



Research to Insights: Consumer price inflation, recent trends and analysis

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About *Research to Insights*

The *Research to Insights* series of presentations features a broad range of findings on selected research topics. Each presentation draws from and integrates evidence from various studies that use innovative and high-quality data and methods to better understand relevant and complex policy issues.

Based on applied research of valuable data, the series is intended to provide decision makers, and Canadians more broadly, a comprehensive and horizontal view of the current economic, social and health issues we face in a changing world.

Context

- Since early 2021, higher prices for gasoline, shelter, food and consumer durables have put upward pressure on consumer inflation. Supply disruptions, coupled with strong household demand, have fuelled price growth.
- By mid-2022, consumer inflation had accelerated to its fastest pace in four decades, peaking at 8.1% in June. While the headline rate eased in late 2022 as gasoline prices fell, key sources of inflationary pressure, including food and shelter, showed little signs of moderating.
- The pace of inflation has not been uniform across all provinces, but overall trends have been similar. In 2022, Prince Edward Island and Manitoba posted the largest annual increases in average prices.
- As inflation ramped up in 2022, Canadians reported that they were most impacted by rising food prices, followed by higher costs for transportation and housing.
- Wages and earnings have not kept pace with price pressures, especially those related to food and shelter. In the third quarter of 2022, net saving among the bottom 40% of income earners was below levels recorded at the start of the COVID-19 pandemic, while younger households increased their debt leverage to fund consumption.



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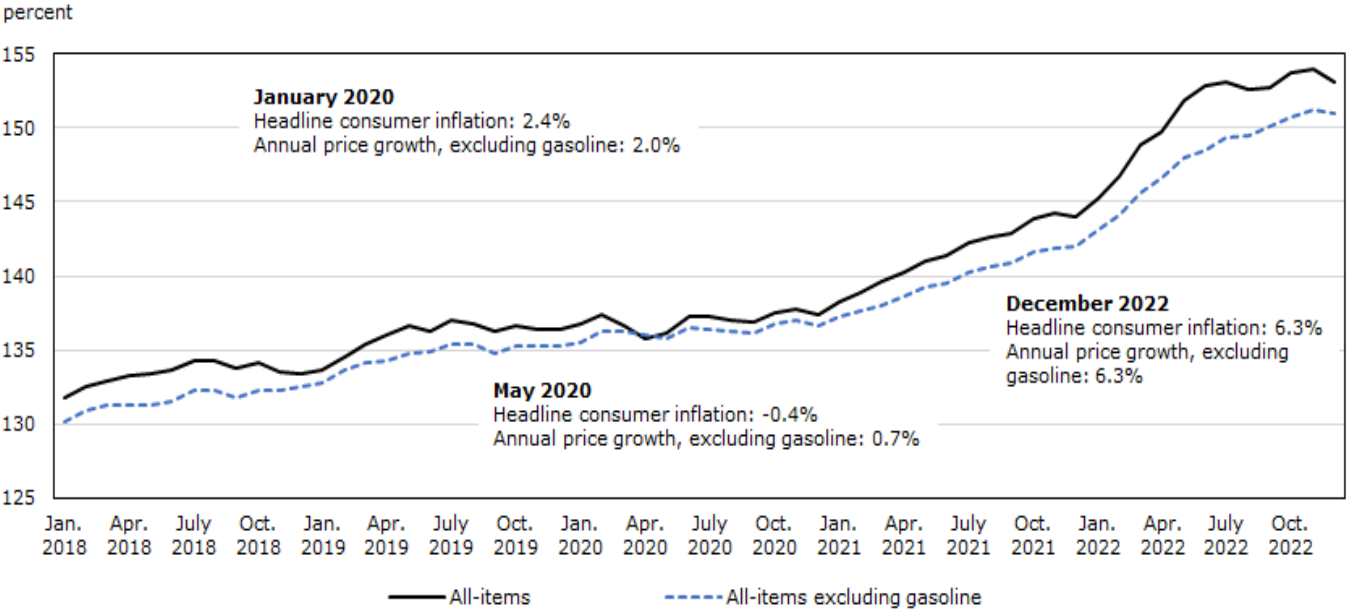
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Inflationary pressures built up steadily during 2021 and 2022

