

Economics

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Canadian CPI (Sep): Any cause for the renewed concern?

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Consumer price index (% chg)	26:Q2	26:Q3	Jul	Aug	Sep
Year/year rate (unadjusted)	2.9	3.1	3.0	3.0	3.1
Monthly rate (unadjusted)	-	-	0.5	-0.1	0.1
Monthly rate (SA)	-	-	0.2	0.3	0.4
Three-month rate (SAAR)	-	-	2.4	1.9	3.6
CPI-trim (year/year rate)	2.0	1.9	1.9	1.9	1.8
CPI-median (year/year rate)	2.0	2.0	2.0	2.0	1.9

Source: Statistics Canada

- Canadian inflation accelerated further in September, albeit by slightly less than expected and driven solely by higher gasoline prices. While there is little indication yet that higher energy prices are translating into broader inflationary pressure, comments from Governor Macklem over the weekend point to growing concern around still-elevated oil prices, suggesting that rates could be nudged up earlier than the January hike we had previously anticipated. However, continued slack within the economy and lack of broadening inflationary pressures up until now still point to fewer and more gradual rate hikes than currently priced into financial markets.
- Headline CPI prices rose 0.1% (0.4% after seasonal adjustment) to take the annual rate up to 3.1%, with both of those figures a tick below consensus expectations. Higher gasoline prices drove the acceleration, and excluding that area inflation actually decelerated modestly to 2.2%, from 2.4% in August. Food prices edged down in September and the year-over-year pace eased to 2.2%, from 2.8% in the prior month.
- Excluding food and energy, prices rose by a seasonally adjusted 0.1% for an annual rate of 2.1%. Rent inflation remained surprisingly firm, increasing by 0.5% m/m to leave the annual rate steady at 2.8%. While airline fares continued to accelerate year-over-year, travel tour inflation eased somewhat.
- CPI-trim and CPI-median both printed a tick below consensus forecasts at 1.8% and 1.9% year-over-year, while the proportion of the basket rising more than 3% y/y edged down slightly. On average four measures of core inflation (ex food/energy, CPI-X, CPI-trim and CPI-median) rose by 0.15% seasonally adjusted and 2.0% year-over-year.

Implications & actions

Re: Economic forecast — Headline inflation is likely to accelerate again in October, albeit largely do to base effects in gasoline prices. While recent economic data suggest that the economy is slowing and that slack could open up again, the greater concern at the Bank of Canada appears to be around a pass through from global energy prices into broader inflationary pressure. As a result, and even with today's benign core inflation readings, it's possible that a first interest rate hike could come earlier than the January move we previously forecast.

Re: Markets — Bond yields had moved higher before today's release on the back of comments made over the weekend by Governor Macklem, and retracted only part of that move post-CPI.

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