Canada inflation: Price growth should begin to slide

Cast your mind back to last month, when inflation caught markets off-guard. Headline CPI spiked on higher energy costs, and tomorrow's August data should be a similar story

Source: Shutterstock

What really matters for the Bank of Canada

We expect headline inflation to come in at 2.8% year on year, a mild slowdown from July's 3% bumper figure, however, we don't expect to see any substantial impact from tariffs.

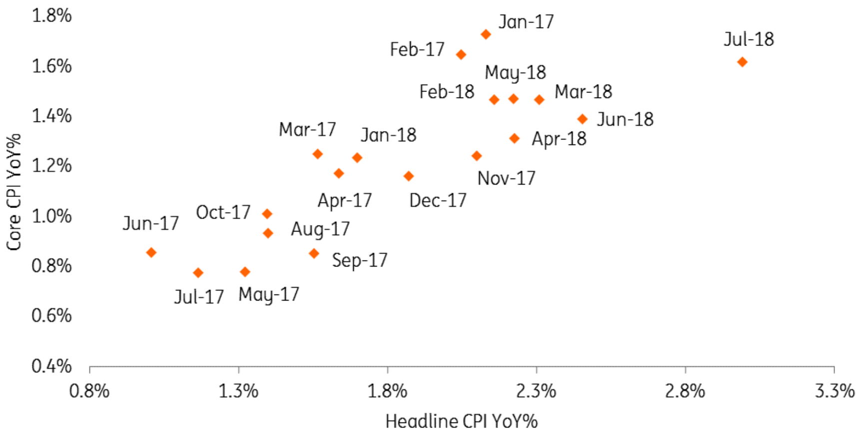
July was the first month that could have seen President Trump's administrations' tariffs push up Canadian prices, but in the end, we didn't see any signs of this. And barring any substantial increase in this trade war spat, between the US and Canada over the coming weeks, we expect headline CPI to drift back towards target in early 2019 gradually. The upward pressure from fuel prices appears to be moderating as gasoline prices have stabilised, since the large uplift through the second quarter.

But what really matters for the Bank of Canada is core inflation, and here the news has been pretty good. All three of the Bank's main measures of core prices are floating around the 2%

target. These are likely to come under some upward pressure as the effect of the increase in minimum wages translate into higher prices. The slightly weaker Canadian dollar may also add some impetus.

Read why we think a NAFTA handshake is more imminent than not

July's headline CPI represents somewhat of a peak; we shouldn't see figures stretch far beyond this



Source: Macrobond

This makes it likely that we'll get another rate hike from the Bank of Canada in October, although as ever the odds really hinge on Nafta progress. Talks are entering an intense phase, with an intention for a new deal to be signed before Mexican President Enrique Pena Nieto leaves office in December.

Trading future still shaky

As we outlined here, we see three possible outcomes from the negotiations, each of which could have quite a different impact on inflation and growth. Not only is the Loonie sensitive to the outcome of talks (or lack of), the level of uncertainty will also have a direct impact on consumer and business optimism.

But an October hike is still on the cards

If we get some possible news from discussions this week – for example, signs that an agreement can be fudged sooner than later – our FX team believe this could push USD/CAD further below 1.30, perhaps towards 1.27/28. This would also likely help cement expectations for an October rate hike.

Author

James Smith
Developed Markets Economist
james.smith@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

 ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit http://www.ing.com.