

Canadian inflation hits 30-year high of 4.8% in December

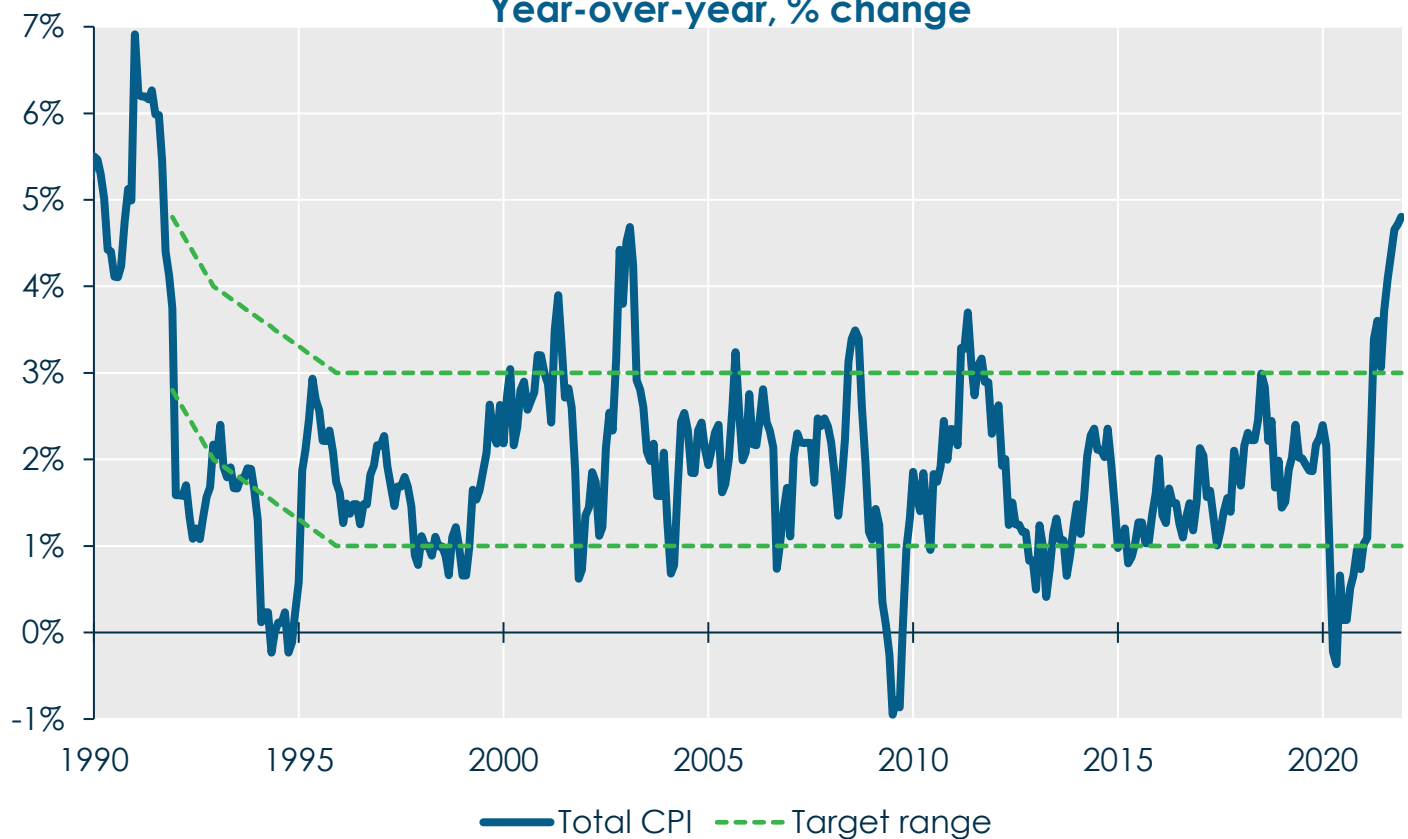


Stephen Tapp, Chief Economist

January 19, 2022

Canadian inflation

Year-over-year, % change



Source: Statistics Canada

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“ **Monetary policy implications:** Earlier this week, the Bank's surveys showed inflation expectations are rising, with a record two-thirds of businesses thinking inflation will top 3% over the next two years. We may have now hit the inflation peak, but it looks like most companies have exhausted their pandemic excess capacity, and tightening labour markets are starting to push up wages. As a result, despite the explosion of Omicron cases, it's clear the Bank needs to reign in elevated expectations by removing some excess accommodation. The only real question is whether the Bank's rate begins to lift off next week, with Governing Council using the Monetary Policy Report to substantiate the move, or they wait until March to see some progress on the pandemic.

