

## Will inflation numbers finally reign in Bank of Canada hawks

If today's inflation figures undershoot the target again, we think the BoC will pause before their next rate hike



Source: Bank of Canada

**2%** Inflation Target  
continuously undershot

Below target inflation figures in July and August (1.3% and 1.2% respectively), failed to reign in the Bank of Canada's hawkish stance, hiking rates for the second consecutive time during their September meeting (up 25bp to 1%). Robust broad-based growth has been the main reason for this, with 2Q17 figures coming in at a massive 4.5% following an impressive 3.7% in 1Q17. Strong consumer spending has led this, stemming from solid employment and income growth, increasing business investment and solid exports.

A pick-up in gasoline prices should add 0.3 percentage points to headline CPI this month and a

further 0.2 percentage points over the next couple.

---

### *Nonetheless, inflation is yet to reflect Canada's booming economy*

---

The BoC expecting it to average 1.6% in 2017, creating a lot of scrutiny for the BoC's current 2% target. Governor Poloz has said the delay in meeting the target has been down to "temporary factors" such as food competition, automobile pricing and electricity rebates. We think that today's figure will undershoot the target again.

The BoC has also stated it wants to assess the impact of higher interest rates on heavily indebted consumers while the stronger CAD could also dissuade them from further near-term action.

This combined with the expectation that growth is likely to moderate in 2H17 and the existence of geopolitical uncertainties, notably the situation with NAFTA and Trump, has led us to believe that the BoC will keep their policy rate on hold at 1% through to year end with two further rate hikes taking place in 2018.

## Author

### James Knightley

Chief International Economist, US

[james.knightley@ing.com](mailto:james.knightley@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.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. 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>.