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TD Economics

Data Release: Canadian inflation cools in August

- Canadian inflation slowed to 1.1% year-on-year in August, from 1.3% in July. The Bank of Canada's core inflation measure also cooled to 1.8% in August, down from 2.1% in July.
- Inflation in most categories lost momentum in August. Food inflation cooled further to only 1.1% year-on-year, as meat prices fell back from their previously elevated levels. Recreation, education and reading inflation also cooled to 1.1%, from 1.9% in July.
- There were two main exceptions to the loss in inflation momentum in August. One is shelter, which saw inflation rise slightly, but is still relatively benign at 1.7% year-on-year. Homeowners' replacement cost (+4.0% y/y) inflation has contributed the most to gains in shelter costs over the past year. Health and personal care also saw hotter inflation pressures, moving up from 1.2% to 1.8% year-on-year, but again running at a fairly contained pace.
- Overall services inflation was a benign 1.8% in August. By comparison, services inflation in the U.S. economy is running at 3.0%, providing just one more example of the divergent momentum in the two economies.
- Lower inflation pressures were widespread across the country with all provinces seeing either the same, or a reduced pace of inflation.

Key Implications

- It is a bit misleading to say Canadian inflation cooled in August, as it implies it was hot to begin with. Inflation in Canada has been low for some time due to lower energy prices, but even core inflation has been very close to the Bank of Canada's 2% target for two years now. In August the only major category to have inflation above the Bank's 2% target is alcohol and tobacco, and that largely reflects provincial tax increases. It is safe to say there was a complete absence of pricing pressures to worry about in the August inflation numbers.
- That lines up with the Bank of Canada's recent shift to sounding a bit more worried about Canada's economy, and hence the outlook for inflation. We're inclined to agree. As we outline in our [Quarterly Economic Forecast](#), released yesterday, growth is expected to be modest over the forecast horizon, and while we don't expect core inflation to fall much further, we do expect that the Bank will need to keep the current low rate setting in place through 2018 to keep inflation near their target.

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