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Business
Data Lab

Laboratoire de données
sur les entreprises

March 2022 Consumer Price Index data: Flashing red! At 6.7%, let's hope Canadian inflation has finally peaked

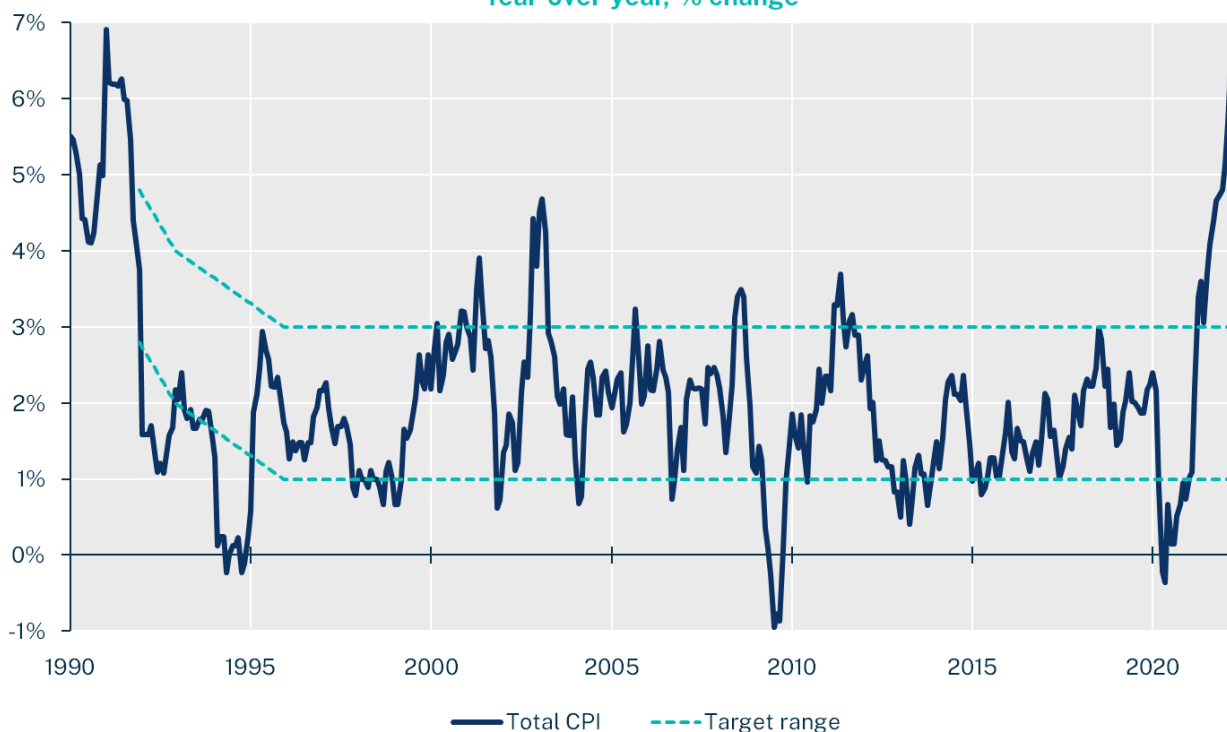


Stephen Tapp, Chief Economist

April 20, 2022

Canadian inflation

Year-over-year, % change



Source: Statistics Canada

“With inflation now running at 6.7%, price pressures broadening, and a significant overshoot expected in the next two years, the Bank of Canada has a real problem on its hands. The latest inflation reading for March was well-above market expectations. There’s little doubt that another 50 basis point hike is needed in June. The main outstanding question is how high will the Bank need to raise rates to control inflation?”



