

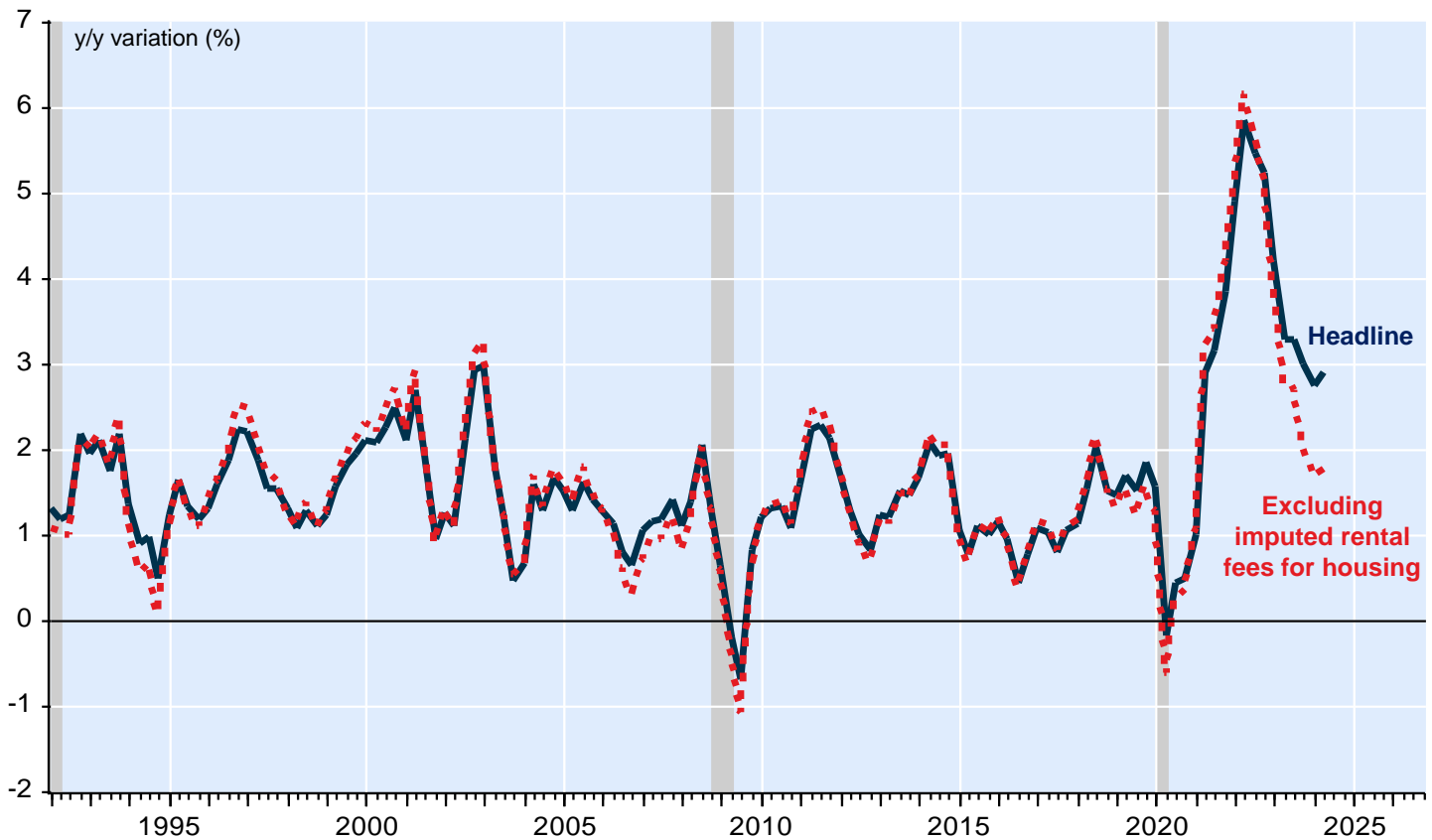
Canada Watch

By Alexandra Ducharme & Matthieu Arseneau

Last Friday, Statistics Canada released GDP data for the second quarter of 2024 (read our analysis [here](#)), which showed that the economy continues to soften. Nonetheless, the Personal Consumption Expenditures (PCE) deflator posted a 4.1% annualized increase in Q2, pushing annual inflation up to 3.0%. While the PCE is a lesser-known indicator of inflationary pressures than the CPI, which is the Bank of Canada's official inflation target, it is still tracked by the central bank as another way to measure price pressures in the country ([see BoC website](#)). In this context, is the recent acceleration a cause for concern? We don't think it should be. We have long argued that the BoC should calibrate its monetary policy by targeting CPI excluding the mortgage interest cost component, since the latter evolves as a function of the Bank's own actions. On the PCE deflator side, homeowners' housing costs are captured by the imputed rent component, which represents the price at which a homeowner would be willing to rent his or her property. As today's Hot Chart shows, excluding this hypothetical expenditure, annual inflation according to the PCE deflator remained below 2% in the second quarter. Against this backdrop, we don't pay much attention to the headline figure of PCE and believe that the BoC should not hesitate to continue easing, including with a 25 basis point cut at tomorrow's decision (our full preview of the Bank's September decision is available [here](#)).

Canada: Bank of Canada should overlook the rise in PCE deflator

Personal consumption expenditure (PCE) deflator, headline and excluding imputed rental housing fees



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