Economics

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Canadian CPI (August): A done deal?

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Consumer price index (% chg)	25:Q1	25:Q2	Jun	Jul	Aug
Year/year rate (unadjusted)	2.3	1.8	1.9	1.7	1.9
Monthly rate (unadjusted)	-	-	0.1	0.3	-0.1
Monthly rate (SA)	-	-	0.2	0.1	0.2
Three-month rate (SAAR)	-	-	0.7	2.2	2.0
CPI-trim (year/year rate)	2.8	3.0	3.0	3.1	3.0
CPI-median (year/year rate)	2.7	3.0	3.0	3.1	3.1

Source: Statistics Canada

- Inflation remained largely unthreatening in August which, combined with recent weakening in the labour market, should make an interest rate cut tomorrow a done deal. With core measures of inflation likely to cool further in the months ahead thanks to the slack building up in the economy and the removal of many retaliatory tariffs on September 1st, we not only expect a 25bp cut tomorrow but also a further reduction at the October meeting.
- While headline inflation accelerated to 1.9%, from 1.7% in the previous month, that was largely due to base effects and was actually slightly lower than the consensus expectation (+2.0%). On a monthly basis prices were down by 0.1% NSA (consensus 0.0%) and up by a trend-like 0.2% after seasonal adjustment. The acceleration in headline inflation was largely due to a smaller year-over-year decline in gasoline prices in August compared with July (-12.7% vs -16.1%). On the month gasoline prices edged up by 1.4%. The year-over-year decline in cell phone series also eased relative to the prior month.
- Excluding food and energy, prices rose by a modest 0.1% SA for a second consecutive month with the 3m-annualized pace falling below 2%. Rent inflation remains strong relative to market asking prices, rising 0.4% m/m and 4.5% y/y. However, partly offsetting this, homeowners' replacement costs and other owned accommodation costs were both lower in year-over-year terms. Travel tour inflation continued to weaken in August (down 9.3% y/y vs -1.7% in July), with lower demand for US destinations cited as a contributing factor.
- While the year-over-year rates of CPI-trim and CPI-median were little changed around 3%, the more recent trend has been cooler. After matching 0.2% m/m increases in August, the three-month annualized rates of both are close to 2.5%. The detailed breakdown showed that rent prices remain a key driver of CPI-Trim, due to its high weight and the fact that the m/m increase wasn't quite strong enough to be trimmed off the top of the list of price increases. The Bank of Canada's old CPI-X measure of core inflation also posted a 0.2% SA increase in August, but the 3-month annualized rate (2.3%) and year-over-year rate (2.6%) remained slightly tamer than CPI-Trim and Median.

Implications & actions

Re: Economic forecast — While headline inflation may edge up a little further in the months ahead, this will largely once again be due to less favourable base effects related to gasoline prices. Core measures of inflation should continue to cool, given evidence of slack building in the economy and potentially some weaker prices related to the lifting of retaliatory tariffs in early September. We continue to forecast that the Bank will cut by 25bp tomorrow and then again at the October meeting.

Re: Markets — Bond yields fell following the release, with markets moving to almost fully price in a rate cut at tomorrow's meeting and adding to bets for further moves in the months ahead. The Canadian dollar was strengthening against its US counterpart heading into today's release, but partly reversed that move post-release.