

## ECONOMIC NEWS

# Canada: Inflation still not cooperating with the Bank of Canada

By Royce Mendes, Managing Director and Head of Macro Strategy, Tiago Figueiredo, Associate – Macro Strategy

### HIGHLIGHTS

- ▶ Consumer prices rose 0.1% in September, pushing the annual rate of inflation down to 6.9% from 7.0% in August.
- ▶ The notable monthly decrease in gasoline (-7.4%) helped offset some of the increases in food and shelter.
- ▶ Excluding food and energy, prices were 5.4% higher than they were a year earlier. The three-month annualized rate of seasonally-adjusted ex-food and energy inflation remained roughly unchanged at 4.9%.
- ▶ The Bank of Canada's trim and median measures both remained roughly unchanged from the previous year, sitting at 5.2% and 4.7%, respectively. However, on a 3-month annualized basis, both measures have continued to fall and now sit at 3.7% for trim and 3.5% for median, which provides at least a glimmer of hope that the underlying trend in price growth is decelerating.

### IMPLICATIONS

The persistence of inflation means that the Bank of Canada's job isn't done yet. The Bank of Canada's most recent consumer survey showed accelerating short-term inflation expectations, which is keeping policymakers concerned, even though long-term inflation expectations remain relatively anchored. As a result, expect a rate hike of at least 75bp next week.

### COMMENTS

The respite from rising prices was brief in Canada. After declining in August, the headline consumer price index increased 0.1% in September, leaving the annual rate of inflation at 6.9%. This was a slower deceleration than most economists were expecting and came because of a reacceleration in shelter costs, coupled with another outsized increase in food prices. The percentage of items within the CPI basket with a year-over-year reading greater than 5% rose again this month to just under 65%, underscoring the breadth of inflation in the Canadian economy.

With that said, there are some encouraging signs that core inflation may be easing. Although the measure excluding food and energy rose 5.4% from the previous year, the Bank of Canada's two preferred measures, trim and median, have started to decelerate in 3-month annualized terms.