



Inflation retreats to 3.1 per cent, Bank of Canada likely to stay on sideline in December

Canadian consumer price inflation retreated in October to 3.1 per cent, year-over-year, from 3.8 per cent in September and came in slightly below market consensus and a signal that current monetary policy remains sufficient to keep the Bank of Canada from another rate hike in December. October's decline was driven by a drop in gasoline prices while food prices decelerated, and on a seasonally- adjusted basis the consumer price index fell 0.1 per cent month-to-month.

The headline drop in CPI inflation was led by gasoline prices which fell 7.8 per cent year-over-year, compared to a 7.5 per cent increase in September, owing in part to base-year impacts of a spike last year. However, the price at the pump fell 6.4 per cent from September which was a deeper than normal decline for an October period. Food prices slipped from September and have crested, pushing year-over-year food price growth from 5.9 to 5.6 per cent which was the slowest 12-month increase since December 2021. Store-bought foods were up 5.4 per cent year-over-year, with restaurant prices up 5.7 per cent suggesting other factors like wage growth are adding to the latter.

Excluding food and energy, aggregate prices rose to 3.4 per cent year-over-year, up from 3.2 per cent. A large component of this remains the self-inflicted wounds of higher mortgage rates due to general rate hikes feeding through CPI. Mortgage interest costs remained 30.5 per cent higher than a year ago which has more than offset declines in homeowner replacement costs, while rent continued to accelerate with an 8.2 per cent increase year-over-year, compared to 7.3 per cent in September. Shelter rose 6.1 per cent, with seasonally- adjusted monthly increase of 10.8 per cent (annualized). Monthly change in rent rose at an annualized 18 per cent (not seasonally- adjusted), and mortgage costs were up 34 per cent! The increase in rental costs reflects insufficient housing supply and inventory.

Broadly however, inflation progress continued. Goods prices are up only 1.3 per cent from a year ago, with durable and semi-durable goods only slightly above last year's levels on healed supply chains and weakening demand for interest sensitive items. Furniture (-4.2 per cent) and appliances (-2.7 per cent) are down from a year ago. Services are still up 4.6 per cent, but shelter driven, and airfare is down sharply, although there is a pinch from streaming services.

Bank of Canada core measures of inflation all decelerated during the month including drops of 0.2 per cent in the core-common measure to 4.2 per cent, and trim- measure to 3.5 per cent. The median measure fell 0.3 per cent to 3.6 per cent. Annualized core trends fell into were within the Banks range of 1-3 per cent. Moreover, excluding mortgage interest costs, CPI inflation came in at only 2.2 per cent year-over-year which is well within the Bank of Canada inflation target.

October's rapid downshift in inflation adds to a drumbeat of weaker economic data that should keep the Bank of Canada on the sideline at its December 6 meeting. Economic data has stagnated. Gross domestic product is trending flat, with per capita GDP in outright decline, and a cooling labour market, albeit with more robust wage growth. Conditions are expected to worsen going forward as past Bank of Canada hikes continue to impact activity and mortgage renewals through 2024 further lead consumers and businesses to retrench. We expect the Bank of Canada to cut rates late in the second quarter of 2024 provided inflation continues to ease and wage growth abates.

A risk to easing inflation and rate cuts remains the impact of shelter costs on inflation. Rate cuts will automatically reduce some of this pressure, but rents will remain under upward pressure due to insufficient supply that requires more than monetary policy to fix. Federal and provincial government policies to drive higher affordable supply will take years to impact the market. As a result, the Bank may be forced to look through shelter impacts in its monetary policy decisions.

Canada Consumer Price Index

Period	2023M08	2023M09	2023M10
<i>All-Items</i>			
Actual y/y %ch.	4.0	3.8	3.1
Actual, m/m %	0.4	-0.1	0.1
Seas. adj., m/m %	0.6	0.1	-0.1
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	3.6	3.2	3.4
Goods	3.7	3.6	1.6
Services	4.3	3.9	4.6
Food	6.8	5.9	5.6
Shelter	6.0	6.0	6.1
Gasoline	0.8	7.5	-7.8
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	4.8	4.4	4.2
Trim	4.0	3.7	3.5
Median	4.2	3.9	3.6
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	6.0	5.5	2.8
Exc. food and energy	3.3	3.6	3.3

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