

ECONOMIC VIEWPOINT

Oil and Tariffs and AI, Oh My!

Why Canadian Consumers Are Proving Resilient Despite Ongoing Headwinds

By Randall Bartlett, Deputy Chief Economist

HIGHLIGHTS

- ▶ It's been a tough couple of years for Canadians. From the US conflict with Iran and tariffs to the rise of artificial intelligence (AI) and interest rates, reprieve from the seeming never-ending stream of external shocks has been hard to find. The total additional cost in 2026 and 2027 could top \$2,000 for the average household in Canada.
- ▶ Not all households have been feeling the economic headwinds equally. The most vulnerable households have been dipping into their pandemic-era savings to cover higher costs. At the same time, the most affluent households have seen their wealth continue to grow.
- ▶ Despite the headwinds, the labour market has continued to move forward and supported consumption as the bedrock of economic growth. Federal transfers to low- and middle-income households have helped too.
- ▶ Looking ahead, while real household spending growth is likely to slow as higher prices and trade wars hit consumers where it hurts, it is still likely to underpin respectable growth going forward.

Since the beginning of 2025, Canadians have been hit by a seemingly never-ending stream of external shocks. From the US conflict with Iran and tariffs to the rise of AI and interest rates, reprieve has been hard to find. Despite this, the Canadian economy has remained resilient, particularly consumption. In this note, we explore why that's been the case and how sustainable it may be going forward.

Oil and Tariffs and AI, Oh My!

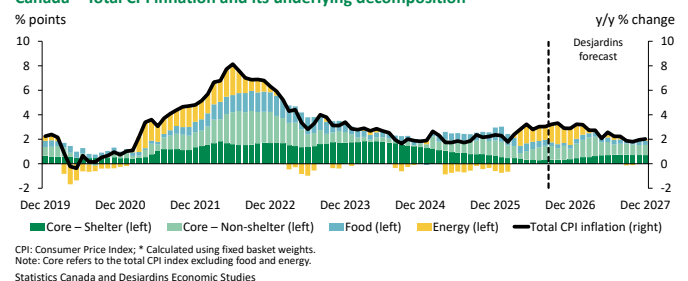
Oil Plays the Spoiler

Energy prices are the primary cause of higher costs facing Canadians right now. These have significantly boosted headline inflation, and are expected to continue doing so through the end of 2026 (graph 1). With the price of West Texas Intermediate (WTI)—the North American light sweet crude oil benchmark—hovering around US\$90 per barrel at the time of writing, we continue to expect oil prices to gradually come down from here but remain higher for longer than previously presumed (graph 2 on page 2). Prolonged elevated

Graph 1

Energy Price Growth Should Keep Inflation Elevated Through 2026

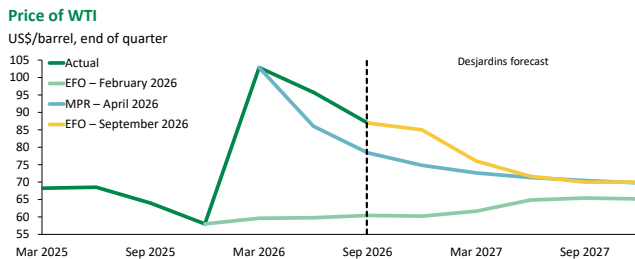
Canada – Total CPI inflation and its underlying decomposition*



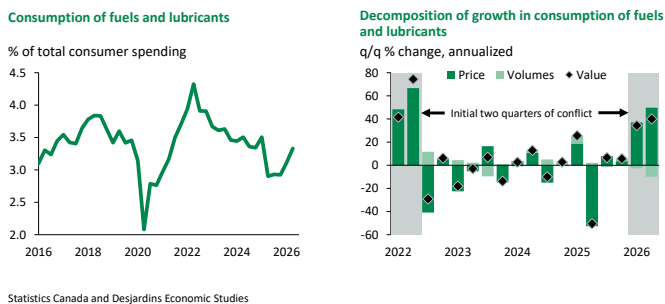
oil prices risk eventually seeping into underlying inflation as well, although evidence of this has so far been limited.

