

The Rise (And Fall?) of Inflation in Canada: A Detailed Analysis of Its Post-Pandemic Experience

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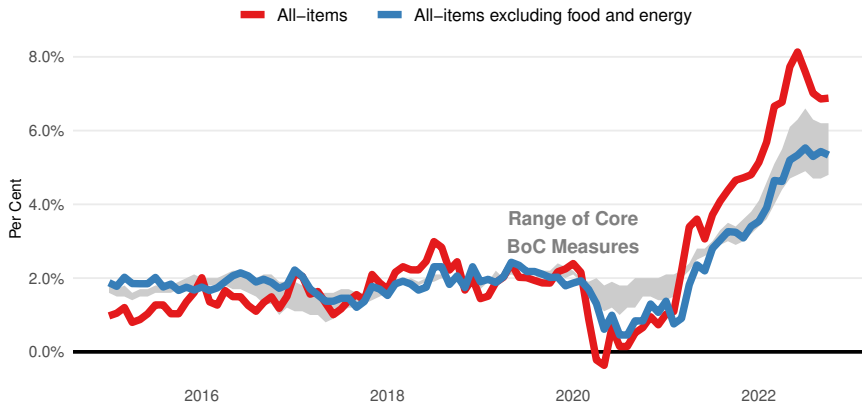
University of Calgary

November 17, 2022

Rapid Increase in Canada's Inflation Rate

Year-over-Year Change in Consumer Prices in Canada

Source: Own calculations from Statistics Canada data table 18-10-0004



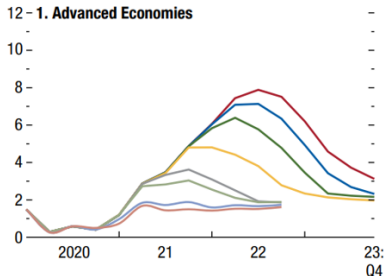
IMF Inflation Forecasts

Figure 1.1.1. Headline Inflation Forecasts
(Percent)

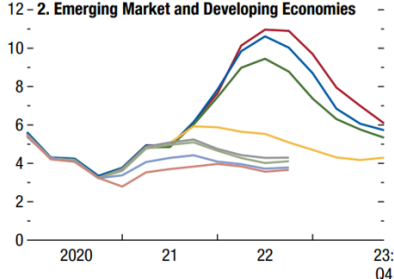
Source: IMF World
Economic Outlook,
October 2022



12-1. Advanced Economies



12-2. Emerging Market and Developing Economies

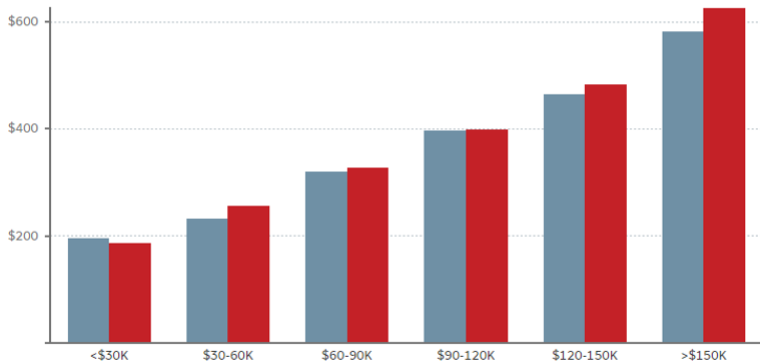


The Cost to Typical Households

How much more you're paying because of high inflation

Depending on your annual household income, you could be paying roughly \$200 to \$600 a month more for goods and services due to inflation. You can hover over the bars to see specific amounts.

■ Alberta ■ Canada



Calculations from Statistics Canada SPSM/D version 29.0, using product-specific inflation rates for May 2022.

Chart: @trevortombe • Source: [Statistics Canada](#) • [CBC News](#)

A Defining Political Issue



It's his fault!

