RBC Economics

Daily Economic Update

October 20, 2021

Canada's headline inflation rate broke higher in September

- Headline inflation rate was 4.4% year-over-year, growth in prices ex-food & energy ticked higher to 3.3%
- Gas and home-related prices continue to drive price gain relative to pre-pandemic
- Rising input costs to show up as broader inflationary pressure, keeping price growth above target in 2022

Introducing **RBC Inflation Watch**: a tracker of key indicators on price trends in Canada.

Canada's headline inflation rate was above consensus expectations in September, rising to 4.4% above a year ago from 4.1% in August. Growth in food prices accelerated to 3.9% compared to just 1.2% in Q2 driven by increasing meat costs (+9.5%). Energy price growth slowed to 20.1%, but might still break higher given recent rally in commodity prices. Outside of food and energy components, owned accommodation related expenses that have accounted for much of the gain in prices relative to pre-pandemic inched higher again in September, to 5.5% year-over-year. Prices for car purchases and rentals also grew at a faster rate in September, driven by limited supply due to the global semi-conductor shortage. Communications and clothing and footwear remained the weak spots, having yet to recover back to pre-pandemic levels. Looking through base effects (weaker year-ago comparables), headline and ex-food & energy prices were up a smaller 2.5% and 2.1% (annualized), respectively from pre-pandemic February 2020.

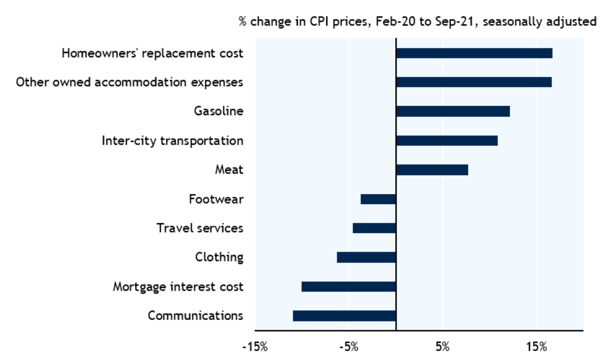
Businesses in Canada have been struggling to contend with global supply chain disruptions, higher input costs, and growing labour shortages. Supply chain disruptions have proven themselves more persistent than initially expected over the summer. Turnaround time at ports in North America have risen and container shipping costs have skyrocketed. As a result, more businesses reported intentions to increase capital expenditures, hire, raise wages and pass on rising costs to consumers in the Bank of Canada's Q3 Business Outlook Survey. Demand is continuing to strengthen and higher input costs will continue to gradually filter through to higher consumer prices the longer they last. Annual inflation rates are expected to slow once the initial re-opening price surge subsides. Still, rising input costs will keep a floor under inflation into next year when the economy is also expected to be stronger.

Canadian CPI Inflation

	May-21	Jun-21	Jul-21	Aug-21	Sep-21
			m/m % change		
All Items CPI	0.5	0.3	0.6	0.2	0.2
Food	0.8	0.1	0.5	0.3	0.3
Energy	1.8	0.9	2.6	0.6	-0.2
All items ex-food & energy	0.3	0.3	0.4	0.2	0.2
			y/y % change		
All Items CPI	3.6	3.1	3.7	4.1	4.4
Food	1.5	1.3	1.7	2.7	3.9
Energy	26.4	19.5	19.7	20.7	20.1
All items ex-food & energy	2.4	2.2	2.8	3.0	3.3
BoC 'Core' Measures					
CPI-Trim	2.7	2.6	3.1	3.3	3.4
CPI-Median	2.3	2.4	2.6	2.7	2.8
CPI-Common	1.8	1.7	1.7	1.8	1.8

Source: Statistics Canada, RBC Economics

Home, car related prices soar over pre-pandemic levels



Source: StatCan, RBC Economics

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