

ECONOMIC VIEWPOINT

From the Pump to the Pantry: Are Prices Set to Skyrocket Again?

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HIGHLIGHTS

- ▶ The Iran conflict has pushed energy prices up significantly in 2026. Given this new price environment, our outlook for inflation has shifted substantially higher, peaking at around 3.1% y/y in Q2 2026.
- ▶ The impact of higher energy prices on inflation is most noticeable at the pump, with gasoline prices projected to be 30 cents per litre higher in both 2026 and 2027 than we expected before the conflict with Iran. The temporary removal of the federal excise tax on fuel does provide some small relief for households, but it's dwarfed by the pre-tax price of gasoline.
- ▶ We now expect food CPI and other CPI components excluding food and energy to be modestly higher than forecasted in February, but the impact of higher energy input costs should be delayed.
- ▶ Looking ahead, the trajectory of inflation hinges on the duration of the conflict, which seems to have no end in sight. That said, downside risks continue to persist from the Canada-United States-Mexico Agreement (CUSMA) joint review.

Much has changed since the start of 2026. The war with Iran has materially lifted the energy price environment, with oil prices now likely to remain elevated through much of the year relative to our earlier expectations. [Our latest forecast](#) points to the price of West Texas Intermediate (WTI)—the North American light, sweet crude oil benchmark—remaining around US\$100 per barrel through May before easing to around US\$85 by the end of the year and US\$75 by the end of 2027 (graph 1). This is similar to, but slightly higher than, the oil price outlook

subsequently published by the Bank of Canada in its [April 2026 Monetary Policy Report](#). This note sets out how our inflation outlook has evolved.

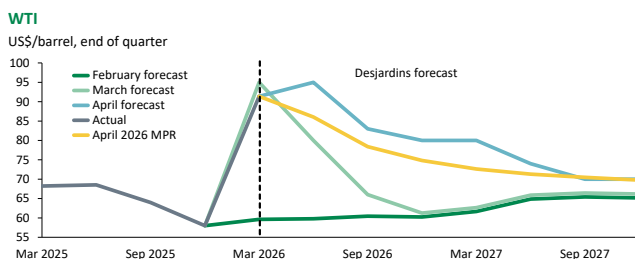
Which Prices Get Hit First?

To gauge the impact of these energy price developments on inflation, we examined three key components of the Consumer Price Index (CPI): energy, food and total CPI excluding food and energy (hereafter referred to as core CPI inflation).

More Cost and Less Comfort at the Pump

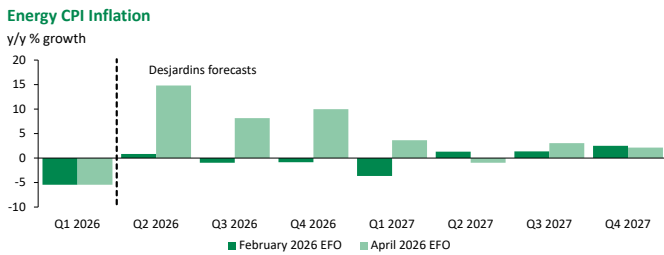
The increase in oil prices has passed quickly through to the energy component of Canadian CPI, driving a more rapid rise in energy inflation than projected prior to the conflict with Iran. As a result, our updated outlook now puts energy inflation 9.3 percentage points (ppts) higher on average in 2026 and 1.6 ppts higher in 2027 than the forecast in our February 2026 Economic and Financial Outlook (EFO) (graph 2 on page 2). Although energy makes up only about 6% of the CPI basket, the magnitude and speed of the oil price swing make its impact on headline CPI inflation disproportionately noticeable.

Graph 1
Our Latest Forecast Assumes a More Lasting Effect on Prices



MPR: Monetary Policy Report
Datastream, Bank of Canada and Desjardins Economic Studies

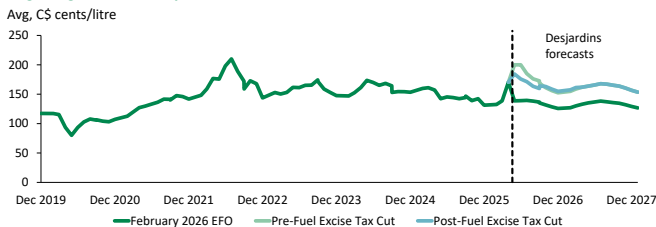
Graph 2
Our Energy Inflation Outlook Has Shifted Substantially Higher



EFO: Economic and Financial Outlook
Statistics Canada and Desjardins Economic Studies

A key driver of our revised energy cost forecast is the rapid increase in the price of gasoline, which makes up more than half of the CPI energy basket. Compared with our prior outlook, our latest forecast indicates the average price at the pump will be roughly 30 cents per litre higher in 2026 and 2027. Without the temporary removal of the fuel excise tax, the uplift is slightly larger in 2026, around \$0.39 per litre. 2027 remains unchanged. Though the removal of the excise tax on fuel will provide some temporary relief for households, we expect gasoline prices to stay elevated for much of 2026 and 2027 (graph 3). However, cost pressures extend beyond gasoline. Diesel prices for transportation are way up. Airlines are also being hit hard, as jet fuel shortages loom in Asia and Europe, and global prices for jet fuel have risen more sharply than for other fuels. These elevated costs are likely to be passed on to consumers through higher airfares.