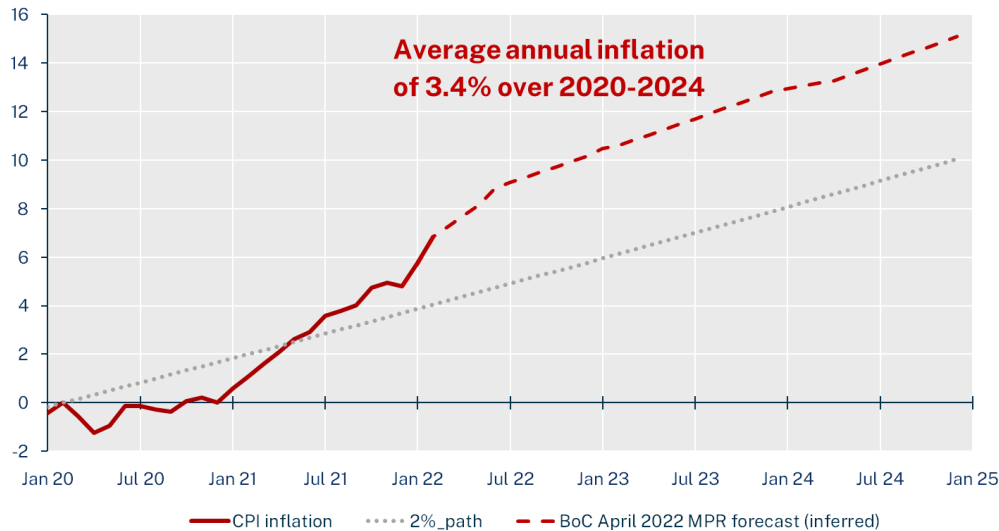
KEY TAKEAWAYS

- Canada's headline Consumer Price Index (CPI) inflation continued yet again to surprise on the upside, hitting 6.7% in March — the highest rate in more than 30 years and well above market expectations (6.1%). Inflation has now been above the Bank of Canada's inflation control band for a full year.
- Inflation is up almost across the board, but continues to be pushed up by the same factors, namely rising **energy** prices (+28% year-over-year, gas prices are up 40% reflecting global supply uncertainty due to Russia's invasion of Ukraine); **transportation** (+11%, passenger vehicle prices are up 7%, as new 2022 models are now available and semiconductor chip shortages continue); **food** (7.7%) and **shelter** (6.8%; homeowners' replacement costs rose 13%, reflecting the hot housing market).
- Price increases for **goods** were quite strong at 9.2%, while **services** were up 4.3%. "High-contact" services are contributing as public health measures are relaxed across the country, and "March Break" travel demand returned.
- Inflation rose in all 10 **provinces**. It is highest in PEI (8.9%) and lowest in Saskatchewan (5.7%).
- On a **monthly basis**, the CPI rose 1.4% in March. **Quarterly inflation** in 2022 Q1 was 5.8% year-over-year, and 8.5% annualized.
- All three **Bank of Canada "core inflation" measures** rose, with the average now up to 3.8%.
- Russia's war in Ukraine has aggravated the already-problematic situation for global inflation. **A significant pandemic inflation overshoot is now clearly underway in Canada.** Prices fell early in the pandemic, so we need to look beyond year-over-year comparisons. Looking back, Canadian inflation has now run at an annualized rate of 3.9% over the first two years of the pandemic; looking ahead, **the Bank of Canada's latest inflation forecast implies an average annual inflation rate of 3.4% over 2020 to 2024.**



Pandemic inflation overshoot expected in Canada

% change since February 2020



Sources: Statistics Canada; Canadian Chamber of Commerce Business Data Lab

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- With this inflation overshoot, and the real policy interest rate still exceptionally stimulative, risks are rising that medium-term inflation expectations will continue to climb. This could make persistent inflation more of a self-fueling process — although the Bank notes that's not yet happened, at least beyond the next two years.
- Canadians should expect more interest rate hikes ahead — the Bank should now be “locked in” for another 50 basis point hike in June. Where will it stop? Markets had expected this tightening cycle to eventually end with the Bank's policy rate rising to just over 3% (only slightly above the Bank's updated “neutral rate” range of 2% to 3%). It seems increasingly clear to me that even higher rates are going to be needed to ultimately bring inflation under control.
- That said, in the coming months headline inflation should begin to decelerate. One factor is that “base effects” (i.e., comparing 2022 readings with levels after inflation rebounded in Spring 2021) should soon start slowing headline inflation. This is the opposite effect from one year earlier, when 2021 prices were compared to 2020 prices, which had collapsed at the start of the initial COVID lockdowns.