Key Takeaways

- Canadian headline CPI inflation **accelerated to 4.8% in December**, running at its **highest rate in 30 years**. Inflation has now been above the Bank of Canada's inflation control band for the last nine months, beginning in April 2020.
- **Annual inflation** for 2021 was 3.4%, the **highest rate in the inflation-targeting era**, and double the average forecast made at the start of the year.
- Inflation continues to be led by rising prices for **energy** (+21% year-over-year, but with growth now slowing; gas prices are up 33%, less than last month); **transportation** (+9%, with new passenger vehicles up 7.2% during the global shortage for semiconductor chips); **shelter** (5.4%; homeowners' replacement cost rose to 14%); and **food** (5.2%, with meat at 9%).
- Price increases for **goods** finally turned the corner in December (6.8%), but **services** picked up significantly (3.4%, as airfares took flight, up 25% on the month).
- **Inflation continued to rise in four provinces**, began to slow in five provinces, and has run hotter in Ontario, Quebec and Atlantic Canada.
- On a **monthly** basis, the **CPI fell 0.1%**, the first drop in 12 months, so **it's possible we've now hit peak inflation**.
- Because prices fell early in the pandemic, it's important to look beyond year-over-year comparisons. **Canadian inflation is running at an elevated, but far less concerning, 2.6% annualized rate over the first 22 months of the pandemic**.
- All three **Bank of Canada's "core inflation" measures rose**, with the average now up to 2.9%, although the "common" measure is notably lower than the others at 2.1%.
- Over the course of 2022, headline inflation is expected to settle down, but remain above the BoC's target for several more months. Deceleration should continue into the second half of year, assuming COVID is under control, supply chain disruptions improve, as "base effects" begin working in favor of lower headlines rates.

Summary tables

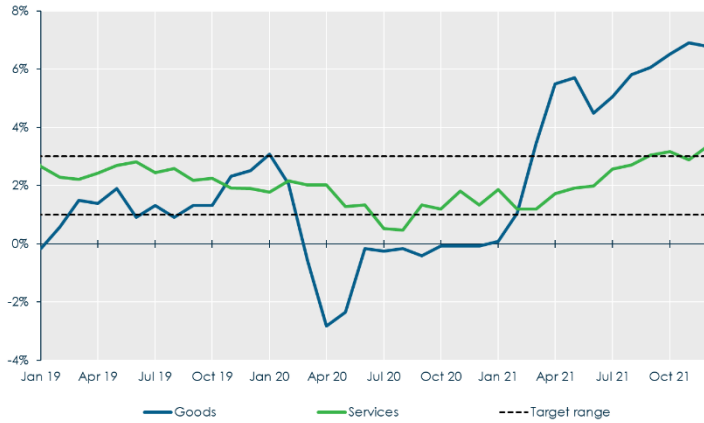
Canadian inflation	Nov	Y/Y Dec	Trend	YTD, %	Feb-2020 to date, %	Avg. annual inflation, %
Consumer Price Index	4.7	4.8	↗	4.2	4.8	2.6
Energy	26.4	21.2	↘	19.4	17.6	9.3
Transportation	10.0	8.9	↘	6.9	7.6	4.1
Shelter	4.8	5.4	↗	5.7	6.9	3.7
Food	4.4	5.2	↗	4.3	5.7	3.1
Excluding food & energy	3.1	3.4	↗	2.9	3.5	1.9
Goods	6.9	6.8	↘	5.7	5.6	3.0
Services	2.9	3.4	↗	3.1	4.2	2.3
Average of BoC core measures	2.7	2.9	↗			
CPI-trim	3.4	3.7	↗			
CPI-median	2.8	3.0	↗			
CPI-common	2.0	2.1	↗			

Provincial inflation	Nov	Y/Y Dec	Trend	YTD, %	Feb-2020 to date, %	Avg. annual inflation, %
Canada	4.7%	4.8%	↗	4.2%	4.8%	2.6%
BC	3.6%	3.9%	↗	3.3%	3.8%	2.1%
AB	4.3%	4.8%	↗	4.0%	4.3%	2.3%
SK	3.7%	3.5%	↘	2.8%	3.3%	1.8%
MB	4.6%	4.7%	↗	4.0%	4.1%	2.2%
ON	5.0%	5.2%	↗	4.7%	5.3%	2.8%
QC	5.2%	5.1%	↘	4.4%	5.3%	2.8%
NB	5.7%	5.4%	↘	4.4%	4.9%	2.6%
NS	5.3%	4.8%	↘	3.6%	4.5%	2.4%
PEI	7.0%	6.7%	↘	5.5%	6.1%	3.3%
NFLD	4.2%	4.2%	→	3.0%	4.3%	2.3%

Additional charts

Canadian goods and services inflation

Year-over-year, % change



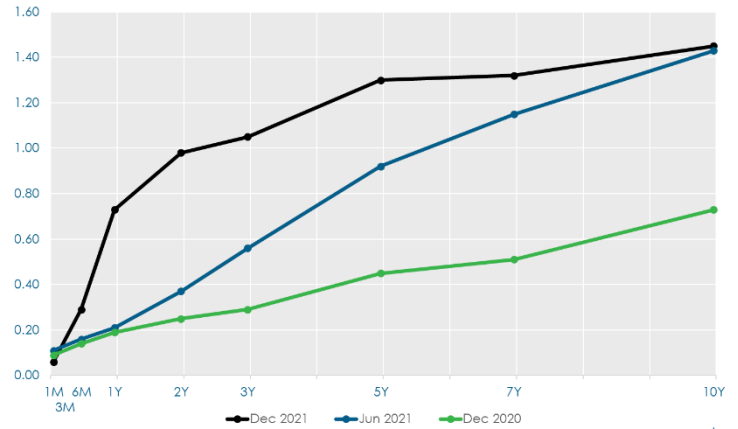
Source: Statistics Canada

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Canadian yield curve steepening

