EARLIER

Canada’s inflation rate cools to 2% in August, hitting Bank of Canada’s target

MATT LUNDY
MARK RENDELL
DARCY KEITH
ROB CARRICK PERSONAL FINANCE COLUMNIST
ERICA ALINI
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The latest on inflation in Canada

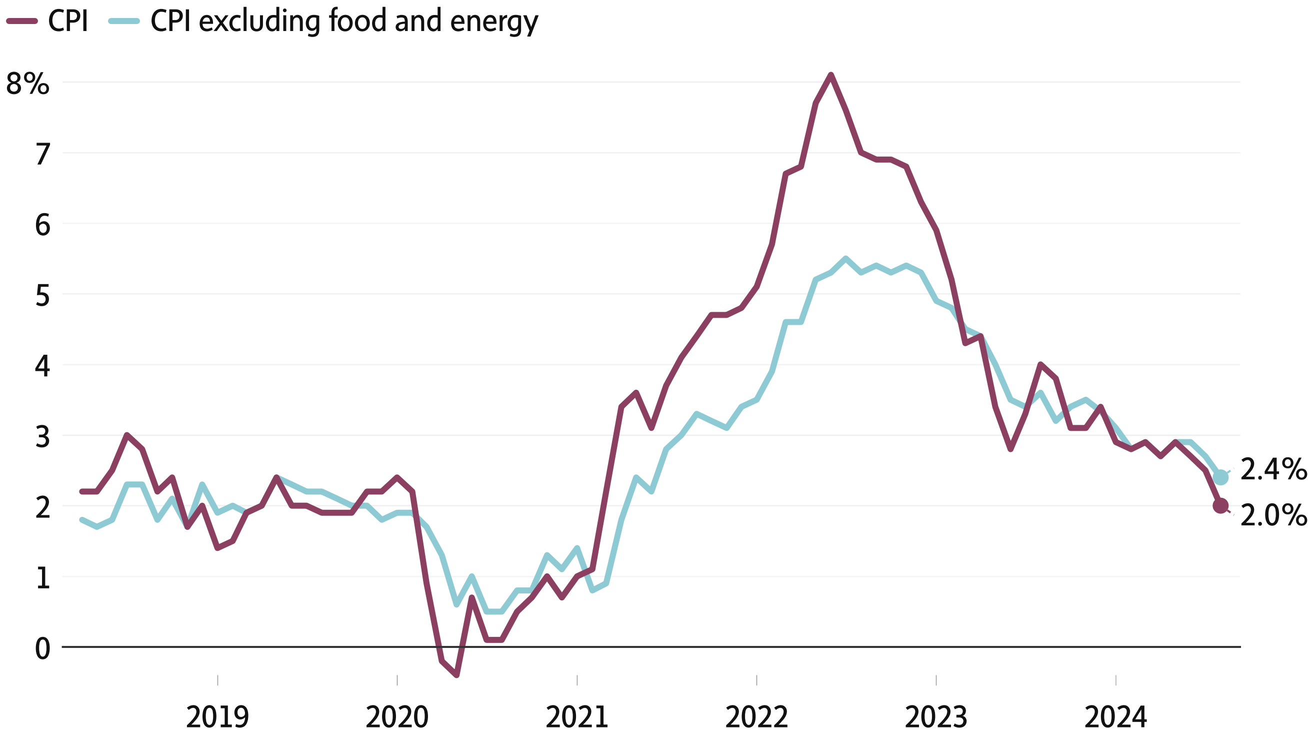
Canada’s annual inflation rate cooled to 2 per cent in August, returning to the Bank of Canada’s 2-per-cent target for the first time since 2021.

The easing of price pressures was primarily helped by a drop in prices of gasoline, telephone services and clothing and footwear.

Today's CPI numbers are a prelude to additional interest-rate cuts from the Bank of Canada at its October decision, and for the rest of the year.

Consumer Price Index (CPI) and CPI excluding food and energy

12-month percentage change



MURAT YÜKSELIR / THE GLOBE AND MAIL, SOURCE: STATISTICS CANADA

Further reading:

- Bank of Canada cuts key interest rate to 4.25%, says economic growth needs to pick up
- U.S. Federal Reserve expected to cut rates but markets split on big or small move
- Household debt burden on the wane as Canadians curb their borrowing
- Calculate your personal inflation rate

Find updates from our reporters and columnists below.

