



## Consumers feel relief in September as inflation recedes

There was relief with the latest consumer price index (CPI) data in advance of next week's Bank of Canada rate decision. CPI inflation surprised on the downside with a deceleration to 3.8 per cent, year-over-year, from 4.0 per cent in August. This was well below consensus for the headline to remain unchanged. Meanwhile, prices fell outright by 0.1 per cent on a month-to-month basis after increasing 0.6 per cent in August but increased on a seasonally-adjusted basis by 0.2 per cent. Today's reading, alongside slowing economic activity and outlook, and easing (but still high) inflation expectations should be persuasive enough to keep the Bank of Canada on the sideline for at least this next meeting.

September data showed a broad slowdown in inflation pressure. Despite upward pressure from gasoline prices which accelerated from a 0.8 per cent rate in August to 7.5 per cent in September, headline inflation still decelerated. Moreover, the growth in gasoline prices was due to the base year effect of a decline in prices last September. Prices fell 1.3 per cent last month and the price at the pump has declined further this month. Food prices peaked in recent months and are showing some signs of receding, particularly in the grocery aisle where bakery products prices have retreated. While still up 5.9 per cent year-over-year, this compared to 6.8 per cent in August. This downward momentum should continue given the reaction of grocers having their hands slapped by the federal government, which should provide further relief on some products.

Excluding food and energy, year-over-year inflation sits at 3.2 per cent. Noteworthy was shelter costs which were unchanged at 6.0 per cent year-over-year. Housing shortages and elevated levels of immigration are still boosting rents, which accelerated to 7.3 per cent year-over-year and looks to persist. Ownership costs were up 6.3 per cent year-over-year but remain underpinned by the Bank induced pain of mortgage interest costs which rose 30.6 per cent, even as homeownership replacement costs fell. Excluding mortgage interest costs, inflation is at 2.9 per cent.

Among other spending components, consumers are seeing easing durable goods prices on monthly basis, and slight change from a year ago. Furniture prices fell 4.6 per cent from a year ago, and appliances were 2.3 per cent lower. Vehicle prices have slowed to 1.5 per cent. Meanwhile, consumers are seeing much lower flight costs (-21 per cent year-over-year).

Despite good news in September, the fight against inflation continues given high headline inflation. Services are still up 3.9 per cent which tend to be stickier given impacts of shelter costs, and Bank of Canada core measures slowed but remain elevated. This includes the core-common (4.4 per cent), and median (3.7 per cent). The 3-month change in core-median, and core-trim came in at 3.5 and 3.8 per cent, pointing to slowing momentum.

Nevertheless, progress is progress, and the latest figures should be sufficient to keep the Bank on the sidelines, particularly as the cumulative impact of past rate hikes continues to slow economic activity. The Bank's language is expected to remain hawkish signaling that the current policy rates will persist well into 2024.

## Canada Consumer Price Index

Period	2023M07	2023M08	2023M09
<i>All-Items</i>			
Actual y/y %ch.	3.3	4.0	3.8
Actual, m/m %	0.6	0.4	-0.1
Seas. adj., m/m %	0.6	0.6	0.2
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	3.4	3.6	3.2
Goods	2.3	3.7	3.6
Services	4.3	4.3	3.9
Food	7.8	6.8	5.9
Shelter	5.1	6.0	6.0
Gasoline	-12.9	0.8	7.5
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	4.8	4.8	4.4
Trim	3.6	3.9	3.7
Median	3.9	4.1	3.8
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	3.4	6.0	5.7
Exc. food and energy	2.8	3.3	3.3

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