

February 16, 2022

Canada's inflation rate faster and broader in January

- Headline CPI growth rose to 5.1% year-over-year; excluding food and energy products price growth ticked up to 3.5%.
- Strong consumer demand, hot housing and energy markets are expected to keep a floor under near-term inflation readings.
- Price growth continues to broaden; Bank of Canada to start rate hike cycle in March.

The 5.1% year-over-year CPI increase in January is a new cycle high – and the fastest annual growth since December 1991. Growth in food prices firmed again, up 5.7% year-over-year versus 5.2% in December as groceries and restaurant bills both grew more expensive. Meat prices are now more than 10% above levels last January but the gain was broadly-based in almost all food categories including dairy and bakery products. Gasoline prices were 32% above year ago levels and are tracking a similar gain in February with pump prices pushed up by higher oil prices (now above \$90/bbl). Growth in gas prices, along with further disproportionate gains in home purchase costs and vehicle purchase/rental prices accounted for more than half of the January headline year-over-year CPI gain. But that's down from over 80% in March 2021, with price pressures broadening over a wider array of products and services in recent months. Indeed, by our count the share of the consumer basket with above-2% price growth versus pre-pandemic levels jumped to 62% over the three months ending in January.

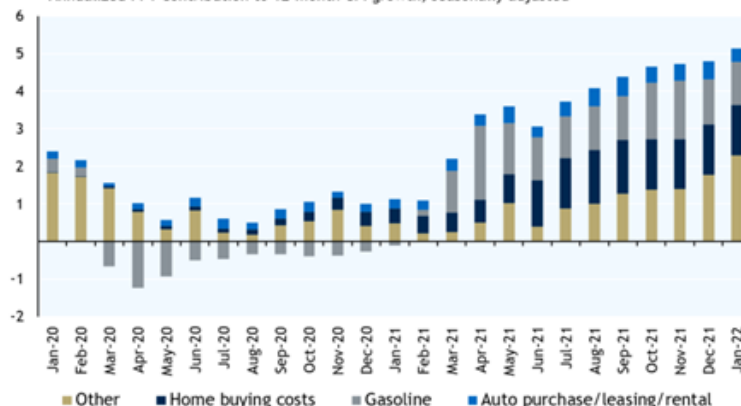
That broadening in inflation pressure – although not yet as dramatic as seen in [the United States](#) to-date – is expected to persist, driven by strong demand and limited ability for businesses to respond quickly with increased supply. Demand for purchases of physical merchandise has been particularly strong, and goods inflation was at 7.2% year-over-year in January compared to a more moderate (but still elevated) 3.4% in services. Moving forward, households will have ample purchasing power for spending on both, backed by sharply improved labour market prospects and elevated savings. The wind down of virus containment measures will support further recovery in demand for hospitality and travel services. And [the heated housing](#) market and rising energy prices that have driven price growth to-date are expected to remain elevated, at least in the near term. Against that backdrop, the Bank of Canada is widely expected to begin hiking interest rates in March and we could see a follow-up hike as soon as April.

Canadian CPI Inflation					
	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
<i>m/m % change</i>					
All Items CPI	0.2	0.7	0.2	-0.1	0.9
Food	0.3	0.4	0.9	0.6	1.4
Energy	-0.2	4.2	0.5	-2.2	3.1
All items ex-food & energy	0.2	0.4	0.0	-0.1	0.6
<i>y/y % change</i>					
All Items CPI	4.4	4.7	4.7	4.8	5.1
Food	3.9	3.8	4.4	5.2	5.7
Energy	20.1	25.5	26.4	21.2	23.1
All items ex-food & energy	3.3	3.2	3.1	3.4	3.5
BoC 'Core' Measures					
CPI-Trim	3.4	3.4	3.4	3.8	4.0
CPI-Median	2.9	2.9	2.9	3.1	3.3
CPI-Common	1.9	1.8	2.0	2.1	2.3

Source: Statistics Canada, RBC Economics

Inflation pressure broadening out in Canada in January

Annualized PPT contribution to 12-month CPI growth, seasonally adjusted



Source: StatCan, RBC Economics

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