Chart 1
Consumer price index



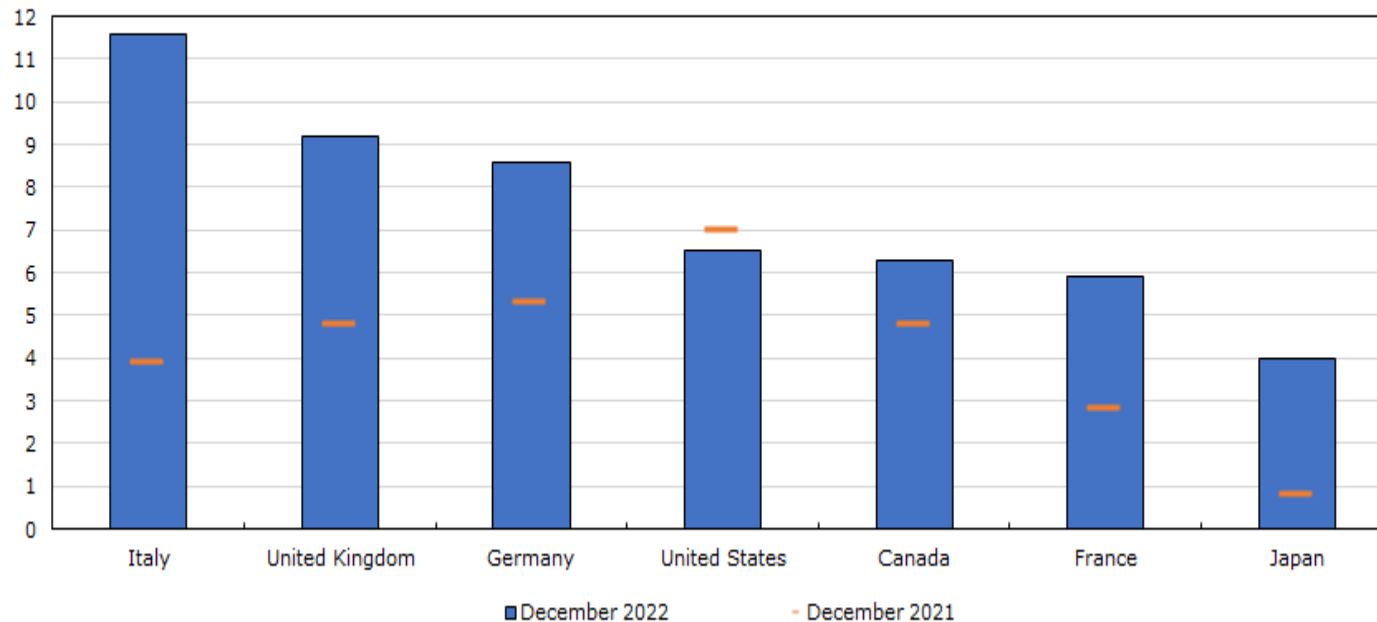
Source: Statistics Canada, table 18-10-0004-01.

- December 2022 marked the 21st consecutive month that the headline rate had been above 3% and the 10th consecutive month above 6%.
- Overall consumer prices have risen by 11.4% during the past two years. Excluding gasoline, prices have increased by 10.5%.

Consumer inflation in Canada less pronounced than in several G7 countries, including the United States

Chart 2
G7 countries inflation rates, all items

year-over-year percent change



Source: Organization for Economic Cooperation and Development.

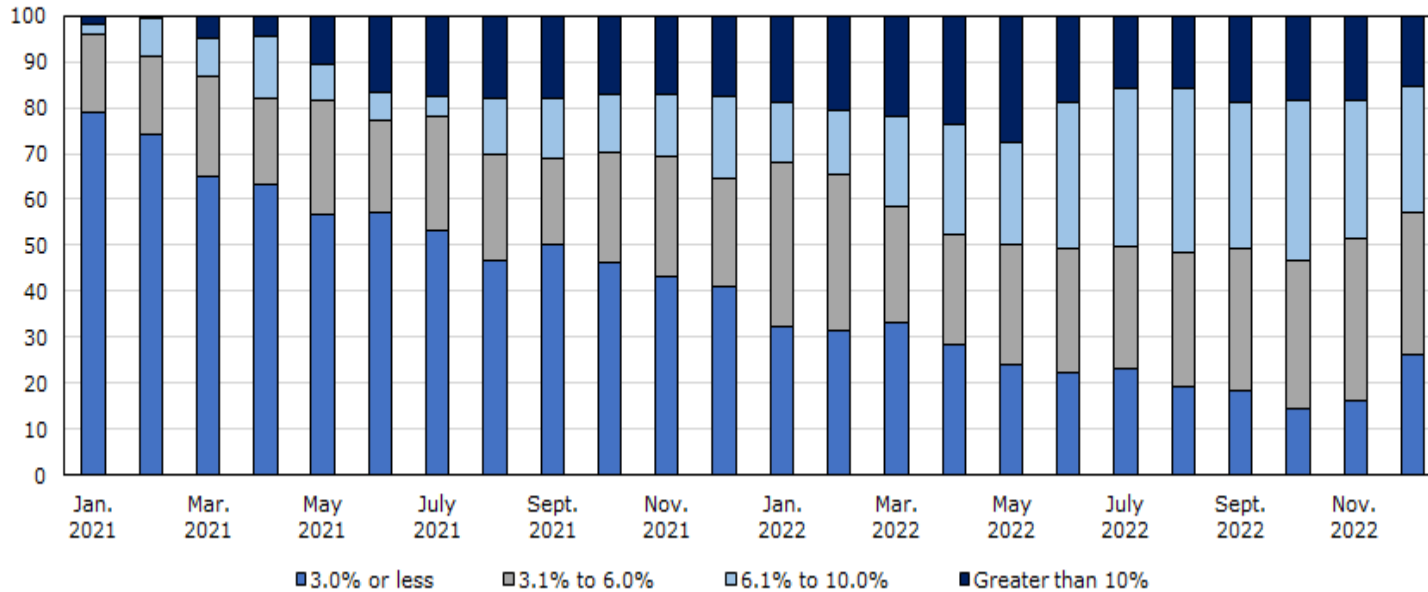
- In 2021, inflation in the United States rose at a faster pace than in Canada in part because of much larger increases in used vehicle prices south of the border, which account for a larger share of consumer outlays in the United States.
- Price growth in both countries was similar in 2022, with inflationary pressures easing at mid-year as gasoline prices declined.

