

Inflation Monitor for September 25

A Publication of BMO Capital Markets Economic Research · Douglas Porter, CFA, Chief Economist, BMO Financial Group

Summary

- Getting Canadian inflation back to the BoC's 2% target may be more difficult amid underlying pressures even in the face of a stagnating economy.

Key Developments

- Canada's inflation rate** jumped to 4.0% y/y in August. That was the fastest pace in four months after a 3.3% rise in July. Higher gas prices led the spike, while food costs, though slipping in the month, remained elevated at 6.8% y/y. Shelter prices were up 6.0% compared to a year ago, with rents surging 6.5%. Excluding the more volatile components didn't provide much relief, with the BoC's two main core inflation metrics—trim and median—accelerating to an average of 4.0% y/y. We revised our annual headline inflation forecasts up a tick this year and next.
- Regionally, **Manitoba** had the lowest inflation rate in the country at 3.2% y/y in August amid lower growth of shelter and transportation costs. On the other end of the spectrum, **Nova Scotia** had the highest inflation rate at 4.7% y/y as shelter prices jumped 6.2% y/y from 4.0% in the prior month. **Ontario's** inflation rate jumped to 3.8%, following the national average.

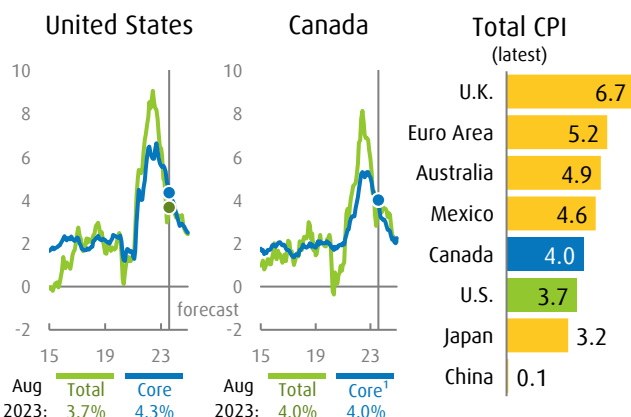
- Canadian new home prices** slipped 0.9% y/y in August, marking a decline for the fifth straight month with the housing only component down 1.3%. The latter feeds directly into calculations for homeowners' replacement cost in the CPI with a one-month lag, which may help somewhat temper the overall shelter category in September.
- The **U.K.'s inflation rate** moderated to 6.7% y/y, a tick below July's 6.8% gain. Meantime, the core inflation rate fell meaningfully to 6.2% from 6.9% in the prior month. A day after the report, a divided BoE moved to the sidelines for the first time in this tightening cycle, keeping rates steady at 5.25%.
- Japan's CPI** climbed 3.2% y/y in August, well above the BoJ's 2% target. Consumer prices excluding energy and fresh food climbed 4.3% y/y. While the BoJ stayed on the sidelines last week, there are growing expectations that policy rates may need to rise amid stronger-than-expected price pressures.
- WTI** slipped below \$90, though oil prices remain an upside risk to global inflation.

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Inflation Trends and Outlook

Consumer Price Index (y/y % chng)



¹ avg. of 2 BoC core measures; Sources: BMO Economics, Haver Analytics

year/year % change	2022				2023				2024				2021	2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
CANADA																
CPI All Items	5.8	7.5	7.2	6.7	5.1	3.5	↑3.7	↑3.5	↑3.6	↑3.3	2.5	2.2	3.4	6.8	↑4.0	↑2.9
New Core CPIs	8.3	10.3	10.3	10.5	9.6	7.9	↑3.9	↓3.1	3.0	2.6	2.3	2.1	5.6	9.9	↑4.2	2.5
UNITED STATES																
CPI All Items	8.0	8.6	8.3	7.1	5.8	4.1	3.6	3.5	3.3	3.2	3.0	2.5	4.7	8.0	4.2	3.0
Ex. Food and Energy	6.3	6.0	6.3	6.0	5.6	5.2	4.4	3.9	3.4	2.9	2.8	2.6	3.6	6.2	4.8	2.9
PCE Deflator	6.4	6.6	6.3	5.7	4.9	3.7	3.5	3.5	3.2	3.1	2.8	2.3	4.0	6.3	3.9	2.8
Core PCE Deflator	5.3	5.0	4.9	4.8	4.7	4.4	3.9	3.6	3.0	2.7	2.6	2.4	3.5	5.0	4.1	2.6

Shaded values represent forecasts; arrows mark forecast changes since the previous issue of this publication; Sources: BMO Economics, Haver Analytics

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