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Canadian CPI (Aug): Core still not flashing red

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Consumer price index (% chg)	26:Q1	26:Q2	Jun	Jul	Aug
Year/year rate (unadjusted)	2.2	2.9	2.8	3.0	**3.0**
Monthly rate (unadjusted)	-	-	-0.4	0.5	**-0.1**
Monthly rate (SA)	-	-	-0.1	0.2	**0.2**
Three-month rate (SAAR)	-	-	2.9	2.4	**1.7**
CPI-trim (year/year rate)	2.3	2.0	1.9	1.9	**1.9**
CPI-median (year/year rate)	2.4	2.0	1.9	2.0	**2.0**

Source: Statistics Canada

- Headline inflation remained elevated in August, but core measures continued to show only limited evidence that high energy prices are spilling over into wider inflationary pressure. With the economic outlook clouded by US tariffs and related uncertainty we think that the Bank should, and will, keep interest rates on hold at the October meeting, particularly with core measures of inflation not exactly flashing warning signs.
- The CPI price index edged down 0.1% in August (+0.2% SA) and the annual rate held steady at 3.0%, with both figures in line with consensus expectations. Gasoline prices continued to drive most of the overshoot of inflation relative to the 2% target, although ex-gasoline inflation did accelerate to 2.4% from 2.2% in the prior month.
- CPI excluding food/energy rose by 0.3% seasonally adjusted, but the main driver of that was rents which seems at odds with industry figures and could simply reflect data volatility. The 0.8% monthly increase in rents was the strongest since October 2025, and saw the annual rate tick up slightly to 2.8% (from 2.4%). Airline fares fell less than normal in the month of August, meaning the annual rate accelerated further to 15%, from 12%.
- On a year-over-year basis, ex food/energy inflation was still a fairly muted 2.1%, and CPI-Trim and CPI-Median held steady at 1.9% and 2.0% respectively on the back of 0.2% SA monthly increases. Four measures of core inflation (including the Bank's old CPI-X as well) averaged 0.25%m/m, 2.1% y/y and 2.2% 6-month annualized.
- Released alongside today's CPI report, manufacturing sales for July showed a slightly larger decline in shipments than expected (-0.4% vs -0.2% advance). That looked weaker still in volume terms (-1.4%), and provides further evidence that economic growth may be stalling again at the start of Q3 following the strong second quarter.

Implications & actions

Re: Economic forecast — The next Bank of Canada meeting is more than a month away and there is another CPI report to be released between now and that time, as well as monthly GDP and employment. Given the recent move higher in global energy prices, it is possible that headline inflation accelerates slightly in the months ahead. However, we still expect that the Bank will keep interest rates on hold, particularly if tariff and trade uncertainty is still clouding the economic outlook, with recent evidence suggesting that economic growth was slowing again even prior to the recent escalation in trade uncertainty and with core measures of inflation still fairly muted.

Re: Markets — Bond yields dipped momentarily after the release, but quickly rebounded given that today's figures were broadly in line with consensus expectations.