

ECONOMIC NEWS

Canada: Inflation Continues to Rise

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HIGHLIGHTS

- ▶ The consumer price index (CPI) fell 0.1% in December, led by gasoline (-4.1%), clothing (-4.9%), video equipment (-5.2%) and personal care supplies and equipment (-1.5%).
- ▶ The main upward contributors were air transportation (+24.7%), home and mortgage insurance (+4.4%), homeowners' replacement cost (+0.9%), fresh fruit (+4.3%) and passenger vehicles (+0.5%).
- ▶ Total annual inflation was up from 4.7% in November to 4.8% in December.
- ▶ **For all of 2021, average total inflation came in at 3.4%.**

COMMENTS

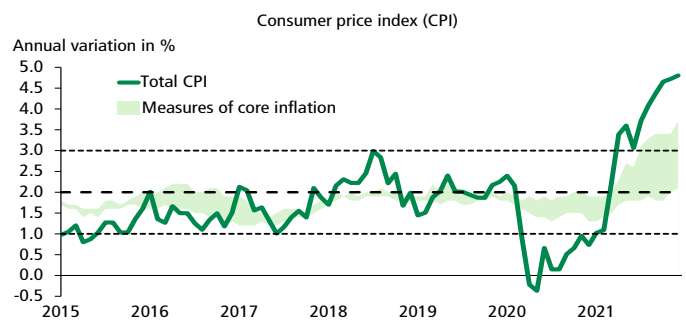
Headline inflation was in line with analyst expectations. At 4.8%, it's higher than it's been since September 1991. Strong price growth is broad-based, with about 59% of CPI basket components up more than 3% on a year-over-year basis. That means supply and demand imbalances are still being felt across the economy.

According to our forecasts, inflation could edge up further over the coming months before moderating in the spring as upward price pressures ease. Seasonally adjusted CPI has slowed over the past two months, supporting this scenario. But we'll have to wait and see if this trend continues.

IMPLICATIONS

For now, risks to inflation forecasts remain tilted to the upside. This should be reflected in the Bank of Canada's next *Monetary Policy Report*, which could open the door further to an imminent policy rate hike.

GRAPH 1
Total inflation continues to rise



Sources: Statistics Canada, Bank of Canada and Desjardins, Economic Studies

GRAPH 2
Inflation was above 3% in most provinces in 2021



Sources: Statistics Canada and Desjardins, Economic Studies