RBC Economics & Thought Leadership

Economic Update

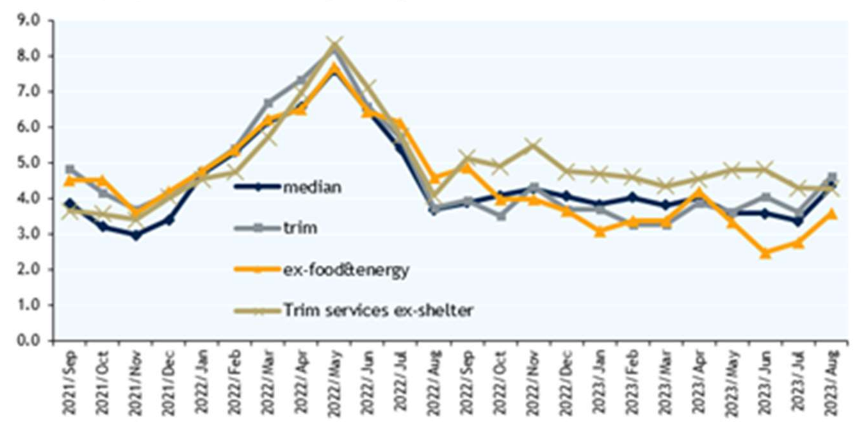
September 19, 2023

Canadian inflation pressures accelerated in August

- Headline CPI rose to 4.0% year-over-year as surging oil prices pushed energy costs higher. The increase was above market expectations for a 3.8% reading with growth in broader 'core' measures also accelerating more than expected.
- Most of the acceleration in year-over-year price growth came from rising energy costs - gasoline prices edged above year-ago levels for the first time since January with oil prices boosted by supply caps from key major oil producers.
- And higher mortgage costs (a direct lagged result of Bank of Canada interest rate hikes over the last year and a half) are still accounting for about a quarter of year-over-year CPI growth.
- But broader inflation pressures showed signs of reaccelerating in August. The BoC's preferred CPI-trim and CPI-median measures rose more than expected on a year-over-year basis (to 3.9% and 4.1%, respectively) and the closely-watched more recent 3-month run rate accelerated to a 4 1/2% annualized rate for both.
- CPI trim services ex-shelter (sometimes called BoC 'supercore') rose 4.3% at an annualized rate over the last three months (by our calculation), in line with the July increase.
- One silver lining was that grocery price growth showed further signs of easing. Grocery prices were still up 6.9% year-over-year, but that was smaller than the 8.5% increase in July and the 11%+ readings last winter. Food price growth should continue to ease in the near-term as lower raw food commodity prices and easing domestic supply chain pressures pass through to retail prices with a lag.

BoC's preferred core measures accelerated in August

Seasonally adjusted 3mth moving average annualized %



Source: Statistics Canada, RBC Economics calculations

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- The BoC will be happy to see some signs of easing in food price growth. Higher mortgage interest costs are part of the central bank's plan to help cool off consumer demand and there is not much the BoC can do about global energy prices. But the acceleration in 'core' measures is concerning and will be watched closely.

- **Bottom line:** The economic backdrop has been showing clear signs of slowing (with a decline in GDP in Q2 and drift higher in unemployment in recent months.) And that should signal that inflation pressures will ease going forward. But the BoC has one mandate, and that is to target a 2% inflation rate. And the August CPI data took a significant step away from that target rather than towards it. We expect the economic backdrop will continue to soften, and don't look for more interest rate hikes this year. But the central bank won't hesitate to hike interest rates further if inflation pressures don't show signs of easing.

Canadian CPI

	Apr-23	May-23	Jun-23	Jul-23	Aug-23
	m/m % change (not seasonally adjusted)				
All Items CPI	0.7	0.4	0.1	0.6	0.4
Food	0.4	0.8	0.1	0.4	-0.1
Energy	3.4	-0.8	1.4	1.7	3.7
All items ex-food & energy	0.5	0.4	0.0	0.5	0.2
	y/y % change				
All Items CPI	4.4	3.4	2.8	3.3	4.0
Food	8.3	8.3	8.3	7.8	6.8
Energy	-4.2	-12.4	-14.6	-8.2	1.8
All items ex-food & energy	4.4	4.0	3.5	3.4	3.6
BoC 'Core' Measures					
CPI-Trim	4.2	3.8	3.7	3.6	3.9
CPI-Median	4.3	3.9	3.9	3.9	4.1
Trim services ex-shelter	4.5	4.8	4.8	4.3	4.3

Source: Statistics Canada, RBC Economics