Inflationary pressure became increasingly broad based in 2021 and 2022

Chart 3

Consumer Price Index basket by magnitude of year-over-year increase, Canada, January 2021 to December 2022

percent of basket weight



Source: Statistics Canada, Consumer Price Index, special tabulations.

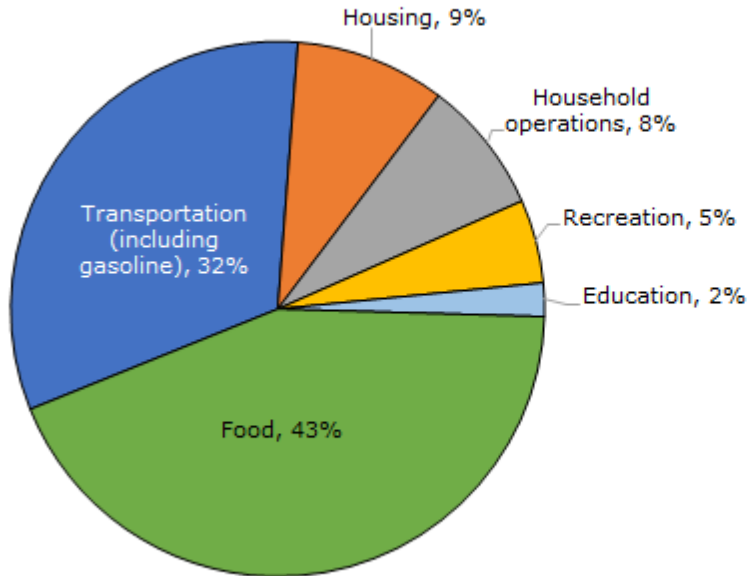
How much of consumer spending has been gradually impacted by high inflation?

- Over the course of 2021, the share of spending on products and services that had seen prices rise by more than 3% during the previous 12 months rose considerably. This share increased from about 20% in January 2021 to almost 60% by December of that year.
- When inflation peaked in June 2022, the share of spending on products that had seen yearly price increases of more than 6% now accounted for one-half of the expenditure weight.

Rising food prices and housing costs are key stressors for Canadian families

Chart 4
Areas most affected by rising prices

percent of respondents



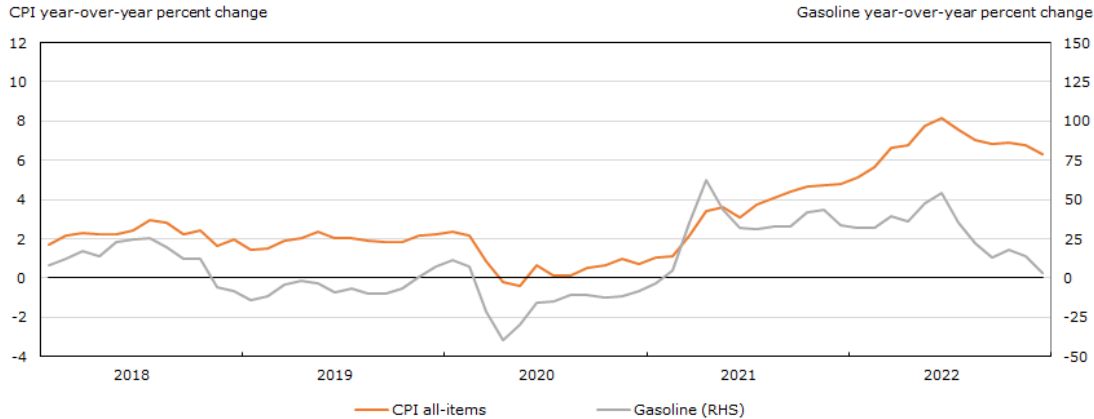
Sources: Statistics Canada, "Rising prices are affecting the ability to meet day-to-day expenses for most Canadians," *The Daily*, June 2022, and Portrait of Canadian Society – Impacts of Rising Prices, April 19 to May 1, 2022.

- In April 2022, nearly three in four Canadians reported that rising prices are affecting their ability to meet day-to-day expenses.
- Three in ten Canadians were very concerned about whether they can afford housing or rent.
- By the fall of 2022, almost half (44%) said they were very concerned with their household's ability to afford housing or rent.
- One in four Canadians said they were unable to cover an unexpected expense of \$500.
- Young adults were among those most concerned over finances, with almost half of people aged 35-44 years saying they found it difficult to meet their financial needs in the previous 12 months.