SUMMARY TABLES

Canadian inflation, Year-over-year, % change			
	Feb	Mar	Trend
Consumer Price Index	5.7	6.7	↗
Energy	24.1	27.8	↗
Transportation	8.7	11.2	↗
Shelter	6.6	6.8	↗
Food	6.7	7.7	↗
Excluding food & energy	3.9	4.6	↗
Goods	7.6	9.2	↗
Services	3.8	4.3	↗
Average of BoC core measures	3.5	3.8	↗
CPI-trim	4.4	4.7	↗
CPI-median	3.5	3.8	↗
CPI-common	2.7	2.8	↗

Sources: Statistics Canada; Bank of Canada; Canadian Chamber of Commerce Business Data Lab.



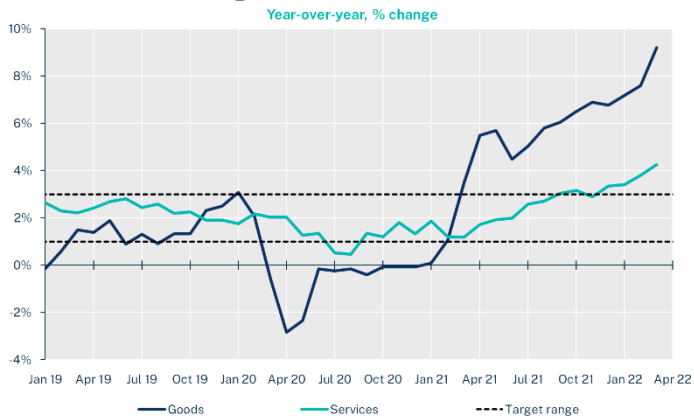
Provincial inflation, Year-over-year, % change			
	Feb	Mar	Trend
Canada	5.7%	6.7%	↗
BC	4.7%	6.0%	↗
AB	5.5%	6.5%	↗
SK	4.7%	5.7%	↗
MB	6.1%	7.4%	↗
ON	6.1%	7.0%	↗
QC	5.4%	6.7%	↗
NB	6.0%	7.4%	↗
NS	5.7%	6.8%	↗
PEI	7.4%	8.9%	↗
NFLD	5.1%	6.3%	↗

Sources: Statistics Canada; Canadian Chamber of Commerce Business Data Lab.



INFLATION CHARTS

Canadian goods and services inflation

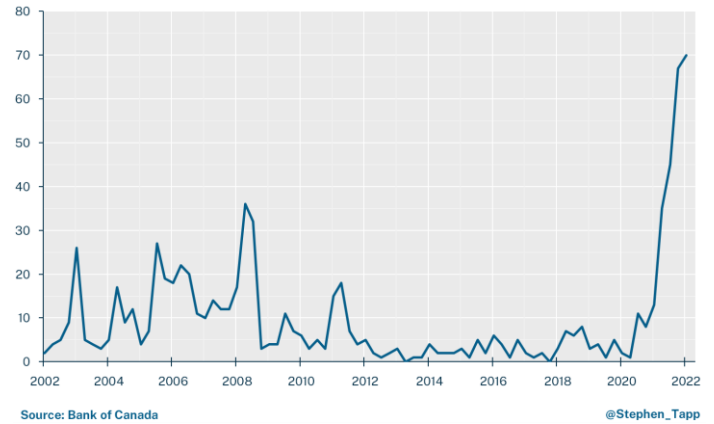


Source: Statistics Canada

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Business Outlook Survey: Firms Expecting Inflation Above 3%