After reaching a recent low of 2.9% in Q4 2025, consumer spending on transportation fuels and lubricants jumped to 3.3% in Q2 2026 on soaring energy prices (graph 3 on page 2). However, spending on fuel is a much smaller share of total

Graph 2
Oil Prices Are Expected to Remain Elevated Both This Year and Next



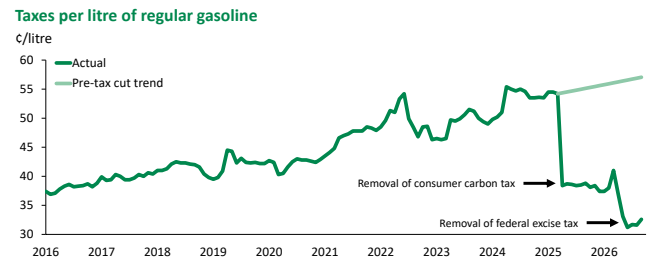
Graph 3
Canadians Are Spending More on Fuel but Buying Less of It



household consumption than during the early days of the Russian invasion of Ukraine, when it topped 4.3%. That was mostly price-driven, with volumes making a minor but still positive contribution as families took to the roads following the pandemic. In contrast, Canadians today have cut their purchases of fuel in response to the higher price at the pump. Sustained high energy prices are expected to add about 1.0 pts and 0.4 pts to inflation in 2026 and 2027, respectively. That's equivalent to a total of about \$25B in total over the two years, or roughly \$1,575 in higher costs per household.

Part of the reason for the more modest increase in the price at the pump this time around is that oil prices haven't hit the same highs as in 2022. The removal of federal and provincial taxes hasn't hurt either (graph 4). More specifically, eliminating the federal consumer carbon tax shaved about 15¢ per litre off the price of regular retail gasoline in April 2025. It also took further future tax increases off the table. The temporary cut to the federal excise tax removed another 10¢ per litre starting in April 2026. As a result, taxes on gasoline are nearly half nationally what they were at the beginning of 2025.

Graph 4
Taxes on Gasoline Have Been Cut Nearly in Half Since Early 2025



Trade Wars and Canada Strikes Back

Adding to the headwinds facing Canadian consumers are the ongoing trade tensions with the US. After a volatile tit-for-tat trade war in 2025, an uneasy peace was reached. Most Canadian exports entered the US duty-free under the Canada-United States-Mexico Agreement (CUSMA). In response, Canada dropped many of its retaliatory tariffs in September 2025.

Then in July 2026, the US administration threatened, and then ultimately applied, 50% tariffs on about 5% (\$28B) of US imports from Canada by mid-August. [Our analysis](#) suggests this alone should slow economic and employment growth, thereby putting downward pressure on inflation. The Government of Canada followed shortly after with its own dollar-for-dollar tariffs on similar goods, ranging from 15% to 50%. We expect this too will be a further drag on economic activity.

However, the inflationary boost from Canadian counter-tariffs should more than offset the drag of slower economic and employment growth resulting from the trade war. The net impact of the trade war on consumer prices should add around 0.1 pts and 0.2 pts to underlying inflation in 2026 and 2027, respectively, if tariffs are kept in place permanently. That translates into about \$5.5B in total after the two years, or almost \$350 per household. And while we assume there will be some sort of de-escalation in trade tensions in our latest [Economic and Financial Outlook](#)—thereby helping to keep inflation next year lower than it would be otherwise—ongoing or even escalating trade tensions remain a material risk to the outlook.

