

# Economic outlook: inflation makes a comeback as the recovery matures

Economic Society of Northern Alberta  
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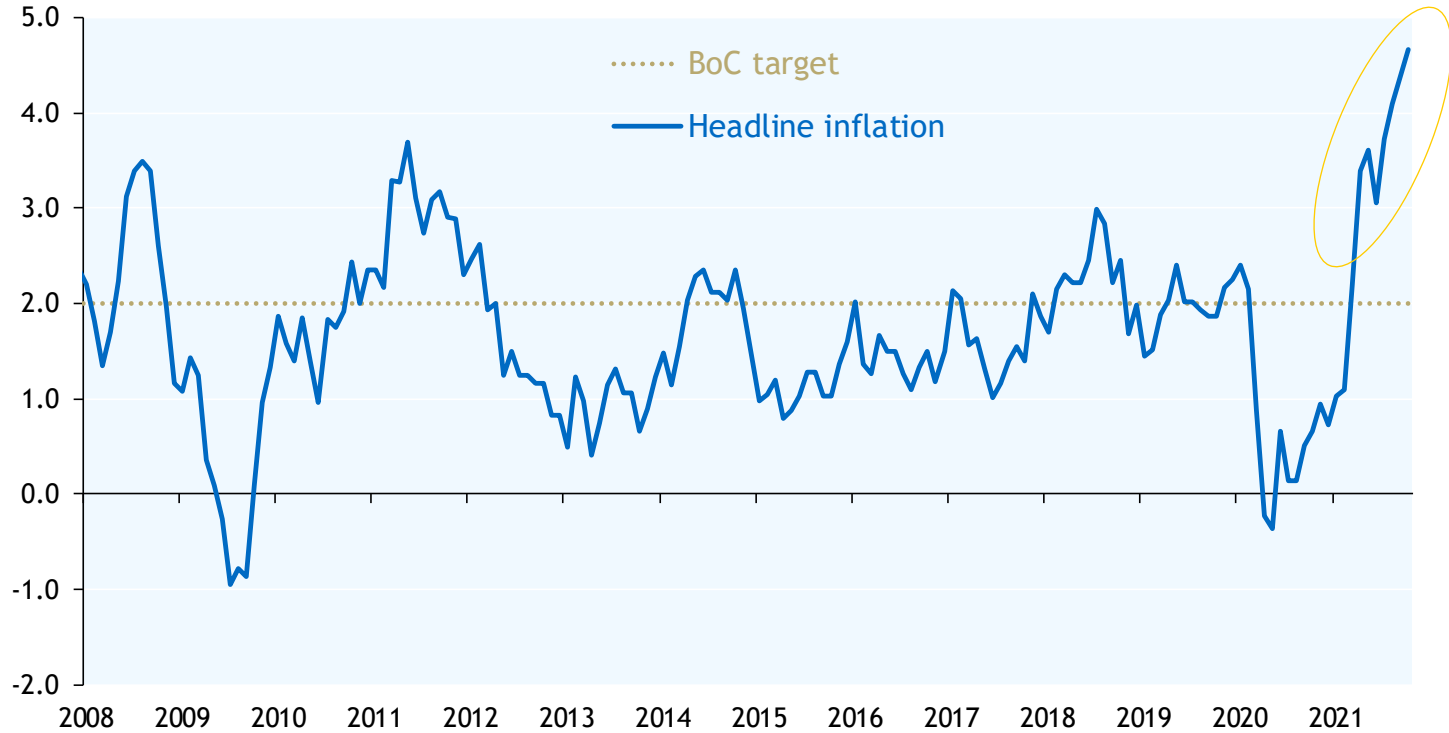
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# Inflation is back in the news

