

Core inflation running close to BoC target

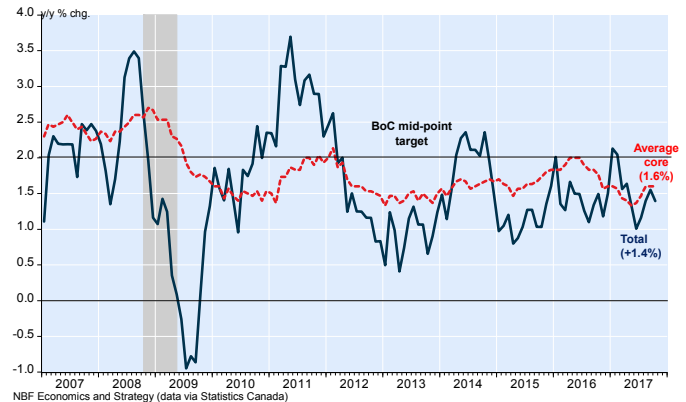
Total CPI: Latest (y/y): +1.4% (actual); +1.5% (consensus expectations); +1.6% (previous)
CPI-Common: Latest (y/y): +1.6%; +1.5% (previous)
CPI-Median: Latest (y/y): +1.7%; +1.8% (previous)
CPI-Trim: Latest (y/y): +1.5%; +1.5% (previous)

FACTS: Canada's consumer price index rose 0.2% (m/m) in October in seasonally adjusted terms but due to the base effect, the year-on-year inflation rate dropped two ticks to 1.4% (top chart). This was below consensus expectations calling for a 1.5% annual rate. On a month-to-month basis, the increases in shelter (+0.4%), transportation (+0.4%), household operations (+0.5%), healthcare (+0.5%), clothing (+0.3%) and alcohol/tobacco (+0.1%) more than offset declines in food (-0.2%) and recreation (-0.3%). On a regional basis, Saskatchewan (+2.0%) and British Columbia (+2.0%) registered the strongest annual inflation while Newfoundland & Labrador (+0.9%) and Nova Scotia (+0.9%) lagged. Annual inflation in Quebec stood at 1.0% and Ontario and Alberta at 1.3%. CPI excluding food and energy rose 0.2% in seasonally adjusted terms allowing the year-on-year inflation rate to increase two ticks to 1.4%. On an annual basis, the CPI-trim stood at 1.5% in October (unchanged), CPI-Median at 1.7% (down from 1.8%) and CPI-Common at 1.6% (up from 1.5%).

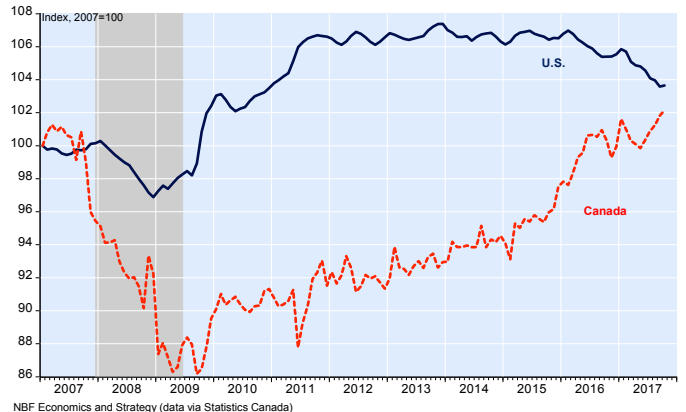
OPINION: Inflation in Canada was below expectations in October. Gasoline prices were soft as expected but food surprised on the downside with a 0.2% monthly decline (SA). However, underlying inflation was not that weak as shown by CPI excluding food and energy rising 0.24%, its strongest pace in 8 months. Price pressures were widespread with 5 of the 8 major categories up more than 0.3% on the month. Despite the weakness in gasoline prices, the transportation category posted a 0.4% increase (m/m, SA) as other components such as price of cars rising for the fifth consecutive month (middle chart). According to our in-house replication, CPI-Trim and CPI-median were running respectively at 0.15% and 0.17% in October. Turning to the more reliable 6-month annualized pace, they are running at 2.0% and 1.9%, respectively. That is a marked acceleration from the prior six months (bottom chart). Do not be fooled by the October headline CPI number, underlying price pressures are not easing in Canada.

Matthieu Arseneau

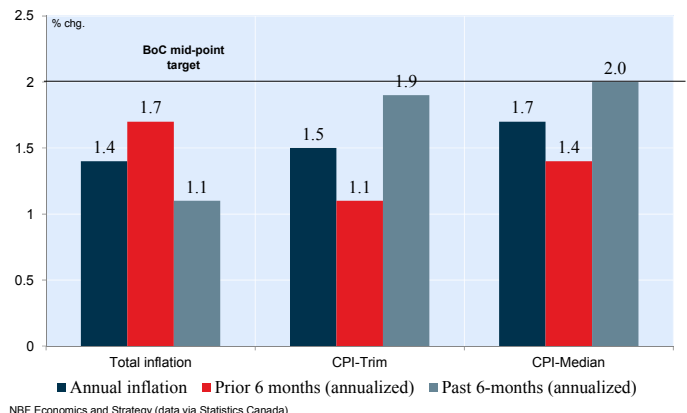
Canada: Perspective on the consumer price index
Total and average of the three core measures preferred by the Bank of Canada



Canada: Car prices on the rise as opposed to the U.S.
Car price indices in Canada and in the U.S.



Canada: Underlying inflation running on target recently
Total inflation, CPI-Trim and CPI-median, past-year variation breakdown as of October 2017



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