11 A.M.

What's next?

The Bank of Canada's next rate announcement is more than a month away – meaning there's plenty of time to speculate on the size of rate cuts.

Between now and then, a slew of economic data will be released, including another inflation report and the Labour Force Survey for September. The recent labour figures have been discouraging – the unemployment rate has risen to 6.6 per cent, nearly two percentage points higher than a record low in the summer of 2022 – and the Bank of Canada has said it wants hiring to pick up.

But the biggest day on the economic calendar is coming very soon: Wednesday. The U.S. Federal Reserve is universally expected to cut interest rates for the first time of this cycle, but the question is whether they lower rates by a quarter-point or a half-point.

Bank of Canada Governor Tiff Macklem said this month that he'd be open to making a larger half-point move if necessary.

– *Matt Lundy*

10:15 A.M.

With inflation at 2%, could bigger rate cuts - combined with looser mortgage rules - reinflate housing prices?

More aggressive interest rate cuts would translate into mortgage rates declining faster for both borrowers with variable rates and those signing up for new fixed rates to buy a house.

GRAEME ROY/THE CANADIAN PRESS

Inflation continues to slow down. But could more interest rate cuts by the Bank of Canada – coupled with new federal rules to help homebuyers qualify for mortgages – once again light a fire under the housing market in coming months?

That's a burning question for anyone thinking about buying a home. But it's also a question about the future path of price growth. After all, the cost of keeping a roof over one's head is a major component of the consumer price index. Soaring housing prices could put renewed upward pressure on inflation.

But when I asked Sal Guatieri, senior economist and director at BMO Capital Markets, whether rising real estate values could become a significant driver of inflation in 2025, his answer was reassuring.

"We've been saying all along that we won't get a so-called V-shaped recovery in Ontario and B.C. in particular, but generally across the country," he said, speaking about the housing market.

In other words, don't expect home prices to take off, especially in the country's priciest markets.

As the economy shows signs of weakness and the unemployment rate ticks up, the Bank of Canada may dial up the pace of its interest rate cuts to avoid inflation falling too low, Mr. Guatieri said.

More aggressive interest rate cuts would translate into mortgage rates declining faster for both borrowers with variable rates – which move up or down with the general level of borrowing costs – and those signing up for new fixed rates to buy a house or as their mortgage renews.

In addition, Finance Minister Chrystia Freeland announced on Monday plans to make mortgage default insurance available for homes worth up to $1.5 million, up from the current cap of $1-million. Ottawa also wants to allow 30-year mortgages for first-time homebuyers purchasing all types of homes and for anyone purchasing newly built homes. Both changes would take effect Dec. 15, the government said.

A quicker-than-expected decline in mortgage rates, combined with the new federal mortgage rules, could revive the housing market sooner than anticipated, Mr. Guatieri said.

In cities like Calgary, Halifax and Moncton, where home prices are still hitting new highs, a fresh influx of homebuyers would push home valuations further up, he said.

But in major markets where prices have been stagnating or declining, and particularly in Toronto, which is facing a glut of new condos for sale, Mr. Guatieri does not see home values surging "any time soon."

Overall, if rising home prices start putting some pressure on inflation, it will likely be in the second half of next year, he said.

In the meantime, falling interest rates are reducing the gap between the low mortgage rates many homeowners secured in the earlier stages of the pandemic and the new, higher rates they will have to sign up for as their loans come up for renewal.

Scores of Canadians whose mortgages are rolling into a new term continue to face higher monthly payments. That has been a main driver of the increase in consumer prices. But falling borrowing costs mean those mortgage interest costs are growing at a slower pace, Mr. Guatieri said.

In time, cheaper borrowing and the new mortgage rules will also likely help turn more Canadians who currently rent into homebuyers. That should help reduce pressures on rents for available units, which are already growing more slowly across the country and falling in cities such as Vancouver and Toronto, Mr. Guatieri added. That too, would put a further damper on shelter costs, he said.

"In the near term, all the risk for inflation is on the downside," he said.

– *Erica Alini*

10:05 A.M.