For more information: [The Daily — One in four Canadians are unable to cover an unexpected expense of \\$500 \(statcan.gc.ca\)](https://www150.statcan.gc.ca/n1/pub/26-26201-2022001/article/00001-eng)

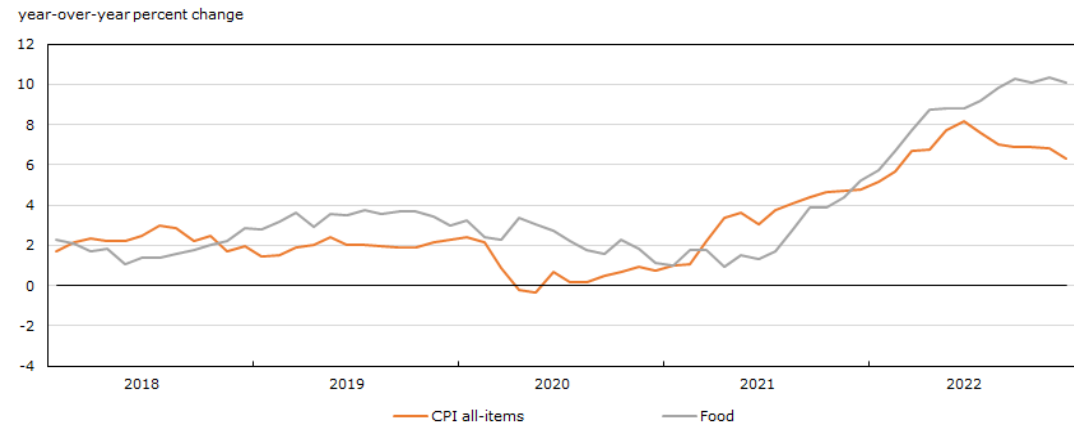
While gasoline prices eased during the second half of 2022, price pressures on food and housing continued to put severe strain on living costs

Chart 5
Inflation by selected component, gasoline



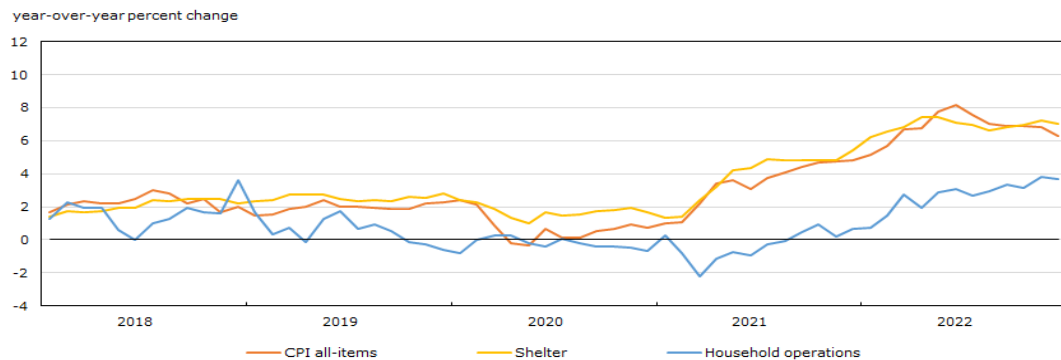
Note: CPI refers to Consumer Price Index and RHS refers to right-hand side axis.
Source: Statistics Canada table 18-10-0004-01.

Chart 6
Inflation by selected component, food



Note: CPI refers to Consumer Price Index.
Source: Statistics Canada table 18-10-0004-01.

Chart 7
Inflation by selected component, shelter and household operations



Note: CPI refers to Consumer Price Index.
Source: Statistics Canada table 18-10-0004-01.

- In late 2022, prices for many products and services that directly impact living costs remained elevated. Food prices continued to edge higher and, measured year over year, remained in double-digit territory from September to December.
- Shelter costs also continued to rise steadily as higher mortgage interest costs offset recent declines in homeowners' replacement costs (which reflect prices for new homes).
- Prices for rental accommodation rose in 19 of the past 24 months as the demand for rental units ramped up.



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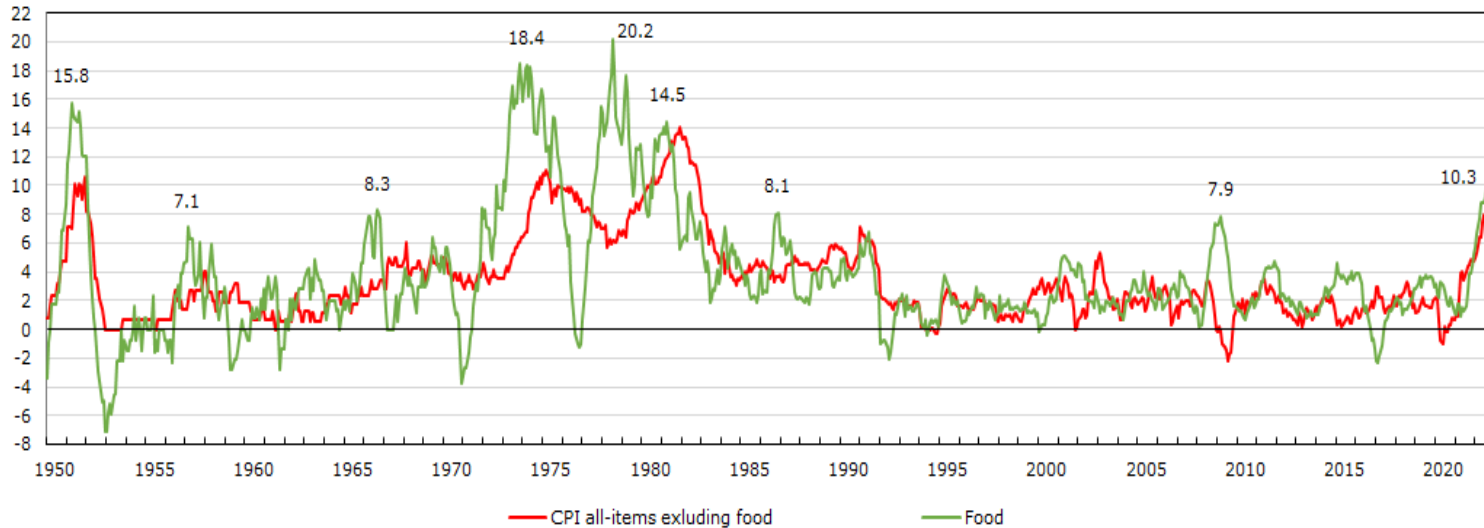
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Canadian food prices are growing at their fastest pace in 40 years

