

Core inflation on an uptrend

Total CPI: Latest (y/y): +1.4% (actual); +1.5% (consensus expectations); +1.2% (previous)

CPI-Common: Latest (y/y): +1.5%; +1.4% (previous)

CPI-Median: Latest (y/y): +1.7%; +1.7% (previous)

CPI-Trim: Latest (y/y): +1.4%; +1.3% (previous)

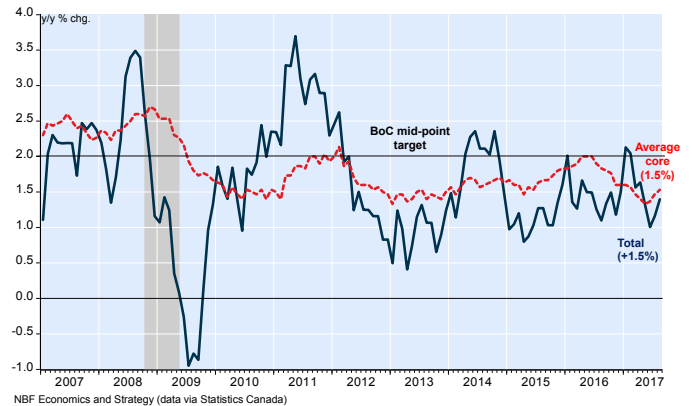
FACTS: Canada's consumer price index rose 0.2% (m/m) in August in seasonally adjusted terms allowing the year-on-year inflation rate to rise two ticks to 1.4% (top chart). This was below consensus expectations calling for a 1.5% annual rate. On a month-to-month basis, the increases in food, shelter, transportation, healthcare and alcohol/tobacco more than offset declines in clothing, household ops and recreation. On a regional basis, nine provinces experienced a rise in their annual inflation rate from July to August. The biggest increases were in Prince Edward Island (2.3% from 1.8%), New Brunswick (1.8% from 1.4%) and Ontario (1.5% from 1.2%). Alternatively, inflation was unchanged in Manitoba at 0.9%. CPI excluding food and energy rose 0.1% (m/m) in seasonally adjusted terms but due to the base effect, the year-on-year rate rose one tick to 1.5%. On an annual basis, the CPI-trim stands at 1.4% (up from 1.3%), CPI-Median at 1.7% (unchanged) and CPI-Common at 1.5% (up from 1.4%).

OPINION: Inflation in Canada was below expectations in August. That being said, underlying inflation continued to be stronger compared to earlier this year. According to our in-house replication, both CPI-Trim and CPI-median rose 0.2% in August. On a 3-month annualized basis, the former is showing a 2.1% annualized pace while the latter is even stronger at 2.3% (middle chart). As a result, the average of the three measure is on the rise for a third consecutive month on an annual basis (top chart) chart). As opposed to earlier this year, the underlying trend of inflation is now consistent with a much stronger economy showing diminishing excess capacity. A new developing trend in the shelter cost component of the CPI (26% of index) is helping support our view of higher CPI inflation in the coming months. It was up 0.22% on the month, the largest increase in seven months. Though the year/year change is still tame at 1.3%, it will move higher going forward as homeowners' replacements costs continue to increase briskly in British Columbia and now that the all-important mortgage interest cost component is showing positive inflation for the first time in three years. This report supports our view that the central bank will raise rates another time by year end.

Matthieu Arseneau

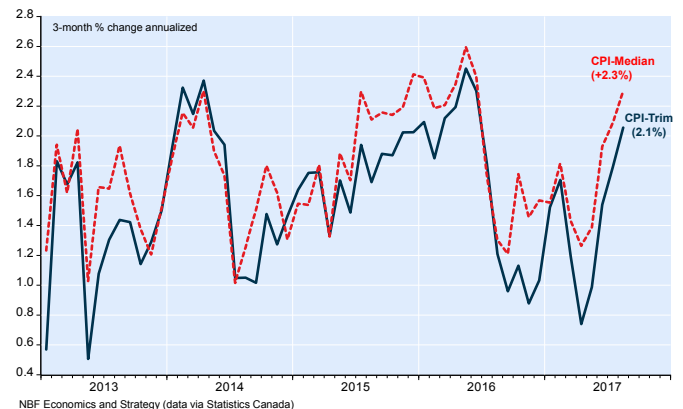
Canada: Perspective on the consumer price index

Total and average of the three core measures preferred by the Bank of Canada



CPI-Trim and CPI-Median showing the stronger momentum in 14 months

CPI-Trim and CPI median



Canada: Shelter CPI starting to move higher

CPI services (51% of CPI) and CPI shelter (26% of total)



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