Economics

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Canadian CPI (Sep): A sigh of relief

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Consumer price index (% chg)	23:Q2	23:Q3	Jul	Aug	**Sep**
Year/year rate (unadjusted)	3.5	3.7	3.3	4.0	3.8
Monthly rate (unadjusted)	-	-	0.6	0.4	-0.1
Monthly rate (SA)	-	-	0.6	0.6	0.2
Three-month rate (SAAR)	-	-	3.4	6.0	5.7
CPI-trim (year/year rate)	3.9	3.7	3.6	3.9	3.7
CPI-median (year/year rate)	4.1	3.9	3.9	4.1	3.8

Source: Statistics Canada

- Canadian consumers can breath a sigh of relief, firstly because inflation appears to be easing again and secondly because that deceleration diminishes the chances of further interest rate hikes from the Bank of Canada. The 3.8% reading for headline year-over-year inflation in September represented a two-tick deceleration relative to the prior month and came against consensus expectations for an unchanged reading of 4.0%. While inflation is admittedly still well above target, there were signs within today's release that the weakening of domestic demand is now starting to impact pricing in some areas and should continue to do so moving forward, without the need for further interest rate hikes.
- While gasoline prices were slightly down relative to the prior month, the decline wasn't as large as that seen during the same month of 2022. Because of that, the annual rate of inflation for gasoline accelerated relative to August. However, on the other hand the monthly increase in food prices was weaker than that seen a year ago, seeing the annual inflation rate ease in that area. Mortgage interest costs (MIC) were once again the primary contributor to the monthly and annual changes in prices during September, and excluding those costs the headline inflation rate would have been only 2.9%. CPI inflation excluding food, energy and MIC now sits at 2.1% year-over-year and 1.9% on a three-month annualized basis.
- Following strong readings in each of the past two months, the Bank of Canada's preferred core measures of inflation also eased in September, although remained higher than some of our preferred measures of core inflation. CPI trim and median eased to 3.7% and 3.8% year-over-year respectively, down from 3.9% and 4.1% in the prior month, with the three-month annualized rates also decelerating.
- The detail of today's report showed that an easing in domestic demand, combined with improvements in supply, appear to be helping to ease price pressures in some areas where they were most acute a year ago. Air fares were 21% lower in September on a year-over-year basis, helped by an increase in the number of flights. The annual rate of inflation for autos eased to only 1.5%, although prices are still roughly 10% higher than two years ago in a sign that supply constraints have not fully eased in that area. A 4.6% year-over-year decline in furniture prices is probably the clearest indication of how the combination of improved supply chains and easing domestic demand is impacting inflation.
- With many previously hot areas of inflation now starting to ease, shelter costs are the main source of inflationary pressure. That particularly reflects the previously mentioned mortgage interest costs, but also rental prices where the year-over-year inflation rate accelerated further in September to 7.3%, from 6.5% in August.

Implications & actions

Re: Economic forecast — With gasoline prices falling so far in October, in contrast to a sharp acceleration seen during the same month a year ago, headline inflation should ease further next month and print close to the upper bound of the Bank of Canada's 1-3% target range. Even though the Bank's core measures of inflation remain too high for their liking, some of the details within today's report, combined with the stall in economic activity seen during Q2 and Q3, should give policymakers comfort that inflation will continue to ease back to 2% without the need for further interest rate hikes.

Re: Markets — Bond yields and the Canadian dollar fell following today's release as investors reassessed their expectations for further interest rate hikes from the Bank of Canada.

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