

Research Brief

CANADA INFLATION

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Broadening Inflation Pressures Raise Likelihood of Rate Hike

Headline inflation holds steady despite firmer energy costs. Canada's Consumer Price Index rose 0.2 per cent monthly in August, leaving the annual inflation rate unchanged at 3 per cent. Higher gasoline prices accounted for roughly one-quarter of the monthly rise, with a larger contribution likely in September after the recent surge in oil prices. Food inflation remained subdued, rising just 0.1 per cent as the effects of earlier drought conditions continued to ease. However, price pressures strengthened across several core categories, including shelter, recreation, and communications, while clothing and footwear provided the only notable offset. This composition suggests that inflation is broadening even before the full impact of higher energy prices is reflected in the headline reading.

Strengthening core pressures raise the likelihood of a rate hike. The changes in the Bank of Canada's preferred CPI-trim and CPI-median for August were broadly similar to July. The average rose by 2 per cent year-over-year and 0.23 per cent for August. The monthly change, however, represents an annualized pace of 2.7 per cent, and suggests underlying inflation is regaining momentum. Shelter costs rose 0.3 per cent monthly, led by a 0.7 per cent increase in rents, while mortgage interest costs are likely to face further upward pressure from rising bond yields. With oil prices above \$100 per barrel and the Bank adopting a more hawkish tone, an interest-rate increase before year-end is becoming more likely. Policymakers will need clearer evidence that these pressures are temporary before they feel comfortable leaving rates unchanged.

Commercial Real Estate Outlook

Rent growth supports multifamily but adds to policy concerns. Shelter costs rose 0.3 per cent month-over-month in August, driven by a particularly strong 0.7 per cent increase in rents. Persistent rental inflation should continue to support revenue growth for multifamily owners, although affordability pressures and provincial rent regulations may limit how quickly market gains translate into property-level income. Mortgage interest costs also increased by 0.3 per cent and could accelerate as higher bond yields flow through to borrowers. While elevated ownership costs will likely keep more households in the rental market, supporting occupancy, the growing likelihood of higher interest rates presents a renewed financing and valuation headwind for multifamily investors.

Service-oriented retail demonstrates pricing power. Inflation trends across discretionary categories remained uneven in August, highlighting the increasingly selective nature of consumer demand. Recreation, education, and reading costs rose 0.7 per cent month-over-month, including increases of 1.9 per cent for airfares and 3.2 per cent for travel tours, while communications prices advanced 1.5 per cent. Conversely, clothing and footwear prices declined 0.4 per cent, signalling a more competitive environment for traditional merchandise retailers. This divergence should favour well-located storefront properties with experiential, entertainment, and personal-service tenants, while apparel and other goods-based retailers may face greater pressure on margins and leasing capacity.

INFLATION RISKS PUT UPWARD PRESSURE ON YIELDS



DISCRETIONARY SPENDING IS SELECTIVE

