March 16, 2022

Canada’s inflation hit 5.7% and price pressures broaden in February

- Headline inflation climbed to 5.7% year-over-year; excluding food and energy products price growth increased to 3.9%.
- Geopolitical tensions will add to inflation pressures in the near term.
- Broadening price growth as well as tightening labour market make a strong case for the BoC to carry on hiking rates in April.

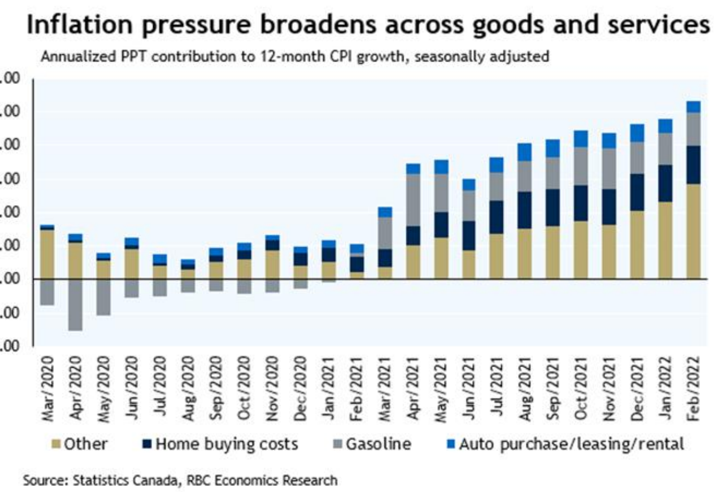
Canada headline CPI rose to 5.7% the highest level since 1991 (the year the Bank of Canada first announced an inflation target.) Almost half of that gain can be traced to growth in food and energy prices. Shoppers paid substantially higher for food in February —6.7% over year ago levels with prices up both at grocery stores and restaurants. Energy prices also increased 24% in February from a year ago, and that growth likely accelerated into March with the Russian invasion of Ukraine sending oil (and gasoline) prices sharply higher. The prices of some metal and agricultural products have also spiked higher, and will add to inflation pressures down the road.

There is little that the Bank of Canada can do to influence global commodity prices, but domestic price pressures also continue to broaden. Shelter cost have surged 6.6% from a year ago with heated housing markets boosting resale prices, and vehicle prices are still high as suppliers have struggled to keep up with demand due to global supply chain disruptions. Roughly 65% of the CPI basket was growing above the central bank’s target 2% versus pre-pandemic levels in February. Geopolitical risks have intensified but firming inflationary pressures alongside tightening labour markets make a strong case for the Bank of Canada to raise rates from emergency low levels, and we expect the BoC will hike the policy rate by another 25 bps in April.

Canadian CPI Inflation

	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
			m/m % change		
All Items CPI	0.7	0.2	-0.1	0.9	1.0
Food	0.4	0.9	0.6	1.4	1.3
Energy	4.2	0.5	-2.2	3.1	4.7
All items ex-food & energy	0.4	0.0	-0.1	0.6	0.6
			y/y % change		
All Items CPI	4.7	4.7	4.8	5.1	5.7
Food	3.8	4.4	5.2	5.7	6.7
Energy	25.5	26.4	21.2	23.1	24.1
All items ex-food & energy	3.2	3.1	3.4	3.5	3.9
BoC 'Core' Measures					
CPI-Trim	3.4	3.5	3.8	4.0	4.3
CPI-Median	2.9	3.0	3.2	3.4	3.5
CPI-Common	1.9	2.1	2.1	2.4	2.6

Source: Statistics Canada, RBC Economics



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