

Bank of Canada seen holding off on rate cut as inflation remains tame

By Kelsey Johnson

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The annual inflation rate unexpectedly held steady at 1.9 per cent in September, Statistics Canada said on Wednesday in its last major release of economic data before a national election, further reducing analysts' expectations the Bank of Canada will cut rates later this month.

"The headline CPI inflation increase I think was a little softer than expected," said Nathan Janzen, a senior economist with the Royal Bank of Canada. Analysts in a Reuters poll had forecast an annual inflation rate of 2.1 per cent.

The Canadian dollar weakened to \$1.3243, or 75.51 US cents.

The Bank of Canada has held its overnight interest rate steady since October, 2018, citing strong domestic economic data. The central bank's next rate decision is set for Oct. 30.

"This is perfect for the Bank of Canada, it doesn't really show any need for them to change tack with their current stance," said Simon Harvey, a FX market analyst for Monex Europe and Monex Canada.

"I think we can pretty much disregard a Bank of Canada rate cut for this year," he added.

Statistics Canada said prices for goods rose 1.3 per cent year-over-year in September while prices for services increased by 2.2 per cent.

Meanwhile, consumer prices for gasoline fell 10 per cent year-over-year in September after a 10.2-per-cent decrease in August. The agency said the decline was partly owing to continued low global demand for oil as well as refineries switching from summer-blend gasoline to the less expensive winter blend.

Meat prices rose 5.5 per cent year-over-year last month, with fresh or frozen beef rising 4.7 per cent compared with August, Statscan said. Passenger vehicles were also up, jumping 3.4 per cent in September compared with a year earlier.

CPI common, which the central bank says is the best gauge of the economy's underperformance, was at 1.9 per cent.

CPI median, which shows the median inflation rate across CPI components, was at 2.2 per cent, while CPI trim, which excludes upside and downside outliers, was at 2.1 per cent. August's CPI trim was revised down to 2 per cent from 2.1 per cent

In a separate release, Statscan said foreign investors bought a net \$4.99-billion in Canadian securities in August, while Canadian investors sold a net \$4.71-billion worth of foreign securities, led by sales of foreign stocks.