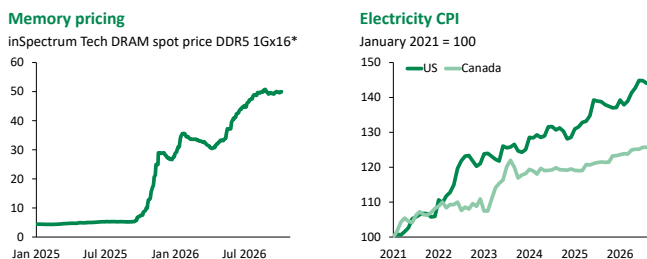
AI: Inflationary Now, Disinflationary Later?

Meanwhile, the widespread use of AI is boosting productivity in many parts of the economy. This is ultimately expected to put downward pressure on inflation by accelerating potential economic output. But in the near term, the surge in AI-related activity instead appears to be boosting costs for consumers. An example of this is the higher cost of inputs to AI capex.

Semiconductor prices have increased substantially, for instance, boosting the price of consumer electronics along with them (graph 5). Indeed, the digital computing equipment and devices component of the Consumer Price Index advanced by nearly 7% y/y in August 2026—the fastest pace on record. Concerns have also been raised that the price of utilities may be rising because of AI investment, such as the cost of electricity and water, prompting policymakers in some regions to act. However, [our research](#) has found conflicting evidence that this is the case. While more difficult to quantify than higher energy or import prices, rising AI-related costs just add to the already high and rising prices faced by Canadians.

Graph 5

AI Investment and Use Appear to Have Been Driving Up Costs Recently



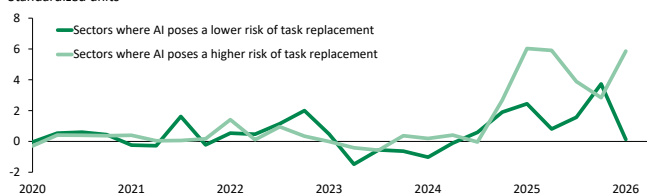
AI: Artificial intelligence; CPI: Consumer price index; * As of October 7, 2026.
Bloomberg, Bureau of Labor Statistics, Statistics Canada and Desjardins Economic Studies

At the same time, workers are increasingly concerned about being displaced or having wages suppressed by AI (graph 6). There is some evidence of both among entry-level employees in AI-vulnerable fields. However, evidence of economy-wide job losses resulting from AI-related advances has been limited to date. But as the use of, and use cases for, AI continues to grow, there is likely to be some displacement in the labour market. That said, past general-purpose technologies have supported job gains and wage growth even while disrupting labour markets, and it's too early to assume the impact of AI won't be similar.

Graph 6

AI-Exposed Workers in Canada Are Increasingly Concerned About Job Losses

What do you think is the percent chance that you will lose your job during the next 12 months?
Standardized units



AI: Artificial intelligence
Note: Lower-risk sectors include agriculture and forestry, mining and oil and gas, construction, manufacturing, transportation and warehousing. Higher-risk sectors include finance, insurance, real estate, rental and leasing, utilities, retail and wholesale trade, public sector, and information, culture and recreation.
Bank of Canada and Desjardins Economic Studies

Interest Rates Are Up, Up, Up and Away

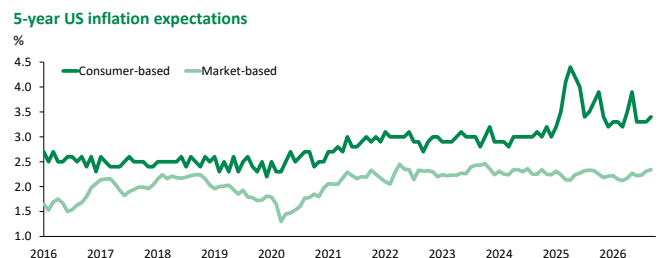
All these inflationary forces have increased market expectations for future short-term interest rate hikes by central banks in Canada and abroad. And market pricing has proven justified in some cases, as demonstrated by the recent rate hikes by the [Federal Reserve](#) and [European Central Bank](#).

But rising long-term interest rates are more than just a story of expected central bank tightening. Investors are also requiring additional compensation for holding longer-term bonds, known as the term premium. As was highlighted in our recent [Investment Strategy and Interest Rate Analysis](#), the term premium has been pushed higher by a few factors.

