



CPI inflation picks up on gasoline prices to 4.7 per cent, highest since February 2003

There were few surprises in today's Canadian inflation report. Headline CPI growth accelerated as expected in October to reach 4.7 per cent year-over-year and the highest level since February 2003. This was in line with market consensus and our call (Reuters). Price levels jumped 0.7 per cent from September (0.5 per cent, seasonally- adjusted). Consumer prices continued to be lifted by higher commodity prices, supply chain disruptions, and lingering base year effects.

The latest gain was led by lofty growth in gasoline price of five per cent from September and 41.7 per cent year-over-year, reflecting a surge in underlying oil prices. The latter looks to have crested in late October which could provide a bit of reprieve going forward.

Food prices rose 0.4 per cent from September and 3.8 per cent year-over-year but consumers had to digest some supply shocks in the agriculture sector. Meat prices surged 10 per cent albeit were 1.2 per cent higher than a year ago. Produce prices were well behaved. Further disruptions, including current B.C. floods could add to future momentum. Meanwhile, shortages in key inputs such as semi-conductors have continued to lift prices. Vehicle prices rose 6.1 per cent year-over-year but growth decelerated from September. Broadly durable goods prices rose 5.3 per cent from a year ago.

On the housing front, growth in shelter costs were relatively stable from September at 4.8 per cent year-over-year, although ownership costs picked up with a 5.1 per cent year-over-year increase and 0.5 per cent increase from September.

Core inflation was unchanged among all key measures but varied widely. The core- common measure came in at 1.8 per cent, while CPI- trim was higher at 3.3 per cent. The average of the measures was unchanged at 2.67 per cent. The classic core (excluding food and energy) came in at 3.2 per cent, unchanged from September.

October's higher inflation reading keeps the Bank of Canada in a somewhat uncomfortable position but still looks driven by supply chain and commodity shocks outside its control. While some may view this as reason to hike more quickly, recent statements by Deputy Governor Schembri suggests a hike is not imminent as the focus remains on closing the output gap and a more inclusive labour market recovery.

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