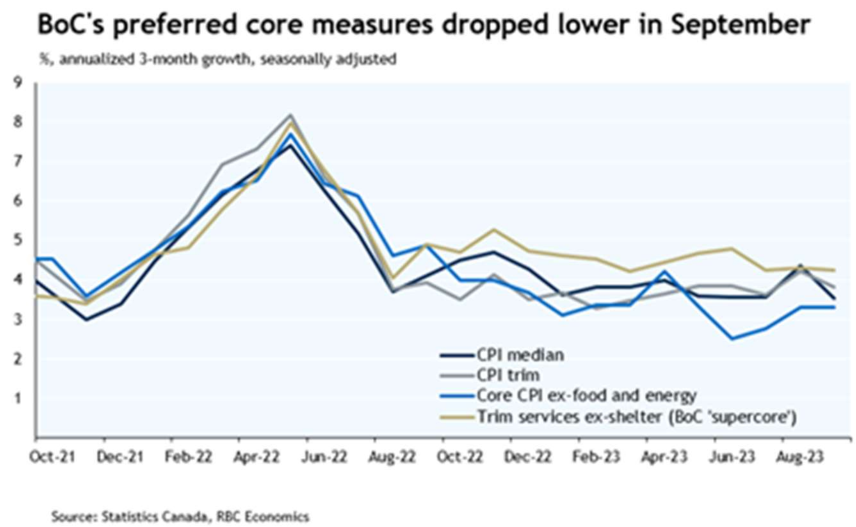
RBC Economics & Thought Leadership

Economic Update

October 17, 2023

Canadian inflation pressures (finally) edged lower in September

- Headline CPI in Canada decelerated to 3.8% year-over-year in September and the breadth of price growth narrowed marginally. That's after high energy inflation pushed the reading up to 4% in August from 3.3% in July. Price growth in September slowed again for food as well as "core" measures, from the standard ex-food and energy to Bank of Canada's CPI trim and median.



- Food inflation in September was still high at 5.9% year-over-year, but that was still the smallest increase in over a year and a half. The deceleration was seen in both grocery and dining out expenses, although the latter still lags the prior in the pace of easing.
- Energy inflation rose to 5.4% in September on soft year ago 'base-effects.' Gasoline prices actually declined this September from August but that wasn't as large as the decline a year ago.
- Excluding food and energy components, price growth slowed to 3.2% year-over-year. The yearly inflation readings for shelter costs moderated for the first time in many months, thanks to a slight slowing in the rate of growth in mortgage interest costs and a tick lower in home prices. Mortgage interest costs continue to surge higher and are accounting for a disproportionate share of total price growth. But the pace of growth in MIC slowed marginally to 30.6% in September, down slightly from 30.9% in August to mark the first decline in MIC inflation since summer of 2021.

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- Elsewhere, home rent costs continued to accelerate in September (+7.1%) but inflation for car purchasing and rentals, clothing and health care all moderated while prices for services like cell phone and airfares swung well below levels a year ago.
- Growth in the closely-watched 3-month annualized growth rate in the BoC's preferred 'core' CPI trim and median measures both slowed to around 3.4%. The average month-over-month increase in the two core measures also slowed substantially to 0.2%, just half of the 0.4% pace in August. Separately, BoC's "supercore" measure that excludes shelter component from core service CPI was firmer, holding at a 4.3% annualized rate over the last three months.
- Our own diffusion index showed that price pressures narrowed marginally in September but were still relatively broad-based. Around 60% of the CPI basket was still seeing above 3% inflation over the last three months, comparing to 35% in 2019.
- **Bottom line:** The slower increase in Canadian consumer prices in September was a step in the right direction. It was also long overdue, given persistent signs of cooling in labour market conditions as well as in consumer spending data. Yesterday's release of the Bank of Canada quarterly business and consumer surveys further highlighted softening sentiment among both businesses and consumers in Q3, with both groups acknowledging that further slowing in spending and growth can be expected in quarters ahead. Indeed, the lagged impact of interest rate hikes to-date will continue to exert downward pressure on consumer spending as debt payments rise as a share of household incomes, making it more challenging for businesses to raise prices as fast and as frequent. With more easing in inflation readings expected in the months ahead, we expect the Bank of Canada to stay on pause through the rest of the year.

Canadian CPI Inflation

	Jun-23	Jul-23	Aug-23	Sep-23
		m/m % change		
All Items CPI	0.1	0.6	0.4	-0.1
Food	0.1	0.4	-0.1	-0.1
Energy	1.4	1.7	3.7	-1.0
All items ex-food & energy	0.0	0.5	0.2	-0.1
		y/y % change		
All Items CPI	2.8	3.3	4.0	3.8
Food	8.3	7.8	6.8	5.9
Energy	-14.6	-8.2	1.8	5.4
All items ex-food & energy	3.5	3.4	3.6	3.2

Source: Statistics Canada, RBC Economics