

ECONOMIC VIEWPOINT

Will Oil Spoil the Resiliency of Canadian Consumers?

By Randall Bartlett, Deputy Chief Economist

HIGHLIGHTS

- ▶ The conflict with Iran has sent global oil prices soaring, pushing up fuel and fertilizer costs. Transportation bottlenecks have resurfaced, raising concerns that supply chain pressures could once again drive up the cost of everything.
- ▶ This energy price shock risks weighing on Canadian consumers, who remained resilient throughout the trade war with the US. The lowest-income households, already under significant financial strain, are the least able to handle a reacceleration in inflation. However, they are also less exposed to higher transportation costs in the near term than more affluent households. Moreover, the increase in the GST/HST credit—the Canada Groceries and Essentials Benefit, planned before the Iran conflict—should more than offset the consumption impact of higher energy costs in the middle part of 2026.
- ▶ Tax cuts, price controls and increased income transfers to the most financially vulnerable households are levers all levels of government could pull to provide additional relief to Canadians. But they all come at a cost, and some more than others. Policy options for offsetting the inflationary impact of higher energy prices will need to balance providing broad support with assisting the Canadians in greatest need, all while keeping an eye to fiscal sustainability.

Canada has had a rough ride since Donald Trump returned to the White House in early 2025. But one of the more resilient areas of the Canadian economy has been the consumer. Despite rising unemployment and persistent inflation for necessities like food, real household purchases were 1.7% higher at the end of 2025 than a year earlier.

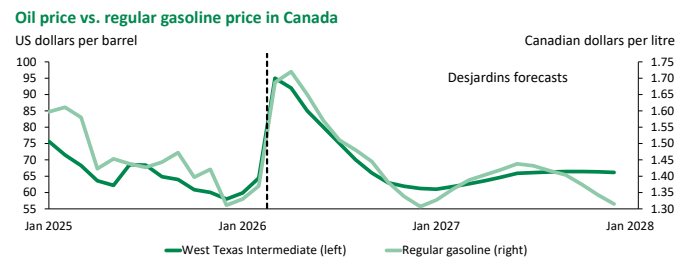
However, 2026 brings a new set of challenges. The conflict with Iran has sent global oil prices soaring, pushing up fuel and fertilizer costs. Transportation bottlenecks have also returned, raising concerns that supply chain pressures could once again drive up the cost of everything. With this in mind, we asked three questions: How much will Canadian consumers be impacted by this price shock? What are the right policies, if any, to support them? And what will be the cost of those policies?

Costs Most Impacted by Higher Oil Prices

It's no secret that the price Canadians pay at the pump closely aligns with the global cost of oil. The national price of regular gasoline went from about \$1.30 per litre at the end of February to around \$1.75 a month later, and it continues to rise. And while we expect the price of gasoline to follow oil prices lower starting

in the middle of this year, the cost to fill up is likely to stay high for the foreseeable future relative to pre-Iran-conflict levels (graph 1).

Graph 1
Skyrocketing Oil Prices Are Making Gasoline More Expensive



Bloomberg and Desjardins Economic Studies

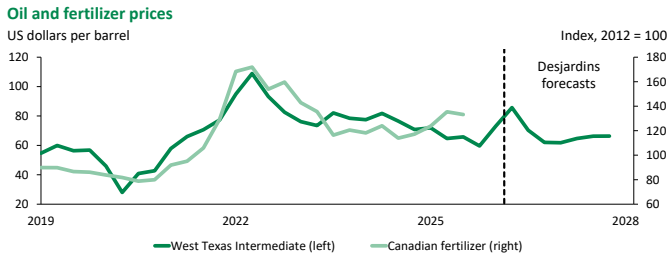
Food is another category of consumer items that could be impacted by the recent energy price shock. Higher transportation costs are one factor. The cost of fertilizer could also increase

further, as it tends to track oil prices closely (graph 2). And while the Canadian dollar has historically appreciated when energy prices rise, it has depreciated against the US dollar since the end of February as investors have gravitated back to US-dollar-denominated assets. This raises the cost of imports. All this suggests that Canadian grocery prices are likely to move higher going forward, possibly exceeding the already-elevated food inflation outlook [we published](#) in early March.

Who's Most Vulnerable to the Oil Price Shock?