Chart 8
Consumer Price Index and food prices, Canada, 1950 to 2022

year-over-year percent change



Note: CPI refers to Consumer Price Index.

Source: Statistics Canada table 18-10-0004-01.

- Many factors are contributing to food inflation, including supply chain disruptions, erratic weather, labour shortages and wage pressures, rising prices for farm inputs, higher import and transport costs, and geopolitical events such as the war in Ukraine.
- Unlike past trends, many of these pressures have been occurring simultaneously or in a more pronounced manner, leading to broad-based increases in food prices not only domestically, but globally.



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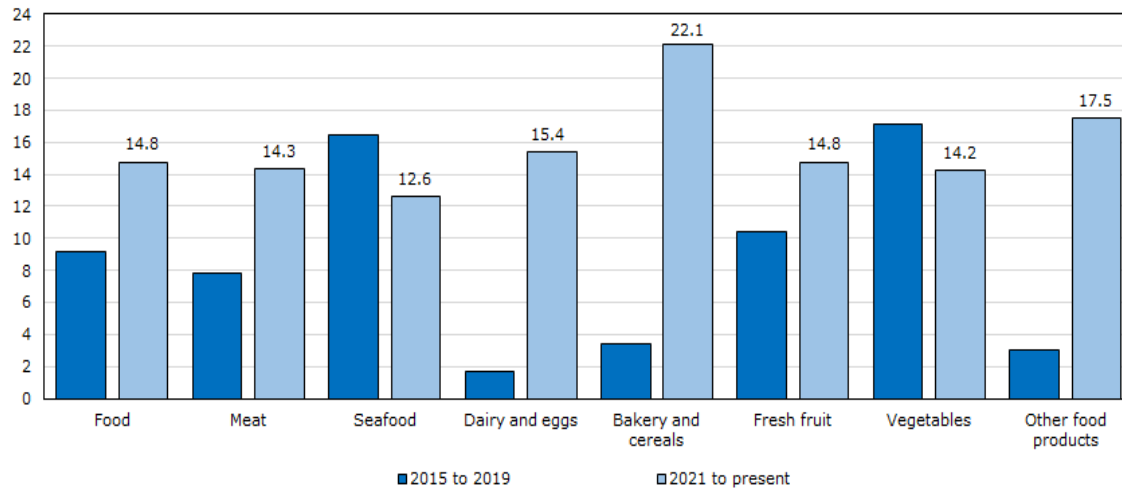
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Food inflation has become increasingly broad based as supply chain issues, labour shortages, transportation costs, weather events and geopolitical developments put upward pressure on food prices

Chart 9
Food price gains

cumulative increase, percent

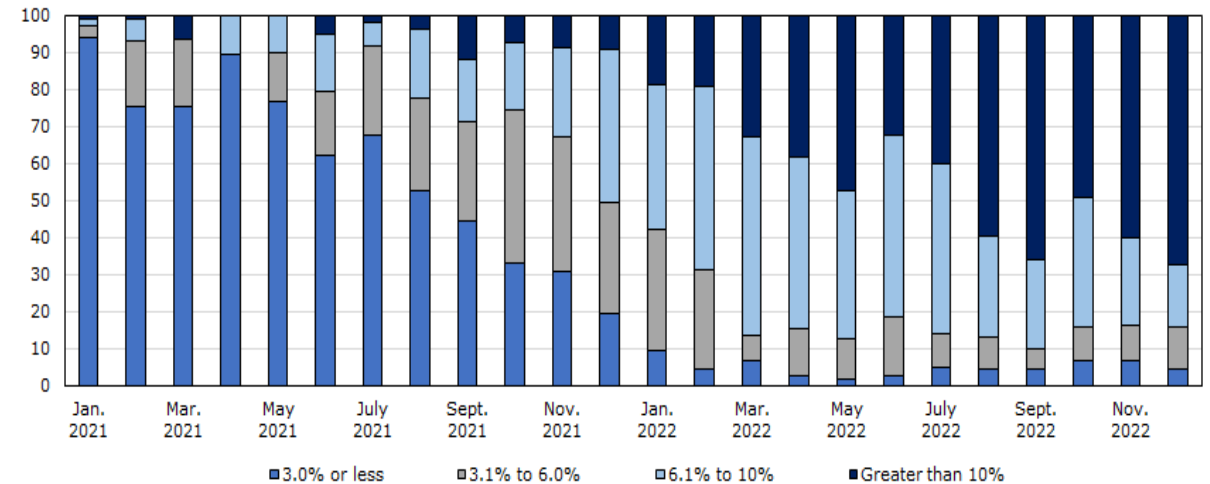


Source: Statistics Canada table 18-10-0004-01.