Graph 3
Despite the Temporary Fuel Excise Tax Cut, We Expect Gasoline Prices to Stay Elevated
Regular gasoline retail price



EFO: Economic and Financial Outlook
Haver Analytics, MJ Ervin & Associates Inc. and Desjardins Economic Studies

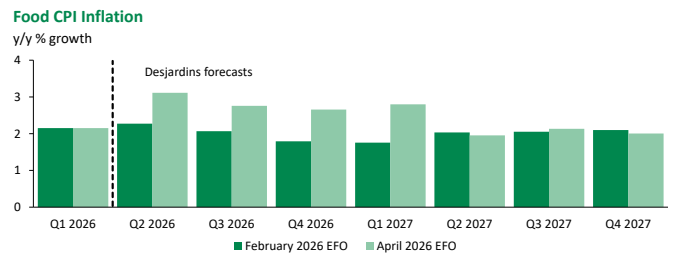
Will Higher Energy Costs Inflate Food Prices?

While consumer food prices tend to be highly responsive to changes in cost drivers, energy price shocks affect food inflation through several different channels. The most immediate is transportation, as higher fuel costs raise delivery expenses for grocery stores and restaurants, though these increases typically filter through gradually as shipping contracts and seasonal

patterns adjust. Higher costs for equipment, inputs, fertilizer and farm fuel have a delayed impact on consumers because they pass through the production cycle—only showing up once crops are harvested and processed. Broader production costs adjust even more slowly. Higher expenses for electricity or intermediate goods tend to feed through gradually, as firms take time to update prices. In manufacturing (including farm machinery), some of these input cost increases only become fully visible in consumer prices after about six months. As a result, input and farm-level price indices tend to react earlier than consumer prices. While these pressures peak at different times and fade gradually, the staggered transmission of costs ultimately prolongs the impact of energy shocks on food prices.

Given the energy shock, food prices are likely to push higher in 2026, albeit not as much as energy itself. Relative to [our pre-conflict analysis](#), we expect food inflation to be 0.6 pts higher in 2026 and 0.2 pts in 2027 (graph 4). This comes as elevated input costs start hitting businesses across the supply chain. Notably, [our latest analysis](#) suggests that surging oil prices have not caused major movements in the Canadian dollar relative to the greenback, limiting the exchange rate impact on food prices.

Graph 4
Our Food Inflation Forecast Has Risen Since the Iran Conflict Started



EFO: Economic and Financial Outlook
Statistics Canada and Desjardins Economic Studies

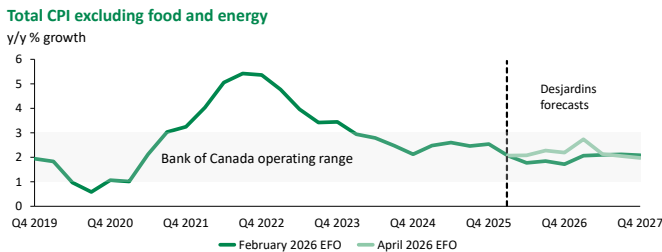
What About Prices Other Than Food and Energy?

The measurable impact of higher energy prices on inflation categories other than energy and food is more limited. That said, higher oil costs are expected to add some upward pressure to underlying inflation. The impacts are likely to be observed in other transportation components and in goods categories where freight and distribution costs are material, such as footwear and apparel and alcohol, tobacco and cannabis. Moreover, fuel prices are not rising uniformly across the world. [Asia](#) and Europe are more exposed to the current energy shock, with energy prices increasing more sharply than in North America. This disparity is likely to raise production and shipping costs for goods originating from the more vulnerable regions. As noted, the pass-through of higher production costs can take many months in some cases

before appearing in CPI data. Fortunately, while the value of the Canadian dollar is expected to be relatively stable against the US dollar, the loonie is likely to appreciate against other major currencies, helping to mitigate some of the price gains in manufactured imports. Overall, we anticipate core CPI inflation to be slightly higher in 2026 (0.3 pts) and in 2027 (0.1 pts) compared to our February 2026 EFO (graph 5).

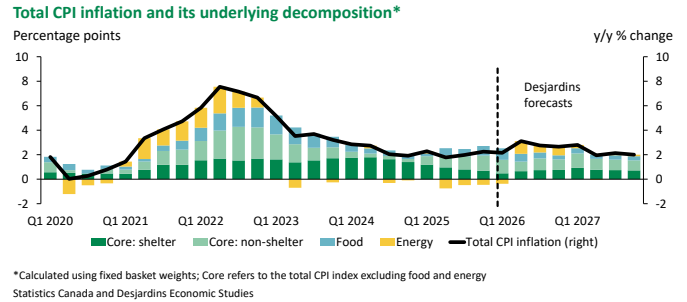
Looking under the hood, it comes as no surprise that the energy component of the CPI makes a noticeable contribution to our near-term inflation forecast (graph 7). This impact lasts for much of 2026 but gradually disappears by the beginning of 2027, as it is overtaken by the CPI's non-energy components.

