## Canada: The Total Inflation Rate Drops Back to the Median Target

### HIGHLIGHTS
- The total consumer price index (CPI) fell 0.4% in September.
- The main components contributing to this decline were air transportation (-16.6%), traveller accommodations (-6.2%), motor vehicle purchases (-1.2%), gasoline (-1.1%) and tour packages (-3.4%).
- Inversely, the components that contributed the most to the increase in the total CPI in September were tuition fees (+3.1%), clothing (+2.5%) and mortgage interest costs (+0.6%).
- The total annual inflation rate went from 2.8% to 2.2%.
- Annual changes in the three reference indexes all declined one-tenth of a percentage point. Their average was 2.0%, compared to 2.1% the month before.

### COMMENTS
The size of the monthly reduction in the total CPI in September is surprising, as one-off factors intensified the drop. After jumping in July, air transportation prices dropped significantly to return to normal levels in September. The same fluctuations were also seen in tour packages. After these major ups and downs, the annual change in the CPI is now down to 2.2%. The drop in the rate of inflation occurred therefore much faster than anticipated. That being said, some inflationary pressures persist and continue to be monitored, such as the 6.4% increase in the mortgage interest costs over the past year due to the gradual rise in interest rates.

### IMPLICATIONS
Today’s results are not expected to prevent the Bank of Canada from raising key rates again next week. On the other hand, with the rate of inflation once again hovering around the median target (2%), inflationary threats have clearly dropped a notch. This should allow the monetary authorities to pursue their gradual approach when raising the target for the overnight rate. After October, it is possible that the next increase may not be enacted until the spring.

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