Economics

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Canadian inflation hot, but no hotter than before

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Consumer price index (% chg)	21:Q2	21:Q3	Sep	Oct	**Nov**
Year/year rate (unadjusted)	3.3	4.1	4.4	4.7	4.7
Monthly rate (unadjusted)	-	-	0.2	0.7	0.2
Monthly rate (SA)	-	-	0.6	0.6	0.3
Three-month rate (SAAR)	-	-	6.7	6.7	6.0
CPI-trim (year/year rate)	2.5	3.3	3.4	3.4	3.4
CPI-median (year/year rate)	2.3	2.7	2.9	2.8	2.8
CPI-common (year/year rate)	1.8	1.8	1.8	1.8	2.0

Source: Statistics Canada

- Canadian inflation remained hot in November, but the temperature on Statistics Canada's thermometer didn't rise any higher. With the impacts on prices from the flooding in British Columbia yet to be incorporated into the data and some earlier than expected discounts on services, the rate of inflation was less than we had feared and likely also more modest than what the Bank of Canada had penciled in. Despite the inflation rate remaining elevated, the latest numbers will come as a bit of a relief, particularly given the concerning acceleration seen south of the border.
- The consumer price index rose 0.2% month-over-month not-seasonally adjusted in November, leaving the annual rate of inflation running at 4.7% for a second month in a row. That was in line with consensus expectations. Supply chain issues continued to push prices higher. Grocery store bills rose again, with poor crop yields at least partially to blame. Furniture and cars also were major contributors to the rise in prices which showed up in November. Both categories have suffered shortages of inputs and finished goods imported from other parts of the world in addition to elevated shipping costs.
- The rising price of homes in Canada continued to filter into the CPI through the homeowners' replacement cost component. The increase in that category once again more than offset the further decline in mortgage interest costs. A number of factors are at play in the housing market, but supply is certainly as important driver of the price increases.
- Fuel prices dipped a touch in November, but other energy prices such as natural gas were on the rise. Excluding energy, inflation was running at 3.3% in November, with energy bills still up more than 26% over the past year. That being said, both fuel and natural gas prices have been averaging lower levels in December.
- Discounts on services, including cell phone plans, travel tours, and hotel stays added more of a drag than we had anticipated. The weakness in both travel tours and hotel accommodation showed up before the latest wave of Covid began, with some, but not all, of that potentially due to the reintroduction of cruise prices into the calculation. Cell phone providers also offered a number of promotions during the month. The declines in these prices pulled the annual rate of services inflation down to 2.9% from 3.2% in the prior month. That pace of inflation is well within the normal range for the past few decades. As a result, the anomaly in prices continues to be on the goods side of the ledger.
- The impacts on consumer prices from the flooding in British Columbia seems to have not been captured in November, as most prices were reportedly collected before the devastation. That leaves some scope for a greater increase in December.

Implications & actions

Re: Economic forecast — The inflation numbers were more muted than we and the Bank of Canada had feared. As a result, there are even fewer reasons to rush a rate hike in January, when the economy could be dealing with another harsh wave of Covid.

Re: Markets — Despite the inflation data matching consensus expectations, bond yields have fallen across the curve and the Canadian dollar has depreciated following the release. It seems like markets were positioned for a hotter print.

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