November 16, 2022

Easing inflation pressures in October draws BoC closer to the end of hiking cycle

- Headline CPI growth held at 6.9% from a year ago with 'core' measures little changed
- Monthly price growth in 'core' CPI decelerated and breadth of inflation pressures continued to ease
- Bank of Canada expected to keep interest rates in 'restrictive' territory but may be nearing the end of the current hiking cycle

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

Read Report

Slower food and travel related inflation in October was offset by accelerating price growth for gasoline and mortgage interest costs and left the headline CPI reading unchanged from a month ago, at 6.9%. Food inflation saw its first decline in 6 months, to a still elevated 10.1% above a year ago as price pressure for a variety of grocery items including meats and fruits all eased. Among energy products, slower price increase for natural gas was more than offset by a resurgence in gasoline prices and left energy inflation on balance higher at 16.2% year-on-year.

More importantly, 'core' CPI that strips out more volatile items like food and energy products also ticked lower, to 5.3% year over year or a smaller 0.2% on a seasonally adjusted basis from the prior month. That smaller month over month increase came in well below the average monthly rate of 0.5% year-to-September, in large part thanks to moderations seen in home purchasing costs as house prices continued to drop in October. Air fares and travel services prices, although still seeing abnormally high inflation have also started to trend lower as travel demand cools post the busy summer season. Countering those weaknesses was another bigger monthly increase in mortgage interest costs. On a year over year basis those costs are now 11.4% above levels seen in October 2021 following aggressive Bank of Canada rate hikes.

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Both of Bank of Canada's preferred measures – CPI trim and CPI median – ticked slightly higher in October. But the Bank last month also pointed to early signs of slowing month-over-month price increases as evidence that underlying inflation pressures may be past their peak – and those more encouraging very recent trends largely continued in October. Price growth in 'core' measures on a three-month average basis trended lower again in October collectively, after peaking at around an 8% annualized rate in the summer. The breadth of inflation pressures also continued to narrow. By our count, 58% of the CPI basket was rising at a rate above the top end of the BoC's 1% to 3% target range over the last three months – still high, but down from a peak of 77% in July. Make no mistake, current inflation pressure are still too high and too broad for the Bank of Canada's liking. But early signs of easing price pressures will give the BoC some confidence that interest rates are near levels that are restrictive enough to ensure inflation return back to target over time. We look for another 25 bp hike in December to being the overnight rate to a terminal value of 4%, though risks are still tilted to the upside.

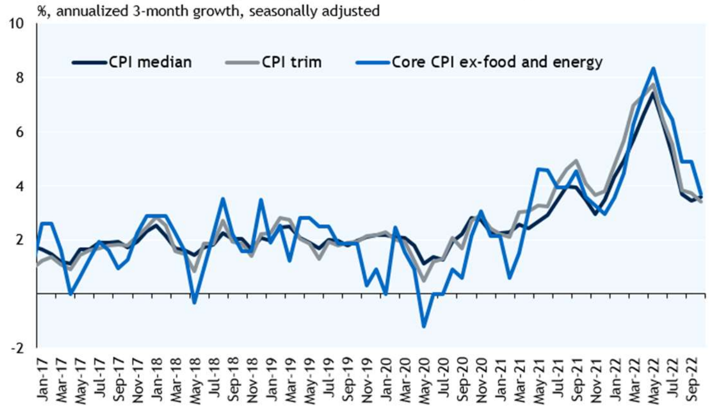
Canadian CPI Inflation

	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
			m/m % change		
All Items CPI	0.7	0.1	-0.3	0.1	0.7
Food	0.1	0.9	0.8	0.7	0.2
Energy	3.9	-5.4	-6.5	-4.4	6.2
All items ex-food & energy	0.4	0.6	0.0	0.3	0.3
			y/y % change		
All Items CPI	8.1	7.6	7.0	6.9	6.9
Food	8.8	9.2	9.8	10.3	10.1
Energy	38.8	28.0	19.0	14.0	16.2
All items ex-food & energy	5.3	5.5	5.3	5.4	5.3
BoC 'Core' Measures					
CPI-Trim	5.5	5.4	5.2	5.2	5.3
CPI-Median	4.8	4.9	4.7	4.7	4.8
CPI-Common	6.3	6.6	6.3	6.2	6.2

Source: Statistics Canada, RBC Economics

Near-term underlying price pressure easing in Canada

%, annualized 3-month growth, seasonally adjusted



Source: StatCan, RBC Economics