Economic Commentary

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Food price lift CPI inflation in September to 4.4 per cent

Canadian inflation moved higher again in September 12-month growth in the consumer price index rose to 4.4 per cent from 4.1 per cent in August. This was the strongest print since February 2003 and slightly stronger than market expectations. On a seasonally- adjusted basis, prices jumped 0.4 per cent m/m and since December, prices are up 3.4 per cent.

The latest pick up in prices largely owed to increases in food prices, which rose 3.9 per cent y/y from 2.7 per cent on increased prices at grocery stores (up 4.2 per cent) while restaurant prices were steady at 3.1 per cent year-over-year. Carnivores soured at a 9.5 per cent increase in meat prices while declines in vegetable prices eased. This is further adding to pressure on household budgets.

In other segments, y/y price growth remained high but impact on growth in headline CPI was negligible. Energy prices remained well above year ago levels with gas prices up 32 per cent, but not much different than growth observed seen in August. Natural gas prices rose 17 per cent year-over-year.

Meanwhile, shelter costs were steady at 4.8 per cent year-over-year, led by homeowner replacement cost growth of 14.8 per cent (which was consistent with August) which trended at the highest pace since the late 1980’s Low mortgage rates was a partial offset for homeownership costs. Rent growth remained moderate at 1.9 per cent but accelerated as markets tightened.

Vehicle purchase prices (up 7.2 per cent) is reflecting supply chain disruptions and understates growth given used cars are not included, while rental fees were up 60 per cent as re-opening and tourism likely lifted demand (doubling the growth rate in August). Airfares (up 22.7 per cent) slowed from August as prices declined.

Bank of Canada core inflation measures were wildly mixed. The Bank preferred CPI-common was a modest 1.8 per cent and in line with where the Bank would like to see inflation, while median (2.8 per cent) and CPI – trim (3.4 per cent) was moderately and exceptionally high.

The latest CPI inflation numbers remain uncomfortably high, and while there remain a number of transitory factors in play that will roll off, relatively elevated and more persistent inflation looks more likely. Rising energy prices will place upward pressure in coming months, while strengthening home prices and expected rent increases are likely to add to pressure. The Bank of Canada will face increasing pressure to hike rates before H2 2022, but we expect a push back from the Bank as economic activity has yet to fully recover.

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