Here's a list of August inflation rates for selected Canadian cities

Canada's annual inflation rate was 2.0 per cent in August, Statistics Canada says. The agency also released rates for major cities, but cautioned that figures may have fluctuated widely because they are based on small statistical samples (previous month in brackets):

- St. John's, N.L.: 1.7 per cent (2.3)
- Charlottetown-Summerside: 1.6 per cent (2.3)
- Halifax: 1.5 per cent (2.6)
- Saint John, N.B.: 2.3 per cent (2.7)
- Quebec City: 1.4 per cent (2.2)
- Montreal: 1.8 per cent (2.6)
- Ottawa: 2.4 per cent (2.4)
- Toronto: 2.7 per cent (3.1)
- Thunder Bay, Ont.: 1.7 per cent (2.7)

- Winnipeg: 1.1 per cent (2.0)
- Regina: 1.0 per cent (1.6)
- Saskatoon: 1.5 per cent (1.8)
- Edmonton: 1.7 per cent (2.4)
- Calgary: 2.3 per cent (2.9)
- Vancouver: 2.2 per cent (2.5)
- Victoria: 2.4 per cent (2.7)
- Whitehorse: 1.4 per cent (1.4)
- Yellowknife: 1.1 per cent (2.4)
- Iqaluit: 1.2 per cent (1.0)

– *The Canadian Press*

10 A.M.

Here's a list of August inflation rates for Canadian provinces

Consumer price index (CPI) change for July, by province
12-month per cent change

B.C.	2.4%
Ont.	2.1%
Canada	2.0%
Alta.	2.0%
N.B.	1.8%
Que.	1.5%
N.L.	1.3%
Man.	1.3%
PEI	1.2%
N.S.	1.2%
Sask.	1.1%

THE GLOBE AND MAIL, SOURCE: STATISTICS CANADA

Canada's annual inflation rate was 2.0 per cent in August, Statistics Canada says. Here's what happened in the provinces (previous month in brackets):

- Newfoundland and Labrador: 1.3 per cent (2.1)
- Prince Edward Island: 1.2 per cent (2.0)
- Nova Scotia: 1.2 per cent (2.3)
- New Brunswick: 1.8 per cent (2.9)
- Quebec: 1.5 per cent (2.3)
- Ontario: 2.1 per cent (2.7)
- Manitoba: 1.3 per cent (1.8)
- Saskatchewan: 1.1 per cent (1.6)
- Alberta: 2.0 per cent (2.7)
- British Columbia: 2.4 per cent (2.8)

– *The Canadian Press*

9:55 A.M.

Economists react to today’s inflation report

Here’s how economists are reacting:

JAMES ORLANDO, DIRECTOR AND SENIOR ECONOMIST, TD ECONOMICS

Bull’s-eye! Headline inflation is back at the Bank of Canada’s 2.0% target. At the same time, core measures keep grinding lower. These figures would be even lower if it weren’t for the outsized impact of high housing costs. Inflation excluding shelter is growing at a paltry 0.5% y/y! This exemplifies how still high interest rates have weighed on the Canadian economy and slowed the pace of growth.

Inflation continues to validate the need for the Bank of Canada to continue cutting its policy rate. We calculate that the current policy rate is still nearly 200 basis points above where it should be based on the current state of the economy. And that is after 75 bps in cuts over the last few months. No wonder odds of larger 50 basis point cuts are growing in futures markets. Over the next few weeks, we will be getting a number of BoC members speaking on the economy. This will provide the central bank plenty of opportunity to move market pricing towards its intended path.

STEPHEN BROWN, DEPUTY CHIEF NORTH AMERICA ECONOMIST, CAPITAL ECONOMICS

The return of headline inflation to the 2.0% target in August was mainly due to favourable base effects and will be brief, with inflation set to rise back to 2.5% in the fourth quarter. Nonetheless, the details of August release provide further evidence that the inflation battle is almost won, and will serve to increase speculation that the Bank might soon cut by a larger 50 bps. ….

Both headline and core inflation are now on track to average 0.1% less than the Bank anticipated this quarter. That alone will not be enough to persuade the bank to cut by 50 bps at its next meeting, but it would leave the door open to a larger move if the bank becomes more concerned about the downside risks to the economic outlook.

ROYCE MENDES, MANAGING DIRECTOR AND HEAD OF MACRO STRATEGY AT DESJARDINS

Inflation has been brought to heel in Canada and it's time for monetary policymakers to make a bigger splash. Headline prices stagnated in August, meaning the annual rate slowed from 2.5% in July to 2.0% in the latest report. That's the coolest inflation reading since February, 2021. Falling energy prices were a major driver of the deceleration, with gasoline down 2.6% on the month and 5.1% over the past year. Total inflation is now tracking materially below the Bank of Canada's last forecast. …

Now that inflation is back to target, it's time for the Bank of Canada to accelerate the pace of rate cuts. We expect central bankers to slash their policy rate by 50 basis points next month in an effort to expedite the return to a more neutral setting. The market is still only placing a 50% probability on a non-standard reduction in October, but there's no reason to wait for December after seeing these numbers. We expect market pricing to move further in the coming days after the Fed is out of the way.

