

Canadian Core CPI Slips

Canada, CPI, y/y / m/m NSA %, November :

Actual: 1.7 / -0.4

Scotia: 1.8 / -0.4

Consensus: 1.8 / -0.4

Prior: Unrevised from 2.4 / 0.3

Core inflation, y/y %, November:

Average: 1.9 (prior 2.0%)

Common component: 1.9 (prior 1.9%)

Weighted Median: 1.9 (prior 2.0)

Trimmed Mean: 1.9 (prior 2.1%)

- **Key here is that the average of the three central tendency measures displayed slightly less pressure on inflation during November than over the prior four months.** Core inflation fell back to 1.9% y/y. The headline drop was in line with expectations and largely reflected understood gas price influences. USDCAD is little affected so far given the anticipated deceleration in headline inflation and the more dominant focus upon the Fed this afternoon, although notwithstanding the softer core measures.
- As the chart below demonstrates, I wouldn't get overly fussed by the small volatility in the average of the core measures throughout the year. It entered the year at 1.8%, rose to 2% for six months in eleven so far, and slipped back a touch last month to where it was in Spring. The broad message is that core inflation is running around the BoC's 2% inflation target. Maintaining it there provides additional breathing room for a near-term forecast pause over the coming pair of meetings.
- While it's too stale to matter much now, the BoC's October MPR had forecast inflation at 2.3% y/y during Q4. We're now tracking 2.05% and so **the BoC's inflation forecasting is getting surprised to the downside and a headline reset will be pressed in the January MPR.** Clearly that reflects energy market developments since the October MPR that were not anticipated by the BoC or others. That will likely dip below 2% in December partly given that gas prices continue to fall. Regular unleaded gasoline is tracking about a dime cheaper per litre on average this month versus November.
- Gas prices were down 9.4% m/m with about a 3.4% weight in the basket. Ex-gas prices were up by just 1.9% y/y.
- In year-ago terms, the main sources of upward pressure on prices include fuel oil (+17%), air travel (+9% y/y), vegetables (+7.4% y/y), mortgage interest (+7.2%), auto insurance premiums (+4.9% y/y), electricity (+3.4%), and tuition (+3%).
- In seasonally adjusted terms, prices were down 0.2% m/m. Four out of eight categories pushed lower including transportation at -0.9% m/m (that includes gas prices), health and personal care (-1%), recreation/reading/education at -0.2% and clothing and footwear at -0.1%. The strongest increases were in the food (+0.3%) and 'sins' (+0.3%). Excluding food and energy, prices were soft at +0.1% m/m SA. Overall, this indicates considerable breadth to the price softness as half of the eight subcategories pushed lower.
- The only province with headline inflation over 2% y/y is BC (2.4%). Two provinces (Quebec and Newfoundland/Labrador) are running at under 1% y/y. Ontario sits at 1.8% with Alberta at 1.7%.

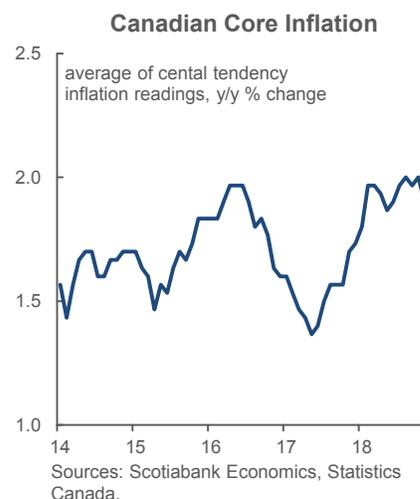
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