Graph 5
Underlying Inflation Should Be Somewhat Higher in the Near Term



EFO: Economic and Financial Outlook
Statistics Canada and Desjardins Economic Studies

Graph 7
Energy Makes a Notable Contribution to Our Near-Term Inflation Outlook



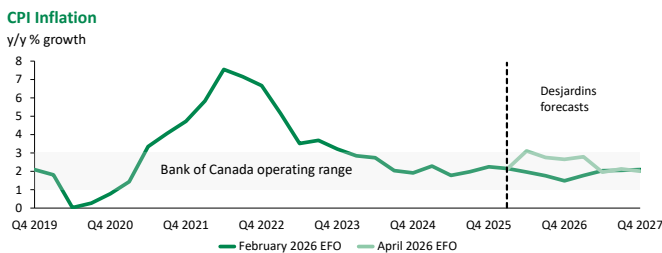
*Calculated using fixed basket weights; Core refers to the total CPI index excluding food and energy
Statistics Canada and Desjardins Economic Studies

The Full Impact on Our CPI Inflation Outlook

Adding all the impacts together, we've estimated our CPI inflation outlook to be about 0.9 pts and 0.2 pts higher in 2026 and 2027, respectively, than projected prior to the conflict with Iran. Inflation is likely to peak at around 3.1% y/y in Q2 2026, slightly above the Bank of Canada's operating range of 1% to 3%. That said, we anticipate headline inflation to slow and approach the Bank of Canada 2% inflation target in 2027, assuming energy prices follow our projected path (graph 6).

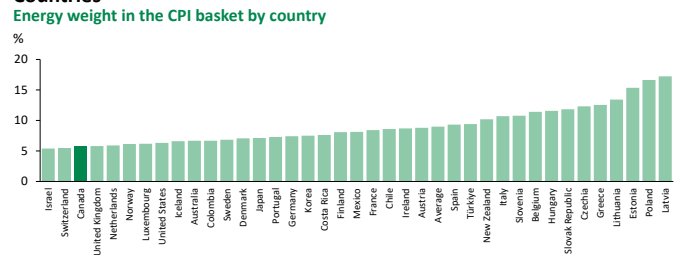
That said, the impacts of the energy shock on headline CPI inflation may be less in Canada than in other advanced economies. This is largely due to the lower weight of energy in our CPI basket relative to other countries (graph 8). And even within the energy component of the CPI, about 40% of the index is comprised of regulated utilities.

Graph 6
Energy Prices Boosted Our Headline Inflation Outlook



EFO: Economic and Financial Outlook
Statistics Canada and Desjardins Economic Studies

Graph 8
Energy Accounts for a Lower Share of Canada's CPI Basket than in Other Countries



Haver Analytics, Desjardins Capital Markets and Desjardins Economic Studies

The inflation outlook described above assumes the energy shock is the dominant force shaping the economic environment through 2026 and into 2027. But it is not the only one. The Canadian manufacturing sector is already contracting under the weight of sectoral tariffs, with plant closures and layoffs accumulating in trade-exposed industries that appear to have little prospect of near-term relief regardless of how the CUSMA joint review concludes. The demand destruction flowing from those closures may act as a meaningful counterweight to the

inflationary impulse from energy, limiting firms' ability to pass higher input costs through to consumers even where the cost pressure exists. For the Bank of Canada, this makes the policy calculus genuinely difficult. The energy-driven inflation spike is meaningful but likely temporary, although second-round effects ([notably in food](#)) underscore the risk for some degree of stickiness. By contrast, the erosion of manufacturing capacity is more structural and harder to reverse. Navigating between an inflation overshoot and a hollowing-out of the traded goods sector leaves little room for clean monetary policy responses. The result is that while our projected path back toward 2% by 2027 is our baseline, it rests on an uncomfortably uncertain set of assumptions on the [trade fallout](#). The downside risks to growth appear at least as consequential as the upside risks to inflation.

Conclusion

Overall, despite notable upward revisions, the inflation outlook remains subject to immense uncertainty. On one hand, higher energy prices are expected to continue putting upward pressure on headline inflation, as the conflict in the Middle East persists in disrupting global energy markets. On the other hand, the economy faces meaningful downside risks from the upcoming Canada-United States-Mexico Agreement joint review, as uncertainty weighs on confidence and economic activity. Taken together, these opposing forces suggest that while near-term inflationary pressures may remain elevated, the broader outlook will largely depend on how geopolitical tensions and trade negotiations play out.