



### Inflation steps lower to 2.0 per cent in August

Slow, then fast. Canadian headline inflation laddered down in August to reach the elusive two per cent mark, and the lowest rate since February 2021. While base year effects contributed, inflation is now contained, setting the stage for further rate cuts into 2025. There is risk that inflation will drift below the Bank of Canada's target over coming months and quarters.

CPI inflation fell half a point to 2.0 per cent y/y in August, led by a sharp decline in gasoline prices. This was the sharpest single month decline since October of last year. On a monthly basis, prices fell 0.2 per cent (up 1.0 seasonally- adjusted).

Gasoline price declined in August and was a key contributor to the decline as oil prices fell due to US economic uncertainty and weakness in China. The price at the pump fell 2.1 per cent from July, and 5.1 per cent y/y. The latter compared to a 1.9 per cent increase in July. Further oil price declines in September point to further disinflationary pressure from this segment. Excluding oil prices, CPI inflation was 2.2 per cent, and further excluding food, prices were up 2.4 per cent.

Food prices rose 2.7 per cent, which was in line with July with store-bought foods prices up a more modest 2.4 per cent. Vegetable prices were up four per cent and dairy 3.3 per cent provided upward pressure. More broadly, goods prices declined 0.7 per cent due largely to gasoline, but clothing and footwear also deflated with prices down 4.4 per cent, while furniture and appliances were down about one per cent. Auto prices are also down. Broad goods prices were down 0.7 per cent y/y.

Services prices remained more robust at 4.3 per cent y/y growth even as prices slipped m/m. Key to service price growth remains elevated shelter price growth. Rent growth accelerated to 8.9 per cent from 8.5 per cent, while mortgage interest costs decelerated but remained high at 18.8 per cent, compared to 21 per cent in July. Both shelter components will likely decelerate in coming months and quarters. Reduction in non-permanent population inflows should temper rent growth, and there are signs this is already occurring. Meanwhile, interest rate reductions will lead to lower mortgage costs. While the latter could trigger higher home prices, pass through into inflation is limited. There are several components of services inflation that remain elevated and suggest wage costs are still pushing through including healthcare (3.3 per cent), personal care (5.4 per cent), and live events (3.6 per cent), but travel services are down.

Among the Bank's core inflation measures, growth remains within the target band. Median- and trim-measures sit at 2.3 and 2.4 per cent year-on-year, with similar monthly annualized patterns, The core-common measure sits at 2.0 per cent but like headline, includes shelter. As we have noted, in the absence of shelter, overall inflation is muted at 0.5 per cent, which is far below the Bank of Canada's target rate of inflation. With interest rates directly impacting mortgage costs, and rents driven largely by immigration policy, the Bank should look through these factors and focus on inflation ex. shelter.

The combination of disinflation, core and headline inflation within target, and exceptionally low shelter-adjusted measures, the Bank of Canada's only move will be to reduce the policy rate going forward. While wage growth passes through is a concern for some segments, inflation will likely decelerate further. Oil prices have declined with a global slowdown, labour market slack is rising, and domestic economic

headwinds will continue as more mortgages renew. That said, we are not convinced that a super-sized rate cut will be necessary as household savings remain high and net worth measures are still rising. This could limit the downside to household spending going forward. We still see 3.75 per cent by year end, and a 2.75 per cent policy by Q3 of 2025.

---

**Bryan Yu**

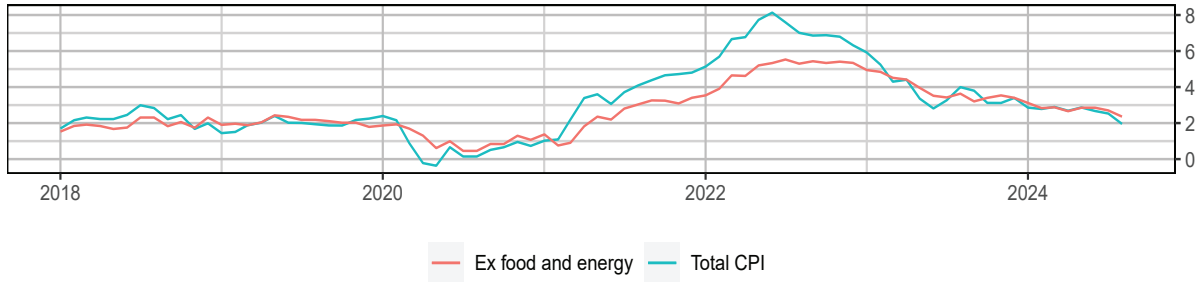
Chief Economist  
 Central 1 Credit Union  
 byu@central1.com