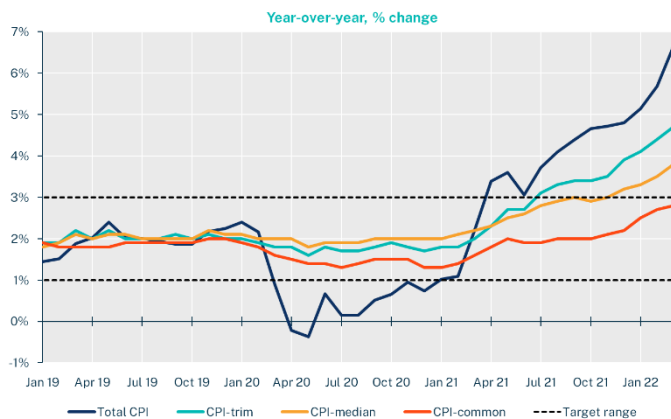
% of respondents, annualized CPI inflation over next 2 years



Source: Bank of Canada

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Canadian core inflation measures

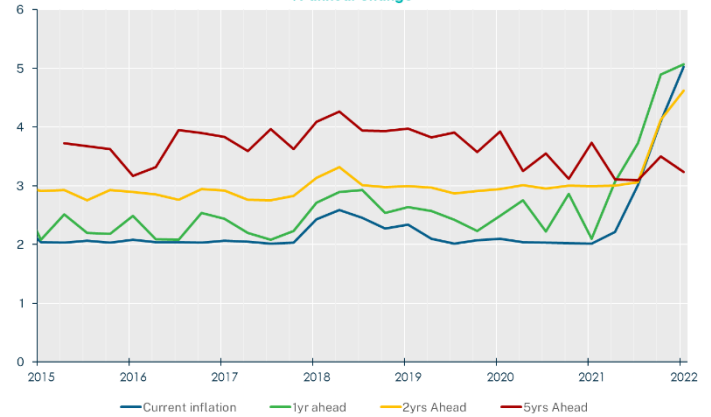


Source: Statistics Canada

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Canadian consumer inflation expectations

% annual change

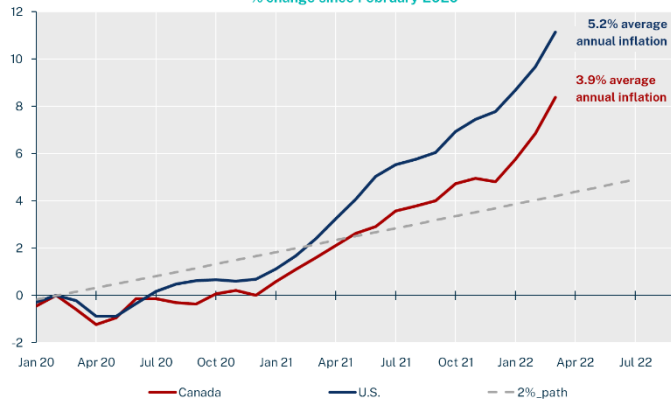


Sources: Bank of Canada; Canadian Chamber of Commerce

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Canadian and U.S. CPI inflation

% change since February 2020

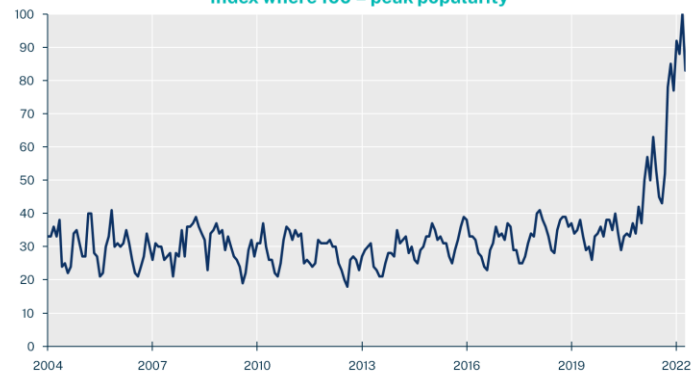


Sources: Statistics Canada; Bureau of Labor Statistics

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Google searches for "inflation" in Canada