## Inflation: Canada

Consumer price index, annual % change



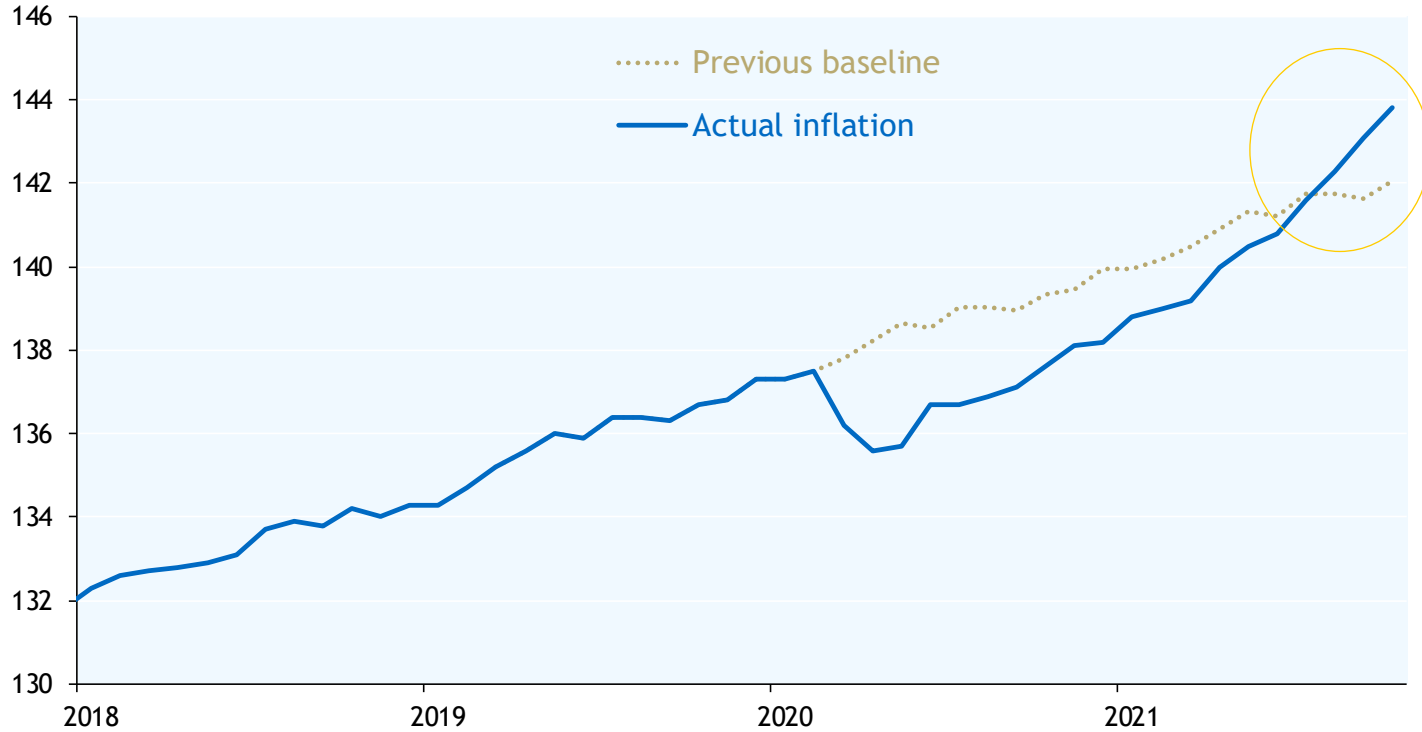
Source: Statistics Canada, RBC Economics