ANDREW GRANTHAM, SENIOR ECONOMIST WITH CIBC ECONOMICS

With gasoline prices falling further into September, headline inflation should ease again in the next release and CPI excluding MIC could well fall below 1%. The bottom line then is that inflation remains unthreatening and the Bank of Canada should now focus on trying to stimulate the economy and halting the upward climb in the unemployment rate. We continue to forecast a further 200bp of interest rate cuts between now and the middle of next year.

BENJAMIN REITZES, MANAGING DIRECTOR, CANADIAN RATES AND MACRO STRATEGIST, BMO CAPITAL MARKETS

The weaker headline reading, with inflation finally back to the 2% target for the first time in over three years, will reinforce expectations for the Bank of Canada to cut rates further. The question markets are grappling with is whether the next move will be 25 bps or 50 bps. The BoC has highlighted that downside growth risks are a key concern, suggesting that next week’s GDP figures loom large in the 25 vs 50 debate. Today’s figure tilts the scales a touch toward a more aggressive path, but there’s still another CPI report before the next meeting. If we get another big downside surprise, calls for a 50 bp cut will only grow louder.

TU NGUYEN, ECONOMIST WITH ASSURANCE, TAX & CONSULTANCY FIRM RSM CANADA

While the return to 2% inflation raises the odds of a larger sized cut, the Bank of Canada is likely to continue with the slow and gradual approach of a 25 basis point rate cut in October, with a possibility of another 25 basis point cut in December.

Two 25-basis point cuts will be favoured over a single 50 basis point cut, because a larger cut could cause prospective buyers to rush into the housing market and home prices to shoot up.

Read the full roundup of economist and market reaction.

– *Darcy Keith*

9:45 A.M.

Inflation highlights: Consumers see mortgage interest costs fall and rent costs rise

New single family houses billed as estate cottages and townhouses under construction are seen in an aerial view, in Delta, B.C., on Monday, Aug. 12, 2024.

DARRYL DYCK/THE CANADIAN PRESS

- Housing remains a financial headache for many, but at least price growth seems to be on a steady track lower. Shelter prices rose at an annual rate of 5.3 per cent in August, down from 5.7 per cent in July. A big help is mortgage interest costs. While they were up 18.8 per cent, year over year, that's way down from peak increases of around 30 per cent. The Bank of Canada's rate cuts are helping to ease some financial pressure on that front.
- Rents are something of an outlier within the CPI shelter component. Those costs rose 8.9 per cent, year over year, in August. That was up from 8.5 per cent in July. However, rental websites are indicating that asking rates for new units have levelled off in recent months. It may simply take time for a shifting market to materialize in the CPI numbers.

- Excluding shelter, consumer prices rose a mere 0.5 per cent in August from a year earlier, down from 1.2 per cent in July.
- Grocery prices rose 2.4 per cent on an annual basis in August, picking up from 2.1 per cent in July. However, Statscan said this acceleration was owing to an unfavourable year-over-year comparison. On a monthly basis, grocery prices fell 0.2 per cent in August, mostly because of a typical seasonal drop in vegetable prices.
- Core measures of inflation – which strip out volatile movements in the CPI – are also co-operating. The Bank of Canada’s preferred measures of core inflation rose at an average annual rate of 2.4 per cent in August, down from 2.6 per cent in July.

– *Matt Lundy*

9:38 A.M.

Inflation milestone opens door to bigger BoC cuts

Bank of Canada Governor Tiff Macklem participates in a news conference on the bank's interest rate announcement, in Ottawa, on Wednesday, Sept. 4, 2024.

JUSTIN TANG/THE CANADIAN PRESS

Bank of Canada Governor Tiff Macklem and his team must be feeling good today. After overseeing the biggest price surge in decades, inflation is back at the central bank's target – although it may not stay there in the coming months as year-over-year comparisons look less favourable. That's a historic milestone, and it opens the door to bigger interest rate cuts.

