

Canada Watch

Headline and core inflation drop in October, no more hikes by BoC

Key takeaways

- Inflation in October fell to 3.1% yoy from 3.8%, driven by lower gasoline prices. We update our inflation forecasts.
- The average of the two core measures fell to 3.55% yoy from 3.80% a month ago; core is now clearly trending down.
- Falling core inflation and a weak economy support our view that we are at peak BoC rates at 5.0%. Next movement likely a cut.

Inflation in line with expectations in October

Consume Price Index (CPI) inflation was in line with expectations at 3.1% yoy in October (E. 3.1%, BofA 3.3%), down from 3.8% yoy in September (Exhibit 1). Inflation fell for the second month in a row. Excluding gasoline, CPI rose 3.6% yoy in October, down from 3.7% yoy in September (Exhibit 2). On a monthly basis, inflation was in line with expectations as well at 0.1% mom nsa (E. 0.1%, BofA 0.2%). The main drivers to the downside were transportation prices at -1.4% mom nsa and food prices at -0.1% mom nsa. On the other hand, shelter prices were the main upward contributor at +0.9% mom nsa (Exhibit 3, Exhibit 4). On a seasonally adjusted basis, CPI fell 0.1% mom sa from +0.1% a month ago.

Services inflation still with signs of resilience

The average of the two core measures (trimmed and median) fell to 3.55% yoy from 3.80% a month ago (revised to the upside from 3.75%). The median measure fell to 3.6% from 3.9%, while the trimmed measure edged down to 3.5% from 3.7% (Exhibit 5). Services inflation rose to 4.6% yoy from 3.9% a month ago, due to higher prices for rent at 8.2% yoy, and an increase of travel tour prices at 11.3% yoy. Mortgage interest costs decelerated slightly to 30.5% yoy from 30.6% a month ago, though they remain an important upward pressure. We continue to expect the economic deceleration to bring core inflation down.

We revise our inflation forecasts

We incorporate October's fall in inflation to our inflation forecasts. We revise to the downside our forecast for end-2023 to 3.4% from 3.7%. However, we revise to the upside our forecast for end-2024 to 2.3% from 1.9% mostly because of a base effect. We now expect inflation to converge to the target by 1H 2025 (Exhibit 6, Exhibit 7).

BoC has most likely reached peak rates at 5.0%

Falling core inflation and a weak economy will keep the Bank of Canada (BoC) on hold for many months, in our view. But risks remain to the upside as inflation is still above the target and wage growth remains high. The BoC is likely to keep the door open to future hikes until it sees less pressure from wage growth. Nonetheless, we expect the next BoC movement to be a cut in June 2024, with risks for an earlier cut.

21 November 2023

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Glossary

CPI = Consumer Price Index

E. = Bloomberg Consensus estimate

nsa = not-seasonally adjusted

sa = seasonally adjusted

mom = month-over-month

yoy = year-over-year

BoC = Bank of Canada

StatCan = Statistics Canada

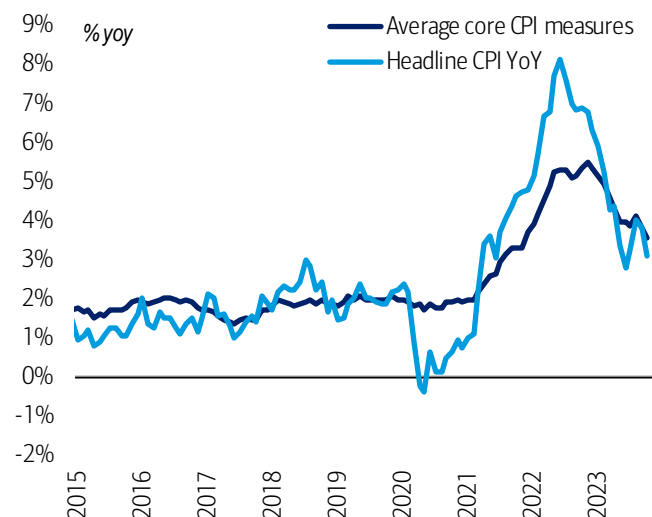
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Exhibit 1: Headline and core inflation

