



Inflation patterns hold steady in August, Bank of Canada likely to cut

Canadian inflation remained well behaved in August which is likely to be sufficient for the Bank of Canada to cut its policy rate at tomorrow's (September 17) meeting. Consumer prices rose 1.9 per cent y/y, compared to 1.7 per cent in July. On a monthly basis, prices edged down 0.1 per cent m/m (but rose 0.2 per cent, seasonally- adjusted). Core measures of median- and trim- remained a touch firm at 3.1 and 3.0 per cent, but were consistent with July, with the 3- month average trend of about 2.5 per cent.

As is often the case, movements in headline CPI were driven by gasoline prices. A 1.4 per cent m/m increase and base effects of a steeper decline last August narrowed the 16.1 per cent y/y drop in July to 12.1 per cent in August. Removal of the carbon tax earlier this year continues to temper energy prices and will remain a factor until early 2026 when the base effect fades. That said, gas prices have risen this month, which likely provides a temporary lift to headline growth. Food prices remain a challenge for consumers with growth of 3.4 per cent, including increases in store-bought foods of 3.5 per cent. Increases in meat prices have been more substantial to cap off grill season. Excluding both energy and food, growth came in at 2.5 per cent y/y, with the 3-month trend sinking to mild 1.6 per cent.

Among other products, shelter was a more pronounced drag on inflation, which fell from 2.6 per cent to 3.0 per cent. Softening rental market conditions due to weaker demand and rising supply across metro areas cut rent growth from 5.1 per cent to 4.5 per cent, mortgage interest slipped to 4.2 per cent, while lower home prices pushed replacement costs down 1.3 per cent from a year ago from July 0.9 per cent drop. Downside risk continues for rental and the home sales market which will likely mean further slowing. On the upside, tourism related pricing accelerated as Canadians stayed domestic pushing up accommodation prices across the country, although those who travelled to the U.S. were able to find some deals.

Overall, the inflation environment remained steady in August. The recent spate weak domestic news, including the Q2 contraction in GDP, severe LFS employment contraction over the past two months, and rising unemployment rate likely had the Bank leaning towards a cut, and the inflation print does little to change the story. With the policy rate above the current 3-month trend, there is room for a 25- basis point reduction. Thereafter, core disinflation is expected to slow further on easing shelter costs and removal of more retaliatory tariffs. The likelihood of Fed cuts in the pipeline will also be supportive of a reduction in the Bank's policy rate to 2.25 per cent by year end.

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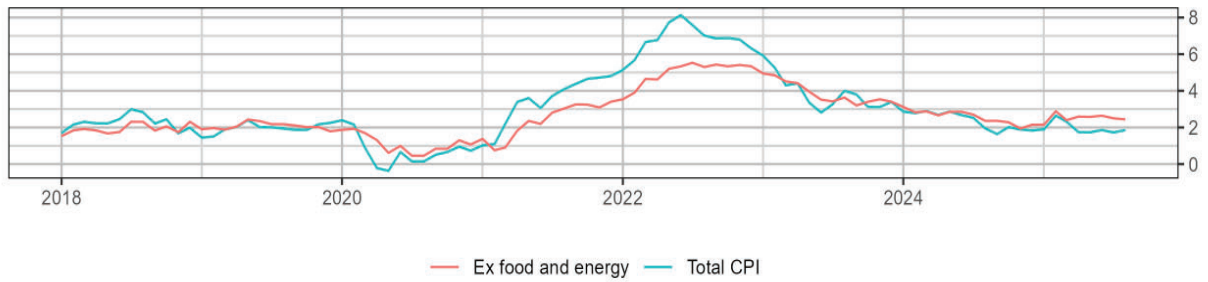
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Aug/2025	Canada Consumer Price Index					
Indicator	m/m ch.	prior m/m ch	y/y ch.	prior y/y ch.	3m ann % ch.	prior 3m ann % ch.
All-items, actual	-0.1	0.3	1.9	1.7		
All-items, s.a.	0.2	0.1	1.9	1.7	2.0	2.2
Ex food and energy	-0.2	0.3	2.4	2.5		
Ex food and energy, s.a.	0.1	0.1	2.5	2.4	1.6	2.1
Select Products and Services						
Goods	0.0	0.1	0.7	0.3		
Services	-0.1	0.4	2.8	2.8		
Food	0.0	0.6	3.4	3.3		
Gasoline	1.4	-0.7	-12.7	-16.1		
Shelter	0.1	0.3	2.6	3.0		
Rent	0.4	0.6	4.5	5.1		
Mortgage Interest	0.3	0.2	4.2	4.8		
Homeowners Replacement	-0.2	-0.2	-1.3	-0.9		
CPI Ex Shelter	-0.2	0.3	1.6	1.2		
Bank of Canada Core Measures						
Core Common			2.5	2.6		
Core Median			3.1	3.1		
Core Trim			3.0	3.1		
Core Median, s.a.	0.2	0.1	3.1	3.1	2.6	2.4
Core Trim, s.a.	0.2	0.2	3.0	3.1	2.4	2.6