The central bank has already cut interest rates three times, bringing the policy rate to 4.25 per cent from a two-decade high of 5 per cent. Mr. Macklem has said he's open to picking up the pace of easing – which would likely mean a half-point rate cut – if inflation comes in below the bank's estimates and the economy weakens more than expected. Both boxes appear to have been ticked in recent months.

August Consumer Price Index growth was slower than Bay Street predicted, and it is tracking well below the central bank's latest forecast. The BoC was looking for inflation to average around 2.5 per cent in the second half of 2024 and not return to the 2 per cent target until next year. Monthly inflation data can be bumpy, so Mr. Macklem and the rest of the governing council likely aren't popping champagne corks yet. But the trend is good, especially when you look at the bank's preferred measures of core inflation, which continued marching lower.

Even if inflation ticks up again in the coming months, it seems the Bank of Canada is ahead of schedule in its push to restore price stability, and may be getting worried about overshooting the 2-per-cent target on the way down.

At the same time, other economic data are flashing red. Gross domestic product growth was relatively robust in the second quarter, but slowed down over the summer months. The labour market has cooled significantly, with the unemployment rate hitting 6.6 per cent, up nearly two percentage points from the post-pandemic low.

With inflation no longer a major concern, the Bank of Canada may want to move more quickly to prevent the Canadian economy from falling into a recession that the country has so far avoided. Mr. Macklem said as much after a speech earlier this month in London: "We want to see growth pick up. We want to see consumer spending strengthen ... If the economy is materially weaker than we're expecting, inflation is weaker than we were expecting, it could be appropriate to take a bigger step," he said.

Financial markets are now pricing a roughly 50-per-cent chance the BoC delivers a half-point cut at its next meeting on Oct. 23. That's up from 30 per cent yesterday. Those bets could be strengthened if the U.S. Federal Reserve kicks off its own easing cycle with an oversized rate cut on Wednesday, as financial markets increasingly expect.

– *Mark Rendell*

9:15 A.M.

Analysis: Inflation is finally in line with the BoC's target – but is it time to celebrate?

The Bank of Canada building is shown in Ottawa on Wednesday, Sept. 6, 2023.

ADRIAN WYLD/THE CANADIAN PRESS

Inflation is officially no longer a problem, if you judge by the latest numbers.

The year-over-year inflation rate of 2 per cent in August is precisely in line with what the Bank of Canada wants to see. So why will no one be celebrating outside the downtown Ottawa offices of the central bank?

Reason One: Food inflation is still running a bit hot. Prices at grocery stores and restaurants came in at 2.7 per cent in August.

Reason Two: Shelter inflation hit 5.3 per cent last month, a reminder that mortgage interest remains a big contributor to overall increases in the cost of living. Mortgage rates have been falling steadily, though.

Reason Three: Inflation has averaged 4.4 per cent over the past three years, which means something that cost $100 in 2021 would go for $113.91 now. Cumulative inflation has permanently increased the cost of living in a way that people are still processing.

Reason Four: Some of the factors keeping inflation low in August may be temporary.

Now for some inflation positives: In the Statistics Canada report on the job market for August, hourly wages were up 5 per cent on a year-over-year basis after a 5.2-per-cent gain in July. For now, and it may not last much longer, wage gains are helping people beat today's inflation and catch up a little on past inflation.

Another positive is that lower inflation is greasing the way for the Bank of Canada to build on the three interest rate cuts we've seen this year. This would provide some degree of relief for people with floating-rate debt like a line of credit or a variable-rate mortgage, and put downward pressure on fixed mortgage rates. If you face a mortgage renewal this year or in 2025, rate relief is coming.

Prior to the pandemic, no one would have given a 2-per-cent inflation rate a second glance. Today, it's a start on the road to economic normalcy.

– *Rob Carrick*

9:05 A.M.

Markets react to the latest inflation figures

Today's softer-than-expected inflation number sparked an immediate downturn in the Canadian dollar and has money markets maintaining their bets that another rate cut looms at the next Bank of Canada meeting on Oct. 23 - but there's considerable uncertainty as to by how much.

The Canadian dollar tumbled to 73.42 US cents as the 8:30 a.m. ET inflation report was released, from 73.63 US cents prior to that. Canada's two-year bond yield eased a little bit - by a couple of basis points, but was relatively stable, and may have also been influenced by a stronger-than-expected U.S. retail sales report released at the same time.

