RBC Economics

Daily Economic Update

September 20, 2022

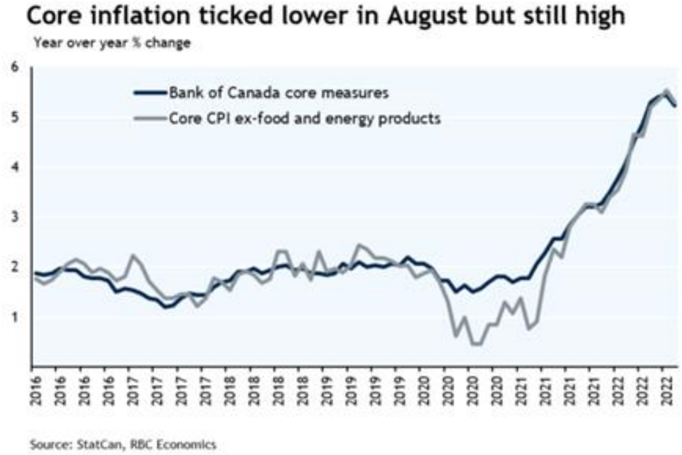
Canadian inflation pressures further eased in August

- Lower gasoline prices led headline inflation growth down again, to 7%
- Excluding food and energy, "core" CPI also ticked lower to 5.3%
- Bank of Canada to hike until the overnight rate reaches 4% in December

Headline inflation in Canada slowed again in August to 7% from 7.6% in July, and a recent peak of 8.1% in June. Lower gasoline and core price growth (CPI excluding food and energy products) all subtracted from price pressure, offsetting an acceleration in food inflation. Food prices rose to 9.8% above a year ago, the highest in over 4 decades thanks to higher grocery bills. Inflation for food purchased from restaurants however remained largely unchanged from July, at 7.4% above a year ago. Excluding food and energy products, core CPI growth dropped lower to 5.3% alongside a decline in all three of Bank of Canada's core inflation measures (CPI trim, median and common). Price pressure eased slightly for airfares, home-buying and car rental and leasing related expenses, but accelerated in categories including mortgage interest cost and travel tours. Looking ahead, headline CPI should continue to wind down following lower oil and home resale prices - we project a 14% peak to trough decline in composite home prices in Canada.

Near-term data have continued to point to some improvement in the future inflation outlook. Less businesses surveyed in the Canadian Survey on Business Conditions were concerned about sourcing input or maintaining inventories in Q3, in line with reports of improving supply chain conditions. Both the raw material price index (input prices manufacturers are charged) and the industrial product price index (output prices from manufacturers) in Canada have been trending lower since May following a long run-up over the course of the pandemic. All of that, together with flattening demand according to our own tracking of card spending, looks likely to further limit the pace of price growth for physical merchandise going forward. Growth for services prices in the meantime, especially those that are leisure and travel related is expected to remain higher for longer, supporting strength in core inflation which we don't project to peak until later in Q4 this year. That should be more than enough to keep the Bank of Canada on its current hiking path. We anticipate another 75 bps worth of increases in the overnight rate for it to reach 4% by December.

Core inflation ticked lower in August but still high



Canadian CPI Inflation

	Apr-22	May-22	Jun-22	Jul-22	Aug-22
			m/m % change		
All Items CPI	0.6	1.4	0.7	0.1	-0.3
Food	0.9	0.8	0.1	0.9	0.8
Energy	0.6	8.5	3.9	-5.4	-6.5
All items ex-food & energy	0.6	0.9	0.4	0.6	0.0
			y/y % change		
All Items CPI	6.8	7.7	8.1	7.6	7.0
Food	8.8	8.8	8.8	9.2	9.8
Energy	26.4	34.8	38.8	28.0	19.0
All items ex-food & energy	4.6	5.2	5.3	5.5	5.3
BoC 'Core' Measures					
CPI-Trim	5.1	5.4	5.5	5.4	5.2
CPI-Median	4.5	4.9	4.9	4.9	4.8
CPI-Common	5.0	5.6	5.8	6.0	5.7

Source: Statistics Canada, RBC Economics

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