

Canada's headline inflation likely held at 3% in August

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Busier Canadian data releases in the coming week will be led by August's inflation report on Monday, when we expect headline Consumer Price Index growth to hold at 3% year-over-year.

Energy price growth is still elevated, but little changed from July. Gasoline prices edged lower in August from July, but were still up 23% from a year ago. Food inflation has moderated in recent months, but is expected to remain around the 3% mark in August.

Outside of food and energy, underlying price pressures should remain relatively contained with core inflation expected to hold around 1.9%.

The Bank of Canada warned in September again that significant spillover from higher energy prices into broader inflation could push policymakers to raise interest rates.

But actual evidence of that pass-through to-date has been limited beyond the direct impact on gas prices and highly energy-intensive products like airfares. Measures of inflation breadth have been stable, suggesting price pressures remain concentrated in a relatively narrow set of categories. The central bank's preferred core measures have hovered around the 2% inflation target.

The BoC has made clear that monetary policy cannot directly offset tariff impacts or influence global energy prices, and it will remain highly dependent on macroeconomic data and the evolution of forward-looking inflation risks.

Our base case forecast remains the central bank will hold rates through 2026 with gradual hikes following in 2027 contingent on continued improvement in the economy. But, the path forward depends critically on whether underlying inflation remains near target and the broader recovery stays on track. The risk of earlier hikes has been growing.

U.S. Federal Reserve poised to deliver first rate hike as inflation pressures persist

Risks of interest rate hikes have also been building south of the border with the Federal Reserve's interest rate decision on Wednesday in focus. August inflation came in hotter than expected, adding to evidence that interest rates aren't high enough to bring inflation back to the 2% objective. We expect the Fed to raise the federal funds target range by 25 basis points with policymakers likely to remain focused on signs that inflation pressures are proving more persistent, and likely to signal that additional hikes will likely still be needed.

Canadian industry data will also provide an update on activity at the start of the third quarter. Statistics Canada's advance estimates pointed to a 0.2% decline in manufacturing sales in July and a 0.6% drop in core wholesale sales. Industrial product prices rose 0.7% on a seasonally adjusted basis during the month, suggesting manufacturing sales volumes likely posted a small decline even as higher prices supported nominal sales values.

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- Canada's headline inflation likely held at 3% in August
- Canadian household wealth likely increased in Q2 with U.S. inflation in focus south of the border
- July trade, August jobs and September BoC meeting in focus for Canada

Source: <https://www.rbc.com/en/economics/forward-guidance/canadas-headline-inflation-likely-held-at-3-in-august/>