RBC Economics — Daily Economic Update

January 19, 2022

Canada's inflation rate ticked higher in December

- Headline CPI growth rose to 4.8% year-over-year; core CPI excluding food and energy products grew to 3.4%.
- Rising house, car and industrial input prices to put a floor under near-term inflation.
- Price growth continues to broaden across a wider array of goods and services; Bank of Canada to start rate hike cycle.

The headline consumer price index posted a 4.8% year over year increase in December, after reaching and holding at 4.7% in each of the prior two months. That's the largest yearly increase in over 3 decades. Higher auto as well as home and mortgage insurance costs meant transportation and shelter were the biggest contributors to the headline gain. Food prices were also higher at 5.2%, thanks to unfavourable weather conditions in growing regions. But much of the annual rise can still be attributed to lower prices in December a year ago when the pandemic weighed more heavily on consumer demand. On a month over month basis prices actually ticked 0.1% lower in December as Omicron concerns pushed oil and gasoline prices lower. Year over year growth in energy prices slowed more significantly to 21.2% from 26.4% in November. Looking through those 'base-effects' by comparing prices to 2-year ago levels, prices still increased 2.8% per-year on average.

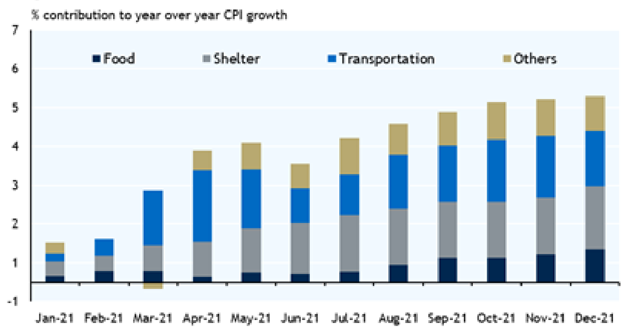
Outside of food and energy products, CPI growth rose to 3.4% from a year ago. That caps off a year of strong gains – boosted by surging house, car and industrial input prices. All of those factors are expected to keep a floor under prices in the near-term. But the breadth of price growth has also continued to widen. 58% of the CPI basket was growing at a faster than 2% rate from pre-pandemic (2019) levels in the 3 months ending in December, up from a recent low of 47% in the summer of 2020. Business near-term inflation expectations have increased with orders outstripping production capacity amid ongoing supply chain disruptions. And extremely tight labour markets are expected to push wages higher. The economic impact of near-term Omicron disruptions is expected to be significant but largely temporary and existing government support programs will keep a floor under household incomes, backstopping consumer demand. Against that backdrop, the Bank of Canada is expected to begin hiking interest rates soon, with our own base-case for an April hike but with any meeting**,** including next week's, a significant possibility

Canadian CPI Inflation

	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
			m/m % change		
All Items CPI	0.2	0.2	0.7	0.2	-0.1
Food	0.3	0.3	0.4	0.9	0.6
Energy	0.6	-0.2	4.2	0.5	-2.2
All items ex-food & energy	0.2	0.2	0.4	0.0	-0.1
			y/y % change		
All Items CPI	4.1	4.4	4.7	4.7	4.8
Food	2.7	3.9	3.8	4.4	5.2
Energy	20.7	20.1	25.5	26.4	21.2
All items ex-food & energy	3.0	3.3	3.2	3.1	3.4
BoC 'Core' Measures					
CPI-Trim	3.3	3.4	3.4	3.4	3.7
CPI-Median	2.8	2.9	2.8	2.8	3.0
CPI-Common	1.9	1.8	1.8	2.0	2.1

Source: Statistics Canada, RBC Economics

Shelter and transportation adding to headline price growth in Canada



Source: StatCan, RBC Economics

Claire Fan | Economist, RBC Economics | Royal Bank of Canada | T. (416) 974-3639
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