

Inflation rises for first time in three months on rising costs for cars, airfares

By David Parkinson

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Canada's inflation rate rose for the first time in three months in October, bouncing back from its late-summer lull amid rising costs for automobiles and a rebound in airfares.

Meanwhile, new retail-sales figures showed a solid upturn in consumer demand at the end of the third quarter.

Statistics Canada reported on Friday that year-over-year inflation in the consumer price index was 2.4 per cent, after dipping to a four-month low of 2.2 per cent in September. It said CPI rose 0.3 per cent month over month, on both a seasonally adjusted and an unadjusted basis.

Economists had expected a more modest 0.1-per-cent rise in the month-to-month reading, and no change in the year-over-year inflation rate. However, they said much of the gains were attributable to turnarounds in a couple of key sectors that have recently been prone to price volatility.

Prices for passenger vehicles, one of the biggest single components of the index, rose 2.5 per cent month over month, reversing three months of declines. Air-transportation prices increased 4.6 per cent, recovering somewhat from their slump of nearly 17 per cent the month before.

While October's upturn in inflation provides some evidence of Canada's continued solid underlying economy, it's nevertheless down significantly from the recent peak of 3.0 per cent in July.

However, Statscan noted that the Bank of Canada's three preferred measures of core inflation – designed to filter out short-term distortions and identify the broader trend across the economy – averaged 2.0 per cent in the month, little changed from September. All three core measures have been close to the

central bank's long-standing 2-per-cent inflation target for the past nine months, even as the overall inflation rate has swung wildly at times.

"Looking through monthly volatility, there was little to point to in terms of changes in underlying inflation trends," said Nathan Janzen, senior economist at Royal Bank of Canada, in a research note.

Economists noted that October's pickup in inflation came despite a drop in one of its major components, gasoline, which fell 3.2 per cent month over month, although it was still up 12 per cent from a year earlier.

However, they said November's inflation numbers will be under more substantial downward pressure from gasoline prices, which are on track for a month-over-month decline of about 10 per cent.

"Headline inflation will decelerate hard next month," said Andrew Grantham, an economist at Canadian Imperial Bank of Commerce. He predicted the overall inflation rate would likely come in below 2 per cent.

"Further weakness in oil prices is clearly a downside risk to the outlook for both economic growth and inflation," said Stephen Brown, senior Canada economist at Capital Economics, in a research report.

In a separate release, Statscan reported that retail sales rose 0.2 per cent month over month in September, despite weaker prices, as sales volumes rose a solid 0.5 per cent. The gain was slightly better than economists had expected, and represented a modest pickup from August's essentially flat reading.

The gains were driven by food and beverage sales, up 0.9 per cent, and autos, up 0.5 per cent. Department stores also saw a 1.2-per-cent increase. But weakening gasoline prices hurt sales at gas stations, which fell 1.1 per cent.

Economists said the increase in volumes in September puts the retail sector on track to deliver a solid contribution to growth in third-

quarter gross domestic product, which Statscan is due to report on Nov. 30.

“That firms up our expectation that the Canadian economy likely churned out 0.1-per-cent real GDP growth in the month, and should be on track to hit 2 per cent [annualized] for all of the third quarter,” Bank of Montreal chief economist Douglas Porter said in a research report.