Average, %



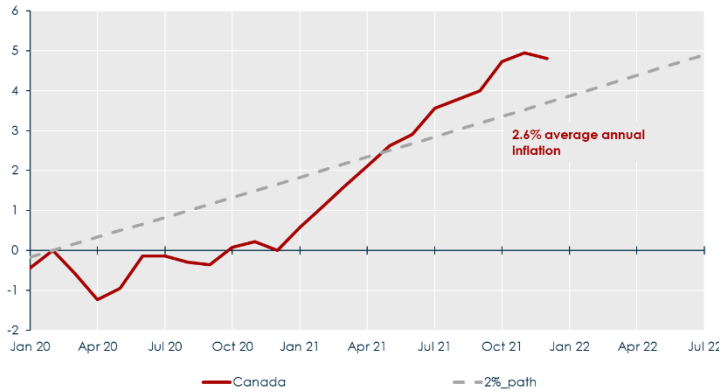
Source: Bank of Canada

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Canadian CPI inflation pandemic overshoot

% change since February 2020



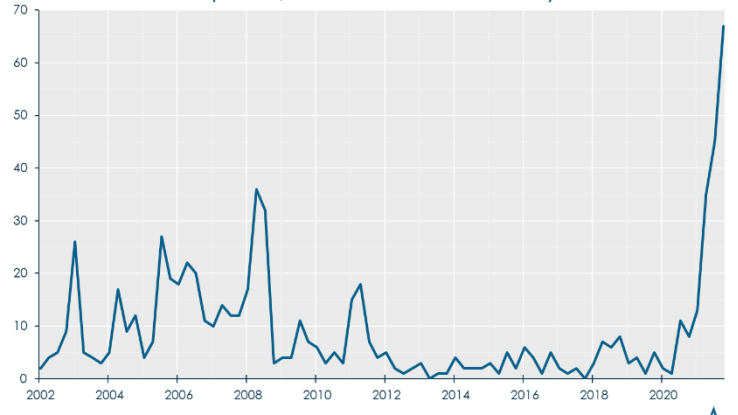
Sources: Statistics Canada; Canadian Chamber of Commerce

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Business Outlook Survey: Firms Expecting Inflation Above 3%

% of respondents, annualized CPI inflation over next 2 years



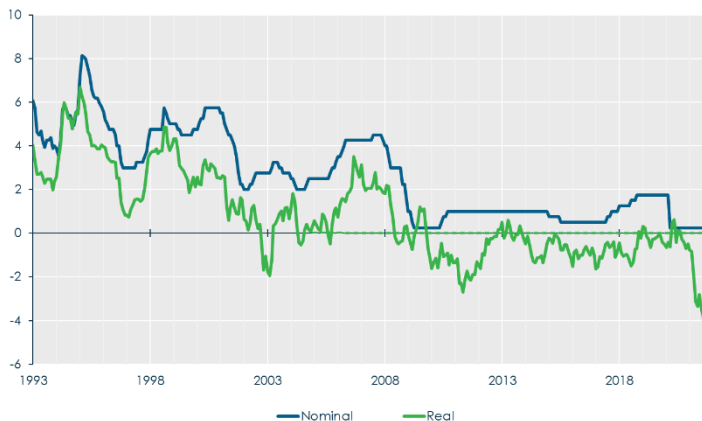
Source: Bank of Canada

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Bank of Canada's real policy rate at record low

Percent



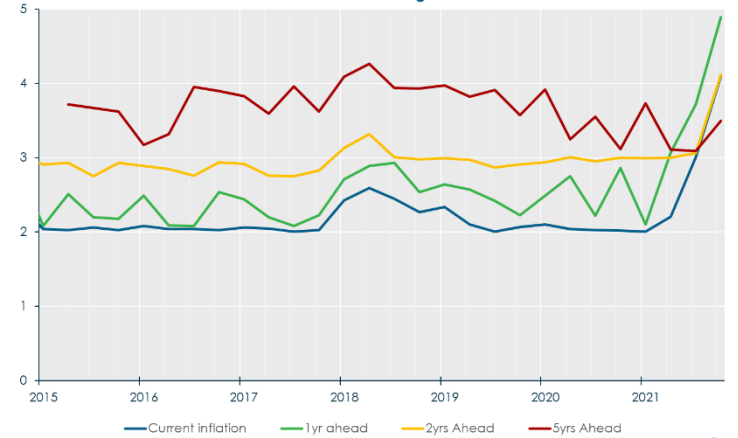
Sources: Statistics Canada; Canadian Chamber of Commerce

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Canadian Consumer Inflation Expectations

% annual change



Sources: Bank of Canada; Canadian Chamber of Commerce

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