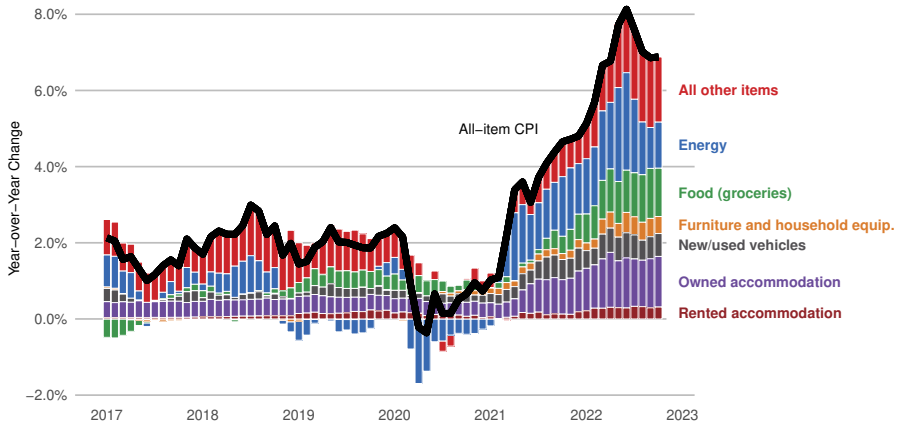
No it's not!

A Defining Political Issue

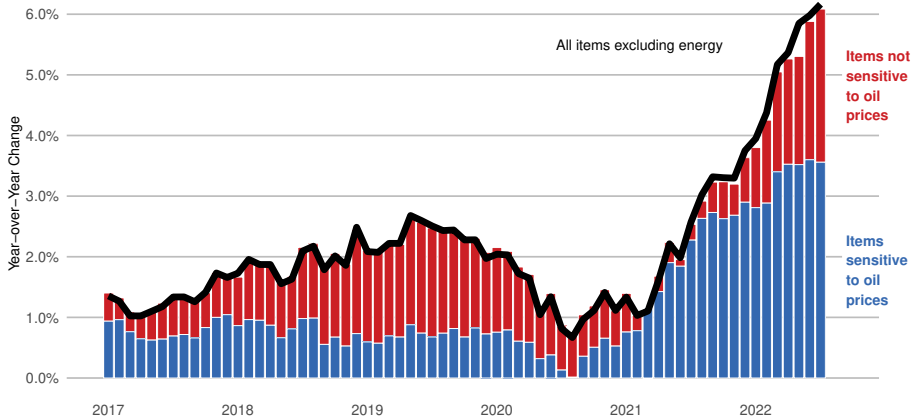


Potential Drivers of Rising Inflation

Contribution of selected items



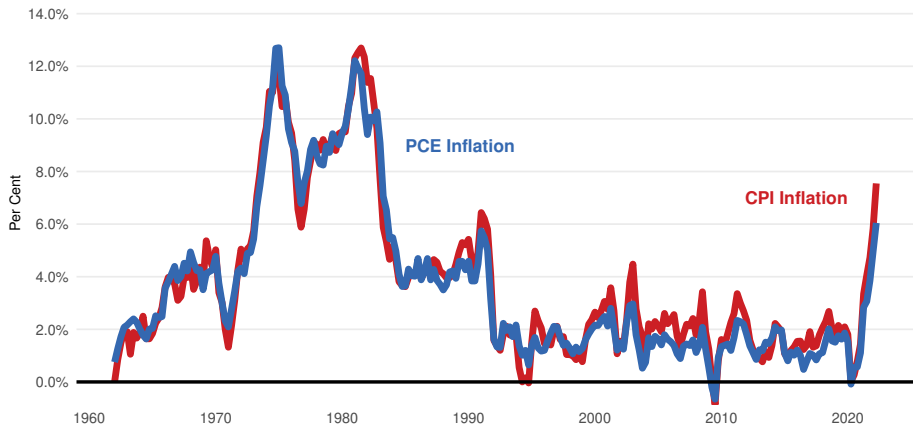
Sensitivity to oil prices



Personal Consumption Expenditure (PCE) deflator

- *Detailed Household Final Consumption Expenditure* (nearly 100 specific items)
- Each item: quarterly expenditures + real expenditures at constant prices
 - obtain both price and quantity changes for each item

