

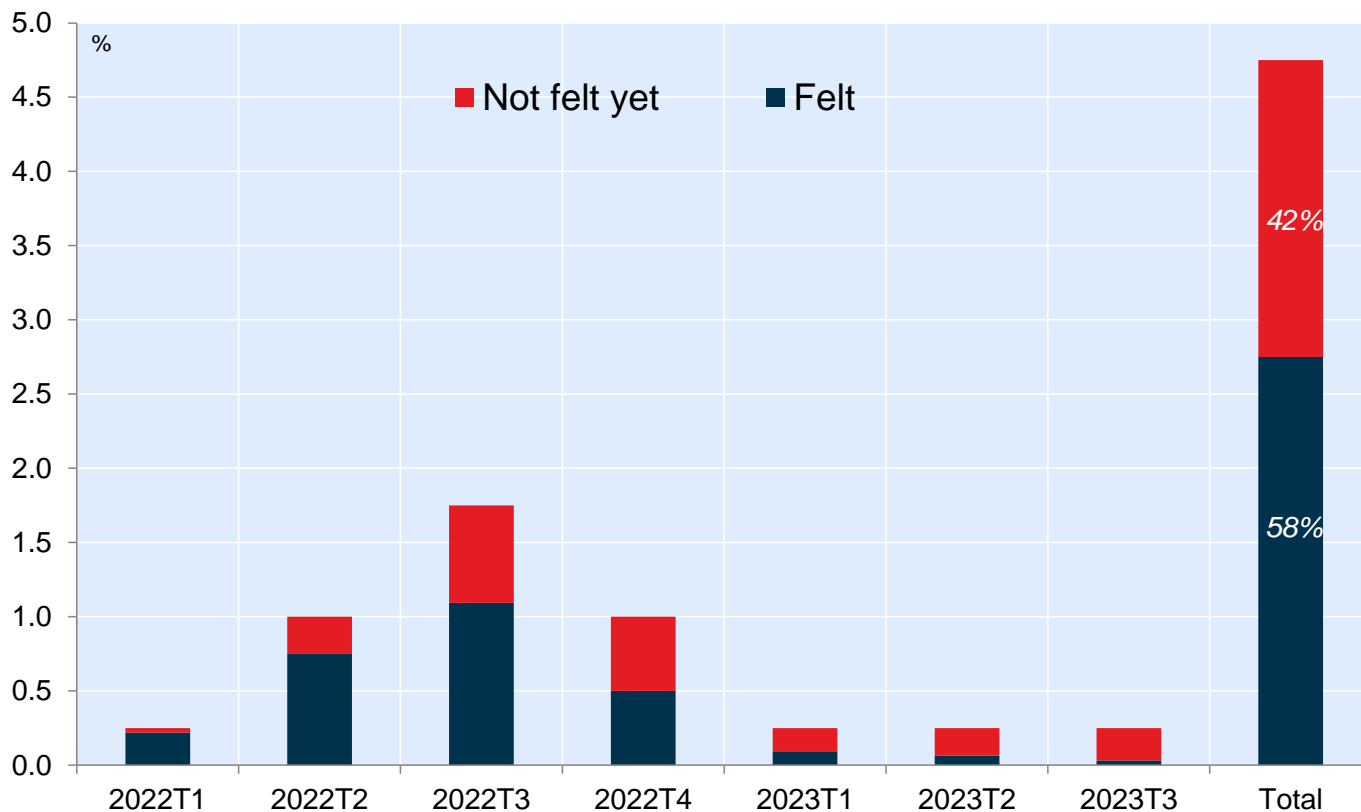
## Canada Watch

By Matthieu Arseneau & Alexandra Ducharme

August's retail sales data released this morning continued to show weakening consumers, reflecting the negative effects of rising prices and the interest rate shock on household purchasing power. Indeed, as we noted in our [Economic News](#) published this morning, consumption per capita showed its biggest quarterly decline since the first pandemic-related lockdown. And if the latest consumer confidence data are anything to go by, there's no sign of a turnaround in the months ahead. Indeed, the Conference Board index is at levels seen only in the last two recessions. Given the long lag between interest rate hikes and their full impact on consumption, there is every reason to believe that weakness will continue for some time. Indeed, the Bank of Canada estimates that the impact of a rate hike on consumption is only entirely felt after 8 quarters, with the impact being essentially linear over the two years. As today's Hot Chart shows, using these estimates, we calculate that 42% of the impact of the huge rate hikes announced since March 2022 has yet to be felt. For this reason, it would be perilous for the Central Bank to focus on the resilience of core inflation in its rate decision next week, as this indicator reacts with a lag to the economic situation which looks set to be moribund over the next 12 months. We expect the Bank to hold its policy rate steady next Wednesday (read our detailed analysis [here](#)).

### Canada: Rate hikes still have sizable negative impact to come

Policy rate hikes per quarter since 2022, with or without impact on current consumption



NBF Economics and Strategy (data via Refinitiv and [Bank of Canada note](#))

## Economics and Strategy

**Montreal Office**  
514-879-2529

**Stéfane Marion**  
*Chief Economist and Strategist*  
stefane.marion@nbc.ca

**Kyle Dahms**  
*Economist*  
kyle.dahms@nbc.ca

**Alexandra Ducharme**  
*Economist*  
alexandra.ducharme@nbc.ca

**Matthieu Arseneau**  
*Deputy Chief Economist*  
matthieu.arseneau@nbc.ca

**Daren King, CFA**  
*Economist*  
daren.king@nbc.ca

**Angelo Katsoras**  
*Geopolitical Analyst*  
angelo.katsoras@nbc.ca

**Jocelyn Paquet**  
*Economist*  
jocelyn.paquet@nbc.ca

**Toronto Office**  
416-869-8598

**Warren Lovely**  
*Chief Rates and Public Sector Strategist*  
warren.lovely@nbc.ca

**Taylor Schleich**  
*Rates Strategist*  
taylor.schleich@nbc.ca

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