First, inflation expectations are on the rise, particularly among consumers. Inflation erodes the real return on most bonds, meaning investors need more compensation to hold them during inflationary periods. However, US market expectations for inflation (we don't have reliable estimates for Canada) have remained largely contained for now (graph 7). That said, it raises the risk that persistent inflation could eventually start to emerge as another meaningful factor in driving bond yields higher.

Graph 7

US Inflation Expectations Are on the Rise, Especially Among Consumers

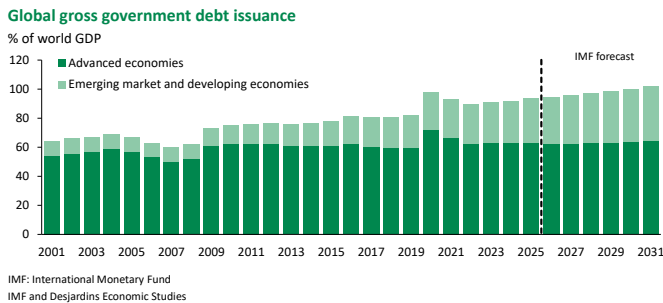


University of Michigan, Federal Reserve Bank of St. Louis and Desjardins Economic Studies

Second, government deficits have also been rising fast. Demands from expanding defence budgets and rising pension obligations to supporting tariff-impacted sectors and meeting populist pressures have all made a contribution. To fund this spending, governments have been issuing a substantial amount of debt. Consequently, public debt has hit levels as a share of GDP that are typically associated with a global recession, even though today's increase reflects sustained borrowing rather than a collapse in the GDP denominator (graph 8 on page 4).

Finally, hyperscalers have been issuing more debt to fund massive capex investment, particularly in the US, thereby adding to the large volume of government and corporate bonds that investors must absorb. At the margin, this additional competition for

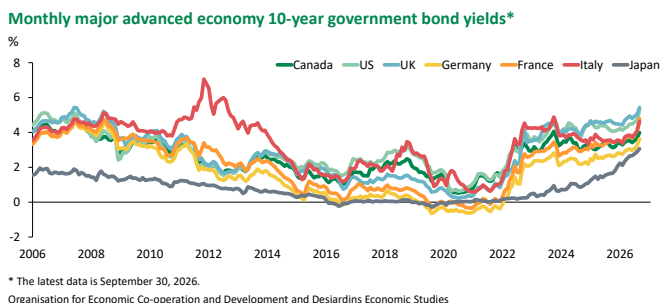
Graph 8
Global Gross Government Debt Issuance Continues to Climb



capital may be contributing to upward pressure on long-term borrowing costs.

Canada is not immune from the pressures pushing global bond yields higher. Ten-year Government of Canada bond yields have risen from 3.3% at the end of February 2026 to roughly 4.0% at the close of September. This was higher than only Germany and Japan in the G7, although yields on both these countries' 10-year bonds have risen much more quickly than Canada's recently (graph 9). Regardless, rising sovereign bond yields in Canada are trickling down to higher interest costs for other levels of government, businesses and consumers.

Graph 9
Longer-Term Government Bond Yields Have Hit Multidecade Highs

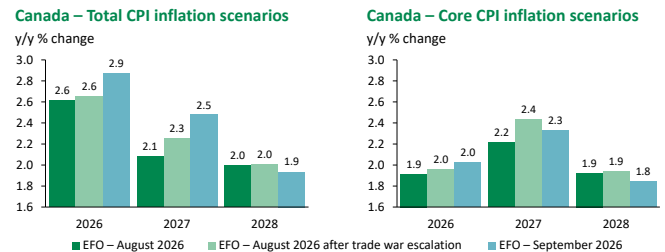


So, What Does All This Mean for Consumers?

