

Research Brief

CANADA INFLATION

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IPA INSTITUTIONAL
PROPERTY
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Inflation Dynamics Reinforce Stable Rate Outlook and Improving CRE Investment

Underlying inflation pressures remain subdued. Canada's consumer price index declined 10 basis points month-over-month in June, lowering the annual inflation rate 40 basis points to 2.8 per cent. Sharply lower gasoline prices were the primary driver, partially reversing the energy-related surge recorded earlier in the spring. Price pressures were generally contained elsewhere, as food prices were unchanged during the month and shelter costs increased only modestly. Travel-related categories were the main exception, with World Cup activity contributing to higher prices for vehicle rental, accommodations, and travel services. More importantly, the Bank of Canada's preferred core measures both slipped below 2 per cent. At the same time, inflation breadth remained limited, indicating that earlier increases in energy and other input costs have not generated widespread or persistent price pressures.

Economic recovery supports an extended rate hold. The broader outlook for inflation and the economy should allow the Bank of Canada to keep its overnight rate at 2.25 per cent for the rest of the year. While headline inflation may remain volatile amid geopolitical uncertainty and fluctuating energy prices, subdued core inflation and continued economic slack should help price growth gradually return toward the Bank's 2 per cent target. Meanwhile, Canada's economy is beginning to stabilize after two quarters of weak growth, supported by improving exports, resilient consumer spending, and modestly improving business investment. As economic conditions improve and underlying inflation is contained, the Bank is likely to remain content with its current policy level.

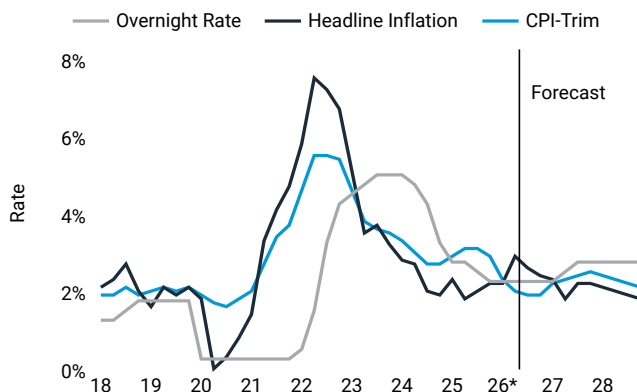
Commercial Real Estate Outlook

Improving conditions are supporting investment.

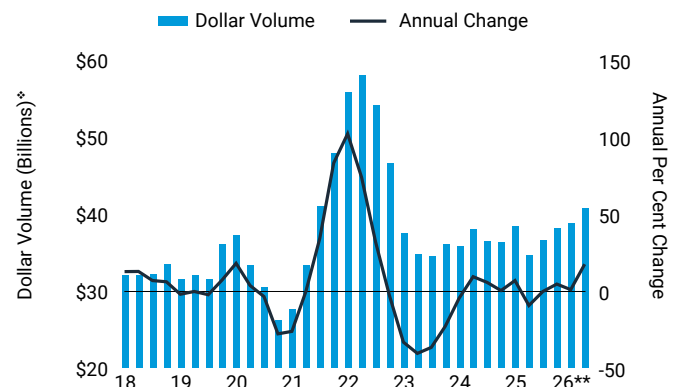
Contained underlying inflation is helping stabilize the interest rate outlook, despite periodic volatility driven by energy prices and geopolitical developments. Greater certainty around borrowing costs is improving underwriting assumptions and gradually narrowing bid-ask spreads between buyers and sellers. At the same time, strengthening demand across most commercial property sectors and a broad slowdown in nonresidential construction are reinforcing market fundamentals. Together, these factors are supporting a recovery in investment activity, with preliminary estimates indicating that trailing 12-month transaction volume and total dollar volume increased 12 per cent and 18 per cent year-over-year, respectively, in the second quarter.

FIFA World Cup temporarily lifted travel inflation. While broader price pressures remained subdued, several travel-related categories saw notable increases in June as Toronto and Vancouver hosted FIFA World Cup matches. Strong visitor demand pushed prices higher for accommodations, vehicle rentals, and travel services. At the same time, hotel occupancy rose to nearly 80 per cent, and average daily room rates increased by roughly 5 per cent year-over-year. With the tournament now complete, these temporary price pressures are expected to fade, reinforcing the view that underlying inflation remains well contained.

CURRENT POLICY KEEPS INFLATION UNDER CONTROL



MOMENTUM BUILDING IN CRE INVESTMENT MARKET



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* Through 2Q; ** Trailing 12 months through 2Q; * Trailing 12-month total | Sources: Altus Data Solutions; Capital Economics; CoStar Group, Inc.; Oxford Economics; Statistics Canada