

Canadian inflation ticked higher in September

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The Bottom Line:

Canadian inflation ticked slightly higher to 3.1% year-over-year in September, after holding at 3% for the prior two months. This was below the consensus estimate of 3.2% and a tick higher than our own pre-release expectation of 3%.

As expected, energy inflation accelerated as gasoline and furnace oil prices rose from August, while food inflation continued to moderate.

But there continued to be limited evidence that elevated energy costs were spreading significantly across consumer prices. The breadth of recent inflation pressures did widen somewhat in the September data. Pass-through remained most visible in oil-sensitive transportation categories, including airfares, while price growth in local transit remained comparatively subdued.

Food price growth slowed further, with prices at grocery stores rising at their slowest pace since May 2024 (1.7% year-over-year). CPI excluding food and energy held at 2.1% year-over-year, while the Bank of Canada's preferred CPI-trim and CPI-median measures averaged 1.9% on a year-over-year basis.

The Bank of Canada is still facing an uncomfortable balance. The economy is gradually improving but remains soft, with employment declining in both August and September and the unemployment rate holding around 6.5%. At the same time, policymakers remain alert to the risk that persistently elevated oil prices lift inflation expectations or generate broader second-round price pressures.

Governor Macklem acknowledged as much on Saturday, noting from the IMF meetings in Bangkok that “the risk that inflation broadens and becomes more persistent has gone up” and that the Bank has found it increasingly difficult to continue looking through the direct impact of higher energy prices. Producer-price pressures have broadened, but those cost increases would need to persist and pass through several layers of production before reaching consumers more broadly.

Our own base-case forecast assumes that the Bank will hold the overnight rate unchanged through the remainder of 2026 before gradually raising rates in 2027. Softer labour-market data and higher fixed borrowing costs give policymakers room to remain patient. However, recent communication from the Bank of Canada and Governor Macklem are denoting more urgency than the data to date might suggest and add to the risk the Bank chooses to move preemptively.

The details:

Headline CPI rose 0.4% m/m on a seasonally adjusted basis in September, leaving the annual inflation rate at 3.1% after holding at 3% during the last two months.

Energy prices were 19% higher than a year ago, compared with annual growth of 15.4% in August. Gasoline prices rose 27.8%, contributing 1.1 percentage points to headline inflation.

Food inflation eased to 2.2% year-over-year from 2.8% in August, continuing its downward trend. Grocery price growth came in at 1.7%, down from 2.8% in the prior month, while restaurant price growth

was little changed at 3.1%.

CPI excluding food and energy inflation was unchanged at 2.1% year-over-year, pointing to relatively contained price growth outside the most volatile categories.

The Bank of Canada's closely watched CPI-trim was 1.8% y/y and 0.2% m/m, while CPI-median was 1.9% y/y and 0.2% m/m. On a three-month annualized basis, the average of CPI-trim and CPI-median was 2.6%, compared with 2.3% in August.

The trim services excluding shelter measure — sometimes referred to as “supercore” — was 2.5% year-over-year, compared with 2.6% previously.

Our diffusion index (measuring the breadth of inflation pressures) showed that the share of CPI components rising faster than 3% jumped to 47.8%, compared with 25.9% in August and 48.5% a year ago. The share rising faster than 5% was 19.6%, compared with 18.5% previously and 32.3% from a year ago.

Tuition fees, which are priced annually in September, increased 2.4%, up from 1.7% in 2025. That increase coincides with the 7.6% year-over-year decline in non-permanent residents (with study permits only and with work & study permits). The drop in international students has reduced a key revenue stream for post-secondary institutions, prompting many to adjust tuition fees upward to offset the shortfall.

Prices for airfares surged 19.4%, as one of the categories most exposed to higher energy prices, up from 15% in August. But prices for local transportation continued their downward trajectory.

Shelter inflation was 1.8% year-over-year, compared with 1.5% in August. Outside of the fuel oil and other fuels category, price increases were driven by faster growth in homeowners' home and mortgage insurance, as well as maintenance and repairs.

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