence that drivers of inflation are becoming more narrowly based than they were earlier in the year. The Bank of Canada's preferred core measures of CPI-trim and CPI-median were 3.5% and 3.4% year-over-year respectively. While those readings were unchanged from the prior month and above the consensus expectation, they compare to peaks of close to 5.5% in 2022. Moreover, on a 3-month annualized basis the core measures were softer, and at 2.3% and 2.6% respectively they were the lowest since February 2021. While readings on a 3-month annualized basis are admittedly volatile, if such a trend were to persist for another few months it should give the Bank of Canada comfort that headline inflation is on a path back to target.

Implications & actions

Re: Economic forecast — With base effects from gasoline prices turning less favourable next month, headline inflation will likely accelerate briefly, before easing more sustainably over the spring and summer next year. However, with drivers of inflation becoming less broad-based, the Bank of Canada's preferred core measures should continue to decelerate, which combined with a sluggish trend in economic activity will likely bring a first interest rate cut in June next year.

Re: Markets — The stronger than expected CPI data saw bond yields rise and the Canadian dollar strengthen immediately following the release.

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