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Canada’s inflation rate slowed to 3.1% in October, but rents surge

MATT LUNDY || NOVEMBER 21, 2023

Statistics Canada released its latest reading on inflation today. Grocery prices rose by 5.4 per cent in October on an annual basis, down from peak levels above 11 per cent in late 2021 and early 2022. Unadjusted for seasonality, grocery prices have fallen for three consecutive months.GRAHAM HUGHES/THE CANADIAN PRESS

Canada’s inflation rate slowed markedly in October, bolstering views on Bay Street that the Bank of Canada is done raising interest rates and will start to cut them next year.

The Consumer Price Index rose 3.1 per cent in October from a year earlier, down from 3.8 per cent in September, Statistics Canada said Tuesday in a report. The result matched analysts’ expectations and was largely driven by gasoline prices, which tumbled 6.4 per cent over the month. Adjusted for seasonality, the CPI fell 0.1 per cent on a monthly basis.

The Bank of Canada has raised interest rates at the fastest pace in decades since early 2022, its primary method of bringing the inflation rate back down to 2 per cent. This dramatic shift in monetary policy has forced many households to curtail their spending and has effectively brought economic growth to a standstill.

Despite the progress in controlling inflation, which peaked at 8.1 per cent in June, 2022, there remain some challenging areas. Prices for services rose at an annual pace of 4.6 per cent in October, accelerating from 3.9 per cent in September. In particular, housing costs are putting upward pressure on the CPI, a sign of how Canada's housing shortage is affecting the numbers.

Even so, various measures of core inflation – which strip out volatile movements in the CPI and give a better sense of underlying trends – are cooling off. And in seven provinces (all but Nova Scotia, Ontario and Quebec), the annual inflation rate has fallen below 3 per cent.

"Overall, today's result drives home the point that there is no need for further BoC tightening, especially with the economy already struggling to grow at all and underlying inflation calming," Bank of Montreal chief economist Doug Porter said in a research note. "However, before the Bank can even begin seriously considering rate relief, we'll need to see more evidence that services inflation is also moderating – that could be at least another six months down the road."

Tuesday's report showed some idiosyncratic – and likely temporary – changes on the services side of the economy. October is when annual property tax changes are reflected in the CPI, and those costs rose 4.9 per cent on a year-over-year basis – the largest increase since 1992. Statscan noted that "municipalities required larger budgets to cover rising costs."

The price of travel tours rose 11.3 per cent in October from a year earlier, a sharp reversal from a decrease of 2.2 per cent in September. "That pace likely won't be sustained given the crunch that consumers are feeling from higher interest rates, and the climb in the unemployment rate," Katherine Judge, senior economist at CIBC Capital Markets, wrote in a client note.

Still, the report laid bare persistent challenges in the housing market, where costs are rising rapidly because of heated demand and a chronic lack of available units.

Rents jumped by an annual rate of 8.2 per cent in October, up from 7.3 per cent in September. (This was the largest 12-month increase since Statscan changed its methodology for tracking rents in early 2019.) Nova Scotia had the biggest increase in rents, at 14.6 per cent, followed by Alberta, at 9.9 per cent.

Mortgage interest payments rose by 30.5 per cent in October, year over year, similar to the pace in September. Many homeowners have seen the interest portions of their mortgage payments climb substantially over the past 1½ years, because of the Bank of

Canada’s rate-hike campaign, while others will be faced with higher payments at renewal time.

Excluding housing costs, the CPI increased by just 1.9 per cent annually in October.

The federal government announced new funding in Tuesday’s fall economic statement aimed at increasing the supply of homes, although measures to spur construction are unlikely to help with affordability in the short term.

Consumers are seeing some progress in the supermarket aisle. Grocery prices rose by 5.4 per cent in October on an annual basis, down from peak levels above 11 per cent in late 2021 and early 2022. Unadjusted for seasonality, grocery prices have fallen for three consecutive months.

The Bank of Canada projects inflation will linger around 3.5 per cent until the middle of 2024, before declining to the bank’s 2-per-cent target by mid-2025. Bank officials were split over whether to raise interest rates in October, but they ultimately held the policy rate steady at 5 per cent. The central bank’s next decision day is Dec. 6.

While the Bank of Canada has in its communications deliberately left open the possibility of further rate hikes, private-sector economists and traders have started speculating about when the central bank will begin cutting rates. Interest-rate swaps, which capture market expectations about monetary policy, are pricing in a quarter-point cut by June, 2024.

Faced with higher interest rates, the economy has recently stalled and the unemployment rate has risen by nearly a percentage point from a record low. The Bank of Canada has indicated the economy is moving into excess supply, which will help to cool inflation in the coming months.

Royce Mendes, head of macro strategy at Desjardins Securities, said in a research note that Tuesday’s inflation report is “exactly the type of progress that central bank officials have been waiting to see. If the door wasn’t already shut to additional rate hikes, it now should be.”