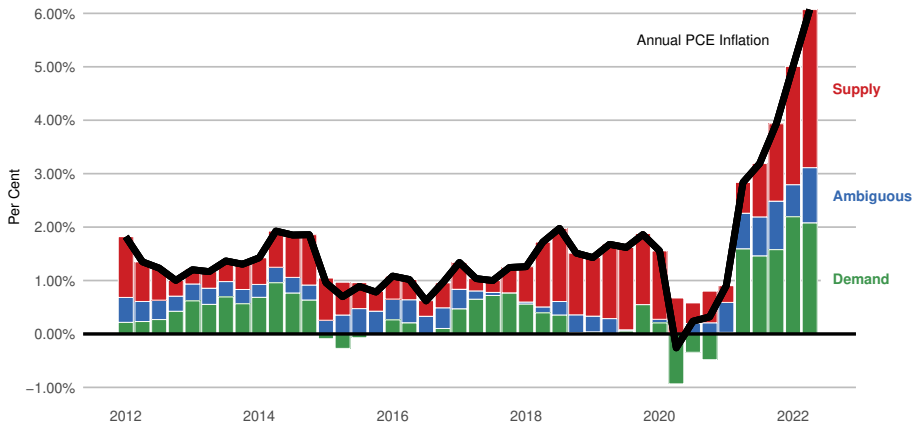
PCE vs CPI inflation



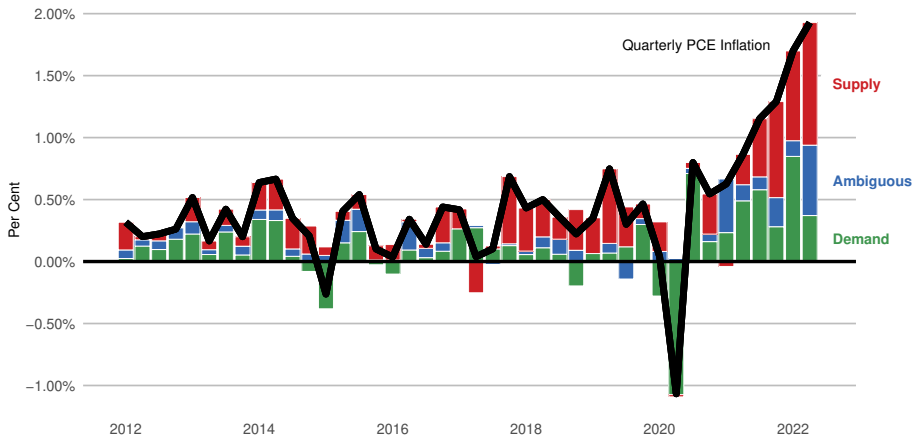
Supply vs Demand Shock

- Following Shapiro (2022), categorise changes for each item as *supply-driven*, *demand-driven*, or *ambiguous*
- Based on whether unexpected changes in quantity and price are in the same direction (demand) or not (supply).
 - deviations from historically (10-year rolling window) normal changes in quantities and prices

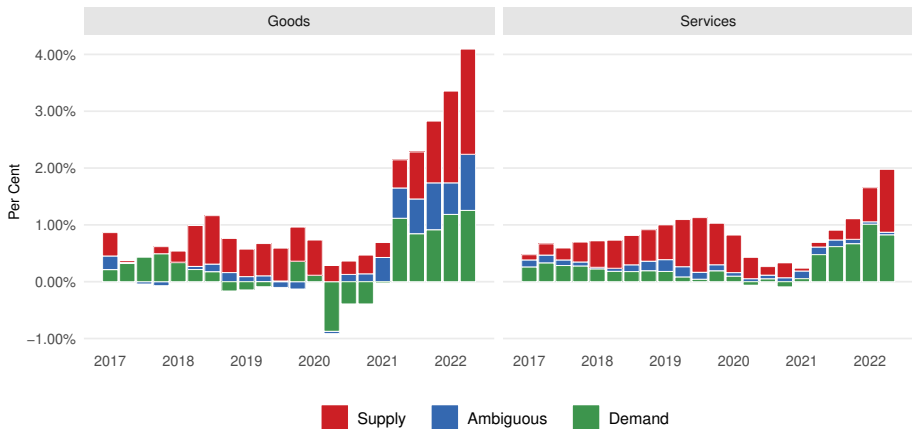
Contribution of Supply and Demand Shocks to PCE Inflation (Annual)



Contribution of Supply and Demand Shocks to PCE Inflation (Quarterly)



Further Decomposition (Goods vs Services)

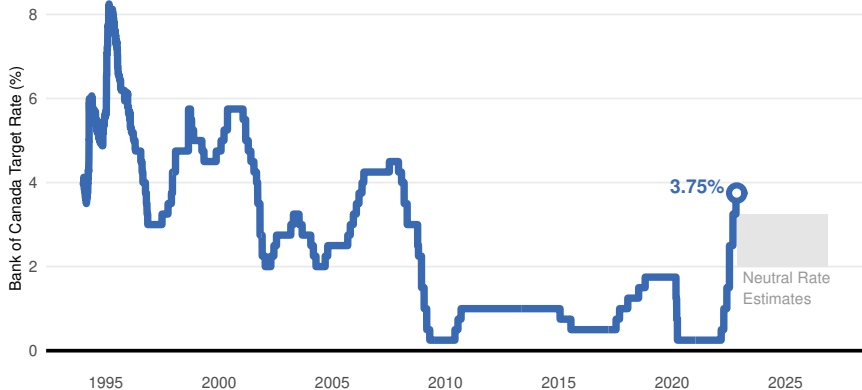


Will Inflation Fall?

