# Canadian inflation edges higher in July while underlying pressures remain contained

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## The Bottom Line:

Canadian inflation edged up to 3% year-over-year in July from 2.8% in June, driven primarily by a renewed increase in energy prices. Oil prices remained below their April and May peaks but moved higher during July as conflict in the Middle East continued to disrupt transportation through the Strait of Hormuz. Gasoline prices were on average 26% higher than a year ago, up from a 20% annual increase in June.

Underlying inflation pressures remained comparatively contained. CPI excluding food and energy ticked up to 1.9% year-over-year from 1.8% in June, while the Bank of Canada's preferred CPI-trim and CPI-median measures held near the 2% target. Food inflation continued to ease but was still at an elevated 3% level, continuing to put pressure on household budgets.

There was still limited evidence that higher energy costs had spread significantly across the broader CPI basket. Airfare growth remained elevated, but measures of inflation breadth were broadly unchanged, suggesting that the increase in headline inflation remained concentrated in a relatively limited number of categories. Higher global energy costs could still pass through supply chains with a lag, but the July data did not point to a meaningful broadening of price pressures.

Overall, the July report remains consistent with a relatively favourable combination of firming economic growth and underlying inflation close to target. The approaching U.S. tariff deadline adds uncertainty, and the proposed measures would have significant consequences for some affected industries and regions. But their narrow coverage means they are unlikely to derail the broader economic recovery, with most Canadian exports to the U.S. still protected by CUSMA exemptions. Against that backdrop, we continue to expect the Bank of Canada to keep the overnight rate unchanged through the remainder of 2026.

## The details:

Headline CPI rose 0.3% m/m on a seasonally adjusted basis in July, lifting the year-over-year inflation rate to 3% from 2.8% in June.

Energy prices were 16.6% higher than a year ago, compared with a year-over-year increase of 14.3% in June.

Food price inflation eased to 3% year-over-year from 3.5% in June but was still elevated. Grocery prices increased 3.1%, slowing from the 3.9% pace in the prior month, while restaurant price growth ticked higher to 2.9% from 2.7% previously.

Airfare price growth continued to increase and was 12% higher than a year ago in July, remaining one of the more visible areas of pass-through from elevated fuel costs.

CPI excluding food and energy increased 1.9% year-over-year from 1.8% in June, remaining below headline inflation and consistent with comparatively contained price pressures outside the most volatile categories.

The Bank of Canada's preferred core measures remained broadly stable. CPI-trim was 1.9% year-over-year (0.2% month-over-month) and CPI-median was 2% year-over-year (0.2% month-over-month), leaving their average at 2%, little changed compared with the 1.9% average in June.

On a three-month annualized basis, the average of CPI-trim and CPI-median was 2%, compared with 1.7% previously.

The trim services excluding shelter measure, sometimes referred to as "supercore", was 2.5% year-over-year, compared with 2.3% in June.

Measures of inflation breadth remained contained. The share of CPI basket components growing faster than 3% over the past three months was 32%, while the share growing faster than 5% was 24%; both were little changed from recent trends.

The price of travel services increased 11% from a year ago, with World Cup-related travel contributing to the gain.

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