

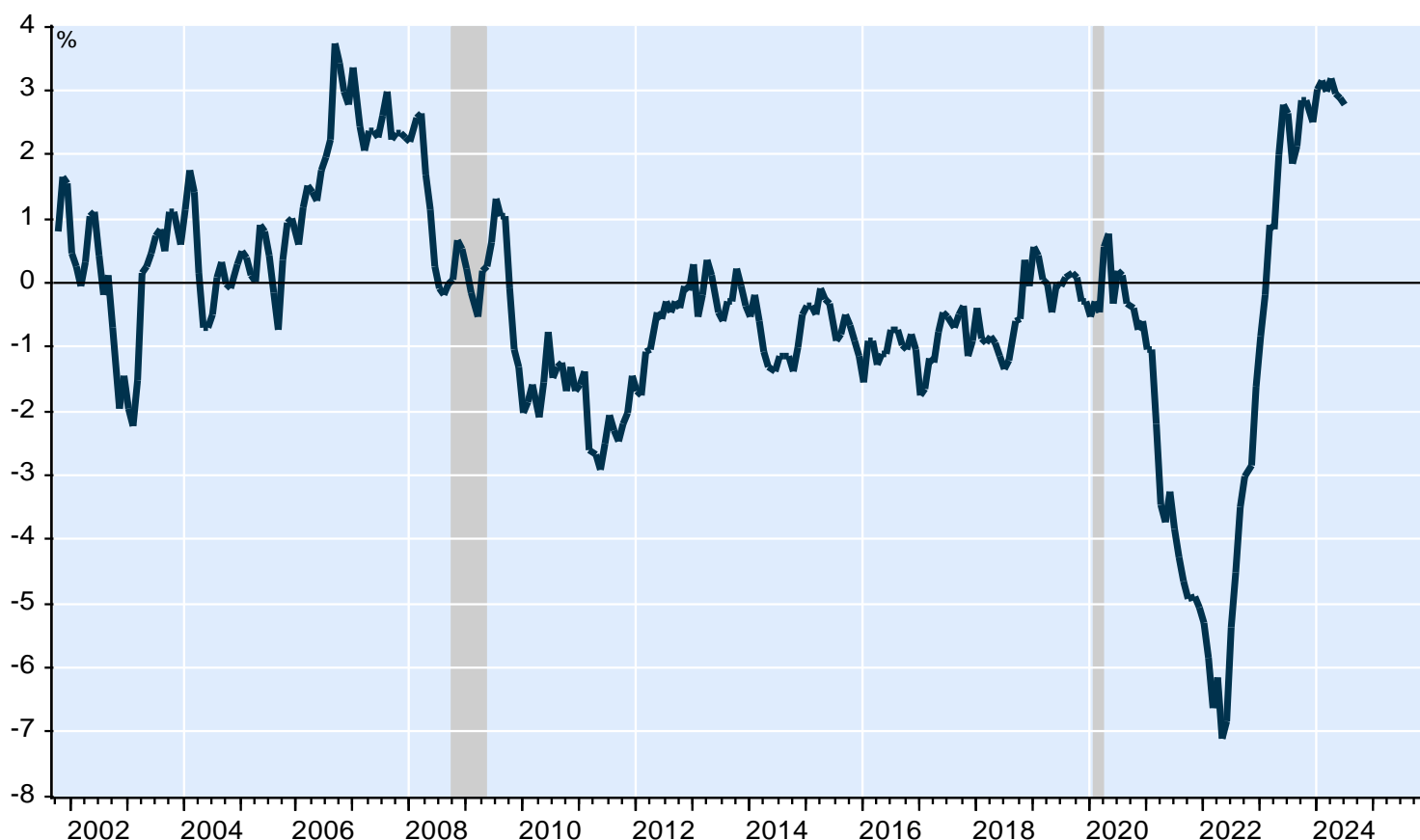
Canada Watch

By Stéfane Marion & Alexandra Ducharme

Canadian CPI inflation reached a 40-month low of 2.5% in July (see [here](#)). Excluding mortgage interest costs (MIC) which are directly influenced by the actions of our central bank, inflation stood at only 1.8%. With disinflation in full swing due to weak economic growth and rising unemployment, the Bank of Canada (BoC) still has some way to go before it can claim that the risks to economic growth from a restrictive monetary policy have been neutralized. As today's Hot Chart shows, the real policy rate, defined as the overnight rate minus the CPI excluding MIC, remains one of the most restrictive in a generation despite the last two BoC rate cuts. With the BoC barely keeping pace with disinflation, we expect more collateral damage to the economy and labour markets in the coming months.

Canada: BoC barely keeping pace with disinflation

Bank of Canada policy rate minus headline inflation excluding mortgage interest costs (MIC)



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