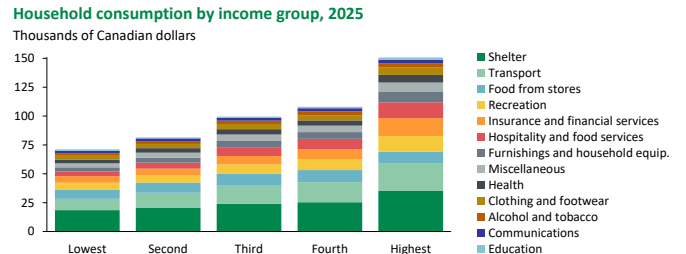
To get a sense of which Canadians are most vulnerable to the oil price shock, it's important to determine who spends how much on what. For instance, when examining the income distribution from the lowest-income households to the highest, what's clear is that the more a household earns, the more it spends on pretty much everything (graph 4).

Graph 2
Already-Elevated Fertilizer Prices Are Likely to Rise Further



Bloomberg, Statistics Canada and Desjardins Economic Studies

Graph 4
The Highest-Income Households Spend the Most on Almost Everything

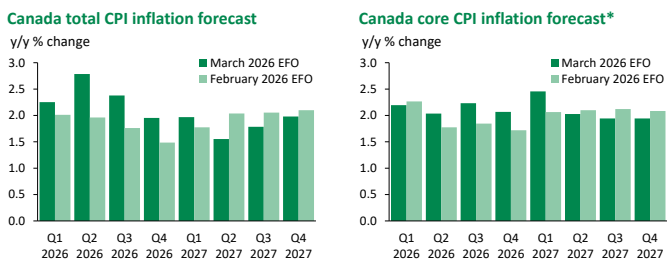


Statistics Canada and Desjardins Economic Studies

Of course, higher transportation and energy input costs are likely to impact a broader group of goods prices beyond just gasoline and food. Over time, more expensive fuel and supply chain pressures due to conflict-disrupted shipping routes in the Middle East could put upward pressure on the price of other goods, as they did after the pandemic. Add to this the sensitivity of consumer inflation expectations following a bout of high inflation, and there is a risk that the increased cost of goods could ultimately push services prices higher as well. We don't currently expect underlying inflation to deviate much from our pre-Iran-conflict forecast despite the anticipated sharp rise in headline inflation (graph 3). But this risk of broadly higher prices is front of mind for the Bank of Canada and is an upside risk to our baseline outlook of no hikes by the Bank until 2027.

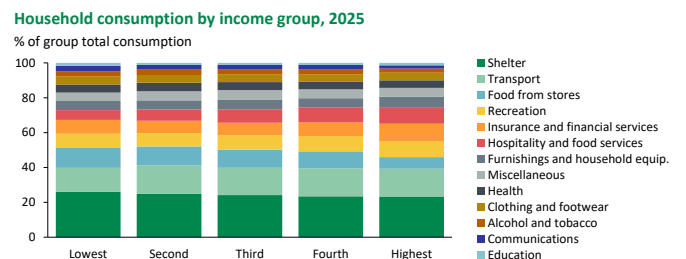
However, the share of household spending dedicated to different goods and services varies by earnings. For instance, lower-income households dedicated a larger portion of their overall spending to necessities like shelter and food than higher-income households did in 2024 (graph 5). Meanwhile, just over 14% of their spending was on transportation. In contrast, all but the lowest-income earners spent between 16% and 17% of their total outlays on transportation. This suggests that higher earners may be more immediately impacted by the oil price shock given their greater spending on gasoline for transportation. Higher earners also spent proportionately more on hospitality and food services as well as insurance and financial services. So, given their greater propensity to travel and eat at restaurants, that's a channel by which they may also feel the impact of rising costs more quickly.

Graph 3
Energy Prices Have Pushed Our Inflation Outlook Higher in 2026



EFO: Economic and Financial Outlook
* Core CPI refers to total CPI excluding food and energy
Desjardins Economic Studies

Graph 5
The Lowest-Income Households Spend the Largest Share on Necessities



Statistics Canada and Desjardins Economic Studies

That said, lower-income households are much more likely to feel the squeeze of higher prices generally (graph 6). While they spent a smaller share of their overall spending on transportation and restaurants than higher-earning households did, many Canadians were already struggling to cover their bills before Trump returned to office. A possible further increase in food costs will only exacerbate that, as groceries were already a larger share of spending by lower-income households. Higher transportation and other costs will only worsen the strain on their budgets.

