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Canadian CPI (Oct): Only a hint of good news buried in the inflationary ruins

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Consumer price index (% chg)	22:Q2	22:Q3	Aug	Sep	**Oct**
Year/year rate (unadjusted)	7.5	7.2	7.0	6.9	6.9
Monthly rate (unadjusted)	-	-	-0.3	0.1	0.7
Monthly rate (SA)	-	-	0.1	0.4	0.6
Three-month rate (SAAR)	-	-	2.9	2.4	4.3
CPI-trim (year/year rate)	5.3	5.3	5.2	5.2	5.3
CPI-median (year/year rate)	4.6	4.8	4.7	4.7	4.8
CPI-common (year/year rate)	6.0	6.4	6.3	6.2	6.2

Source: Statistics Canada

- Admittedly, those of us who are hopeful about price momentum being vanquished in 2023 had to search hard in the inflationary ruins of the October data to find anything positive to say, but tamer prices outside food and energy should count for something. That measure, commonly used as a core inflation indicator in most countries, rose 0.2% from September on a seasonally adjusted basis, a now rare sighting of something close to an acceptable pace. Overall, however, inflation remains very heated, with the CPI holding to a 6.9% 12-month pace, and prices up another 0.7% in October (or 0.6% seasonally adjusted).
- US dollar crude oil prices are on a relatively flat trend, but October saw an upward bounce, and combined with a weaker loonie, refinery shutdowns and the reimposition of a carbon tax in Alberta, that saw but Canadians paying 9.2% more at the gas pumps over September levels. Energy prices are for now still a hot spot in the CPI, up 16.2% in the past year, but as we move into 2023, as long as world crude prices stay rangebound, that source of inflation will melt away quite dramatically.
- Food is the other cost that's up in double-digits from a year earlier, and although its 10.1% 12-month pace in October was marginally softer, that included a still troublesome 0.4% seasonally adjusted increase in the latest month. Like oil, some of the global food commodities have either levelled off or are down from their peaks, but that doesn't as cleanly translate into prices for much more processed food items on the grocery shelf.
- Excluding food and energy, October's 0.2% seasonally adjusted rise left that basket up 5.3% from a year ago. The two core measures tracked by the Bank of Canada (which is now essentially ignoring CPI-common) average just a hair over 5%, little changed from the prior month. So even with some better news on some non-food/energy components, we still have a long way to go to getting trend inflation to 2%. Given the lags in how interest rate hikes impact demand growth, and then CPI, we really shouldn't be expecting to see much progress just yet, even if interest rates are closing in on the right level to make that happen.
- Homeowners' replacement costs, as expected, continue to trend to softer 12-month gains, reaching 6.9% in October after peaking at over 11% in the spring. But elsewhere, housing-related inflation looks quite sticky at this point. Housing cost measures tied to mortgage interest payments are escalating at a more than 11% pace as borrowers renew their obligations at higher rates. Higher mortgage rates, and the barrier they represent to home ownership, may

be keeping people in the rental market, and along with the demand from robust immigration, that has rents accelerating again this month to a 4.7% pace.

Implications & actions

Re: Economic forecast — Today's data were in line with consensus, and although the headline CPI was a few ticks lower than we expected, prices excluding food/energy were only one tick softer than we had built into our projection. We still expect much lower inflation by the latter half of 2023, but today's data were generally a reminder that we need to first see downward pressure from on demand from softer job and income gains to make that happen. We look for the Bank of Canada to add another half point to overnight rates in December, and they will have to rely on indicators of slowing growth, rather than immediate progress on inflation, to justify a pause in Q1.

Re: Markets — The inflation data were in line with expectations, and therefore not a market mover for either rates or FX, with the surprise today being that stronger US retail sales data couldn't sustain an upward move in North American bond yields.