| <b>Aug/2024 Canada Consumer Price Index</b> |                |                     |                |                      |                     |                           |
|---|----------------|---------------------|----------------|----------------------|---------------------|---------------------------|
| <b>Indicator</b>                            | <b>m/m ch.</b> | <b>prior m/m ch</b> | <b>y/y ch.</b> | <b>prior y/y ch.</b> | <b>3m ann % ch.</b> | <b>prior 3m ann % ch.</b> |
| All-items, actual                           | <b>-0.2</b>    | 0.4                 | <b>2.0</b>     | 2.5                  |                     |                           |
| All-items, s.a.                             | <b>0.1</b>     | 0.2                 | <b>2.0</b>     | 2.5                  | <b>2.0</b>          | 2.5                       |
| Ex food and energy                          | <b>-0.1</b>    | 0.4                 | <b>2.4</b>     | 2.7                  |                     |                           |
| Ex food and energy, s.a.                    | <b>0.1</b>     | 0.1                 | <b>2.4</b>     | 2.6                  | <b>1.9</b>          | 2.7                       |
| <b>Select Products and Services</b>         |                |                     |                |                      |                     |                           |
| Goods                                       | <b>-0.3</b>    | 0.2                 | <b>-0.7</b>    | 0.3                  |                     |                           |
| Services                                    | <b>-0.1</b>    | 0.7                 | <b>4.3</b>     | 4.4                  |                     |                           |
| Food  | <b>-0.1</b>    | 0.3                 | <b>2.7</b>     | 2.7                  |                     |                           |
| Gasoline                                    | <b>-2.6</b>    | 2.4                 | <b>-5.1</b>    | 1.9                  |                     |                           |
| Shelter                                     | <b>0.4</b>     | 0.2                 | <b>5.3</b>     | 5.7                  |                     |                           |
| Rent  | <b>1.0</b>     | 0.2                 | <b>8.9</b>     | 8.5                  |                     |                           |
| Mortgage Interest                           | <b>0.8</b>     | 0.9                 | <b>18.8</b>    | 21.0                 |                     |                           |
| Homeowners Replacement                      | <b>0.2</b>     | -0.3                | <b>-0.5</b>    | -0.8                 |                     |                           |
| CPI Ex Shelter                              | <b>-0.5</b>    | 0.6                 | <b>0.5</b>     | 1.2                  |                     |                           |
| <b>Bank of Canada Core Measures</b>         |                |                     |                |                      |                     |                           |
| Core Common                                 |                |                     | <b>2.0</b>     | 2.2                  |                     |                           |
| Core Median                                 |                |                     | <b>2.3</b>     | 2.4                  |                     |                           |
| Core Trim                                   |                |                     | <b>2.4</b>     | 2.7                  |                     |                           |
| Core Median, s.a.                           | <b>0.2</b>     | 0.1                 | <b>2.3</b>     | 2.4                  | <b>2.5</b>          | 2.7                       |
| Core Trim, s.a.                             | <b>0.2</b>     | 0.1                 | <b>2.4</b>     | 2.7                  | <b>2.3</b>          | 2.9                       |