Jumped to 4.7% in October—an 18-year high

# More than a 'base effect'

## Consumer price index: Canada

2002 = 100, seasonally adjusted



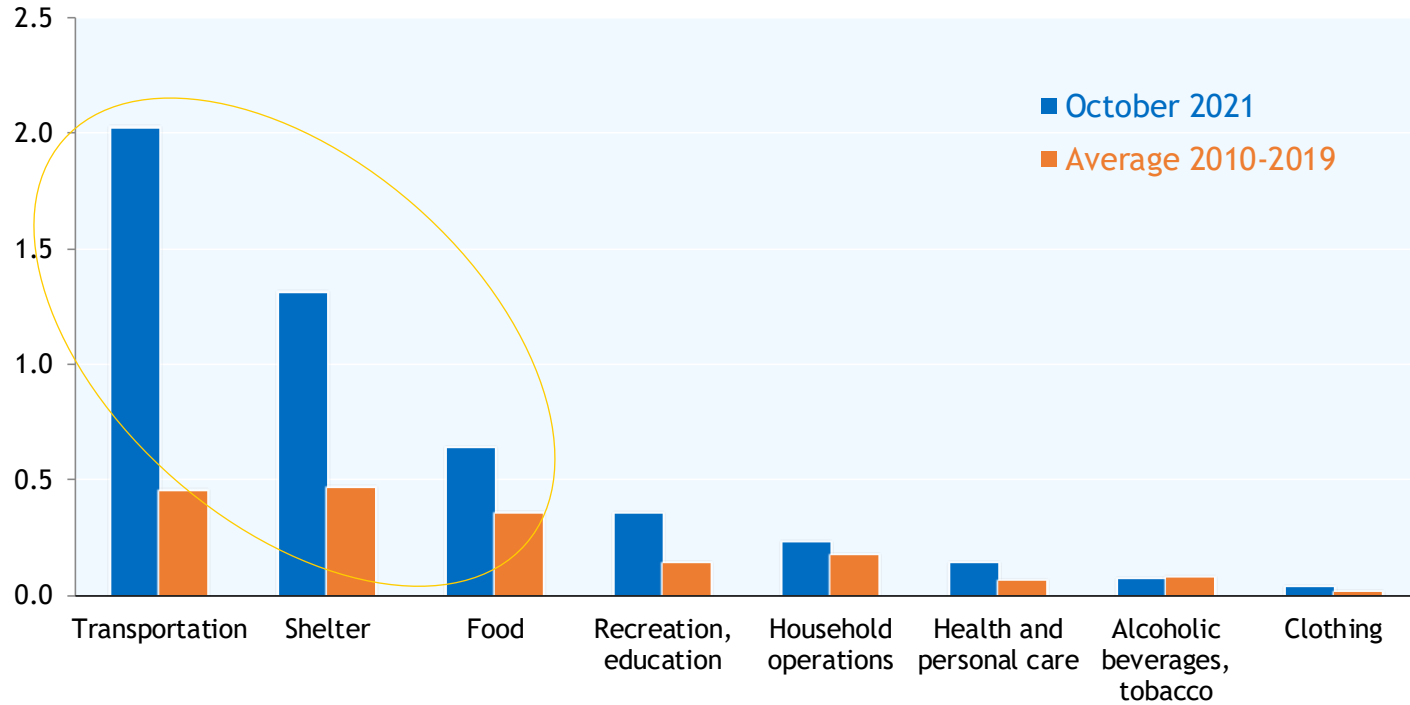
Source: Statistics Canada, RBC Economics

