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Canadian CPI (September): Room to accelerate

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Consumer price index (% chg)	24:Q2	24:Q3	Jul	Aug	**Sep**
Year/year rate (unadjusted)	2.7	2.0	2.5	2.0	1.6
Monthly rate (unadjusted)	-	-	0.4	-0.2	-0.4
Monthly rate (SA)	-	-	0.2	0.1	0.0
Three-month rate (SAAR)	-	-	2.5	1.8	1.2
CPI-trim (year/year rate)	2.8	2.5	2.7	2.4	2.4
CPI-median (year/year rate)	2.7	2.4	2.5	2.3	2.3

Source: Statistics Canada

- Inflation fell below the 2% target in September, providing the Bank of Canada room to accelerate the pace of interest rate cuts. Headline prices fell by 0.4% NSA (0.0% SA), while the annual rate of inflation eased to 1.6%, with both of those figures coming in below consensus expectations (-0.3% and 1.8% respectively). While gasoline prices were the main source of weakness during the month, other areas more closely linked to consumer demand also continued to show some weakness, and core measures of inflation were generally subdued. We now forecast a 50bp cut at the October meeting (25bp previously), although our trough of 2.25% for the overnight rate by mid-2025 remains unchanged.
- Gasoline prices were the main source of disinflation in September, falling by 7.1% on the month and 10.7% on a year-over-year basis. Indeed, excluding gasoline, the annual rate of CPI would have been flat on the month at 2.2%. With pump prices having risen modestly so far in October, headline inflation may accelerate slightly in the months ahead.
- However, that doesn't mean that there isn't evidence of disinflation elsewhere. Clothing prices continued to decline on a seasonally adjusted basis, and were down by more than 4% year-over-year. Indeed, goods prices excluding food/energy in general were down on a year-over-year basis for a fourth straight month, with some companies facing excess inventory levels due to weak consumer demand. Continued year-over-year declines in air transport and travel tours are also signposts that weakness in household spending could be impacting pricing power.
- Shelter prices remain by far the biggest source of inflationary pressure, although even here there were some signs of easing in September. Rents rose by only 0.2% (unadjusted) on the month, with the annual rate easing slightly to 8.2%, from 8.9%. Mortgage interest costs increased by 0.9%, but the annual rate eased to 16.7%, from 18.8%. Excluding mortgage interest costs, which are still picking up the effects of past interest rate hikes and which most countries exclude from their inflation targets, CPI would have been a mere 1.0% year-over-year in September.
- Core measures of inflation were relatively subdued, with CPI ex food/energy rising by 0.2% seasonally adjusted on the month, despite including that further sharp increase in mortgage interest costs, and CPI-trim and CPI-median advancing by 0.1% and 0.2%m/m respectively. The Bank of Canada's old CPI-X measure of core inflation also advanced by only 0.1% SA in September and, at 1.6% y/y was below 2% for a sixth consecutive month.

Implications & actions

Re: Economic forecast — Headline inflation may perk up a bit in the months ahead due to higher gasoline prices so far in October, and may even rise back above 2% briefly in early 2025. However, core measures of inflation should continue to decelerate given evidence of slack in the economy, and we think that there's plenty of room for the Bank of Canada to cut interest rates and accelerate growth to prevent an undershoot of the 2% inflation target next year. We now forecast a 50bp cut at the October meeting, and continue to predict an overnight rate of 2.25% by mid-2025.

Re: Markets — The Canadian dollar was already weakening against the greenback prior to today's data, and continued to do so post release. Bond yields were lower as markets priced in a greater likelihood of a 50bp cut by the Bank of Canada at the meeting later this month.

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