

Canada: August CPI - up down all around.

Headline down, core up, seasonal factors abound.

Consumer prices for the month of August dropped -0.1% on the month (median 0.0%, HSBC 0.0%) helping pull down the year over year rate to 1.7% (median 1.9%, HSBC 1.8%) from 1.8% in July. At the core, prices were up 0.1% m/m in line with the median and our own forecast. Year over year prices held steady at 1.6% in keeping with forecasts. The BoC's current mandate targets headline CPI at 2.0% within a target band of 1 to 3%.

Much of the market interest will lie with the core number which has been oscillating between 1.5 and 2.0% over the last year.

On the down side, month over month prices (not seasonally adjusted) were broadly lower, with declines noted in 6 to 8 categories, albeit by 0.1 or 0.2% only. On the upside, pricing pressure was noted in clothing and footwear which jumped 1.5% m/m. The jump in apparel reflecting the introduction of the new fall seasonal lines that hit retailer shelves at full retail prices. Healthcare also experiencing pricing pressures, rising 0.7% m/m. Food prices, are down -0.2% although this would tend to be associated with the impact of local seasonal produce hitting supermarkets. Seasonally adjusted, CPI rose 0.1% m/m

One noteworthy event is the impact of gasoline prices on a year over year prices having largely faded from view. Not that long ago (December 2009), gasoline prices were running at 25.6% y/y, contributing 1.3ppt to the CPI run rate. In the current report gasoline prices are running at 1.9% y/y adding just 0.1ppt onto the headline.

In the current report, electricity has usurped the role played by gasoline with prices rising 7.7% y/y as Ontario adopts a time of day pricing model that is pushing prices higher. Although just as consumers are piling on debt, mortgage costs are declining (-3.8% y/y) as fixed rate mortgage debt chases the yield curve lower. At the same time that the BoC has been raising interest rates, (+75bps), 5-year GOC yields have collapsed by nearly 100bps.

Overall, year over year core CPI at 1.6% while off of the BoC's current mandate to target an inflation rate of 2.0%, is probably running close to where discussions on an appropriate target for CPI are heading. Goods prices are running at 1.2% y/y while services are at 2.2% y/y. But for the here and now, inflation running behind where BoC forecasts had suggested tends to suggest that the pricing picture provide little impedance to brining a halt to the rate cycle. Yet we get the sense that what was driving BoC policy changes (three back to back rate hikes) wasn't necessarily exclusively related to what CPI was doing in the present.

Market impact is muted given I) a report that doesn't seem to raise the spectre of deflation in Canada at this juncture, and II) the FOMC at 14:15 today that is drawing the bulk of the interest for the North American session.

Disclosure appendix

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