Inflation Indicators

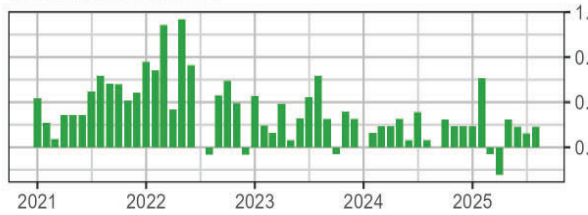
CPI Inflation, y/y % change

Last data point: 2025-08-01



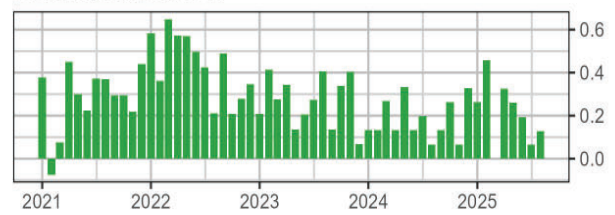
CPI sa, m/m % ch

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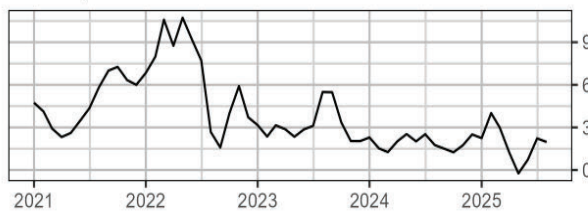
CPI ex food/energy sa, m/m % ch

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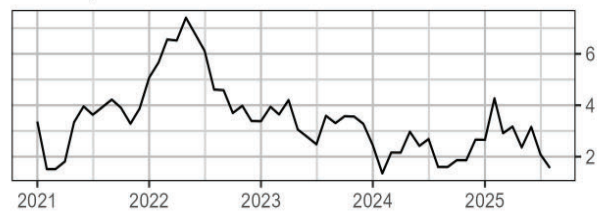
CPI sa, 3m ann. % ch

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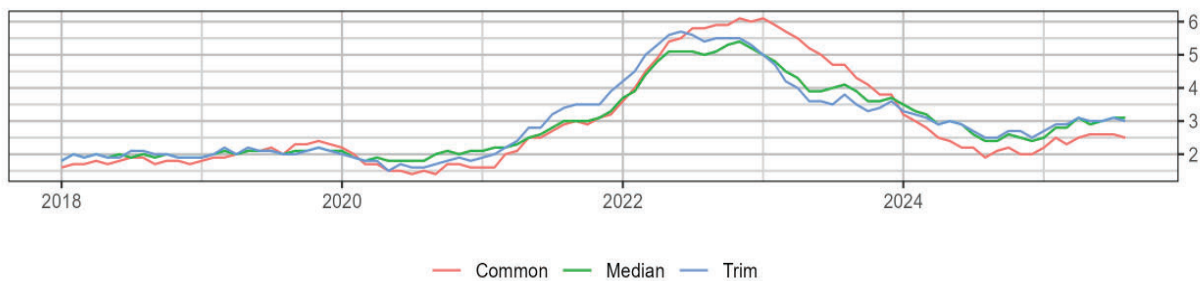
CPI ex food/energy sa, 3m ann. % ch