- For context, food prices rose a cumulative 9.2% from 2015 to 2019, while they increased 14.8% between January 2021 and December 2022.

Chart 10
Consumer Price Index food basket by magnitude of year-over-year increase, Canada, January 2021 to December 2022

percentage of basket weight



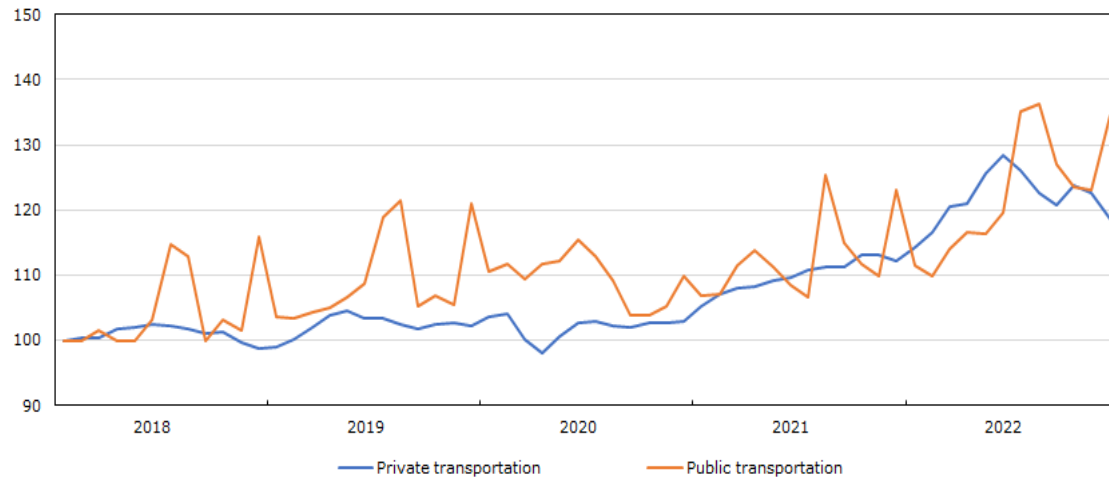
Note: Data are limited to food products purchased from stores.
Sources: Statistics Canada tables 18-10-0004 and 18-10-0007-01.

- The second half of 2022 witnessed a sharp rise in the share of food spending in double-digit territory, with little relief as headline inflation eased late in the year. At year-end, food items with yearly price increases of more than 10% accounted for two-thirds of food expenditures.

Rising fuel prices have had an impact on families, in terms of travel budgets, and producers, in terms of shipping costs

Chart 11
Public and private transportation costs

index (January 2018=100)

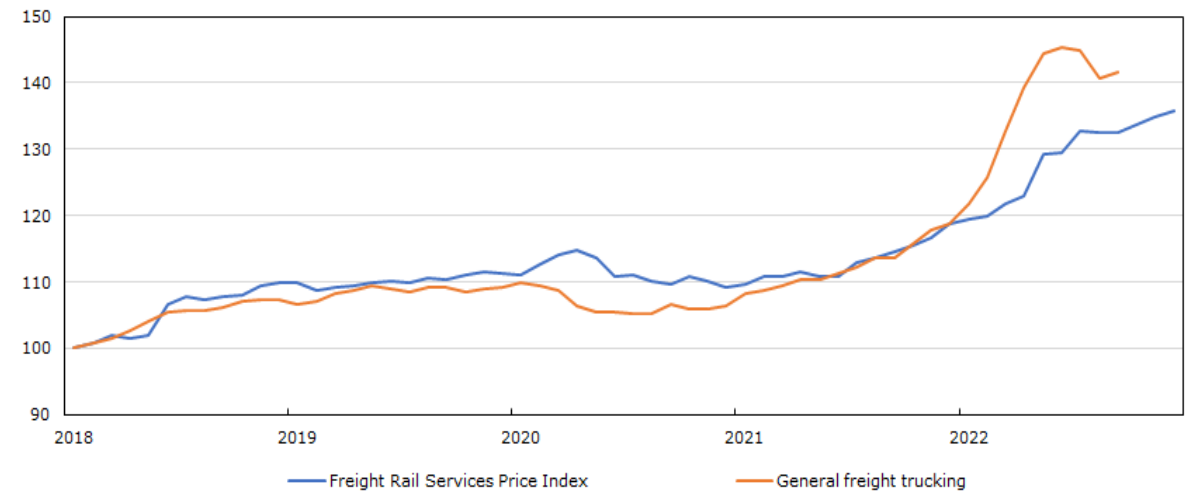


Source: Statistics Canada table 18-10-0004-01.

- Since January 2021, private transportation costs have increased by 12.6%, largely because of the growing cost of operating a passenger vehicle (+13.4%), while rail freight transportation costs have increased by 23.8%.
- The cost of public transportation has increased by 25.8%, largely because of the increase in intercity transportation costs (+47.4%). The latter has been driven mainly by air transportation.

