Economics

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Canadian CPI (November): Not so swift

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

Consumer price index (% chg)	24:Q2	24:Q3	Sep	Oct	Nov
Year/year rate (unadjusted)	2.7	2.0	1.6	2.0	1.9
Monthly rate (unadjusted)	-	-	-0.4	0.4	0.0
Monthly rate (SA)	-	-	0.0	0.3	0.1
Three-month rate (SAAR)	-	-	1.2	1.5	1.7
CPI-trim (year/year rate)	2.9	2.6	2.5	2.7	2.7
CPI-median (year/year rate)	2.9	2.5	2.4	2.6	2.6

Source: Statistics Canada

- Inflation decelerated slightly in November, ahead of what will be a volatile period for CPI readings thanks to the temporary reduction in GST on certain items. Headline CPI was flat on the month and eased to 1.9% y/y, with both of those readings coming in a tick below consensus expectations. While there was a noticeable boost from the Taylor Swift concerts on hotel prices, the impact of those events on other items and aggregate CPI was weaker than seen in other countries. Deeper than normal discounting in areas such as furniture and clothing point towards continued weakness in domestic demand that suggests the need for further interest rate cuts in the New Year.
- Telephone service prices were the largest downward contributor to aggregate CPI on a month-to-month basis and one of the largest downward contributors year-over-year as well. Deeper than normal Black Friday discounting also impacted prices for clothing and furniture. Clothing & footwear prices fell by 3.8% y/y in November, and furniture prices were 2.2% lower. While some deflation was common in these areas pre-pandemic, the sharply lower prices for clothing in particular is uncommon and could be a sign of excess inventory levels and weak domestic demand.
- The impact of the Taylor Swift concerts on Canadian inflation was weaker than expected and what was seen in other countries. While there was a pop in hotel prices (from -8.5% y/y in October to +8.7% in November), there was no noticeable change in airline fares, restaurant prices or other areas. Given the fairly low weighting of hotel prices, the acceleration in this area contributed slightly less than a tick to headline y/y CPI.
- Core measures of inflation were mixed, with ex-food/energy and the Bank's old CPI-X measures posting muted 0.1% SA increases, but CPI-trim and median both increasing by 0.3% SA on a monthly basis and coming in above consensus expectations year-over-year. While it makes sense for these measures to be slightly stronger as they will exclude the large negative impacts from phone prices and other items, we continue to believe that CPI-trim and median are being inflated somewhat by mortgage interest costs and food prices and therefore overstating underlying price pressures.
- While monthly increases in mortgage interest costs continue to ease, at 0.6% in November they remain above the average price increase across the CPI basket and as a result a positive contributor to headline inflation. Rent price inflation also accelerated slightly, from a 0.6% increase in October to 0.7% in November, despite evidence that asking prices for new rentals may have plateaued. Inflation excluding shelter remains a very modest 0.8% year-over-year.

Implications & actions

- **Re: Economic forecast** — It will be difficult for policymakers to determine the underlying trend in inflation over the next few months, with December figures weakened by the mid-month start of a GST holiday on certain goods/services. The reinstating of GST in mid-February will then temporarily boost CPI readings. While the CPI-Trim and Median measures should be less impacted by such temporary factors, throughout this period the Bank's assessment of slack in the economy, including how it views upcoming employment data, should become even more important in determining policy decisions. We continue to forecast a 25bp cut from the Bank at the January meeting.
- **Re: Markets** — Due to the mixed nature of today's data, there was little reaction in either fixed income or FX markets.