ECONOMIC VIEWPOINT

Will Food Inflation Come Back Down to Earth in 2026?

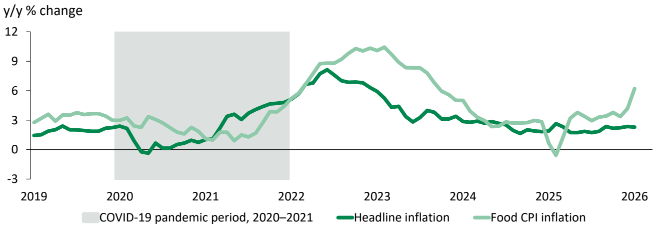
By LJ Valencia, Economist

HIGHLIGHTS

- Food inflation accelerated sharply after the pandemic. And while conditions briefly improved, food price growth picked up again in 2025.
- In the near term, we anticipate food inflation to remain elevated relative to pre-pandemic norms, with food purchased from stores being a main driver of food price growth for much of 2026. Price growth in food purchased from restaurants is expected to be slower but sustained as the year progresses.
- Factors such as base effects stemming from the GST/HST holiday, higher import prices and rising input costs are likely to keep food prices trending upwards. Extreme weather events and other supply-chain shocks remain key sources of upside risk to food price growth.
- That said, we anticipate food inflation to make only a modest contribution to headline Consumer Price Index (CPI) inflation over the forecast horizon, contributing roughly 0.5 percentage points (ppts) to headline CPI inflation in 2026 and 0.4 ppts in 2027. Other components such as shelter are likely to have a larger impact on overall inflation.

To say that 2025 was a challenging year for the Canadian economy would be an understatement, as frequent shifts in tariffs and counter-tariffs impacted input costs and consumer prices. Through much of the year, total inflation held relatively steady, hovering close to the Bank of Canada's 2% target. Yet despite this welcome development, food prices remained both high and rising, accelerating near the end of the year. Moreover, food prices outpaced headline inflation throughout the post-pandemic period (graph 1). This begs the question: What's driving these price increases, and should we expect further outsized price gains in the months and years to come?

Graph 1
Food Inflation Has Outpaced Headline Inflation Since the Post-Pandemic Period
Headline CPI and food CPI inflation



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Why Has Food Inflation Been So High?

After the COVID-19 pandemic, food price growth accelerated at a pace not seen since the early 1980s. And more recently, food inflation has run hotter in Canada than it has south of the border (graph 2 on page 2).[1]

Food price growth has climbed far above its usual trend (graph 3 on page 2). The post pandemic surge reflected overlapping pressures such as supply chain disruptions, labour shortages, rising input costs and more frequent extreme weather events (Fradella, 2022). These shocks tend to hit Canada harder than other major food importers such as the United States. As a small open economy, Canada has very little influence on the prices of goods it imports. By extension, Canada's heavy reliance on fresh food imports, especially during winter, has contributed to

[1] Note that there are growing concerns about the quality of US economic data.

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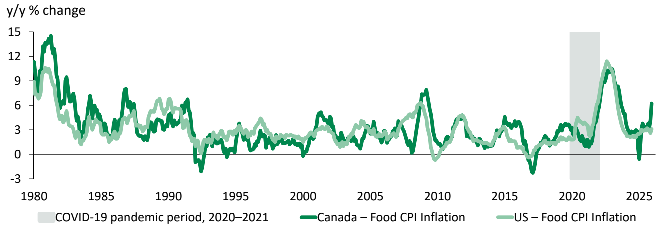
Graph 2
Following the COVID-19 Pandemic, Food Inflation Accelerated to a Pace Not Seen Since the Early 1980s

Food CPI inflation



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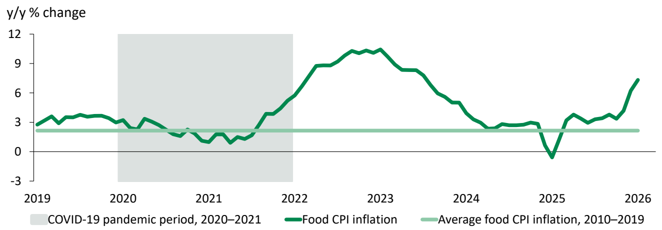
Graph 3
Food Inflation Rose Above Its Usual Trend After the Pandemic

Food CPI inflation: Actual and pre-pandemic average



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higher food price volatility influenced by transportation costs, exchange rates and supply disruptions (Nuño-Ledesma and von Massow, 2023).

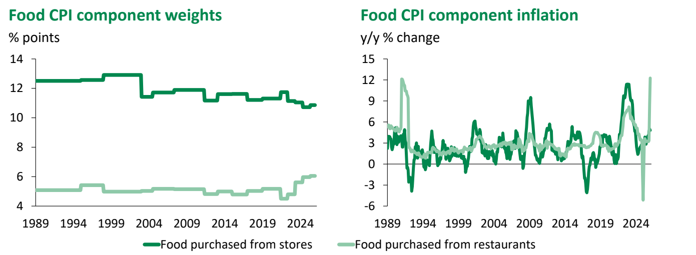
Digging deeper into some of these factors, some studies point to exchange rate movements materially affecting inflation in Canada (Laflèche, 1997; Wang, 2023). This effect is particularly pronounced for import-intensive food categories like fresh fruits and vegetables, where prices tend to adjust quickly to currency fluctuations (Savoie-Chabot and Khan, 2015). The fact that Canada is so reliant on fresh food imports also means the country is more exposed to weather-related disruptions abroad. Recent evidence suggests climate change is increasing the year-to-year volatility of summer crop yields globally, adding instability to agricultural supplies (Proctor et al, 2025).