Core inflation drove headline down to 3.1% from 3.8% yoy

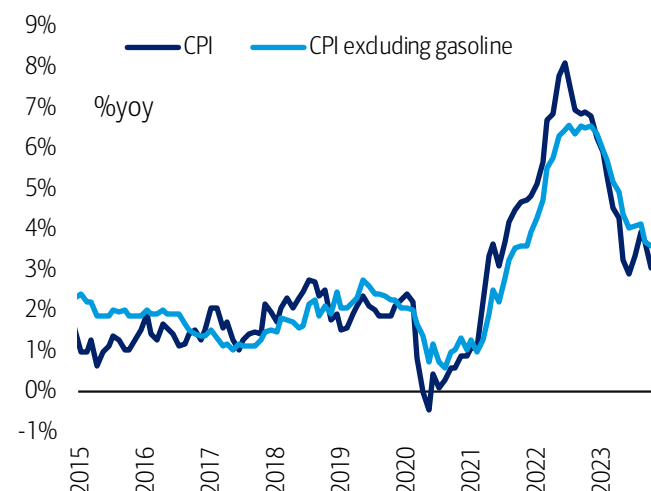


Source: BofA Global Research; Stat Canada, Haver

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Exhibit 2: Inflation excluding gasoline

Inflation excl. gasoline links two decreases in a row at 3.6% yoy from 3.7%



Source: BofA Global Research; Stat Canada, Haver

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Exhibit 3: mom nsa CPI heatmap

Transportation prices again were the main driver to the downside, while shelter prices were the main driver to the upside

| Component | Oct-23 | Sep-23 | Aug-23 | Jul-23 | Jun-23 | May-23 | Apr-23 | Mar-23 | Feb-23 | Jan-23 | Dec-22 | Nov-22 | Oct-22 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Headline | 0.1% | -0.1% | 0.4% | 0.6% | 0.1% | 0.4% | 0.7% | 0.5% | 0.4% | 0.5% | -0.6% | 0.1% | 0.7% |
| Food | -0.1% | -0.1% | -0.1% | 0.4% | 0.1% | 0.8% | 0.4% | 0.2% | 0.6% | 1.7% | 0.3% | 1.2% | 0.2% |
| Shelter | 0.9% | 0.5% | 0.8% | 0.7% | 0.5% | 0.4% | 0.6% | 0.4% | 0.2% | 0.1% | 0.4% | 0.6% | 0.8% |
| Household Operations/Furnishings/Equipment | 0.0% | -0.7% | 0.3% | -0.3% | -0.6% | -0.5% | 0.3% | 0.4% | 1.1% | -0.4% | -0.8% | 0.0% | 0.2% |
| Clothing and Footwear | 0.1% | 0.9% | 1.1% | -1.0% | -1.7% | 0.4% | 0.7% | 1.3% | 1.9% | -1.1% | -2.6% | -0.4% | 1.7% |
| Transportation | -1.4% | -1.0% | 0.7% | 1.3% | 1.2% | -0.2% | 1.5% | 0.7% | -0.4% | 0.7% | -2.6% | -0.9% | 2.2% |
| Health and Personal Care | -0.1% | 0.1% | 0.4% | 0.1% | 0.3% | 0.2% | 1.4% | 0.5% | 0.4% | 0.6% | 0.0% | 0.8% | 0.6% |
| Recreation, Education and Reading | 0.9% | -0.5% | -0.9% | 2.1% | -0.8% | 1.9% | 0.2% | 1.1% | 0.9% | 0.7% | -1.4% | -1.3% | -0.2% |
| Alcoholic Beverages and Tobacco Products | 0.1% | 0.1% | 0.4% | 0.4% | 0.1% | 0.5% | 0.2% | 0.9% | 0.4% | 1.2% | -0.2% | 0.5% | 0.6% |

