December 18, 2015

TD Economics

Data Release: Inflation drifts upward in November, but core remains benign

- Canadian inflation picked-up in November to 1.4% year-on-year, but remained well below the Bank of Canada's 2% target. The increase in headline inflation largely reflects the fading impact of lower energy prices on the year-on-year tally. The energy index was down 6.4% versus last November, but had been as low as -13% earlier this year.
- Despite the increase in headline inflation most major categories actually saw lower inflationary pressures in November. Food, household furnishing and operations and health and personal care, all saw their pace of inflation cool in November. The odd category out was clothing inflation which ticked up to 2.1% y/y. Clothing is a category that has frequently been in deflationary territory over the past 15 years, but has been seeing rising prices since the value of the loonie plummeted.
- In contrast, inflationary pressures in the core, which excludes the eight most volatile components (including energy), eased slightly to 2.0% y/y, after running at 2.1% in October. Notably inflation for overall services was down a tick to 1.8% y/y. inflation in services has been cooling for about the past year, likely reflecting the cooling in economic growth that Canada has experienced.
- Inflation was up across all the provinces, as the dampening impact of lower energy prices fades. Notably, inflation in PEI returned to positive territory for the first time in a year. Inflation had been negative in the province over the past year due to the higher weight of home heating oil in the consumer price basket, and thus had seen a bigger impact from lower energy prices.

Key Implications

- On the surface, Canada seems to be experiencing rising inflation. However, this largely reflects the waning impact of the drop in energy prices. This trend is likely to continue in the coming quarters, but the outlook for core inflation remains quite benign.
- After a recession in the first half of 2015, and a modest expansion in the second half of the year, inflationary pressures in Canada's economy remain muted. Declining services inflation is one piece of evidence on that score. As outlined in our latest Quarterly Economic Forecast, we have downgraded our outlook for Canada's economy over the next two years, which should see inflation only gradually drift towards the Bank of Canada's 2% target. As a result, we have also scaled back our expectations for Bank of Canada hike rates, to only a single 25 basis point hike in Q4 2017.

Leslie Preston, Economist
416-983-7053

@TD_Economics