Daily Economic Update

December 21, 2022

Easing Canadian inflation pressures took a pause in November

- Year-over-year CPI growth ticked down to 6.8% with 'core' measures little changed
- Food and rent costs the largest drivers of price pressure, offsetting weakness in gasoline prices and home-buying costs
- Bank of Canada may be at the end of the current hiking cycle but expected to keep interest rates in 'restrictive' territory

RBC Inflation Watch: a tracker of key indicators on price trends in Canada

Read Report

The easing in inflation pressures in Canada in recent months paused, to an extent, in November. Headline CPI ticked slightly lower to 6.8% as gasoline prices fell and home-purchasing related expenses grew at a slower pace following cooling resale markets. But grocery prices continued to rise sharply as well as other shelter components including an outsized increase in home rent prices and mortgage interest costs. Food inflation after dialing slightly lower in October reversed right back to its recent peak year-over-year rate of 10.3% in November, thanks to a hefty 1.2% monthly increase on higher meat and dairy prices. Just as higher interest rates continue to cool housing markets and push home buying-prices lower, they have also been pushing up rental demand and mortgage payments. Prices for home rent in November were at 5.9% above last year's level and mortgage interest costs 14.5%, both the highest since the 1980s.

Inflation for other goods outside of food and energy products on balance slowed further in November, reflecting easing in global supply chain challenges, some plateauing in consumer demand and cooling commodity prices. On an annualized 3-month average basis, CPI for goods excluding grocery and energy products was at 1.7% in November, much lower than its recent peak of 10.9% in May. Overall, the breadth of inflation has still been narrowing in recent months. Lower goods inflation can be expected to extend into the quarters ahead as supply side constraints continue to filter through production lines. Higher interest rates will also cut into consumer demand and lower inflation pressures

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more broadly. But 2023 will also see further acceleration in mortgage costs, as higher interest rates continue to pass through to household borrowing cost as fixed rate mortgage contracts are renewed.

The inflation report today marks the first of two before the Bank of Canada's next rate announcement in January. The central bank in December dropped the language that suggests the overnight rate will need to go higher, and replaced that with a more dovish line that in our view opened the door to further tapering or a pause in January. That decision however will be contingent on the next inflation reading and results from the bank's quarterly surveys (to be released about a week before the meeting date). Our expectations are still for the Bank of Canada to pause its current cycle with the overnight rate at its current reading of 4.25%, and for that to be held throughout 2023.

Canadian CPI Inflation

	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
			m/m % change		
All Items CPI	0.1	-0.3	0.1	0.7	0.1
Food	0.9	0.8	0.7	0.2	1.2
Energy	-5.4	-6.5	-4.4	6.2	-1.5
All items ex-food & energy	0.6	0.0	0.3	0.3	0.1
			y/y % change		
All Items CPI	7.6	7.0	6.9	6.9	6.8
Food	9.2	9.8	10.3	10.1	10.3
Energy	28.0	19.0	14.0	16.2	13.9
All items ex-food & energy	5.5	5.3	5.4	5.3	5.4
BoC 'Core' Measures					
CPI-Trim	5.4	5.2	5.2	5.3	5.3
CPI-Median	5.0	4.8	4.8	4.9	5.0
CPI-Common	6.7	6.4	6.4	6.4	6.7

Source: Statistics Canada, RBC Economics

Goods inflation continued to ease while services picked up