CIBC CAPITAL MARKETS

Economics
ECONOMIC FLASH!

economics.cibccm.com

November 19, 2024

Canadian CPI (October): One step back after several steps forward

by **Katherine Judge** katherine.judge@cibc.com

Consumer price index (% chg)	24:Q2	24:Q3	Aug	Sep	**Oct**
Year/year rate (unadjusted)	2.7	2.0	2.0	1.6	2.0
Monthly rate (unadjusted)	-	-	-0.2	-0.4	0.4
Monthly rate (SA)	-	-	0.1	0.0	0.3
Three-month rate (SAAR)	-	-	1.8	1.2	1.5
CPI-trim (year/year rate)	2.9	2.5	2.5	2.4	2.6
CPI-median (year/year rate)	2.7	2.4	2.3	2.3	2.5

Source: Statistics Canada

- Price pressures accelerated by more than expected in October, representing a step back for the Bank of Canada, but that follows a string of reports that were steps forward. The 0.4% m/m non-seasonally adjusted increase left annual inflation at the 2.0% target, with both of those figures being a tick above the consensus expectation. Higher property taxes were the main contributor to the monthly NSA change, which are updated in the index once a year with the release of the October data. Although the Bank of Canada's key core metrics, CPI trim and median, both accelerated by two ticks to 2.6% and 2.5% y/y respectively (vs. 2.4% expected for both), some other key exclusionary measures still show very tame prices, with CPIX at 1.7% and CPI ex. shelter at 0.9% y/y. Given that this report follows a string of better news on inflation, and the fact that the GDP and employment data remain to be seen ahead of the December BoC decision, we still see a 50bp cut as possible at the next BoC meeting.
- Property tax hikes added just over a tick to the headline monthly NSA increase, with the 6.0% y/y pace stronger than normal, and an acceleration from the 4.9% y/y increase in October 2023. Individual provinces saw increases in the range of 3% (Nova Scotia) to 10% (Newfoundland and Labrador) as municipalities attempt to fill funding gaps given rising costs and population growth.
- Food prices were also surprisingly strong, rising by 0.3% m/m SA in aggregate, adding to the increase in prices at the pump (+0.6% m/m SA). Although gasoline prices are on track to average a little below October's price level in November, base effects mean that will still put upwards pressure on year-over-year prices in the next report.
- Excluding the volatile food and energy components, prices rose by 0.2% m/m in seasonally adjusted terms, matching the average year-to-date pace seen in that group. Looking within more narrow exclusionary categories that strip out shelter and eight volatile components in addition to indirect taxes shows that on a six-month annualized basis, price pressures are at 0.9% and 2.2%, respectively.
- Mortgage interest costs slowed to a 14.7% y/y pace, while rent inflation decelerated sharply to 7.3% y/y. Both are set to continue to cool, reflecting lower interest rates and a slowing rental market in response to population controls. The slowdown expected in shelter measures implies that total inflation will average well below 2% by mid-2025.
- Core goods prices have been in deflationary territory for several months, reflecting weak per-capita consumer demand and bloated domestic inventory levels. Prices increased by 0.2% m/m in October in that group to leave the annual pace at 0.0%. Other discretionary categories were mixed, with travel tours and women's clothing both in the top five contributors to monthly NSA prices, but airfares continuing to decline on the month, possibly reflecting weak demand, while recreation prices are sitting 1.5% below year ago levels.

Implications & actions

Re: Economic forecast — Although this report will be a disappointment for the Bank of Canada, it follows a string of reports that showed more progress than expected. While that makes the December meeting a closer call in terms of a 25bp or 50bp cut, the slack in the Canadian economy that we expect to be confirmed in upcoming labour market and GDP reports has us retaining our call for a 50bp cut in December for now.

Re: Markets — Canadian bond yields are a little higher following the data, as this makes a 50bp cut less likely in December, while CAD was little changed.