Source: BofA Global Research; Stat Canada, Haver

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Exhibit 4: %yoy CPI heatmap

Transportation posted the sharpest decrease and core now seems to have resumed its downward trend

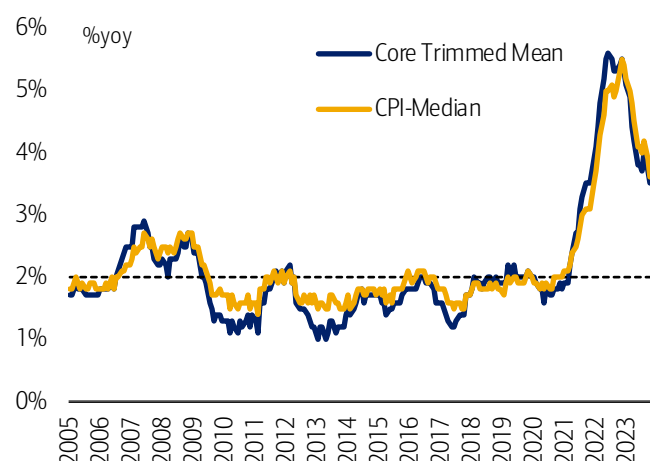
| Component | Oct-23 | Sep-23 | Aug-23 | Jul-23 | Jun-23 | May-23 | Apr-23 | Mar-23 | Feb-23 | Jan-23 | Dec-22 | Nov-22 | Oct-22 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Headline | 3.1% | 3.8% | 4.0% | 3.3% | 2.8% | 3.4% | 4.4% | 4.3% | 5.2% | 5.9% | 6.3% | 6.8% | 6.9% |
| Food | 5.6% | 5.9% | 6.8% | 7.8% | 8.3% | 8.3% | 8.3% | 8.9% | 9.7% | 10.4% | 10.1% | 10.3% | 10.1% |
| Shelter | 6.1% | 6.0% | 6.0% | 5.1% | 4.8% | 4.7% | 4.9% | 5.4% | 6.1% | 6.6% | 7.0% | 7.2% | 6.9% |
| Household Operations/Furnishings/Equipment | -1.2% | -1.1% | 0.0% | -0.1% | 0.3% | 1.1% | 3.0% | 3.3% | 4.1% | 3.7% | 4.6% | 5.2% | 5.1% |
| Clothing and Footwear | -0.5% | 1.0% | 1.7% | 1.0% | 0.3% | 0.7% | 2.5% | 2.4% | 1.9% | 0.4% | 1.8% | 0.4% | 1.8% |
| Transportation | -0.4% | 3.2% | 2.3% | -1.0% | -3.4% | -2.4% | 1.3% | 0.3% | 3.1% | 5.4% | 6.0% | 8.5% | 9.5% |
| Health and Personal Care | 4.9% | 5.6% | 5.8% | 5.8% | 6.2% | 6.4% | 6.4% | 6.5% | 6.2% | 6.2% | 6.1% | 5.5% | 4.9% |
| Recreation, Education and Reading | 2.9% | 1.8% | 2.2% | 1.8% | 1.2% | 3.1% | 3.1% | 1.6% | 2.3% | 2.9% | 3.4% | 4.1% | 4.1% |
| Alcoholic Beverages and Tobacco Products | 4.7% | 5.3% | 5.2% | 5.3% | 5.4% | 5.5% | 5.3% | 5.4% | 4.9% | 4.7% | 4.8% | 4.5% | 4.1% |
| Average core CPI measures | 3.6% | 3.8% | 4.1% | 3.9% | 4.0% | 4.0% | 4.4% | 4.6% | 5.0% | 5.2% | 5.4% | 5.5% | 5.4% |
| Core Trimmed Mean | 3.5% | 3.7% | 4.0% | 3.7% | 3.8% | 3.8% | 4.2% | 4.4% | 4.9% | 5.1% | 5.3% | 5.5% | 5.4% |