Index where 100 = peak popularity

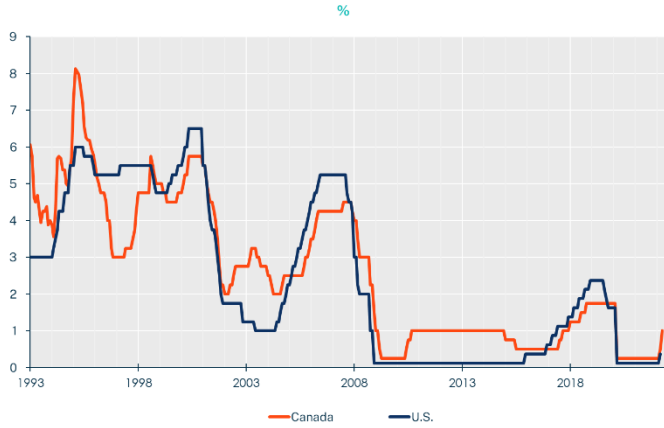


Source: Google

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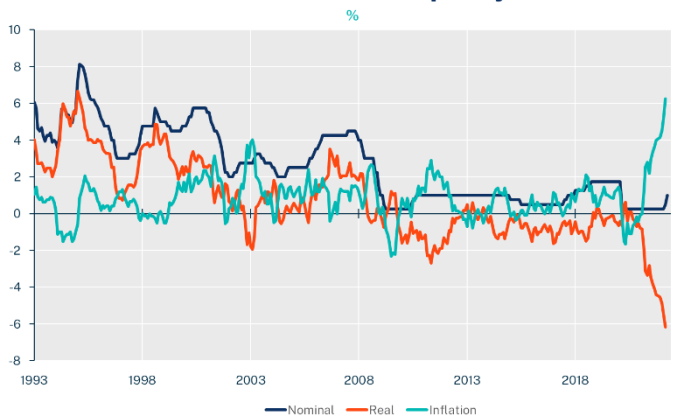
Federal Reserve and Bank of Canada policy rates



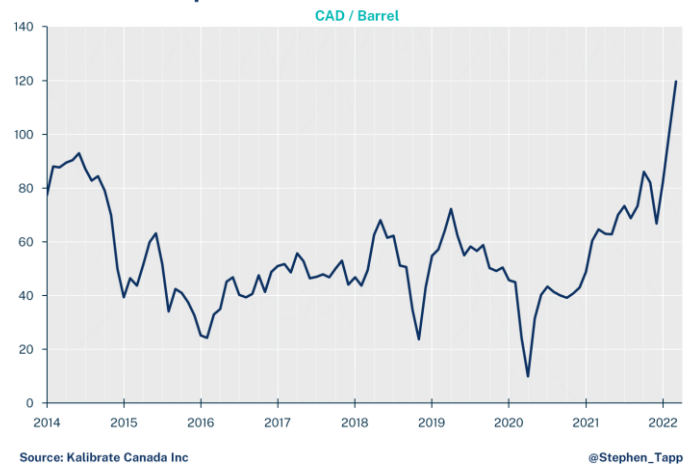
CAD/USD exchange rate



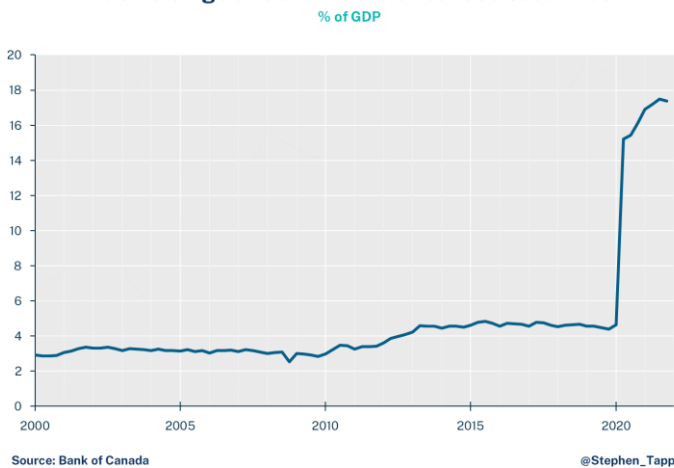
Bank of Canada's real policy rate



Oil prices: western Canadian select



BoC holdings of Government of Canada securities



Canadian housing: Average sale price

