ECONOMIC NEWS

Canada: Headline Inflation Eases but Data Disappoints Under the Hood

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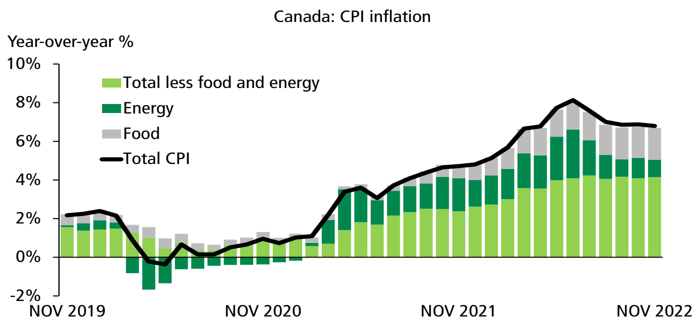
HIGHLIGHTS

- Consumer prices climbed 0.4% (seasonally adjusted) in November, beating expectations. However, this still contributed to a lower annual inflation rate of 6.8% - the lowest rate of inflation since April.
- Canadians caught a break at the pumps in November, as gasoline prices eased 3.6% over October, while a year-over-year advance of 13.7% helped to hold back headline gains.
- Food prices continued to climb last month, once again hovering about 10% above year-earlier levels.
- Excluding food and energy, prices rose by 0.3% on a seasonally-adjusted basis. On an annual basis, that corresponded to a 5.4% rate of core CPI growth, a touch faster than the rise reported in October.
- The Bank of Canada's trim and median measures sped up somewhat on a 12-month basis to 5.3% and 5%, respectively. In three-month annualized terms, both measures also accelerated, to 3.9% for trim and to 3.6% for median.

COMMENTS

This was a somewhat disappointing release as early indicators had suggested a more significant slowdown in inflation. Much of this month's moves related to easing commodity and gasoline prices, variables largely outside the central bank's control. Meanwhile, underlying price pressures accelerated (though modestly) and Canadians continued to feel the pinch of rising food prices. Increased borrowing costs plus the rising cost of rents amid stretched housing affordability continue to drive shelter costs higher. Although three-month core inflation indicators can be volatile, the central bank was clear that it wants them to fall from where they were in October.

GRAPH
Inflation Eased but Remained too High for Comfort



Sources: Statistics Canada and Desjardins Economic Studies

IMPLICATIONS

Today's release is one of the few major prints between now and Bank of Canada's next meeting, and as such carries extra importance for near-term monetary policy. We continue to anticipate that the central bank will pause its hiking cycle in January, in large part because the Canadian economy has yet to feel the full dampening effects of this year's rate hikes. However, this data print keeps the door open to one more rate increase. Looking ahead, next month's labour market print for December will be critical in assessing the strength of the underlying economy and wage pressures, as well as the future course of interest rates.

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