TD Economics

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Data Release: Lower prices at the pump help keep inflation cool in July

- Canadian inflation cooled slightly in July to 1.3% (year-on-year), from 1.5% in June, as Canadians paid less to fill up their tanks. Removing the effects of the most volatile price categories, the Bank of Canada's core inflation measure, remained steady 2.1% (y/y) for the third consecutive month.
- Gasoline continued to put downward pressure on headline inflation in July. Prices at the pump were 14% lower (year-on-year) in July. Excluding the impact of gasoline prices, Canadian inflation would have been 1.9% in July, matching June's pace.
- Downward pressure on prices also stemmed from a drop in clothing prices, which were 0.4% lower than a year ago, after being in positive territory in recent months.
- Only two major categories saw stronger price pressures in July, food and recreation, education and reading. Overall food inflation is contained at 1.6%, but price pressures for items like meat and fish led food inflation higher in July. Inflation for recreation, education and reading ticked up in July on higher prices for video and audio subscriptions, but the category remains contained overall (+1.9% y/y).
- Core inflation was steady once again in July. This has been the trend for about two years now, as higher inflation for many durable goods is being partially offset by lower prices for nondurable goods. Meanwhile services inflation remains very well behaved at close to 2% (2.1% y/y in July).

Key Implications

- Overall, inflation in Canada has been calm and predictable in recent months. Under the surface, the greatest inflation is in durable goods (cars, appliances, furniture), which is running hot at 3.5% y/y, reflecting a higher share of imports in this category and the past depreciation of the Canadian dollar. Inflation in the more domestically-driven services category meanwhile has held relatively steady at 2.1%.
- Markets may be worrying about Canada's economic growth performance, but underlying inflation certainly isn't raising any eyebrows. The Bank of Canada's monetary policy objective is to keep inflation low, stable and predictable, and they have succeeded in recent years to provide enough stimulus to help offset the dampening impact of the oil sector slowdown. We expect that the Bank will need to keep the current low rate setting in place until at least 2018, as the opposing forces underneath the surface in Canadian inflation continue to net out to its 2% target.

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