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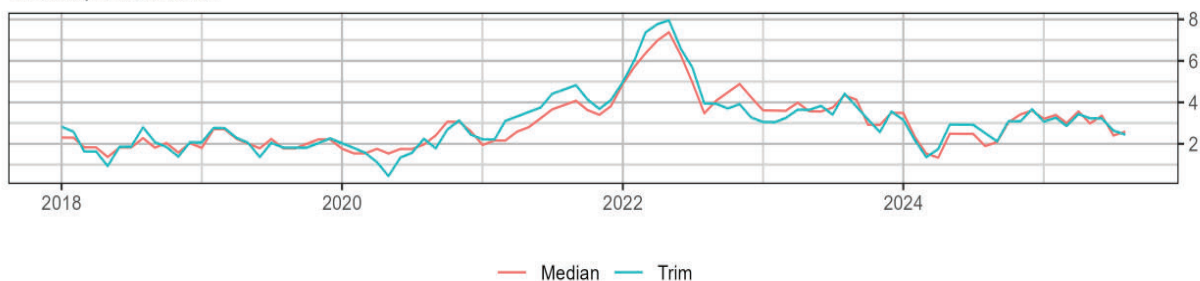
Bank of Canada Core Inflation, y/y % change

Last data point: 2025-08-01



Bank of Canada Core Inflation, 3m ann % change

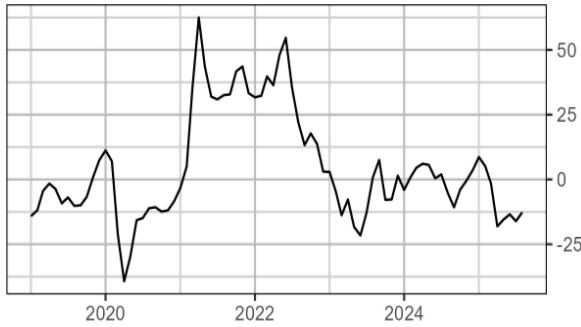
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Inflation Trends by Segment