How market bets for future BoC rate cuts have shifted after today’s inflation report

The swaps market, which captures market bets on future monetary policy moves, suggests roughly 50/50 odds on whether it will be a 25- or 50-basis-point cut by the BoC on Oct. 23, according to LSEG data. (A basis point equals 1/100th of a percentage point.)

Regardless, almost 75 basis points of rate cuts are priced into the market by the end of this year. By December of next year, the overnight rate is seen by markets as reaching 2 per cent. It’s currently 4.25 per cent.

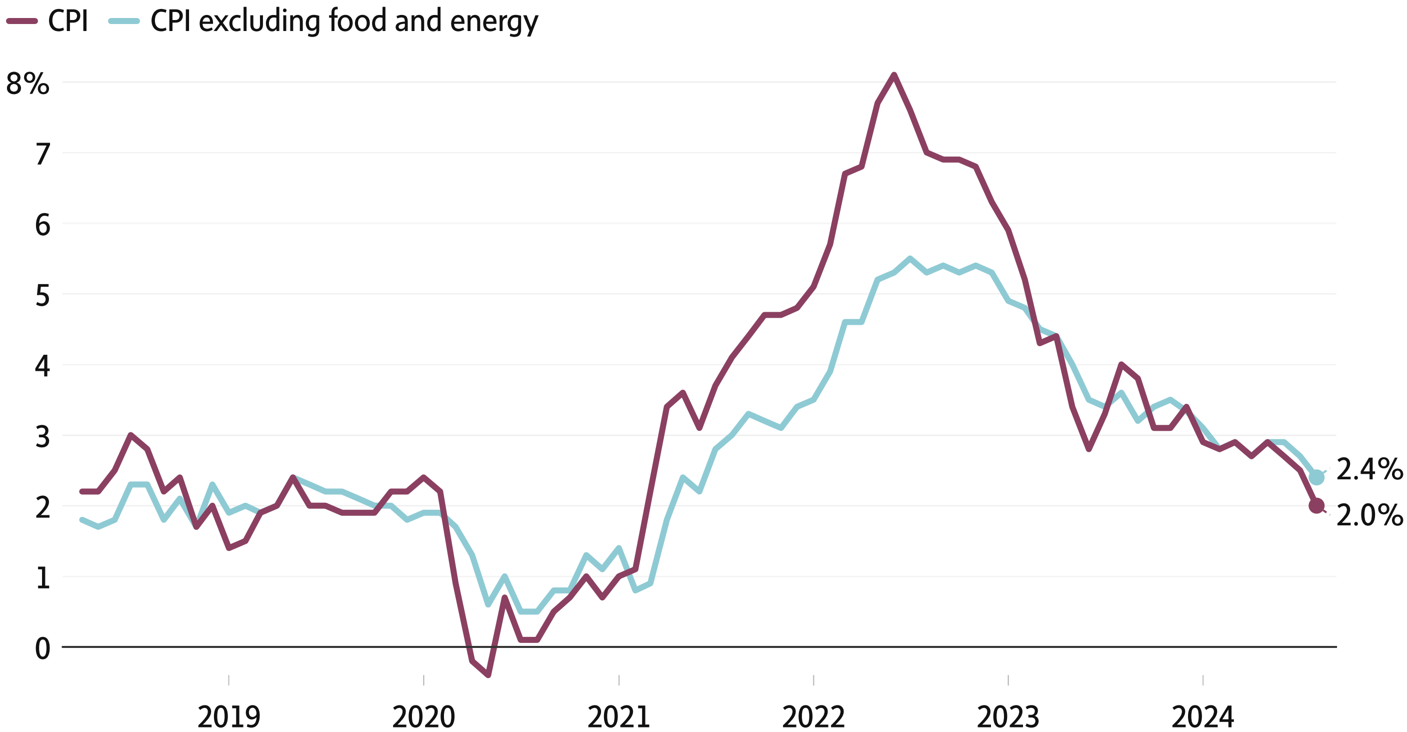
– *Darcy Keith*

8:57 A.M.

The new inflation numbers

Consumer Price Index (CPI) and CPI excluding food and energy

12-month percentage change



MURAT YÜKSELIR / THE GLOBE AND MAIL, SOURCE: STATISTICS CANADA

Canada's inflation fight hit a milestone on Tuesday, with the Consumer Price Index rising at an annual rate of 2 per cent in August – a tentative return to the Bank of Canada's target.