Chart 12
Trucking and rail transportation costs

index (January 2018=100)



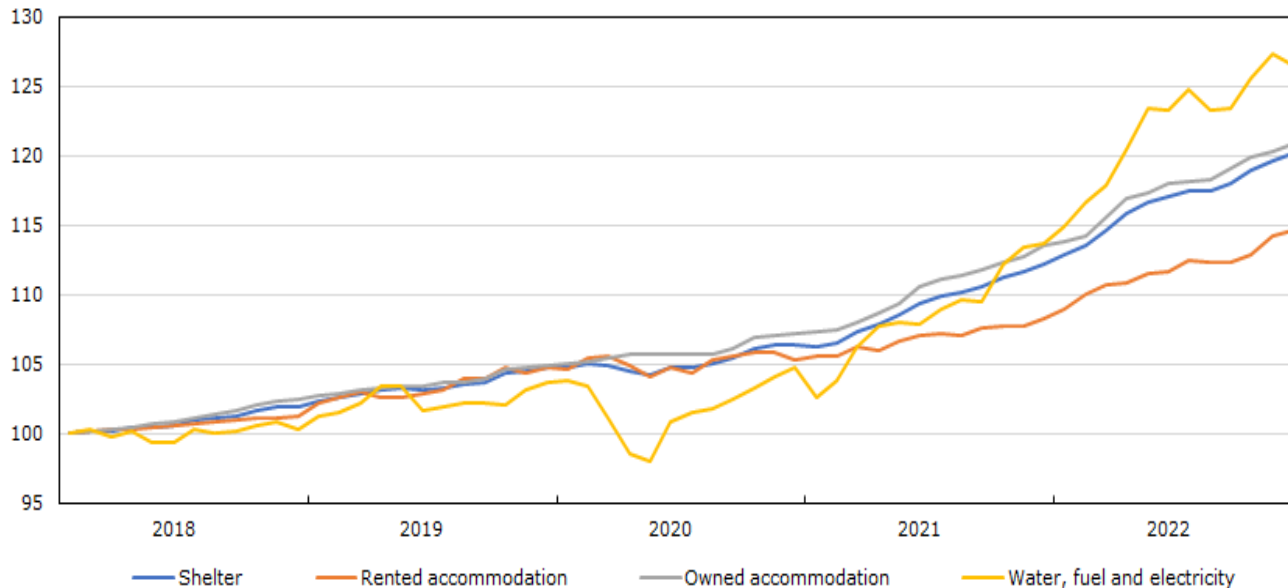
Sources: Statistics Canada tables 18-10-0212-01 and 18-10-0043-01.

- Since January 2021, trucking transportation costs have risen 30.9%, while rail freight transportation costs have increased by 23.8%.

The costs of owning or renting a home are rising at the fastest pace in over 30 years

Chart 13
Shelter costs

index (January 2018=100)



Source: Statistics Canada table 18-10-0004-01.

- Higher mortgage interest costs, which rose 18% in the 12 months to December 2022, put strong upward pressure on headline inflation in late 2022.
- Housing affordability deteriorated markedly during the second and third quarters of 2022 as borrowing costs rose.
- Yearly price increases for rental accommodation, which reflect both older and more recent rental contracts, were 5.9% in December 2022.
- The costs of utilities have grown, largely because of rising household fuel and natural gas prices.



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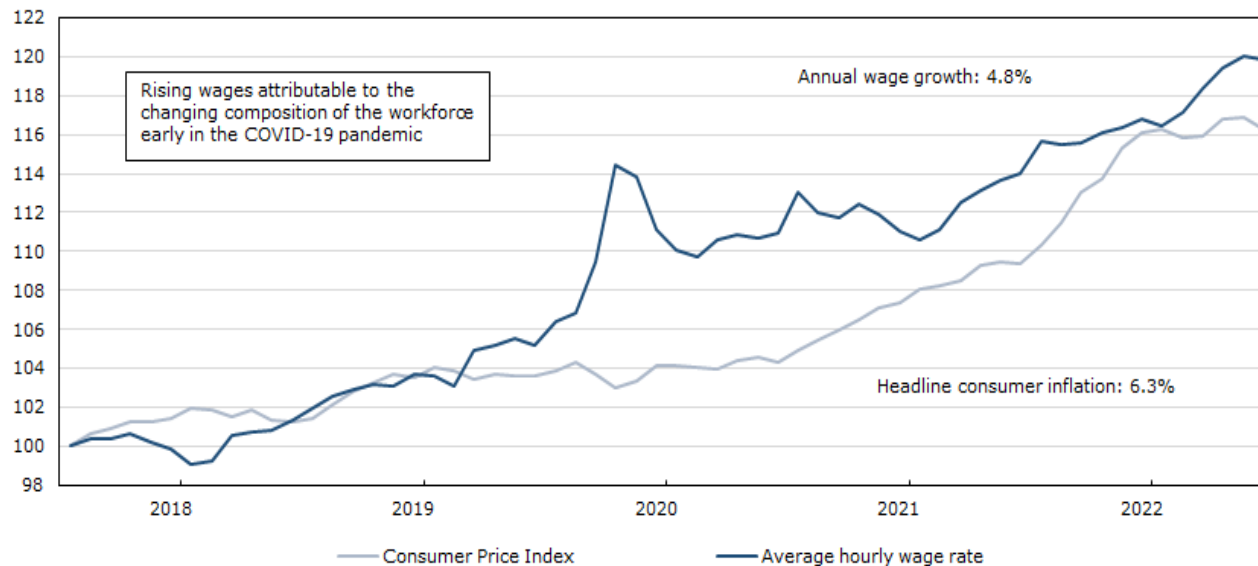
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Despite higher wages and earnings, most workers have seen their purchasing power decline as inflationary pressures ramp up