The Right Policies to Offset the Oil Price Shock

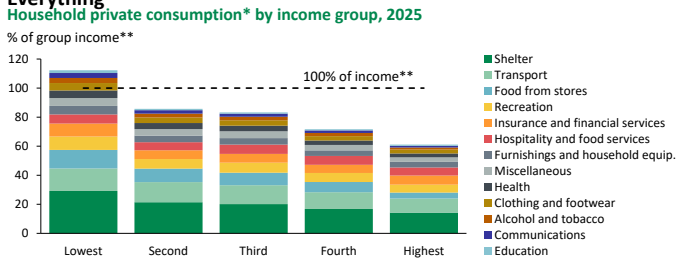
It's important to note that our analysis suggests nominal GDP—the broadest measure of the tax base—will be higher due to the oil price shock because of increased real GDP growth and inflation. While not universal across Canada, the boon to energy-producing provincial economies should offset the drag elsewhere. As a result, government coffers in those provinces and at the federal level should benefit, with mixed results elsewhere.

So how can governments provide relief to Canadians struggling with high and quickly rising prices? When life gets too expensive and the government wants to do something about it, there are two things they can try to do: lower prices and boost incomes. Over the past 12 months, the federal government has done both. And there are levers they and their provincial peers can pull now to mitigate the oil price shock as well.

Measures to Bring Down Prices

First, the fastest and most effective way to lower prices is to cut taxes. This was seen with the elimination of the consumer carbon tax in April 2025. By [our estimate](#), this measure brought total CPI inflation to roughly 0.6 percentage points below where it would have been otherwise. The Government of Canada charges a 10 cent per litre tax on gasoline, in addition to the 5% sales tax (graph 8). Eliminating these for 12 months could reduce revenues by up to \$7B and deliver savings directly to Canadian households and businesses. Ontario, Quebec and the Atlantic provinces also charge a sales tax on fuel, while all provinces have some sort of per-litre charge. And much like the elimination of the consumer carbon tax, this would have the immediate benefit of reducing headline inflation.

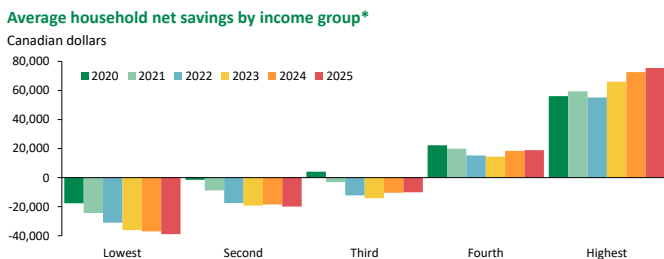
Graph 6
The Lowest-Income Households Spend More of Their Income on Everything



* Household private consumption excludes social transfers in kind, such as those for health and education
** Income, as presented here, is at the household level and includes social transfers in kind, such as those for health and education
Statistics Canada and Desjardins Economic Studies

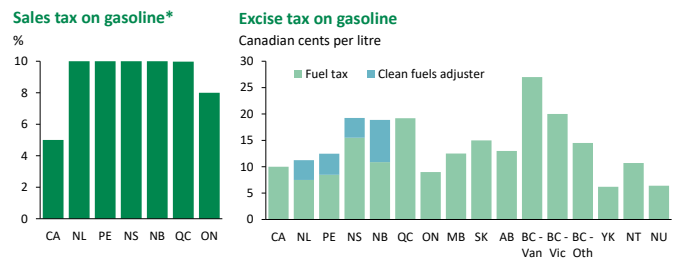
The lowest-income households were also more likely to use credit or draw down savings to cover expenses than their more affluent peers were. In fact, this was true for about half of Canadian households, which had negative savings even before President Trump's second term began. And the savings gap between the lowest- and highest-income Canadian households only widened through 2025, further contributing to the growing wealth gap in Canada (graph 7).

Graph 7
The Savings Gap Continues to Widen in Canada



* Both income and consumption, as presented here, are at the household level and include social transfers in kind, such as those for health and education
Statistics Canada and Desjardins Economic Studies

Graph 8
Taxes on Gasoline Vary Widely Across Canadian Provinces



* Doesn't include carbon taxes collected on fuels in Quebec
Natural Resources Canada and Desjardins Economic Studies

But there are reasons to be cautious about going headlong into cutting fuel taxes. Since sales tax revenues are most likely to rise with the cost of the pre-tax price at the pump, some temporary relief there might be the closest thing to a revenue-neutral approach. In contrast, cutting per-litre charges would likely reduce revenues relative to the pre-Iran-conflict budget plan since energy demand would probably already be lower—even if just modestly—due to higher pre-tax prices. With projected deficits for the 2026–27 fiscal year having increased in all provinces but Quebec so far this budget season, many provincial governments don’t have a lot of fiscal wiggle room to work with. As such, any relief should be temporary in order to minimize further fiscal deterioration in the future. Additionally, the untargeted nature of this relief would flow disproportionately to those households that consume more fuel and are best able to absorb the price shock. That said, it does come with the benefit of providing some relief to most households.