The inflation rate eased from a 2.5-per-cent gain in July, according to Statistics Canada figures published on Tuesday. Financial analysts were expecting a cooldown to 2.1 per cent.

Statscan noted that lower gasoline prices and favourable comparisons to a year earlier helped to drive down the headline CPI figure. Gas prices fell 5.1 per cent on a monthly basis in August.

Tuesday's report said consumer prices fell 0.2 per cent in August, owing to lower costs for air transportation, clothing and travel tours, among other categories.

This marked the lowest inflation rate since February, 2021, and many analysts expect another soft reading for September because of continued weakness in oil markets. As a result, there is a strong likelihood that inflation will be weaker than the Bank of Canada's projection of 2.3 per cent for the third quarter.

The central bank has lowered its benchmark interest rate at three consecutive meetings since June, and it's signalled that further reductions are coming as inflation subsides. The U.S. Federal Reserve is poised to lower rates on Wednesday for the first time of this cycle.

The Bank of Canada doesn't expect a sustainable return to 2-per-cent inflation until well into 2025, based on its July economic projections. However, the bank will be updating its forecast at the next rate announcement on Oct. 23.

While a return to 2-per-cent inflation is a major accomplishment for central bankers, they've also warned that coming results could be lumpy. And they've also expressed concern that inflation could drift below the 2-per-cent target.

– *Matt Lundy*

8:30 A.M.

Canada's inflation rate eased to 2% in August: Statscan

Canada's inflation rate fell to 2 per cent in August, a milestone on the road back to price stability. Financial analysts were expecting an inflation rate of 2.1 per cent.

– *Matt Lundy*

7:45 A.M.

U.S. Federal Reserve expected to cut rates this week

The US Federal Reserve is seen in Washington, DC on September 16, 2024. A Federal Reserve policy meeting this week is widely expected to see officials cut interest rates.

MANDEL NGAN/AFP/GETTY IMAGES

Today’s CPI report isn’t the only event this week that could shape the trajectory of interest rates in Canada. On Wednesday, the U.S. Federal Reserve is expected to cut interest rates for the first time in four years. Markets are split on whether to expect a normal quarter-point move, or a larger half-point step.

As the world’s most important central bank, whatever the Fed decides will ripple through global financial markets and influence borrowing costs here in Canada. An oversized 50-basis-point cut would likely strengthen the Canadian dollar against the U.S. dollar. It might also encourage the Bank of Canada to pick up its own pace of rate cuts, which have so far moved in 25-basis-point increments.