Some progress has been made in reining in food inflation. Government policies such as the GST/HST holiday and the removal of the consumer price on pollution provided some relief for many Canadians. However, the sales tax relief measure was only temporary and largely applied to food purchased at restaurants (most groceries were already exempt from GST/HST), and the elimination of the consumer price on pollution should only have a marginal impact on food prices going forward. Regardless, 2025 brought a renewed pickup in food price growth. A recent Bank of Canada report attributed much of this increase to rising supply chain cost pressures in late 2024. These cost pressures are usually narrower in scope and more commonly associated with imported items (Bilyk, 2026).

A Larger Share of Canadian Household Spending Is Going to Food

As food prices rise, households naturally dedicate a larger share of their spending to food purchases, and food therefore comprises a larger portion of the CPI basket. After trending lower for much of this century, food's share of the CPI has recently started to rise, reaching 16.9% of the overall CPI basket by mid-2025. That's the highest it's been since 2011. Importantly, this isn't just the result of higher prices of food purchased at grocery stores. Canadians are allocating a record share of their food budgets to dining out, though restaurant spending still amounts to just over half of grocery store spending (graph 4). This is partly a price story, as the cost of food purchased at restaurants has historically increased at a faster pace than the cost of food purchased in stores. So substituting meals prepared at home with those from restaurants mechanically increases the food component's share of the CPI. And we know from retail data that sales volumes at supermarkets and other grocery retailers (excluding convenience stores) were below pre-pandemic levels in 2025, even though population levels were much higher. Consequently, per capita purchases of store-bought food hit their lowest level on record last year while per capita restaurant purchases were close to their pre-pandemic average. This behavioural shift away from dining in and toward dining out at least partially explains some of the sustained pressure on overall food CPI inflation in the post-pandemic period.

Graph 4
Food Is Increasing as a Share of CPI, Due in Part to Dining Out



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What Is the Outlook for Food Inflation?

Our updated food CPI outlook points to persistently high food inflation in the near term. Base-year effects stemming from the GST/HST holiday partly explain this short-term trend (see box on page 3). Higher import prices, particularly for products such as coffee and grains, are also expected to exert upward pressure on

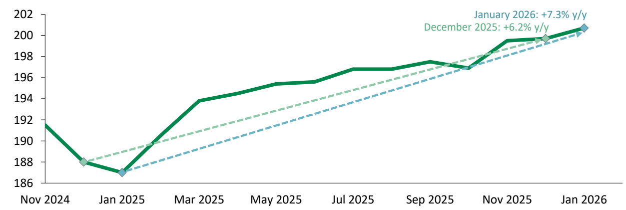
BOX

Base-Year Effects and Their Impact on Inflation

Base-year effects occur when unusually large or small monthly price changes from the previous year roll out of the 12-month comparison window. This amplifies or mutes year-over-year (y/y) inflation, even if the current month's price momentum hasn't changed much. For example, if monthly values were uniquely high a year ago, y/y inflation could fall sharply in the corresponding month this year. In contrast, an atypically soft print last year could cause y/y numbers to jump. We saw this phenomenon in the January 2026 CPI print, especially within the food component, as food prices were down in January 2025 due to the GST/HST holiday at grocers and restaurants. However, on a month-over-month basis, food CPI was little changed in January 2026 (graph A). The opposite effect will most likely play out in upcoming readings as the y/y comparison will no longer reflect distortions from the tax break.

Graph A
Base-Year Effects Can Distort Inflation Numbers

Food CPI weight
Index, 2002 = 100



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near-term food inflation. The recent US trade war, along with its disruptive impacts on global supply chains, will likely play some role in pushing up import prices as well. However, we expect food inflation to ease to around 2% year over year by mid- to late-2026. Food purchased from stores is likely to be a key driver of food inflation for much of 2026, contributing around 2.1% to food inflation in 2026 and 2.3% in 2027—well above its pre-COVID contribution of 1.4% between 2010 and 2019. This reflects elevated input costs for domestically produced goods, higher import prices and wage growth along the supply chain.

Similarly, the price of food purchased from restaurants will probably remain high as businesses continue to pass on higher costs to consumers. This component should continue to drive food inflation in the near term, contributing roughly 1.7% to food inflation in 2026 and 1.1% in 2027 (graph 5)—higher than its pre-COVID contribution of 0.8% between 2010 and 2019. Inflation in this category is expected to remain elevated, especially if consumption in restaurants and bars continues to rise. This implies that food purchased from restaurants could continue to make up a greater share of the CPI basket in coming years. Price pressures in this category should gradually fade as input costs and wage growth normalize.

