

# CPI: Whole Lotta Null

Canadian consumer prices were flat in September for the second month in a row, carving headline inflation to -0.9% y/y, matching the cycle-low and broadly in line with expectations. Gasoline prices fell 1.5% m/m and 23% y/y. This is likely the low-water mark for inflation, as the steep slide in pump prices late last year will soon fall out of the calculation, and headline inflation is poised to move back into positive terrain possibly by next month. Meantime, food prices are now in full retreat, dropping for the second month in a row and up a tame 2.8% y/y (versus a 7.9% peak in March).

Core prices were a bit stronger than expected, rising 0.3% m/m (0.1% in s.a. terms), but that was still tame enough to trim the annual rate to 1.5% from 1.6% the prior month, and the lowest since mid-2008. Notable movers included a 1.6% pop in telephone services, and a 1.1% jump in health & personal care—the biggest monthly rise in 18 years in this category (toothpaste prices soared, apparently). Tuition fees rose 4.4% this year, up from a 4% increase in 2008. Even with these outliers, core inflation still came in bang on the BOC's call for all of Q3 at 1.6%; they looked for it to moderate further to 1.4% in Q4, and if anything the risks appear squarely to the downside of that call with the C\$ on a tear.

	(month/month % change)			(3-mo. % chg : a.r.)	(12-mo. % chng)	
	Sep	Aug	Jul		Sep	Aug
<b>All Items *</b>	0.1	0.3	-0.3	0.0	-0.9	-0.8
<b>All Items (n.s.a.)</b>	0.0	0.0	-0.3			
<b>Ex. Food &amp; Energy *</b>	0.0	0.0	0.0	0.0	0.9	0.9
<b>Core</b>	0.3	0.1	0.0	1.4	1.5	1.6
<b>Food *</b>	-0.2	-0.2	0.2	-0.7	2.8	4.0
<b>Energy</b>	-1.0	2.3	-3.2	-7.5	-18.7	-19.1
<b>Services</b>	0.2	0.0	0.1	1.3	1.8	1.7
<b>Shelter *</b>	-0.2	0.2	-0.3	-1.3	-1.8	-2.2
<b>Alcohol &amp; Tobacco *</b>	-0.1	-0.1	-0.1	-0.9	2.6	3.1
<b>Clothing &amp; Footwear *</b>	0.2	-0.2	-0.4	-1.7	-1.2	-1.7
<b>Gasoline</b>	-1.5	2.6	-4.1	-11.4	-23.0	-21.2
<b>Mort. Interest Payments</b>	-0.7	-0.6	-0.7	-7.5	-2.2	-1.1

\* seasonally adjusted

**The Bottom Line:** There are no major surprises here, with headline inflation deep in the red for one more month and core inflation grinding steadily lower. Notably, Canadian inflation trends are now very closely aligned with those in the U.S., with core inflation identical (at 1.5%) and headline inflation within shouting distance (-0.9% in Canada, -1.3% in the US). The strong loonie is likely to a) push core inflation below the U.S., b) keep headline inflation from rebounding very quickly even as gas prices climb, and c) keep the BoC sidelined.

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