

CANADA

Canada's Annual Inflation Rate Holds Steady at 1.9% in September

Climb in prices matches previous month's reading, market expectations



A gas station in Vancouver. Gasoline prices in Canada dropped 10% last month from a year ago. PHOTO: BEN NELMS/BLOOMBERG NEWS

By Paul Vieira

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OTTAWA—Canada's annual inflation rate rose in September but remained shy of the Bank of Canada's 2% target, as higher costs associated with shelter and automobiles were offset by a drop in gasoline prices.

Analysts said the September report offers the Bank of Canada more evidence to keep interest rates unchanged at its next meeting in two weeks.

Canada's consumer-price index increased 1.9% on a year-over-year basis in September, Statistics Canada said Wednesday. September's reading matched both the previous month's rise and market expectations, according to economists at BMO Capital Markets.

On a month-over-month basis, the index declined 0.4%, dragged down by a drop in airfares back to levels before the busy summer-travel season.

The Bank of Canada's preferred measures for underlying inflation edged higher from the previous month, with the average core CPI for September at 2.07%, versus 1.97% in the previous month. These core readings are designed to filter out volatile, month-to-month swings in prices.

The Bank of Canada sets its monetary policy to achieve 2% annual inflation.

Inflation has remained close to the central bank's target. A senior central bank official said last month CPI remains "well behaved" compared with other industrialized economies. Expectations for a possible Bank of Canada rate cut later in October—to mitigate the fallout from a global economic slowdown—have diminished, partly because of strong gains in employment and average hourly wages, and a recovery in the real-estate market.

"The underlying trend in Canadian inflation actually remains a bit above much of the rest of the world, and looks like it could grind a bit higher yet based on the steady gains in core inflation," said Doug Porter, chief economist at BMO Capital Markets. "This will further dull the BoC's appetite for rate cuts anytime soon," he said.

The next Bank of Canada rate decision is scheduled for Oct. 30.

Statistics Canada said when energy and food prices are excluded, the inflation rate rose 2.1% in September on a one-year basis. Food and energy comprise almost 23% of the CPI basket of goods.

Excluding the price of gasoline, inflation climbed 2.4%.

According to the September report, gasoline prices dropped 10% from a year ago. Gasoline prices fell by a similar degree in the previous month. The data agency attributed September's decline to low global demand for oil, and a switch by refineries from summer-blend gasoline to a less-expensive winter blend.

Offsetting the drop in gasoline prices was a 3.4% rise in the cost of passenger vehicles, as dealerships offered fewer financing incentives for potential customers. Car-insurance premiums climbed 8.9%.

Shelter costs rose 2.3%, on increases in mortgage payments and rent. Food prices climbed 3.7%.

On a seasonally-adjusted basis, CPI fell 0.1% in September.

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