



**Bank  
Financial  
Group**

# TD Economics

## Commentary

November 21, 2008

### CONSUMER PRICE INFLATION SLOWS DRAMATICALLY IN OCTOBER

- All-items inflation slips to 2.6%
- Core inflation remains steady at 1.7%

Similar to the U.S., Canada has experienced a sharp decline in the rate of inflation. In October, consumer prices plunged 1.0% M/M – the biggest one-month decline since 1959. On a seasonally adjusted basis, the headline number fell by a more modest 0.5% on the month. Nonetheless, prices are still up 2.6% compared to year-ago levels, but much less than the 3.4% increase recorded last month. Core inflation, which excludes the 8 most volatile components, remained steady at 1.7%. However, the three-month annualized trend in core CPI slipped to 1.8%, which is down from 2.2% in September.

Of the eight major components, four recorded monthly declines. Transportation prices led the way, falling 4.4% on the month, largely due to a 13% drop in gasoline prices. But even with this slump, prices at the pumps remain 13% above year-ago levels. Also contributing the slide in transportation prices was a 1.1% decline in the cost to purchase and lease passenger vehicles. Auto prices have fallen every month so far this year and are down 9% from October 2007 levels. Clothing and footwear prices (-0.9%) also remained on a downward trajectory as a result of a significant reduction in women's clothing prices. October marks the seventh monthly drop this year for this component.

On the flipside, food prices were on the rise during the month, driven by a 1.6% increase in bakery and cereal products. Shelter costs were also up, due in part to a 3.2% jump in property taxes nationwide, which is typically recorded in October. Alberta experienced the largest in-

CONSUMER PRICE INDEX - CANADA				
	Oct-08 % Chg. M/M	Sep-08 % Chg. M/M	Oct-08 % Chg. Y/Y	Sep-08 % Chg. Y/Y
All-items*	-0.5	0.1	2.6	3.4
Core ex. indirect taxes*	0.0	0.2	1.7	1.7
Goods	-2.3	0.0	1.7	3.4
Services	0.2	0.2	3.4	3.4
Energy	-8.7	-1.5	9.7	18.2
Food*	0.4	0.9	6.1	5.6
Shelter*	0.1	-0.6	3.8	4.5
Transportation*	-4.4	-0.6	1.6	4.7
Clothing & Footwear*	-0.9	-0.4	-2.8	-1.3

\*M/M uses seasonally adjusted data; Source: Statistics Canada

crease in property taxes, soaring 6.1%, while Manitoba and Newfoundland and Labrador were at the other end of the spectrum, advancing by only 0.3%.

While October's deceleration in headline CPI was quite steep, we still expect to see a further moderation in that figure going forward. Commodity prices, which provided significant upward pressure earlier this year, continued to slump in November, and there remains scope for these prices to slide further in the near term. Moreover, with the economy increasingly showing signs of weakness, downward price pressure on several other goods and services is likely in store. With upside inflation concerns no longer a threat, the Bank of Canada can remain focused on the deteriorating economic conditions, and has plenty of room to continue its monetary easing cycle. As such, we expect the Bank to deliver a 50 basis point rate cut at its next meeting in December.

*Dina Cover, Economist*  
416-982-2555

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