Monetary Policy is Tightening Quickly

Bank of Canada Target Rate (%)

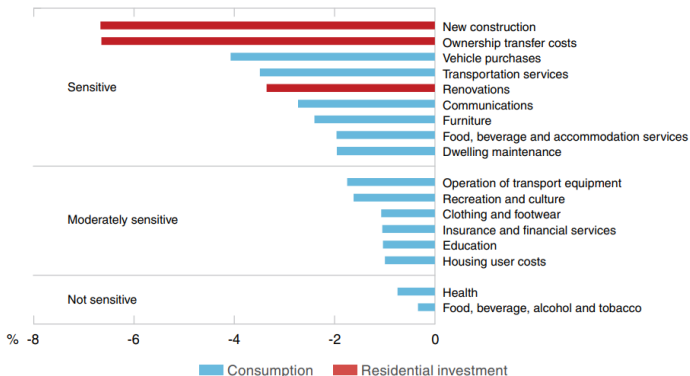
Source: Statistics Canada data table 10-10-0139. Neutral rate estimates from Faucher et al. (2022).



Monetary Policy Affects Some Items More Than Others (From the October 2022 BoC MPR)

Chart 15: Rising rates affect spending on housing and big-ticket consumption items

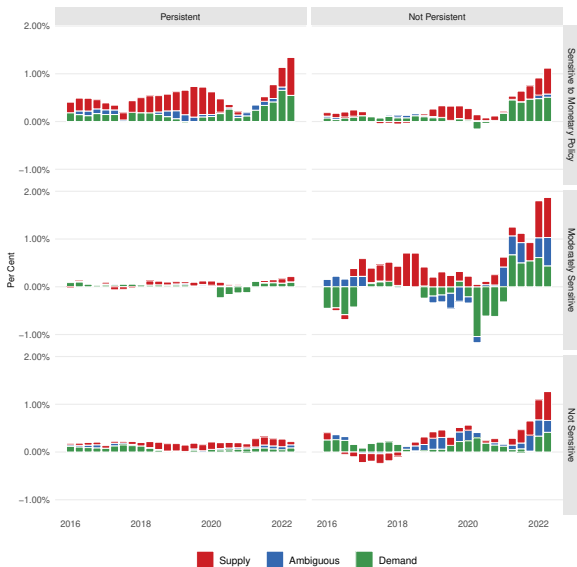
Estimated peak-level impact of a 100-basis-point contractionary monetary policy shock



Note: For more details, see T. Chernis and C. Luu, "Disaggregating household sensitivity to monetary policy by expenditure category," Bank of Canada Staff Analytical Note No. 2018-32 (October 2018).

Sources: Statistics Canada and Bank of Canada calculations and estimates

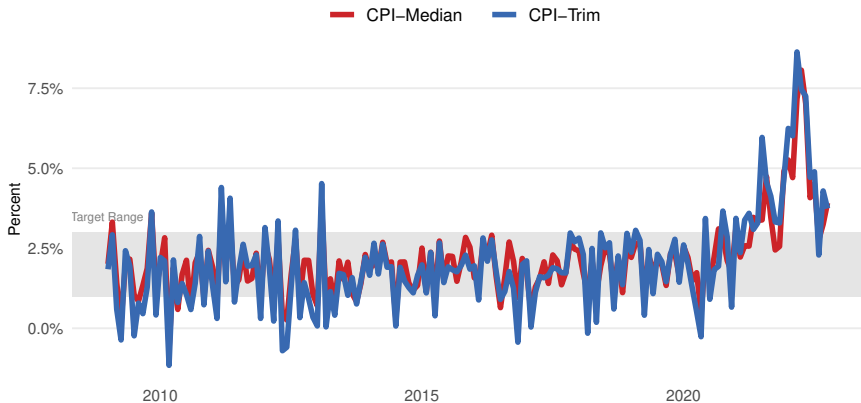
Interest Sensitivity and Inflation Persistence



