



TD Economics

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Data Release: Rising gasoline prices push up Canadian inflation in October

- Canadian consumer price inflation accelerated to 1.5% (year-on-year) in October, a tick-up from the 1.3% pace recorded in September. On the other hand, core inflation decelerated to 1.7% in October – a slight downtick from the 1.8% recorded in September.
- The transportation index was the biggest mover, rising 3.0% (y/y) in October – a significant uptick from the 2.3% pace recorded in September. Much of this is related to rising gasoline prices which appear to be getting passed on to consumers.
- Also notable was the increase in the shelter index (+1.9% y/y) which recorded the largest 12-month advanced since January 2015. October's strength in the shelter index follows a firm 1.7 y/y print in September, and is mainly due to rising homeowners' replacement costs, with a smaller contribution from rising property taxes.
- Inflation ticked up in six of the eight major categories in October. Somewhat surprising was that food price inflation recorded the first decline since January 2000, with prices declining 0.7% from the previous year in October – a reflection of declining fresh food (fruits, meat, vegetables, and dairy) prices. Given the rapid rise in food prices earlier this year, we anticipate that food prices will continue to act as a net drag on the headline index until the impact of past depreciation of the Canadian dollar falls out of the food index.

Key Implications

- The drag from lower oil and gasoline prices, which acted to restrain headline inflation previously, is beginning to dissipate with this trend expected to continue as oil prices continue their gradual recovery. Providing somewhat of an offset to headline inflation is the fact that the pass through from earlier depreciation of the Canadian dollar is nearing completion, and despite recent U.S. dollar strength, is unlikely to boost inflation significantly.
- The core CPI measure is set to be replaced by three new measures of underlying trend inflation, as indicated last month by the [Bank of Canada](#). Data for these three measures should be released next month (December 22nd), which should enable analysts to get a better sense of the underlying inflation pressures as far as the Bank is concerned. Overall, the data this month has little implications for Canadian monetary policy.

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