Prices for energy and many services had fallen earlier during the pandemic

# Higher gasoline and housing costs

## Items contributing to inflation: Canada

Percentage-point contribution to annual CPI inflation



Source: Statistics Canada, RBC Economics

Supply chain disruptions also apply upward pressure on other spending items

# Some of the drivers will run their course

## Inflation: Canada

Consumer price index, annual % change

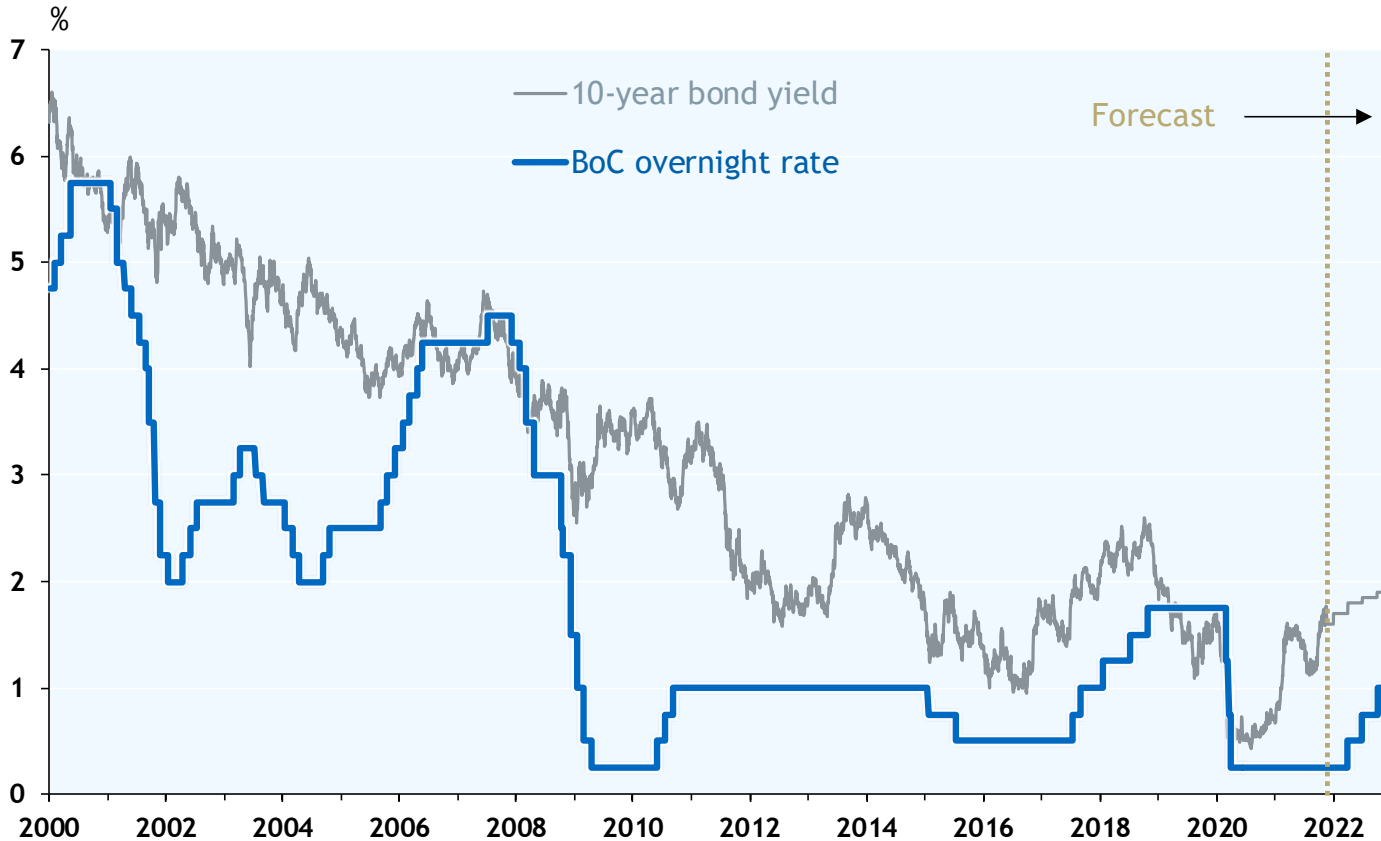


Source: Statistics Canada, RBC Economics

Base effects, supply chain disruptions to ease over the coming year

