

ECONOMIC NEWS

Canadian Inflation: Feeling Hot, Hot, Hot

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HIGHLIGHTS

- ▶ Consumer prices rose 1.4% in March, leaving the annual rate at 6.7%, the fastest pace since January 1991.
- ▶ Notable monthly increases continued in energy (+7.5%), shelter (+1.0%) and food (0.9%).
- ▶ Excluding food and energy, prices were 4.6% higher than they were in March 2021.
- ▶ The Bank of Canada's three core measures of inflation averaged 3.8% year-over-year, up from 3.5% in February.

COMMENTS

The weather might not be getting hot in Canada, but inflation sure is. The March CPI revealed the sharpest monthly price increases since the goods and services tax was introduced in 1991.

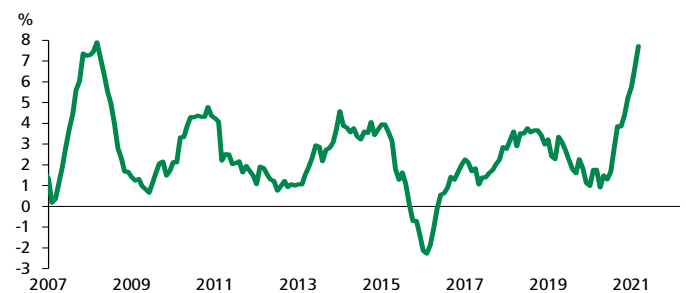
Canadian energy prices continued to be a main driver of the overall increase in March. Russia's invasion of Ukraine pushed energy prices higher. As a result, gasoline prices rose nearly 12% in March after rising 7% in February.

The war in Ukraine also pushed global food prices higher, resulting in an increase of 0.9% for Canadian food prices in March, leaving them 7.7% higher than a year ago.

Prices excluding food and energy rose 0.6% last month on a seasonally-adjusted basis, and are up 4.6% from last March. The rise in core prices continues to be partly the result of supply chain issues, with the price of cars and other durable goods moving even higher in March. Separately, the boarder reopening of the economy also saw services businesses able to pass on higher costs in categories such as airfares, hotels and restaurants during the month.

GRAPH

Year over Year food prices reach the highest level since 2008



Sources: Statistics Canada and Desjardins, Economic Studies

IMPLICATIONS

It's clear that the Bank of Canada needs to continue to act 'forcefully' to quell further inflationary pressures. As a result, we expect central bankers will lift the policy rate another 50 basis points in June. The ongoing war in Ukraine and rolling Covid waves in China mean that the economy will be contending with global inflationary pressures for some time, which will be on top of the domestic inflationary pressures coming from a tight labour market. That said, base effects should still see the March reading as the peak for inflation, unless there's another major surprise.