# Inflation Indicators

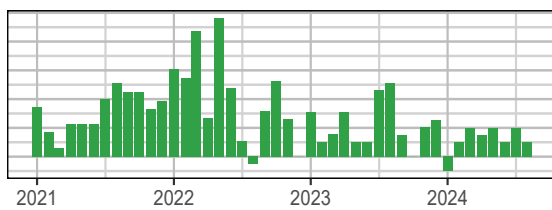
## CPI Inflation, y/y % change

Last data point: 2024-08-01



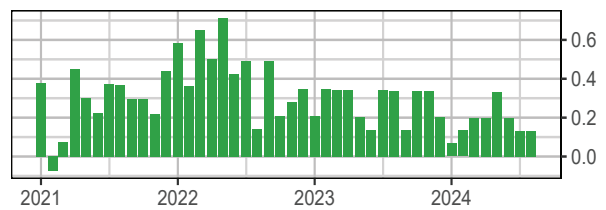
## CPI sa, m/m % ch

Last data point: 2024-08-01



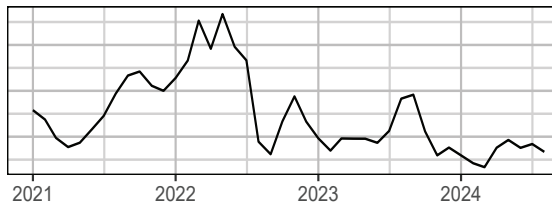
## CPI ex food/energy sa, m/m % ch

Last data point: 2024-08-01



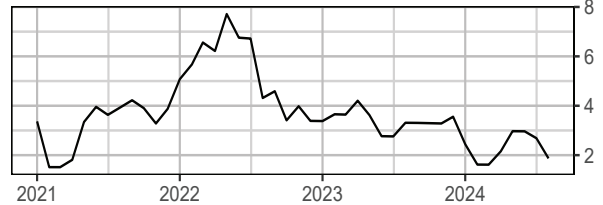
## CPI sa, 3m ann. % ch

Last data point: 2024-08-01



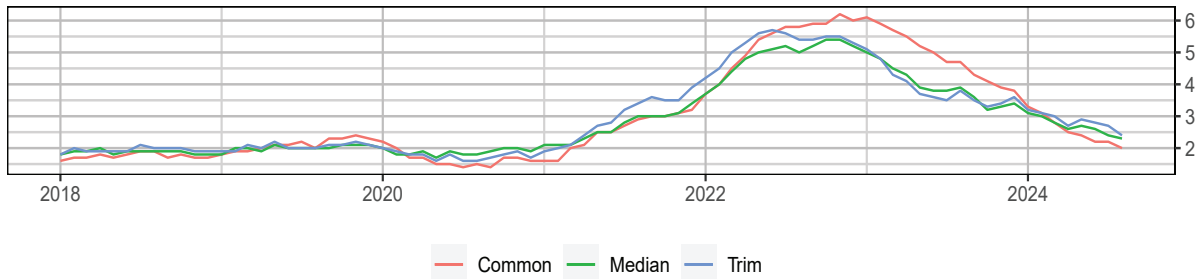
## CPI ex food/energy sa, 3m ann. % ch

Last data point: 2024-08-01



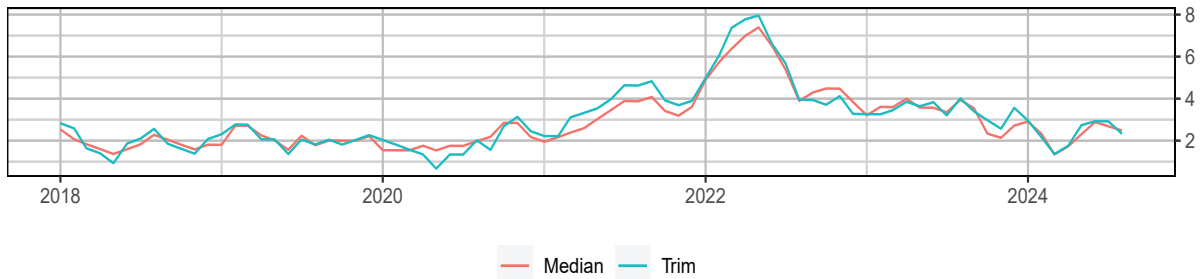
## Bank of Canada Core Inflation, y/y % change

