Canada: Inflation and Retail Sales Below Expectations

HIGHLIGHTS

- The total consumer price index (CPI) was up 0.2% in September, a result that comes in slightly below expectations.
- The main contributors to this increase were gasoline (+5.9%), tuition fees (+3.0%), women’s clothing (+2.7%), organized tours (+3.0%) and motor vehicles (+0.5%).
- In contrast, the components that curbed total CPI monthly growth the most are fresh vegetables (-6.4%), telephone services (-2.4%), traveller accommodations (-3.7%), fresh fruit (-4.1%) and air transportation (-1.8%).
- The total annual inflation rate edged up from 1.4% to 1.6%.
- The August results for retail trade were also released this morning, with sales down 0.3%. The consensus forecast called a 0.5% increase for the month.
- Expressed in real terms, retail sales declined by 0.7% in August.

COMMENTS

In terms of inflation, clothing, which posted much softer seasonal price increases than we usually see, was the biggest surprise. That said, the annual change in the total CPI continued to climb, but this rise could begin to sputter as of next month as the prices at the pump point to a significant price drop in October now that everything is back to normal after the hurricanes in the southern United States.

The outcome for retail sales is more disappointing. The 0.7% decrease in sales volumes will curb economic growth in August. That said, certain one-time factors appear to have affected retail trade. Furthermore, the 2.9% drop in grocery store sales is surprising—this marks the sharpest decline since January 2015.

IMPLICATIONS

Today’s results confirm that Canada’s runaway economic growth started to wind down in the third quarter, which reduces the urgency to swiftly proceed with monetary tightening in Canada. In such conditions, the Bank of Canada could opt for a status quo at its meeting next week.

Benoit P. Durocher, Senior Economist

Excluding grocery stores, retail sales ticked up 0.1% last August, suggesting that the overall trend in retail sales remains positive.