Elevated costs of imports, energy, electronics and interest mean one thing: higher prices for the most important things Canadians buy. From household staples and food costs to filling up the tank and making monthly mortgage payments, Canadians' bills continue to climb. Taken together, the total cost in 2026 and 2027 could top \$2,000 for the average household in Canada. That's substantive when you consider our forecast for the average household income in Canada to be about \$85,000 next year.

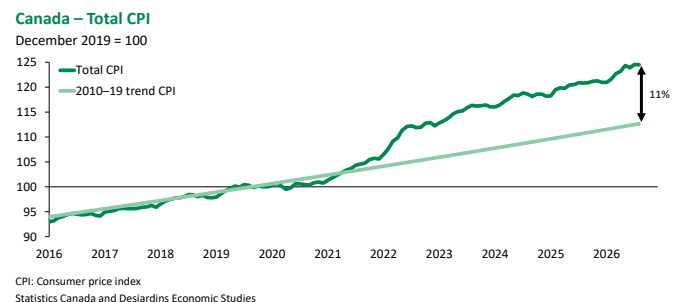
In total, CPI inflation could be as much as 0.4 ppts higher in 2026 and 2027 than forecast as recently as mid-August, reaching 2.9% and 2.5% y/y, respectively (graph 10). Of course, that assumes a de-escalation in the trade war with the US around the turn of the year. If the current tariffs remain in place or increase further, inflation could be even higher next year.

Graph 10
Counter-Tariffs Should Push Inflation Higher in Spite of Weaker Growth



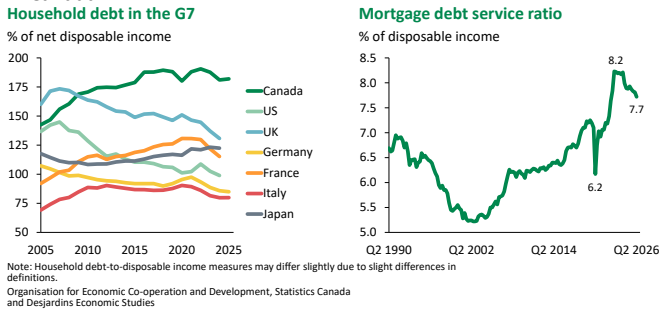
This comes after the post-pandemic period of high inflation that never saw prices come back to their pre-COVID trend. Prices are now more than 25% above the end-2019 level and 11% above their pre-COVID trend (graph 11). And even that average price pales in comparison to the rising cost of some essentials, such as food.

Graph 11
Prices Were Still Elevated Prior to the Latest Resurgence in Inflation



The cost of shelter has also risen much faster than general inflation. While home prices and asking rents have come down from their recent peaks, they remain high, partly reflecting continued elevated residential construction costs. Mortgage interest costs remain high as well, as fixed rates have begun to rise again along with broader global bond yields. Canadian households are already among the most indebted households in the world (graph 12 on page 5). As a result, mortgage renewals at higher rates and still-elevated shelter

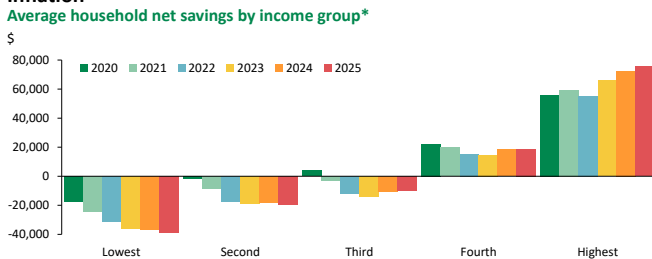
Graph 12
Household Indebtedness and Mortgage Service Costs Remain High in Canada



costs should start to push inflation higher going forward. That is particularly true in provinces like Ontario and British Columbia, where falling prices since their peak have yet to restore affordability after its precipitous decline during the panic. This despite slowing population growth which has helped to bring down market rents and, to a lesser extent, take pressure off the broader housing market.

