

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.

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