Chart 14
Average hourly wages and consumer prices

index (January 2018=100)

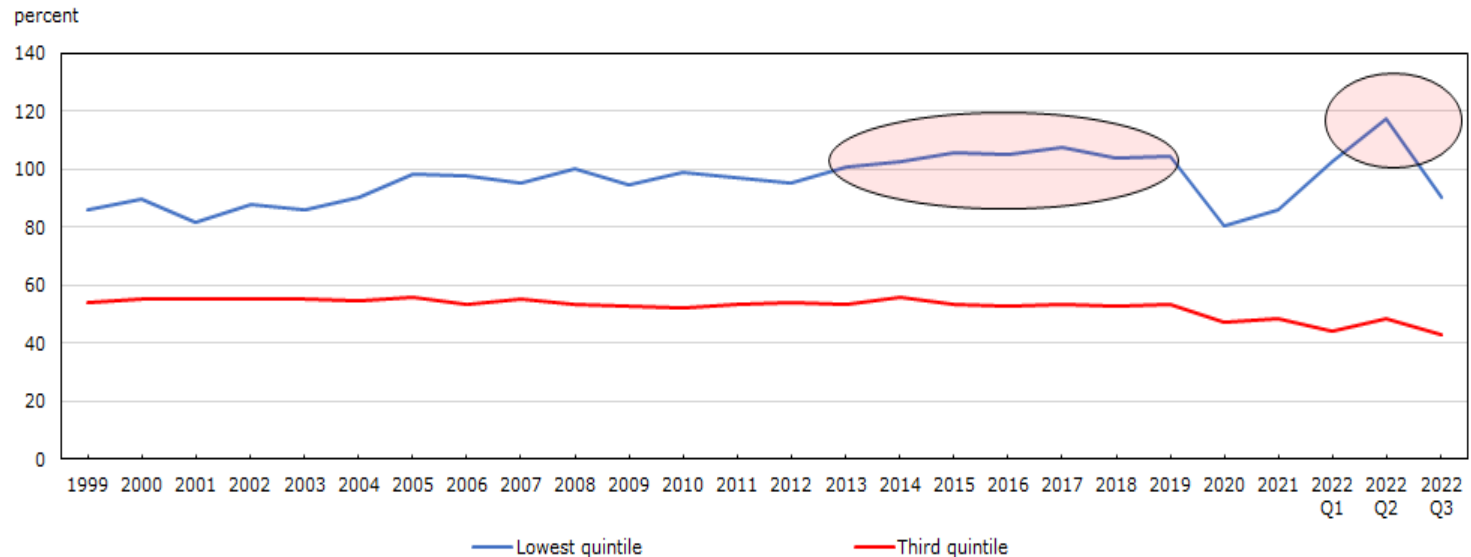


Sources: Statistics Canada tables 14-10-0063-01 and 18-10-0004-01.

- Average hourly wages, measured year over year, were up 5.1% December 2022, while average weekly earnings rose 4.2% in the 12 months to November.
- Higher-paid employees are more likely to have seen their wages keep pace with rising prices, including many in higher-paying sectors such as professional, scientific and technical services, and the finance, insurance and real estate industries.
- By contrast, the portion of workers receiving pay raises was relatively low in agriculture and accommodation and food services, industries with below-average wages.

Inflationary pressures weigh on more vulnerable households as incomes and savings adjust

Chart 15
Food, housing and transport expenditures as a share of disposable income, by selected income quintile



Notes: Ovals indicate a time period where expenditure on food, housing and transportation are greater than 100% of disposable income (2013-2019 & Q1-Q2 2022). 2022 data presented as quarterly values as year end 2022 data is not yet available.

Sources: Statistics Canada tables 36-10-0587-01 and 36-10-0662-01.

- For low-income households, expenditures on necessities as a share of disposable income fell early in the pandemic as government support measures bolstered income levels and many households began to pay down debt.
- Financial vulnerabilities have re-emerged as income supports wound down and cost pressures rose. Overall, expenditures and debt rose more than income and assets in the third quarter of 2022, suggesting that increases in the cost of living are having a negative impact on net saving and wealth, especially for more vulnerable households.
- Low- and middle-income households have seen large reductions in their net savings, while younger households have become more leveraged.



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Conclusion and key takeaways

- Inflationary pressures became increasingly widespread as the headline rate rose to a 40-year high, affecting a large portion of household outlays.
- High inflation, especially for food products, has put a severe strain on living costs, especially among more vulnerable households as income and saving levels adjust to the withdrawal in pandemic-related supports.
- Despite moderate increases in wages and earnings, most workers have seen their purchasing power decline as inflationary pressures ramp up.



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