Economics

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Canadian CPI (October): A modest deceleration

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Consumer price index (% chg)	25:Q2	25:Q3	Aug	Sep	Oct
Year/year rate (unadjusted)	1.8	2.0	1.9	2.4	2.2
Monthly rate (unadjusted)	-	-	-0.1	0.1	0.2
Monthly rate (SA)	-	-	0.2	0.4	0.1
Three-month rate (SAAR)	-	-	2.0	3.0	3.0
CPI-trim (year/year rate)	3.0	3.1	3.0	3.1	3.0
CPI-median (year/year rate)	3.0	3.0	3.0	3.1	2.9

Source: Statistics Canada

- Canadian inflation eased modestly in October, albeit only partly offsetting the pick-up seen in the previous month. With headline inflation remaining slightly above the 2% target, and with core measures continuing to average firmer than that, today's data support the view that the Bank of Canada will hold interest rates steady not just at the December meeting but into 2026 as well.
- The 0.2% increase in headline prices during October (0.1% after seasonal adjustment), saw the year-over-year pace ease to 2.2%, from 2.4% in September. However, that was a little firmer than expected (consensus 2.1%), and only partly offset the prior month's acceleration (year-over-year inflation was 1.9% in August).
- Gasoline prices saw a larger year-over-year decline in October than in the prior month, while food inflation decelerated modestly. The flat seasonally adjusted monthly reading for broad food prices was a marked deceleration from the prior trend (roughly +0.4%m/m since May) and could partly be a lagged response to retaliatory tariffs on US goods being lifted at the start of September.
- Partly offsetting these softer trends, prices for cellular services jumped and were up on a year-over-year basis for the first time since April 2023. Meanwhile rent inflation remains strangely strong, in contrast to softness seen in asking rents in some areas of the country. Within the CPI data, rent rose by a 14-month high 1% in October, with the annual pace accelerating to 5.2% (from 4.8%). Both of these factors contributed to firmer-than-expected 0.3% SA increases in ex food/energy prices and also CPI-X. However, CPI-Trim and CPI-Median both posted tamer increases (0.2% and 0.1% respectively), suggesting less underlying inflationary pressures outside of a few key areas.
- With the Bank of Canada no longer adhering to one or two "preferred" measures of core inflation, the average of the previously mentioned four core measures (CPI-trim, CPI-Median, CPI-X and CPI ex food/energy) was 0.2% m/m and 2.9%y/y in October, with those figures little changed relative to the prior month.

Implications & actions

Re: Economic forecast — While headline inflation decelerated in October, the move was only broadly in line with expectations and it would take a longer period of easing price pressures, combined with indications of economic growth deteriorating again, to bring the Bank of Canada back off the sidelines. We continue to forecast no change in the overnight rate through to the end of next year.

Re: Markets — Bond yields and the Canadian dollar were little changed following today's release.

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