Source: BofA Global Research; Stat Canada, Haver

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Exhibit 5: Core inflation measures

Core inflation maintained its downward trend in October

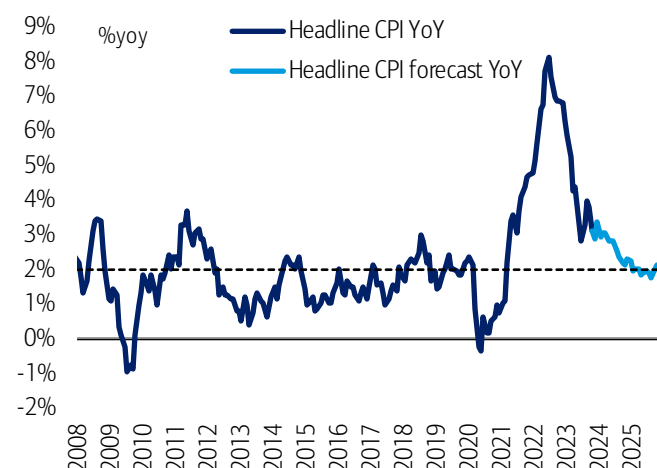


Source: BofA Global Research; Stat Canada, Haver

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Exhibit 6: Inflation forecasts

We lower our inflation expectations for end-2023 to 3.4% from 3.7%



Source: BofA Global Research estimates, Stat Canada, Haver

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Exhibit 7: Monthly CPI forecasts (nsa)

We expect inflation at 3.4% by end-2023 and at 2.3% by end-2024

| | Level | mom (%) | yoy (%) |
|-----------|-------|---------|---------|
| 2022: Dec | 153.1 | -0.6 | 6.3 |
| 2023: Sep | 158.5 | -0.1 | 3.8 |
| 2023: Oct | 158.6 | 0.1 | 3.1 |
| 2023: Nov | 158.5 | -0.1 | 2.9 |
| 2023: Dec | 158.3 | -0.1 | 3.4 |
| 2024: Jan | 158.5 | 0.1 | 3.0 |
| 2024: Feb | 159.2 | 0.5 | 3.0 |
| 2024: Mar | 160.1 | 0.5 | 3.1 |
| 2024: Apr | 160.8 | 0.4 | 2.8 |
| 2024: May | 161.4 | 0.4 | 2.8 |
| 2024: Jun | 161.6 | 0.1 | 2.8 |
| 2024: Jul | 162.1 | 0.3 | 2.5 |
| 2024: Aug | 162.4 | 0.2 | 2.4 |
| 2024: Sep | 161.9 | -0.3 | 2.2 |
| 2024: Oct | 162.0 | 0.0 | 2.1 |
| 2024: Nov | 162.1 | 0.1 | 2.3 |
| 2024: Dec | 161.9 | -0.2 | 2.3 |
| 2025: Jan | 161.5 | -0.2 | 1.9 |
| 2025: Feb | 162.4 | 0.5 | 2.0 |
| 2025: Mar | 163.3 | 0.6 | 2.0 |
| 2025: Apr | 163.7 | 0.3 | 1.8 |
| 2025: May | 164.4 | 0.4 | 1.9 |
| 2025: Jun | 164.8 | 0.2 | 2.0 |
| 2025: Jul | 165.2 | 0.2 | 1.9 |
| 2025: Aug | 165.3 | 0.1 | 1.8 |
| 2025: Sep | 165.2 | -0.1 | 2.0 |
| 2025: Oct | 165.4 | 0.2 | 2.1 |
| 2025: Nov | 165.5 | 0.0 | 2.0 |
| 2025: Dec | 165.1 | -0.2 | 2.0 |

Source: BofA Global Research estimates

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