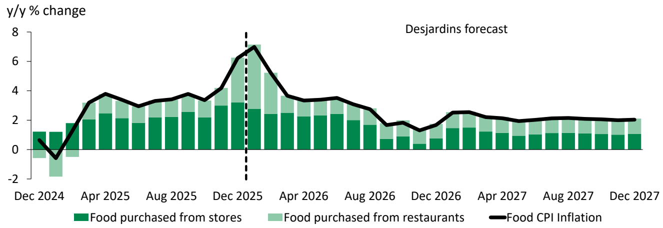
Note that our forecast doesn't capture unforeseeable shocks—such as adverse weather affecting harvests, transportation disruptions and other supply-chain events—that could cause a re-acceleration in prices.

How Will Food Prices Affect Our Broader Inflation Outlook?

Looking ahead, we expect food inflation to contribute roughly 0.5 ppts to headline CPI inflation in 2026 and 0.4 ppts in 2027. This is a modest contribution, as overall inflation will likely be driven by categories outside food and energy. We expect shelter-related components—particularly rent and mortgage interest costs—to play a much larger role, contributing 0.6 ppts to headline CPI inflation in 2026 and 0.7 ppts in 2027 (graph 6).

Graph 5
Restaurant Purchases Will Likely Drive Food Inflation in the Near Term

Food CPI inflation and contributions to growth
y/y % change



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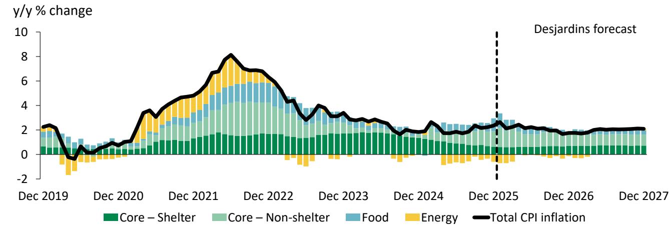
Graph 6
Elevated Food Inflation Will Likely Contribute Modestly to Overall Inflation

Total CPI inflation and its underlying decomposition*
y/y % change



* Calculated using fixed basket weights; core refers to the total CPI index excluding food and energy.
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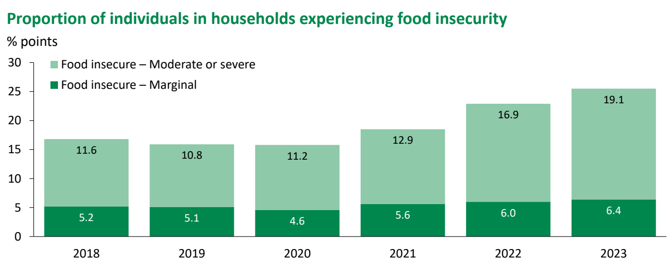
What Can Be Done to Address High Food Inflation?

While food is likely to only make a modest contribution to our inflation outlook, it's important to remember that the CPI represents an average price change over time for a fixed basket of goods and services. CPI inflation may not perfectly reflect changes to any single household's spending. As incomes rise, people usually spend more on food overall but allocate a smaller share of their income to it (a phenomenon known as Engel's law). Research shows that rising food prices can disproportionally affect financially vulnerable households as it erodes their ability to afford day-to-day necessities (Uppal, 2023). This is particularly true for lower-income households that devote a larger portion of their budget on food (Statistics Canada, 2025). Recent data show that nearly one in five households faced moderate or severe food insecurity in 2023 (graph 7). When those facing marginal food insecurity are included, the share increases to roughly one quarter of the population. In response to rising food insecurity, households are buying more discounted items and switching to cheaper alternatives (Kostyshyna and Ouellet, 2024).

Graph 7
Household Food Insecurity Has Been Rising Since the Pandemic



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Policies such as the new Canada Groceries and Essentials Benefit—which provides a one-time top-up payment equal to a 50% increase to the former GST credit and is set to rise by 25% annually starting in July 2026—could deliver some targeted relief to the most vulnerable households. However, such measures don't address the root causes of food inflation. Medium-term efforts should focus on strengthening supply chain resilience. Countries reliant on food imports could diversify import sources to provide protection against fluctuations in global food prices (Hyun and Lee, 2023). Moreover, the Competition Bureau's recent market study report proposed various possible solutions, such as growing the presence of independent grocers, enabling international grocers to enter the Canadian market and standardizing unit pricing across retailers.

Conclusion

While policy measures can help slow the pace of food inflation, they're unlikely to bring prices down. For the foreseeable future, food costs will keep rising faster than they did before the pandemic. Factors such as the US's disruptive trade policy may persist, while longer-term term price drivers like climate change could get worse before they get better. A continued shift toward restaurant spending would also put upward pressure on measured food inflation. Even if food inflation contributes only modestly to overall price growth, relative to other factors, it still won't be much help to the Bank of Canada, which is contending with sticky inflation at the same time as slowing economic growth. Government policy measures can help, but improving food affordability will take more than just direct payments to vulnerable households. Increasing competition, bolstering supply-chain resilience and improving domestic self-sufficiency would go a long way toward reducing both the growth and volatility of food costs in Canada.