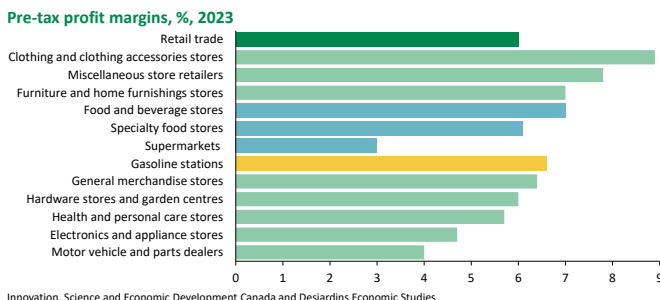
Alternative approaches to reducing prices include price controls, which essentially put a cap on the price at which a good or service can be sold. This approach was often used in the 1970s and 1980s to respond to oil price shocks and is being used in some countries today. However, according to the Government of Canada, pre-tax profit margins at gas stations were about 6.6% in 2023, roughly in line with the national average for all retail stores (graph 9). For supermarkets, pre-tax profit margins were around 3%, giving them much less room to manoeuvre if price controls are imposed by governments. Additionally, while price controls could provide some short-term relief to most households, there is abundant literature on the economic distortions created by price controls, most notably shortages. As such, while increased competition and other similar measures should be encouraged to help bring down fuel and food prices in Canada over the long term, price controls should generally be avoided.

Measures to Bring Up Incomes

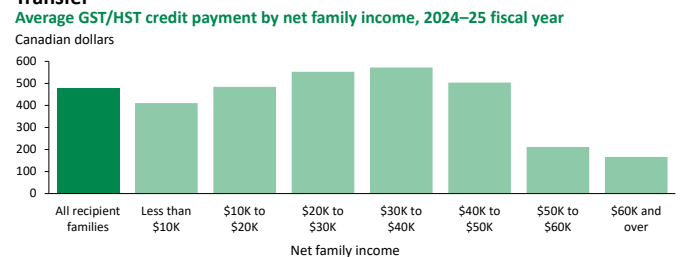
An alternative to reducing prices to improve affordability is boosting incomes. Governments already do this in the form of income transfers, particularly to low- and middle-income Canadians. Higher-income households are better positioned to both purchase more of the goods and services that have gone up in price and increase their purchasing power for substitutes.

Recently, the federal government announced it is expanding the GST/HST credit and providing a one-time payment to eligible Canadians, referred to as the Canada Groceries and Essentials Benefit. According to the [Office of the Parliamentary Budget Officer](#) (PBO), Canadians should receive a transfer of about \$3.1B in the form of a one-time payment in the first half of 2026. After that, an additional \$7.4B in payments will be transferred over the coming five years. Based on the pattern of past transfers, much of this increase will go to low- and middle-income households, which are least able to contend with high and rising prices (graph 10). While not originally intended to offset the increase in energy prices, by our estimate, this additional income transfer should more than offset the consumption hit from the oil price shock (if the shock is in line with [our latest forecast](#)). And given the [PBO’s fiscal multipliers](#), it seems that these types of targeted transfers will also have a greater positive impact on growth than gas tax cuts would.

Graph 9
Supermarkets Have Among the Lowest Pre-Tax Profit Margins in Canada



Graph 10
Low- and Middle-Income Households Tend to Receive the GST/HST Transfer



But the GST/HST credit is hardly the only federal income transfer in Canada, and it is complemented by a plethora of provincial income support programs as well. Starting with the federal government, other transfers include the Canada Child Benefit and elderly benefits. In the latter category, Old Age Security was increased by a one-time 10% in 2025 in addition to annual inflation adjustments. Similarly, provincial governments offer varying types and degrees of seniors’ income supplements, child benefits and social assistance, all of which could be temporarily expanded to boost recipient incomes.

Generally, these types of programs come with the advantage of targeting income support to the most economically vulnerable Canadians. But they lack the broad-based appeal of gas tax cuts while coming with a fiscal cost of their own. They also risk being inflationary, if only modestly, as they limit the adjustment of demand. Still, they are preferred over price controls as they create fewer economic distortions.

Conclusion

Canadians have been feeling the squeeze of higher prices, and none more so than the lowest-income households. Many of these families had been drawing down their savings to pay for purchases even prior to the surge in oil prices. And while the recent spike in fuel prices is likely to be felt most immediately among higher-income households, they are also the best positioned to absorb the shock. As such, policy options for offsetting the cost-of-living impact of higher energy prices will need to balance securing broad support with assisting the Canadians in greatest need, all while keeping an eye on fiscal sustainability.