Economics

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Canadian CPI (August): Target achieved

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Consumer price index (% chg)	24:Q1	24:Q2	Jun	Jul	**Aug**
Year/year rate (unadjusted)	2.8	2.7	2.7	2.5	2.0
Monthly rate (unadjusted)	-	-	-0.1	0.4	-0.2
Monthly rate (SA)	-	-	0.1	0.2	0.1
Three-month rate (SAAR)	-	-	2.3	2.5	2.0
CPI-trim (year/year rate)	3.1	2.8	2.8	2.7	2.4
CPI-median (year/year rate)	3.0	2.6	2.6	2.4	2.3

Source: Statistics Canada

- Inflation locked onto the 2% target in August for the first time since 2021, and with CPI excluding mortgage interest costs now a mere 1.2%, policymakers should be focussing on cutting interest rates to stimulate the economy and prevent a material undershoot of the inflation target ahead.
- Headline CPI fell from 2.5% year-over-year in July to 2.0% in August, which was a tick weaker than the consensus forecast. On a monthly basis, prices fell by 0.2%, and rose only +0.1% when adjusted for seasonality. Gasoline prices fell 2.6% on the month, and were also down on a year-over-year basis (-5%). The swing in gasoline from a slight positive in July to a negative in August accounted for much of the easing in headline inflation during the month.
- However, gasoline prices were far from the only area of softness. Clothing & footwear prices also fell on the month, which Statistics Canada noted was atypical for August, which generally sees price increases due to back-to-school shopping. Indeed, it was the first August decline in that component since 1971, and could be an indication that weak demand had left retailers with a stock overhang towards the end of the summer. A further monthly and annual decline in vehicle prices is also a sign of weaker demand and higher inventory levels relative to earlier in the post-pandemic period.
- There were also indications of weaker spending impacting prices on the services side as well, with travel tour, air transportation and traveler accommodation prices all remaining down on a year-over-year basis. Communication services also fell sharply on the month and remained down on a year-over-year basis, although a slight methodology change may have contributed to that.
- The only area of price pressure remains shelter, and in particularly rents and mortgage interest costs (MIC). Despite evidence that asking rents are starting to plateau, the CPI data reported a 1% increase m/m and a nearly 9% annual pace of inflation in that category. MIC rose by 0.8% on the month with the annual inflation rate easing to just under 19%. Even though the Bank of Canada has cut interest rates, fixed rate mortgages are still being refinanced at higher rates and as a result this component of inflation will continue to ease fairly gradually. Excluding MIC, CPI inflation was only 1.2% in August, and excluding the entire shelter component it was only 0.5%.
- Core measures of inflation remained tame with seasonally adjusted ex food/energy prices increasing 0.1%, and CPI-trim and CPI-median both advancing 0.2% m/m. The 2.4% and 2.3% annual paces respectively were the slowest since April 2021. The Bank of Canada's old CPIX measure of core inflation eased further to 1.5% y/y.

Implications & actions

Re: Economic forecast — With gasoline prices falling further into September, headline inflation should ease again in the next release and CPI excluding MIC could well fall below 1%. The bottom line then is that inflation remains unthreatening and the Bank of Canada should now focus on trying to stimulate the economy and halting the upward climb in the unemployment rate. We continue to forecast a further 200bp of interest rate cuts between now and the middle of next year.

Re: Markets — Bond yields initially fell as the data were released, but soon recovered that ground due to better than expected US retail sales figures that were released at the same time. The Canadian dollar weakened against its US counterpart.

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