

CPI: Back In Black

Canadian consumer prices were down 0.1% (n.s.a) in October, but still lifted the headline inflation rate into positive territory, +0.1% y/y—slightly lower than expectations and the first annual increase in five months. Energy prices were broadly lower and food prices fell for the third consecutive month (now up only 2.3% y/y from a peak of 7.9% in March). Grocery store price wars look to be heating up as we head into the holiday season, which should keep a lid on food inflation. Even so, headline inflation is likely to continue to rise over the next three months as year-ago price declines fall out of the calculation.

On the core inflation front, underlying prices unexpectedly rose 0.1%, boosting the yearly rate to 1.8%, up from the prior month's 1.5% increase and a three-month high. That ends a four-month streak of decelerating core inflation. Seasonal downward pressure on prices wasn't as forceful as usual, with core prices rising 0.2% in seasonally adjusted terms. Notable movers were clothing prices (+0.4% s.a.), as children's clothing and footwear jumped, and shelter (+0.2%, s.a.), as home prices are rising once again. October's 1.8% y/y increase in core inflation is well above the BoC's call of 1.4% for Q4, but next month has a very favourable year ago comparison (prices were up 0.7% n.s.a. in November 2008), which should push core inflation down sharply, more in-line with the BoC's view.

	(month/month % change)			(3-mo. % chg : a.r.)	(12-mo. % chng)	
	Oct	Sep	Aug		Oct	Sep
All Items *	0.4	0.1	0.3	3.2	0.1	-0.9
All Items (n.s.a.)	-0.1	0.0	0.0			
Ex. Food & Energy *	0.2	0.1	0.0	1.1	1.3	0.9
Core	0.1	0.3	0.1	1.8	1.8	1.5
Food *	0.0	-0.2	-0.2	-1.6	2.3	2.8
Energy	-1.9	-1.0	2.3	-2.4	-12.7	-18.7
Services	0.2	0.2	0.0	1.7	1.7	1.8
Shelter *	0.2	-0.2	0.2	1.0	-1.6	-1.8
Alcohol & Tobacco *	0.1	-0.1	-0.1	-0.3	2.7	2.6
Clothing & Footwear *	0.4	0.3	-0.2	2.2	0.6	-1.2
Gasoline	-2.2	-1.5	2.6	-4.2	-13.1	-23.0
Mort. Interest Payments	-0.6	-0.7	-0.6	-7.3	-3.1	-2.2

* seasonally adjusted

The Bottom Line: Despite the acceleration in both headline and core yearly inflation, significant excess capacity and the strong loonie (up 2.6% on the month, and 16.1% over the past six months) should keep a lid on price pressures. Inflation concerns will remain on the back burner for a while.

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