



CPI Inflation: A slow retreat in September

Headline CPI inflation nudged lower for third straight month in September, but this will come as cold comfort to the Bank of Canada as price levels rose from August and core measures of inflation were unchanged. The risk for a larger than expected interest rate hike later this month has increased.

Growth in the consumer price index (CPI) slipped to 6.9 per cent year-over-year from 7.0 per cent in August. However, price levels rose 0.1 per cent from August, with seasonally- adjusted prices accelerating to 0.4 per cent m/m. The latter was the strongest monthly gain since June. Deceleration in year-over-year growth was driven largely by gasoline prices which slowed from a 22 per cent pace in August to 13.2 per cent in September. Gas prices fell 7.5 per cent from August. Natural gas rose 37 per cent year-over-year amidst as underlying prices have surged.

That said, excluding the energy sector, inflation rose from a 6.1 per cent pace to 6.3 per cent. Food prices accelerated to a 10.3 per cent year-over-year pace from 9.8 per cent in August and driven by store-bought foods. Consumers are facing severe stress as bakery goods and cereals are up 16 per cent, while fruit (up 11 per cent) and vegetables (up 12.5 per cent) also surged. Meanwhile, shelter costs rose to 6.8 per cent from 6.6 per cent as the bite of higher interest rate flowed through mortgage rates up (8.3 per cent) and homeowners' maintenance and repair costs jumped to a 10.3 per cent rate, offsetting some drag through housing prices and homeowner depreciation costs. Rents are also showing some signs of slowing to 4.4 per cent.

Among other products, vehicle prices edged up from August and lifted year-over-year growth to 8.4 per cent, health care services came in at 5.5 per cent from 4.4 per cent in August. Travel services prices decelerated to 25 per cent year-over-year from 35.5 per cent as some of the bottlenecks have eased. Of the few bright spots, clothing prices fell from a year ago by 0.2 per cent. In aggregate, growth in goods prices declined to 8.2 per cent year-over-year from 8.5 per cent in August led by non-durable goods, and services prices were unchanged at 5.6 per cent.

While headline inflation decelerated, there was no progress among the Bank of Canada's core measures of inflation which were all unchanged from August and averaged 5.3 per cent which is far above target. With stubbornly high and broad-based inflation (albeit much lower than the U.S.) and risks of import inflation from a weakened Loonie, the Bank will likely dig in its heels in its fight to lower inflation. Risks have increased for a 75- basis point hike later this month which would push the target overnight rate to 4 per cent.

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