

## ECONOMIC NEWS

# Canada: Inflation Reaches Fastest Rate since August 1991

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### HIGHLIGHTS

- ▶ Consumer prices rose 1.0% in February, leaving the annual rate at 5.7%. That was the fastest 12-month pace in more than three decades.
- ▶ Notable monthly increases were seen in the energy (+4.7%), food (+1.3%) and shelter (+0.6%) categories.
- ▶ Excluding food and energy, prices were 3.9% higher than they were in February 2021.
- ▶ The Bank of Canada's (BoC) three core measures of inflation averaged 3.5% year-over-year, up from 3.3% in January.

### COMMENTS

If it feels like everything is getting more expensive, it's because it is. The headline inflation rate of 5.7% is the fastest pace since 1991.

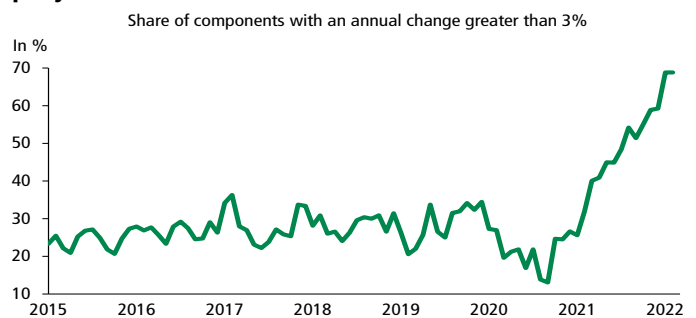
Canadian energy prices were again a major driver of the overall increase in February, but that didn't even include the recent spike in global energy prices in response to Russia's invasion of Ukraine. As of yesterday, gasoline prices were roughly 11% higher than they were at the end of February.

Food prices have been in focus as commodity prices are on the rise due to concerns about global supplies. However, in February, grocery bills were up on the back of homegrown price pressures. Domestic dairy prices surged in response to the Canadian Dairy Commission increasing milk prices. That helped push overall food prices up 1.3% in February.

Despite the material increases in food and energy, consumer price inflation in February was broad based. Excluding food and energy, prices rose 0.6%. Shelter costs were up as a result of rising home prices. Prices of electronics and appliances rose in response to supply chain disruptions. And services, many of which were reopening in February following the Omicron wave,

### GRAPH 1

#### Roughly two-thirds of the CPI basket is rising faster than 3% per year



Sources: Statistics Canada and Desjardins, Economic Studies

seemed to increase prices to recoup losses from prior months and account for higher input costs.

Roughly two-thirds of the CPI basket is rising faster than 3% per year. The BoC's core measures of inflation averaged 3.5% in February. Inflation can no longer be viewed as simply driven by supply chain disruptions.

### IMPLICATIONS

Inflation is set to accelerate even further, with further price pressures emanating from the war in Ukraine and new waves of COVID-19 disrupting supply chains. While inflation should begin to settle down thereafter, the labour market now appears to be operating at full employment. As a result, there will be a handoff from global inflationary pressures to domestically-driven price growth. The BoC will, therefore, need to forge ahead with further rate hikes even as headline inflation appears to be cooling in Q2.