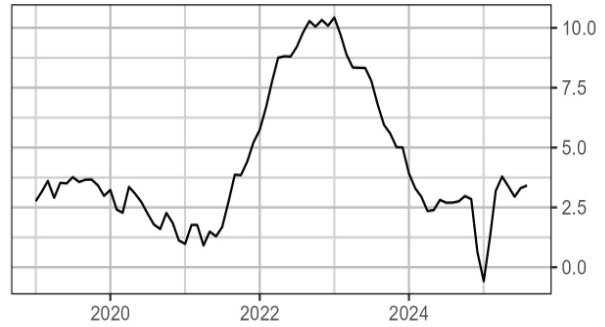
Gasoline, y/y % ch

Last data point: 2025-08-01



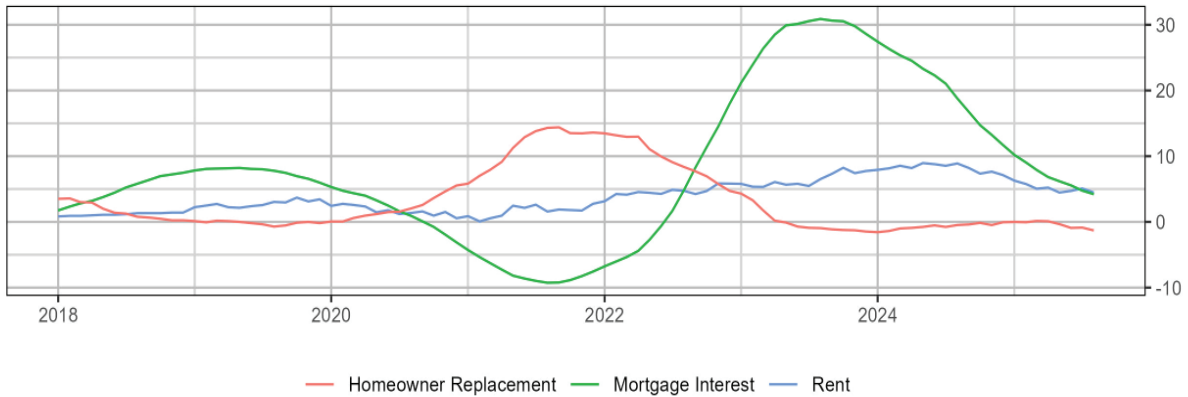
Food, y/y % ch

Last data point: 2025-08-01



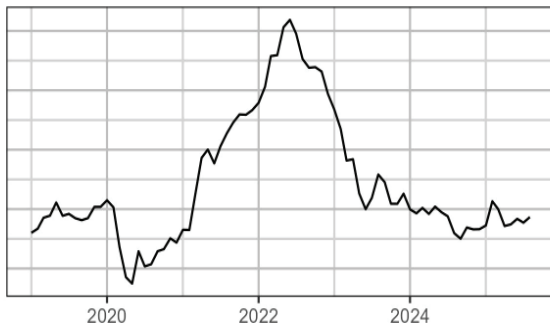
Shelter Inflation by Key component, y/y % change

Last data point: 2025-08-01



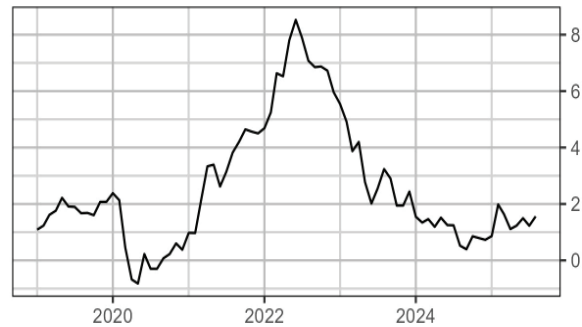
CPI ex mortgage, y/y % ch

Last data point: 2025-08-01



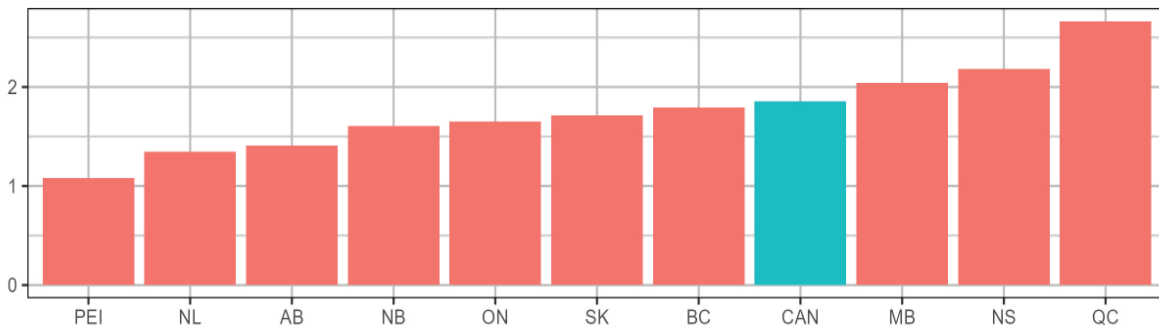
CPI ex shelter, y/y % ch

Last data point: 2025-08-01



CPI Inflation by Province, y/y %

Last data point: 2025-08-01



Statistics Canada, Central 1