HIGHLIGHTS

- The total consumer price index (CPI) was up 0.3% in October, slightly above expectations.
- The main components that contributed to this increase are air transportation (+4.6%), which is making a comeback after the major price cuts in August and September, automobile purchases (+2.6%), telephony services (+3.1%), men’s clothing (+2.5%) and property taxes (+1.4%), which had their annual adjustment in October.
- In contrast, the components that stood in the way of CPI advances were traveller accommodation (-10.4%), gas (-3.2%), fresh fruit (-3.9%), meat (-1.1%) and other food preparations (-1.1%).
- The total annual inflation rate rose from 2.2% to 2.4%.
- The annual change for two of the three benchmark indexes was up for the month. Their average is now 2.0% compared to 1.9% in September.
- Statistics Canada also released the retail sales results for September this morning. With a 0.5% increase in real terms, growth was somewhat faster than expected, which will help make up some of the ground lost in the three previous months.

COMMENTS

After two months of sharp declines driven mostly by the drop in air fares, the annual inflation rate started to climb again in October. This increase should be fleeting, however, as a fresh decline is expected as early as November. According to the weekly surveys at the pump, gas prices are currently showing a 9.6% drop in November, which could end up contributing -0.3% to the CPI’s monthly change. If we also take into account the seasonal price drop that usually occurs in November, the balance for the month looks quite negative, which could drive down the annual change in the CPI to below 2%.

We have to focus on the benchmark indexes for more clarity to see beyond all this volatility. Yet, the average of these benchmarks has hovered between 1.9% and 2.0% for the past nine months, reflecting some stability within the inflation pressures.

IMPLICATIONS

Despite the jolts in the total CPI, the steadiness of the benchmark indexes should reassure the Bank of Canada, which will remain focused on tightening monetary conditions in Canada. As a result, our forecast still calls for the next increase in the overnight rate to be in January 2019.