Cdn. Consumer Price Index (July)

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HARRIS | BMO Nesbitt Burns | BMO Capital Markets™

Dr. Sherry Cooper, Chief Economist, BMO Capital Markets

www.bmonesbittburns.com/economics

Hardly Sizzling Times for Canadian CPI

Canadian consumer prices rose 0.6% in July (seasonally adjusted), lifting the headline inflation rate to 1.8% from just 1.0% in the prior month. The start of the harmonized sales tax in B.C. and Ontario last month was the dominant factor here, alone driving prices up roughly 0.7 percentage points in the month (so prices look to have dipped ex-HST). The core inflation measure controls for sales tax changes, and it eased to a more moderate 1.6% y/y from June's 1.7% pace. This is also below the Bank of Canada's latest forecast for all of Q3, when they were looking for an average rise of 1.8%. Overall, these results are milder than expected: Given that Canada just had one of the bigger price "events" for quite a few years (the HST), and overall inflation remained below 2%, is quite remarkable.

Beyond the HST, there were no major special factors—the over-riding story was softness. Ever-volatile clothing fell 1% (s.a.), which took those prices down 2.7% y/y. Auto prices also retreated 2.4% m/m, weighing heavily on core inflation. Regionally, no surprise that Ontario posted the highest inflation rate at 2.9% y/y, with B.C. well behind at 2.0%—up an average 1.4 ppts from the prior month, about as expected. In contrast, we have deflation on the prairies, as Manitoba prices fell 0.3% y/y.

	(month/month % change)			(3-mo. % chng : a.r.)	(12-mo. % chng)	
	Jul	**Jun**	**May**		**Jul**	**Jun**
All Items *	0.6	-0.2	-0.2	1.0	1.8	1.0
All Items (n.s.a.)	0.5	-0.1	0.3			
Ex. Food & Energy *	0.4	0.1	0.0	1.8	1.3	0.9
Core	-0.1	-0.1	0.3	0.7	1.6	1.7
Food *	0.7	-0.1	-0.1	2.0	1.1	0.7
Energy	3.0	-1.2	1.0	11.7	7.9	1.3
Services	0.7	0.3	0.5	6.3	2.4	1.7
Shelter *	0.8	0.2	0.5	6.4	2.9	1.6
Alcohol & Tobacco *	1.7	0.1	0.2	8.4	2.3	0.5
Clothing & Footwear *	-1.0	-0.9	-0.6	-9.5	-2.7	-1.8
Gasoline	3.5	-2.9	-0.5	0.0	4.8	-2.9
Mort. Interest Payments	0.1	0.0	0.0	0.4	-4.2	-5.0

* seasonally adjusted

The Bottom Line: The HST made some noise last month, but underlying inflation remains quite tranquil, neither threatening to dip into deflation terrain nor push above the 2% target. With core trends subdued, the Bank of Canada has the option to pause on its rate-hiking campaign, if the growth backdrop stumbles further. This just adds one more arrow into the quiver of reasons the Bank may take a timeout from further rate hikes this fall.

Douglas Porter, 416-359-4887