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October 21, 2025

Canadian CPI (September): Making things more complicated

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Consumer price index (% chg)	25:Q2	25:Q3	Jul	Aug	Sep
Year/year rate (unadjusted)	1.8	2.0	1.7	1.9	2.4
Monthly rate (unadjusted)	-	-	0.3	-0.1	0.1
Monthly rate (SA)	-	-	0.1	0.2	0.4
Three-month rate (SAAR)	-	-	2.2	2.0	3.0
CPI-trim (year/year rate)	3.0	3.1	3.1	3.0	3.1
CPI-median (year/year rate)	3.1	3.2	3.1	3.2	3.2

Source: Statistics Canada

- A larger than expected acceleration in headline CPI makes the Bank of Canada's interest rate decision next week a little more complicated, but core measures of inflation are likely still subdued enough, and GDP growth sluggish enough, to justify a further 25bp cut in interest rates.
- Headline inflation accelerated to 2.4%, from 1.9% in the prior month and in contrast to consensus forecasts for a more modest pick-up (to 2.2%). Prices rose 0.1% on the month in unadjusted terms and 0.4% when adjusted for seasonality. As well as the expected monthly pick up in gasoline prices, resulting from refinery disruptions and maintenance, food price inflation also reaccelerated in September. Excluding food and energy, the acceleration in inflation (to 2.6% from 2.5%) was much smaller than the move up in the headline measure.
- Outside of food and energy, rent inflation as measured in the CPI figures remained suspiciously strong, rising 0.5% on the month and 4.8% year-over-year. Rent was the top contributor to year-over-year inflation in September, ahead of mortgage interest costs which are still bolstering inflation despite easing steadily since late 2023. There was also a smaller year-over-year decline in travel tour prices relative to the prior month, contributing to the acceleration in headline CPI. In contrast, core goods price inflation (excluding food and energy) edged down slightly to 1.6%, from 1.7% in August.
- The Bank of Canada has downplayed its previous preferred measures of core inflation recently (CPI-Trim and CPI-Median), instead using a wider range of indicators as well as measures of dispersion. Four measures of core inflation (CPI ex food/energy, CPI-X, CPI-Trim and CPI-Median) averaged 0.24% SA m/m, 2.3% on a 3m-annualized basis and 2.9% y/y in September. Those averages were broadly in line with the prior month, suggesting that while price pressures didn't ease further there was also less evidence (relative to the headline) of a reacceleration within these core measures.

Implications & actions

Re: Economic forecast — We think that core measures of inflation were just about subdued enough, and the economy is certainly weak enough, to still justify a further 25bp cut from the Bank of Canada next week. However, after that the Bank is likely to move back onto the sidelines, in part due to evidence of some lingering inflationary pressures, but also on the assumptions that economic growth starts to recover and progress is made towards a trade deal that reduces some of the sector specific tariffs currently impacting Canadian trade.

Re: Markets — Bond yields rose and the Canadian dollar appreciated slightly against its US counterpart following today's stronger than expected data.