Last data point: 2024-08-01



## Bank of Canada Core Inflation, 3m ann % change

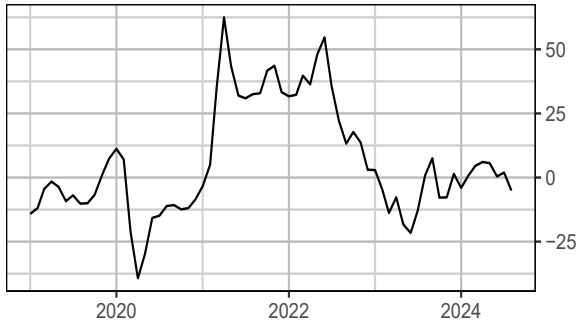
Last data point: 2024-08-01



# Inflation Trends by Segment

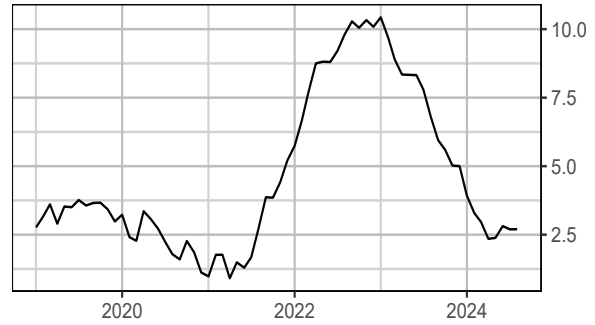
**Gasoline, y/y % ch**

Last data point: 2024-08-01



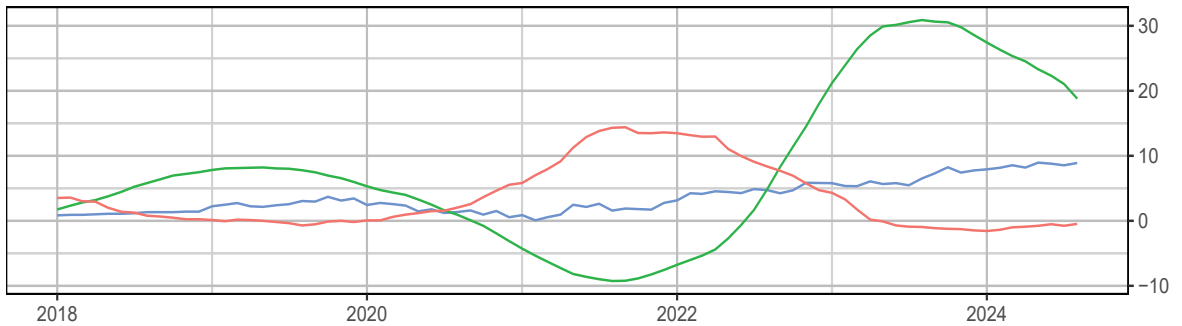
**Food, y/y % ch**

Last data point: 2024-08-01



**Shelter Inflation by Key component, y/y % change**

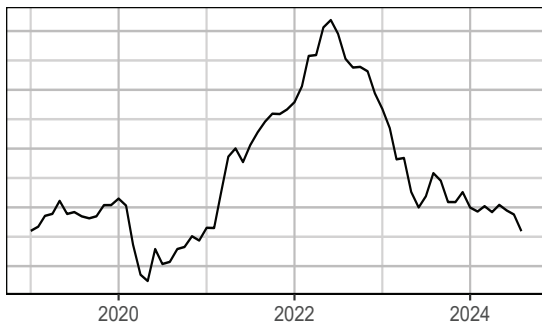
Last data point: 2024-08-01



— Homeowner Replacement — Mortgage Interest — Rent

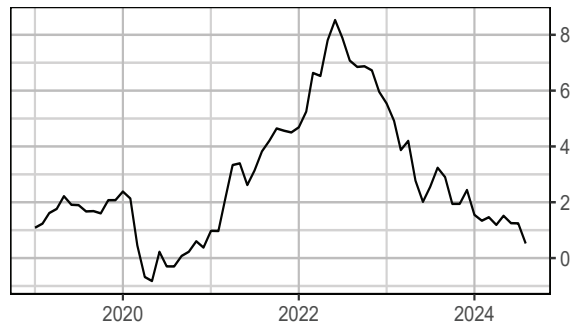
**CPI ex mortgage, y/y % ch**

Last data point: 2024-08-01



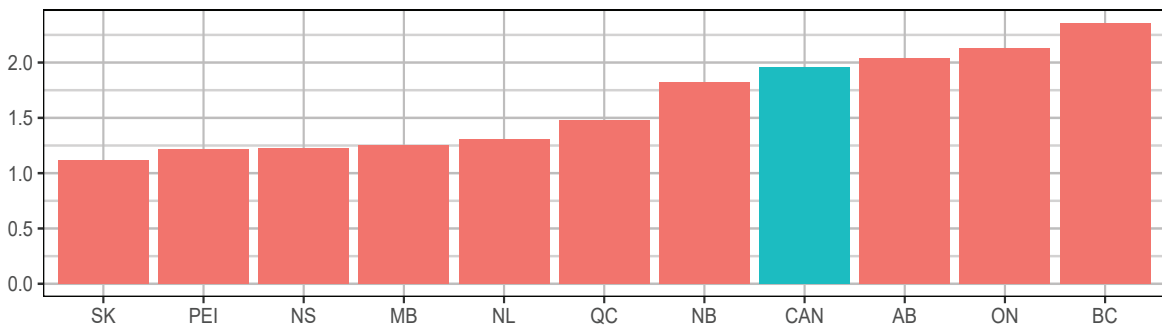
**CPI ex shelter, y/y % ch**

Last data point: 2024-08-01



**CPI Inflation by Province, y/y %**

Last data point: 2024-08-01



Statistics Canada, Central 1