

ECONOMIC NEWS

Canada: Core prices pour cold water on inflation concerns

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HIGHLIGHTS

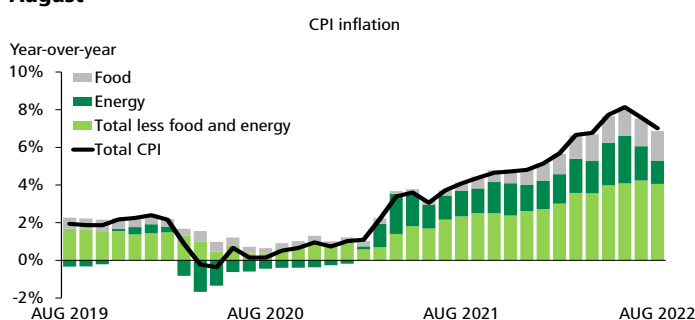
- ▶ Consumer prices fell 0.3% m/m in August, for the steepest drop since April 2020. This pushed the annual rate of inflation lower to 7.0% y/y from 7.6% in July – the second consecutive monthly slowing.
- ▶ Energy prices fell by 6.5% in August, following July's 5.4% drop, although prices were still 19.0% above the level a year ago. Prices at the pump fell even faster, dropping 9.6% over July. In contrast, monthly food price growth accelerated, rising by 0.8% in August, continuing to push up the grocery bills of Canadians. Mortgage interest costs were up 2.4% as well, a trend that has been accelerating alongside monetary tightening.
- ▶ Excluding food and energy, prices were 5.3% higher in August than they were a year earlier, slowing just a tick from the July pace. It was the first deceleration in core inflation since April. On a monthly basis, this often-used measure of inflation was flat in August, the smallest print since December 2021, although part of that was due to typical seasonality for this time of year. In seasonally-adjusted terms, this stripped down measure was up 0.2% in August, a print much closer to pre-pandemic core inflation readings.
- ▶ Notably, the Bank of Canada's three core measures of inflation averaged 5.2% over last year, edging down slightly from an upwardly revised 5.4% in July. This is the first reversal in the average since December 2020, with all three measures posting more modest annual gains.

COMMENTS

Cooling gasoline prices again helped to take some of the heat off inflation in the final month of the summer. No big surprise there. Rather, it was core inflation that helped to pour some cold water on concerns over entrenched price gains. While still up 5.3% on a year-over-year basis, core goods and services prices both advanced at a slower pace than in July. This was broadly true for all aggregate core price categories, including some of the

GRAPH

Canadian consumers see some relief from scorching inflation in August



Sources: Statistics Canada and Desjardins, Economic Studies

big ones like shelter, and is a welcome break from the sustained trend acceleration in most consumer prices.

IMPLICATIONS

With today's below-consensus print for price growth, the big question is what's next for the Bank of Canada. We think they're going to hold the hawkish line in the upcoming speech by Deputy Governor Paul Beaudry, and that a 50bp rate hike in October is in the most likely scenario. What happens after that is more uncertain. After a head fake with US inflation data last week, we think it's way too early for the Bank to claim, "Mission Accomplished". But with interest rate-sensitive sectors of the economy slowing rapidly and employment having contracted for the past few months, a sustained deceleration in price growth could prompt the Bank of Canada to take a prolonged pause after the October announcement.