Cooler October inflation gives Bank of Canada room to wait on rates

By Leah Schnurr
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Weaker energy prices pulled Canada's annual inflation rate lower in October, further distancing it from the Bank of Canada's target and giving the central bank room to wait until next year to raise interest rates again.

The annual inflation rate decreased to 1.4 per cent last month from 1.6 per cent in September, Statistics Canada said on Friday, in line with economists' forecasts.

The central bank's measures of core inflation were also muted. CPI common, which the central bank says is the best gauge of the economy's underperformance, edged up to 1.6 per cent, while CPI median, which shows the median inflation rate across CPI components, dipped to 1.7 per cent.

The Bank of Canada raised interest rates twice earlier this year and has said that while less monetary stimulus will be needed in the future, it will be cautious in increasing rates again.

Senior Deputy Governor Carolyn Wilkins earlier this week cited low inflation as one reason for that caution. The bank targets inflation at 2 per cent, the mid-point of a 1 per cent to 3 per cent range.

A slowing economy and uncertainties over North American trade policy are also expected to keep rates on hold when the central bank meets next month but markets see over 60 per cent odds of another increase by next March.

"The moderate inflation pressures evident in the report reinforce the view that there's no urgency on the part of the Bank of Canada to tighten further," said Paul Ferley, assistant chief economist at Royal Bank of Canada.

The Canadian dollar weakened against the greenback following the data.

The transportation component contributed the most to the inflation rate, rising 3 per cent on an annual basis, compared with September's 3.8 per cent.

Softer gasoline prices helped drive the deceleration. Gasoline costs were up 6.5 per cent year-over-year, but that was significantly lower than September's 14.1 per cent jump in the wake of Hurricane Harvey.

Clothing prices declined 1.5 per cent, driven by cheaper costs for women's apparel. Over all, prices were up in seven of the eight major components of the consumer price index.

The depressed clothing prices resulted from aggressive discounting by retailers, partly because of online competition, said Sal Guatieri, senior economist at Bank of Montreal.

CPI trim, which excludes upside and downside outliers, rounded out the central bank's three measures of underlying inflation and was unchanged at 1.5 per cent.