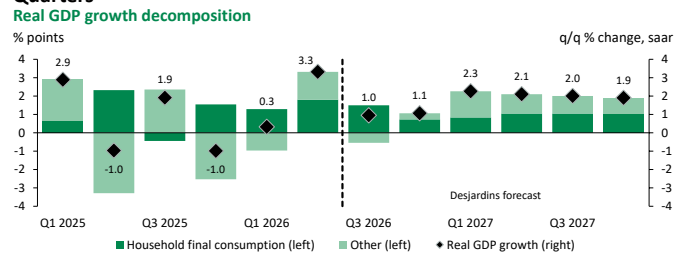
Low-income households are particularly vulnerable to the rising cost of essentials. Many rent, for instance, and average rent has risen faster than the cost of homeownership since the end of 2019. It's little wonder that roughly half of Canadian households have negative savings, as [we noted in prior research](#) (graph 13). Meanwhile, the top 20% of households by earnings are continuing to see their savings increase and their wealth along with it. And that's in addition to the substantial excess savings built up during the pandemic. Indeed, total cumulative savings are now nearly \$300B above their pre-COVID trend. Surging returns on equities have also helped to create more wealth among Canada's most affluent households. This has largely insulated the most well-off families from the impact of rising prices, while the most vulnerable households have been increasingly feeling squeezed.

Graph 13
High-Income Earners Have Increased Their Savings Despite Elevated Inflation



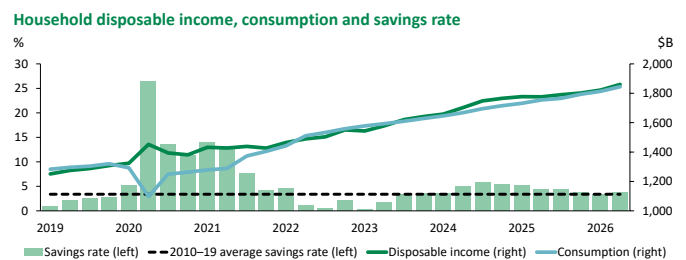
But through all these headwinds, the Canadian consumer has proven highly resilient. Inflation-adjusted consumer spending has been a bright spot in the real GDP data over the past year and a half (graph 14), despite a sharp slowdown in population growth. This reflects a few factors. First is the sustained strength in the Canadian labour market. While job gains have been [concentrated in healthcare](#) for much of the last 18 months, sustained hiring in non-trade-exposed sectors has helped to offset the drag from employment weakness in trade-exposed sectors. Along with rising employment has come higher income and savings (graph 15). Second, one-off federal income transfers in the second quarter and permanently higher income transfers in the third quarter of this year have helped to boost consumer spending, particularly by low- and middle-income households. Finally, rapidly rising wealth among Canada's most affluent households has allowed them to continue buying in the face of sustained high prices, masking some of the weakness among other households.

Graph 14
Consumption Has Been a Key Driver of Growth in Recent and Coming Quarters



Statistics Canada and Desjardins Economic Studies

Graph 15
Solid Income Growth Has Helped to Keep Canadian Savings Elevated



Statistics Canada and Desjardins Economic Studies

While some of these factors may persist, they can't be guaranteed going forward. Indeed, we expect consumption growth to slow in the next few quarters as the policy tailwind fades, persistent trade tensions weigh on hiring and investment, and higher mortgage payments and energy costs take up a larger share of disposable income (graph 14 on page 5). Only when there is a resolution to trade tensions do we expect business and consumer confidence to rebound, boosting hiring and spending along with it. Additionally, a reversal in the recent equity market outperformance could cause even the highest income Canadians to tighten their belts somewhat.

Conclusion

It's been a tough couple of years, but Canadians have remained resilient through it all. Despite the headwinds of higher energy prices, tariffs, AI and interest rates, the labour market has continued to move forward and support consumption as the bedrock of economic growth. And while real household spending growth is likely to slow ahead as higher prices and trade wars hit consumers where it hurts, it is still expected to underpin growth going forward.