

The OWL: Fall cooldown

Inflation moves in the right direction

By Mark Parsons || 21 November 2023

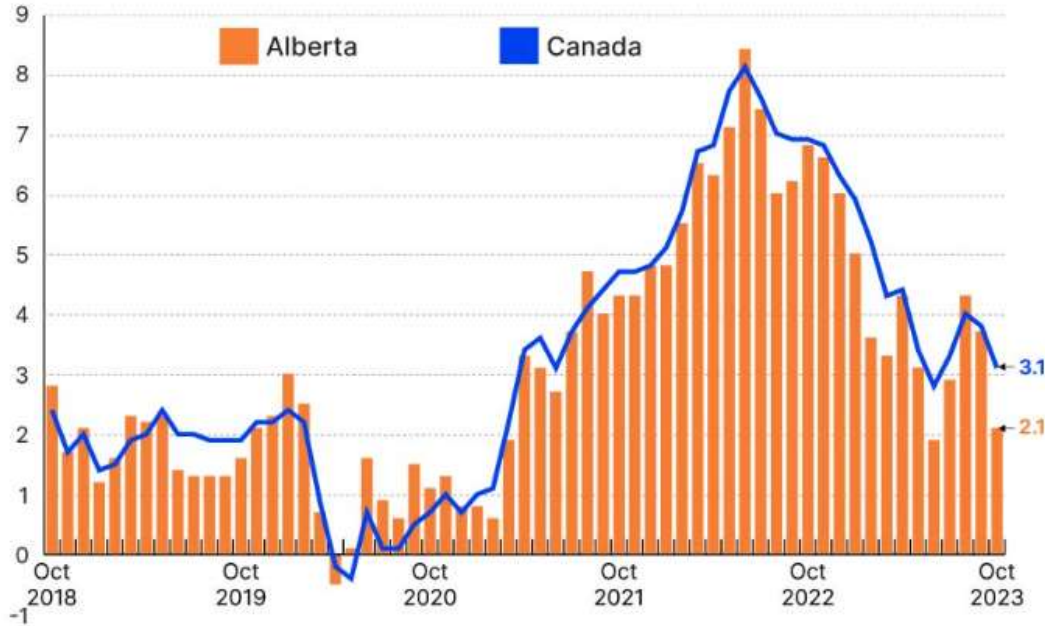
Last week, we watched as the U.S. reported a lower inflation rate in October. Today, Canada joined in with its own encouraging report.

The annual inflation rate cooled largely as expected to 3.1% last month—down from 3.8% in September. This is the lowest inflation rate since June and well below its peak of 8.1% in June 2022.

Most of the credit for last month’s improvement goes to lower prices at the pumps (-7.8% year-over-year, y/y). Grocery prices rose 5.4% y/y, the slowest annual pace since November 2021, but still an uncomfortably high reading for households.

Inflation in Alberta and Canada

Year-over-year % change in the unadjusted Consumer Price Index



Source: Statistics Canada Table 18-10-0004-01

The inflation rate in Canada fell to 3.1% in October 2023

Progress was also made on the so-called core inflation readings. The monthly change in the median measure held at 0.1%, while trim was a bit stronger at 0.2%. On a year-over-year basis, all three of the Bank of Canada's key measures (trim, common, and median) slowed, but were still-elevated (range of 3.5%-4.2%, see chart).

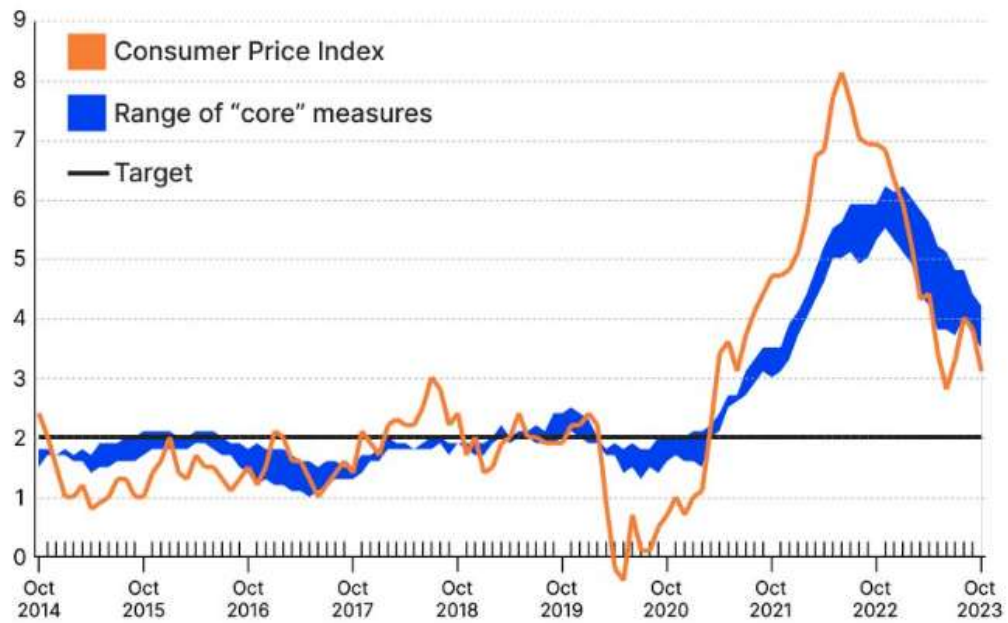
There are still some big inflation drivers lingering. Mortgage interest costs were up 30.5% y/y—adding 0.9 points to the headline inflation rate. Rental prices continue to add more to inflation, accelerating to 8.2% y/y.

Today's report should provide some comfort to the Bank of Canada, which has continued to highlight the stickiness of underlying price pressures despite a softening national economy and labour market. This reinforces our call that the Bank will stay on the sidelines in December with another hawkish pause, which we expect will be extended well into 2024.

In Alberta, inflation fell more dramatically, from 3.7% to 2.1%, and was once again below the national rate (Alberta has been above only once this year). Gasoline prices fell more in Alberta (-15.9% y/y), which helped. Electricity prices were still up a lot year-over-year, but the rate of increase slowed significantly (45% from 113%). Rent inflation continues to accelerate (+9.9% y/y) amid Alberta's tight housing market, offsetting some of the progress on slowing food inflation. That said, the deceleration was fairly broad-based across categories. Stripping out food and energy costs, annual inflation was 2.3% (vs. 3.4% nationally).

Inflation in Canada

Year-over-year % change



Source: Statistics Canada Tables 18-10-0004-01, 18-10-0256-01 and ATB Economics

All three of the Bank of Canada's core measures (trim, common, and median) slowed in October 2023