

## Canada: Air transportation prices slump largely explain the weak headline print

By Matthieu Arseneau

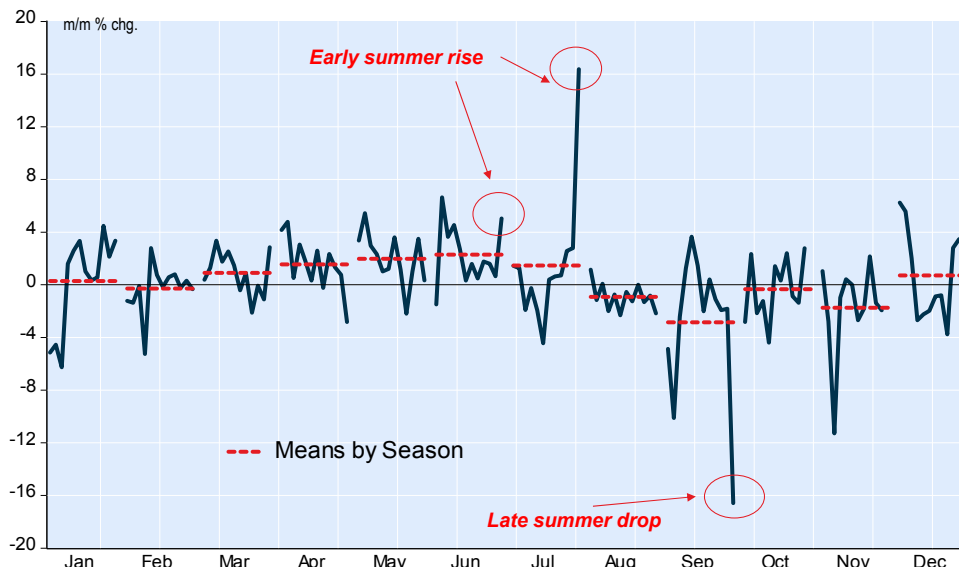
Headline inflation came in well below expectations in September. One should not give too much attention to this significant drop since it was largely due to a reversal in the air transportation component after surges the prior months (left chart). The 17%-drop recorded for that component in September explains approximately half of the monthly aggregate drop of 0.4% (NSA). Note that back in April, Statistics Canada announced that year on year figures for air transportation – and thus overall inflation – could be misleading for a year due to a change in the seasonal pattern (a new source is now used). Hopefully, the Bank of Canada’s core inflation preferred measures are not affected by that kind of volatile movements. True, our in-house replication of CPI-Trim and CPI-median were weak on a month-to-month basis (both at +0.1%, seasonally adjusted) but this is less concerning than the -0.1% indicated by the headline figure. As a result of this softness in underlying inflation, all three core measures weakened one tick on an annual basis. The average now stands right on the mid-point target of the central bank of 2.0% (right chart).

### HIGHLIGHTS:

- Canada’s consumer price index fell 0.4% (not seasonally adjusted) in September, taking the year-on-year inflation rate down to 2.2% (from 2.8%), well-below consensus calling for 2.7%.
- In seasonally adjusted terms, CPI dropped 0.1% as declines in recreation/reading, transportation and healthcare more than offset increases in the five other categories.
- The Bank of Canada’s preferred core measures on a year on year basis were as follows: CPI-trim (2.1%), CPI-median (2.0%) and CPI-common (1.9%), the latter being one tenth lower than what was expected by consensus.
- On a regional basis, the annual headline inflation rate is significantly above national average in Alberta (+3.0%) and British Columbia (+2.5%) while it is below in Quebec (+1.7%). Ontario annual inflation is right on national average at 2.2%.

### Canada: Reversal in air transportation impacting september figure

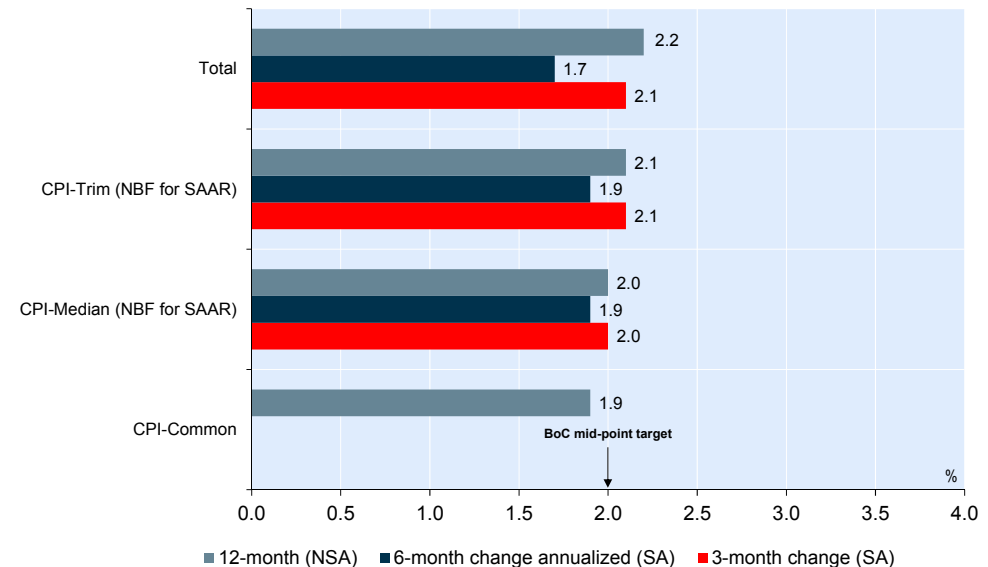
Air transportation month to month % change since 2007 (not seasonally adjusted)



NBF Economics and Strategy (data via Statistics Canada)

### Canada: Recent momentum of different inflation measures

CPI inflation (%)



NBF Economics and Strategy (data via Statistics Canada)

### Montreal Office

514-879-2529

#### Stéfane Marion

Chief Economist and Strategist  
stefane.marion@nbc.ca

#### Krishen Rangasamy

Senior Economist  
krishen.rangasamy@nbc.ca

#### Kyle Dahms

Economist  
kyle.dahms@nbc.ca

#### Matthieu Arseneau

Deputy Chief Economist  
matthieu.arseneau@nbc.ca

#### Paul-André Pinsonnault

Senior Fixed Income Economist  
paulandre.pinsonnault@nbc.ca

#### Jocelyn Paquet

Economist  
jocelyn.paquet@nbc.ca

#### Marc Pinsonneault

Senior Economist  
marc.pinsonneault@nbc.ca

#### Angelo Katsoras

Geopolitical Analyst  
angelo.katsoras@nbc.ca

### Toronto Office

416-869-8598

#### Warren Lovely

MD & Head of Public Sector Strategy  
warren.lovely@nbc.ca

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