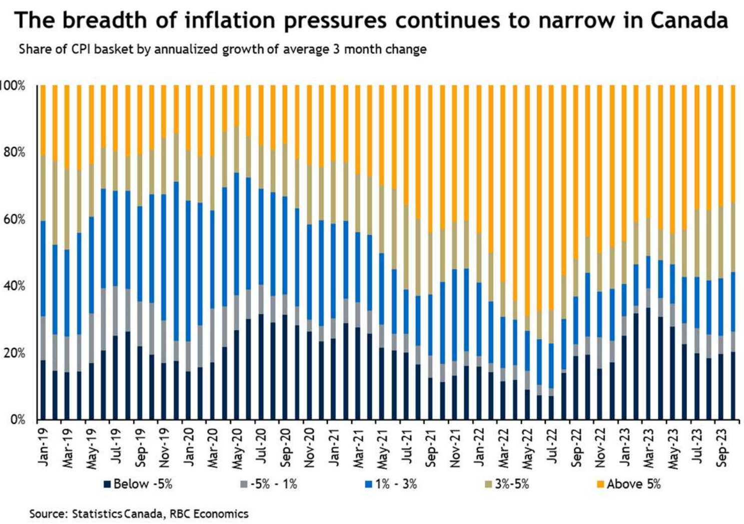
RBC Economics & Thought Leadership

Economic Update

December 19, 2023

The Canadian headline CPI held at 3.1% in November

- Headline CPI in Canada surprised to the upside in November with a 3.1% reading year-over-year. That matched the rate in October and was above our and consensus' expectation for the headline reading to slip back under the top end of the BoC's 1% to 3% inflation target range.



- Much of the surprise came from a larger-than-expected surge in travel tour prices (+27% year-over-year) and is likely to be unwound in December. StatCan attributed the jump to "events held in destination cities in the United States during November".
- Food and energy inflation both slowed in November, as expected. Price growth for food items dropped to 5%, the lowest rate in two years. Inflation for eating out at restaurants (+5.5%) continues to moderate at a slower pace, compared to that of groceries (+4.7%).
- Energy inflation also pulled back to -5.7% from a year ago on another small decline in gasoline prices month over month from October – a softening global economic growth backdrop has pushed energy commodity prices lower persistently in the recent weeks.
- Excluding food and energy products, CPI ticked higher to 3.5% in November. Shelter overall still accounts for the largest share of the increase in core prices. Growth in mortgage interest costs (directly tied to the lagged impact of Bank of Canada interest rate hikes) appears to be past its peak but remains very elevated, at 29.7% year-over-year. Rent inflation in November also showed the first decline since July, easing to 7.4% from 8.2% in October.
- Other measures showed further easing underlying price pressures. The Bank of Canada's preferred CPI trim and median that are designed for a better gauge at domestic inflation pressures each grew

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by a larger 0.3% month over month in November. Still, taking into account easing in the prior months means these measures looked better on a three-month annualized basis, averaging 2.5%.

- The scope of inflation has also shown broad improvement up to the three months ending in November – 48% of the consumer basket (excluding shelter) was seeing near-term inflation at above a 3% annualized rate, well below the peak share of 77% back in 2022. It was still higher than the average 37% share in pre-pandemic 2019, though, suggesting more easing is needed for inflation to return sustainably to the BoC's 2% target rate.
- **Bottom Line:** Today's CPI report was an upside surprise that followed slower prints in prior months, and should not have changed the story that inflation has been broadly easing in Canada, alongside weakening macro backdrop. Broader 'core' measures of price growth still improved in November and some of the largest contributors to near-term price pressures, namely mortgage interest costs and rents actually eased by more than expected. If anything, the release today serves as a reminder that inflation readings can still be "sticky", and why we continue to expect a cautious approach as the BoC starts to think about when to begin cutting interest rates. Our expectation is for the first rate cut to come around mid-year 2024, contingent on further (but widely expected) softening in CPI readings in the months ahead.

Canadian CPI Inflation

	Aug-23	Sep-23	Oct-23	Nov-23
		m/m % change		
All Items CPI	0.4	-0.1	0.1	0.1
Food	-0.1	-0.1	-0.1	0.6
Energy	3.7	-1.0	-4.6	-1.9
All items ex-food & energy	0.2	-0.1	0.5	0.2
		y/y % change		
All Items CPI	4.0	3.8	3.1	3.1
Food	6.8	5.9	5.6	5.0
Energy	1.8	5.4	-5.4	-5.7
All items ex-food & energy	3.6	3.2	3.4	3.5

Source: Statistics Canada, RBC Economics