Potential Encouraging News in the Recent Data

Monthly Change in the Bank of Canada's Core Inflation Measures

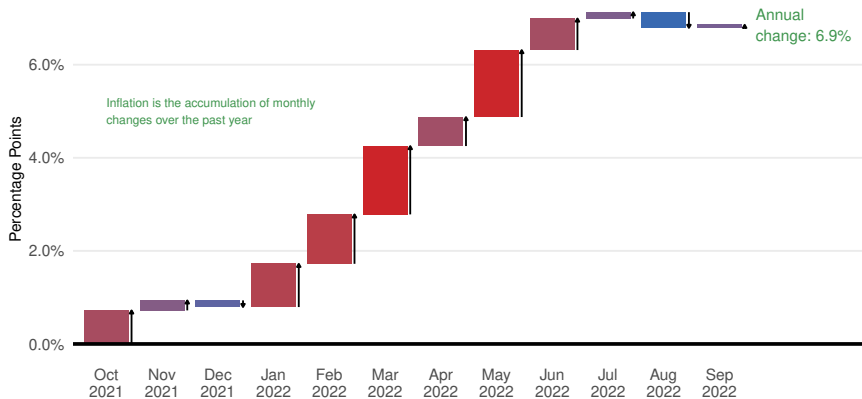
Reflects the month-over-month annualized change in CPI–median and CPI–trim



Year-over-Year Comparisons Change Slowly

Contribution to Canada's 6.9% Inflation Rate in September 2022

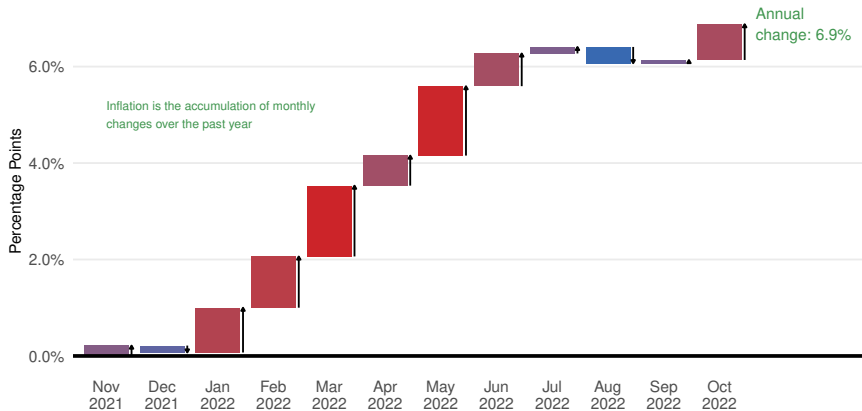
Source: own calculations from Statistics Canada data table 18-10-0004



Year-over-Year Comparisons Change Slowly

Contribution to Canada's 6.9% Inflation Rate in October 2022

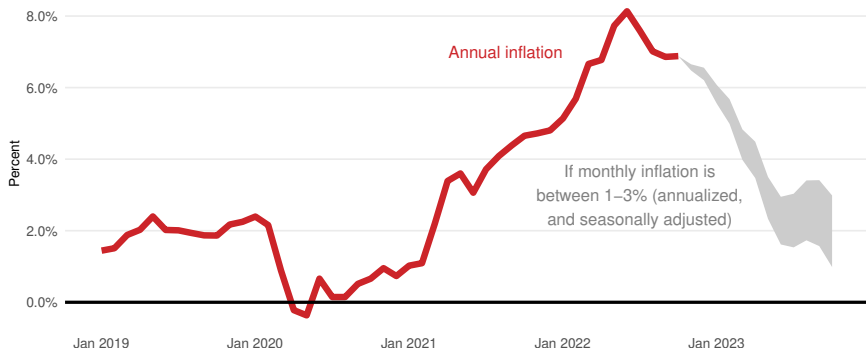
Source: own calculations from Statistics Canada data table 18-10-0004



Year-over-Year Comparisons Change Slowly

Year-over-Year Changes in Consumer Prices in Canada

Source: own calculations from Statistics Canada data table 18-10-0004



Concluding Thoughts

While much uncertainty remains, our paper provides a rich exploration of both key drivers of high inflation and its potential future.

In particular,

- A small number of items account for most of the rise
- Oil prices may account for most of the non-energy inflation
- Supply-side factors account for most of the recent increase
- Time and monetary policy may prove effective

We also show the value of measuring PCE inflation in addition to CPI

Thank You!

Questions?

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