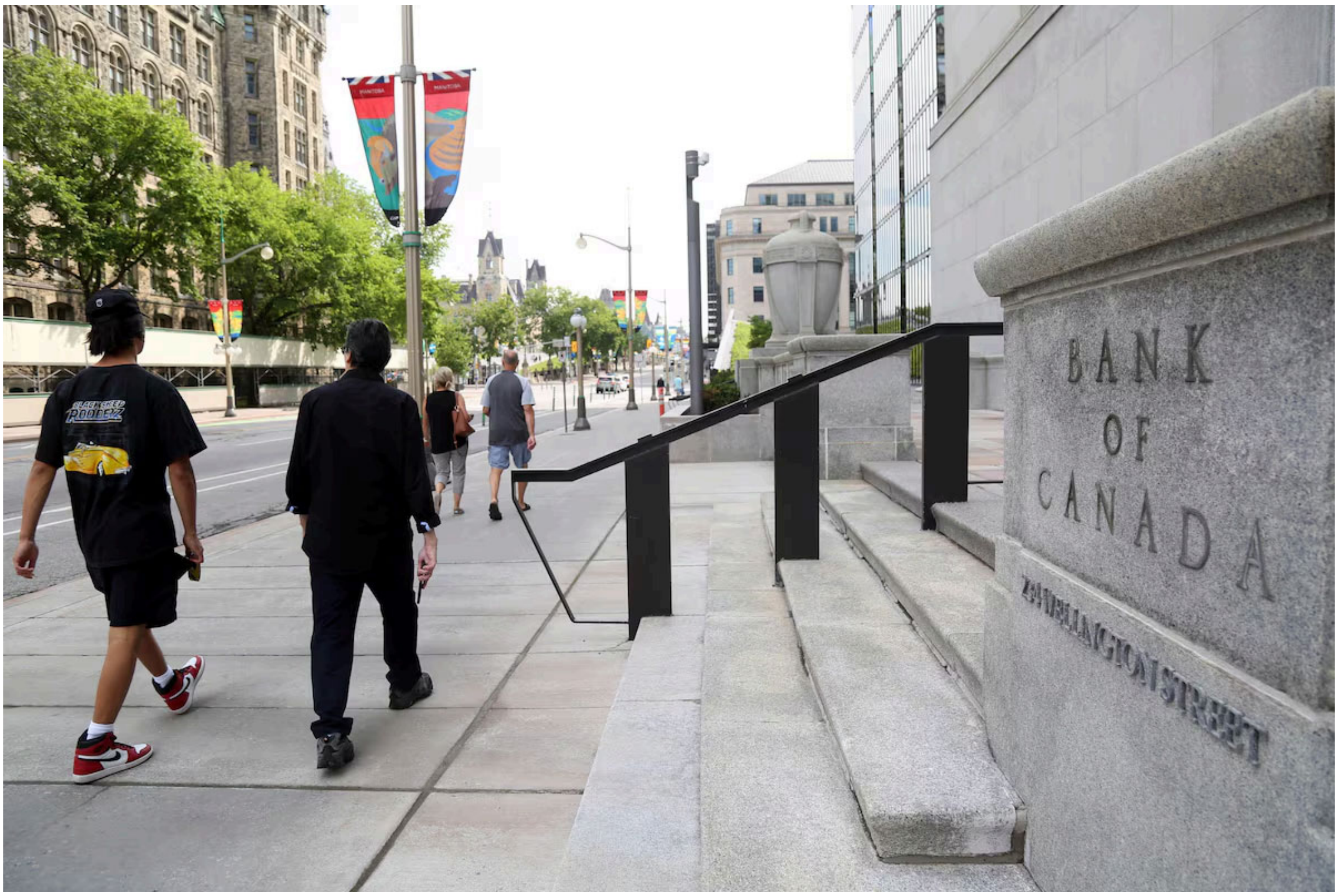
“If it’s 50, and clearly is a signal that things are slowing much faster than expected [in the U.S. economy], then that actually gives the Bank of Canada room to move faster too,” said former Bank of Canada deputy governor Lawrence Schembri.

Read more about the Fed’s expected rate cut on Wednesday.

– *Mark Rendell*

7 A.M.

August inflation report to be released today



Pedestrians walk past the Bank of Canada in Ottawa, Ontario, Canada, on July 12, 2023.

DAVE CHAN/AFP/GETTY IMAGES

Inflation is widely anticipated to take another big step down on Tuesday – and maybe even touch the Bank of Canada’s 2-per-cent target.

Financial analysts expect the annual inflation rate hit 2.1 per cent in August, down from 2.5 per cent in July. Statistics Canada will publish its Consumer Price Index report for August on Tuesday morning.

If that prediction pans out, it would be the lowest inflation rate since February, 2021. Economists at CIBC Capital Markets, Desjardins Securities and other lenders think inflation will subside to 2 per cent.

A sluggish economy, rising joblessness and lower oil prices are helping to cool inflation after it hit a four-decade high in 2022.

Tuesday's CPI numbers are a prelude to additional interest-rate cuts from the Bank of Canada, which has trimmed its benchmark rate at three consecutive meetings this year. Increasingly, the question is not if the central bank will cut, but by how much.

Interest rate swaps, which capture market expectations of monetary policy, are pricing in a 50-50 chance that the BoC cuts rates by 50 basis points at its next meeting on Oct. 23, according to Bloomberg data. (A basis point is 1/100th of a percentage point.) Thus far in the easing cycle, the BoC has moved in 25-basis-point increments.

The U.S. Federal Reserve is universally expected to begin cutting interest rates on Wednesday, with fervent speculation over whether it's a quarter-point or a half-point move lower.

The oil market is doing lots of heavy lifting in the inflation fight of late. West Texas Intermediate – a benchmark crude – has fallen roughly 10 per cent in price since the end of July.

"The steep drop in gasoline prices that started in mid-August has continued into the first half of September and as a result inflation will likely ease again and drop modestly below the 2-per-cent target," Andrew Grantham, senior economist at CIBC, said in a client note. "With inflation no longer threatening, the Bank of Canada has plenty of room to cut interest rates and help spur some growth in the economy."

– *Matt Lundy*

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