# Bank of Canada to raise rates next spring

## Interest rates: Canada



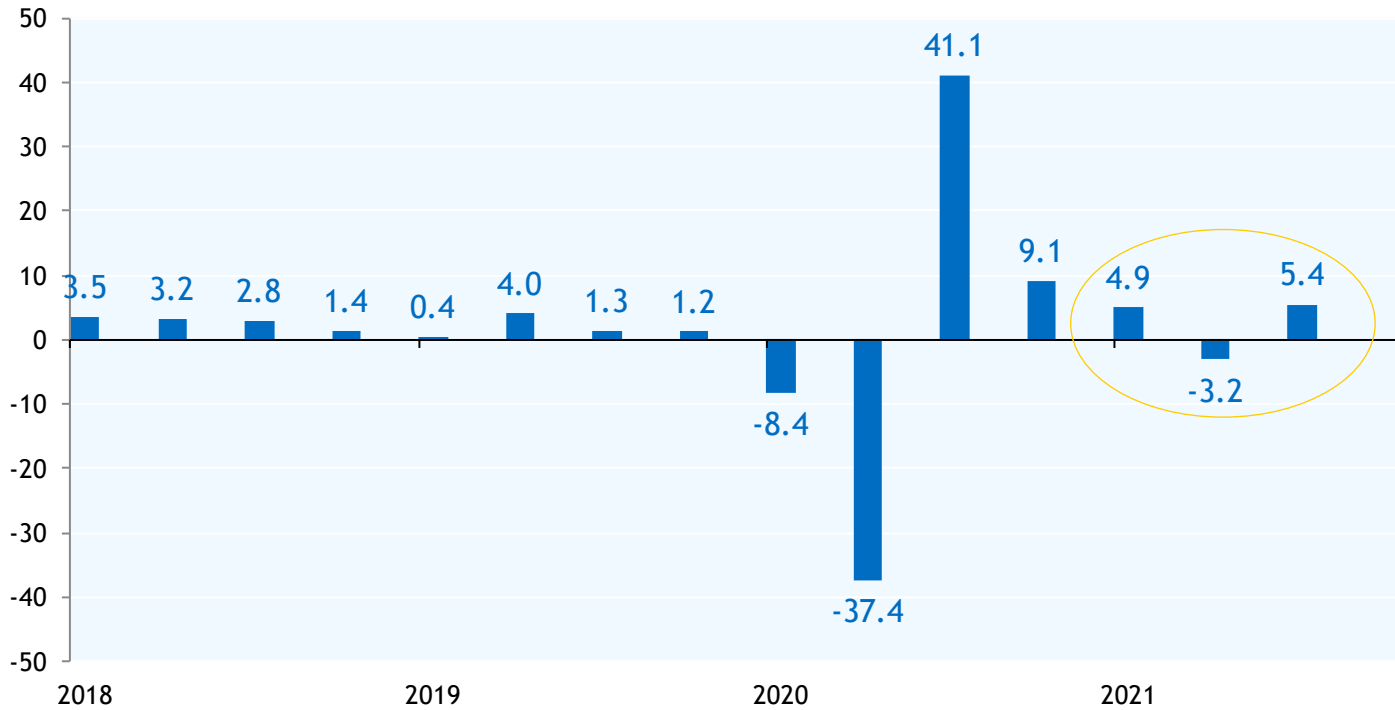
Source: Bank of Canada, RBC Economics

US Federal Reserve will do the same starting later in the year

# The recovery continues...

## Real GDP: Canada

Quarterly % change, seasonally adjusted and annualized



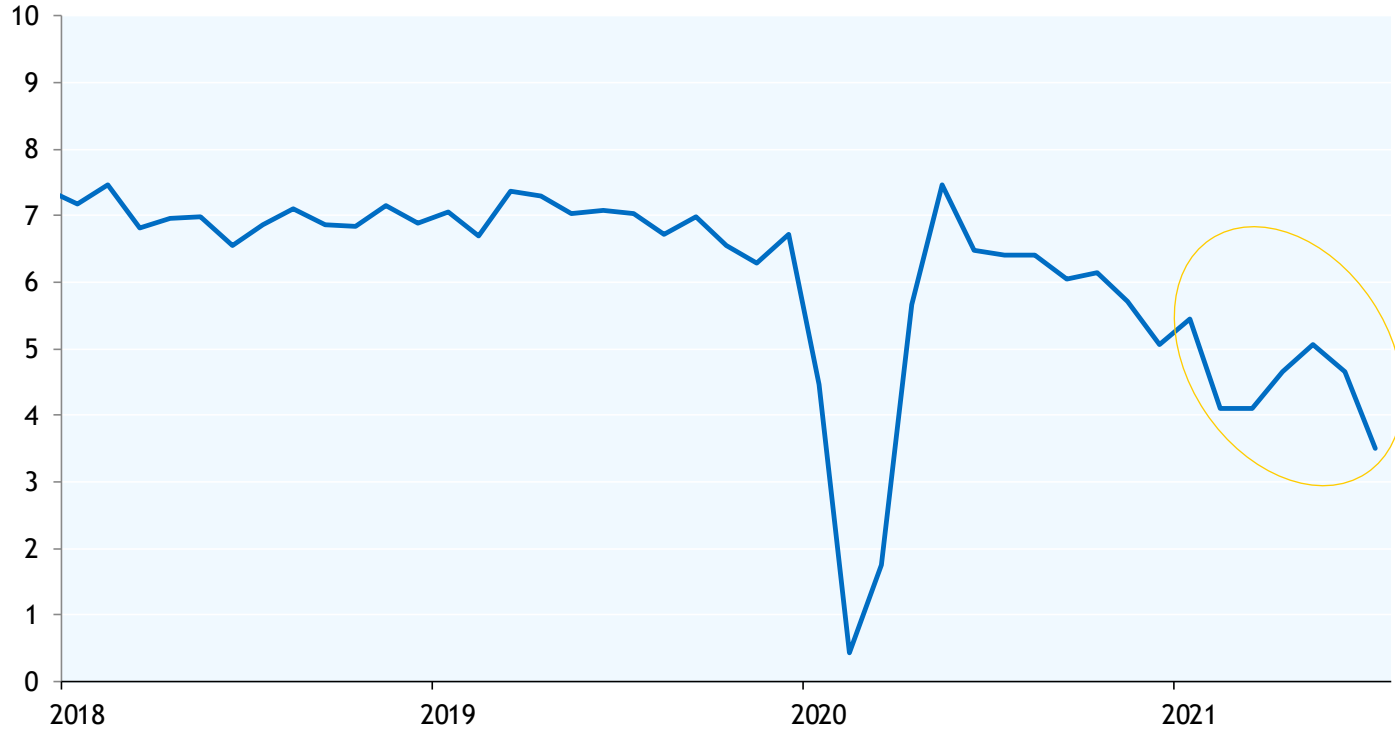
Source: Statistics Canada, RBC Economics

Q3 growth picked up smartly after a disappointing contraction in Q2

...despite supply chain snarls

## Sales of motor vehicle and parts manufacturers: Canada

Billions of chained 2012 \$, seasonally adjusted



Source: Statistics Canada, RBC Economics

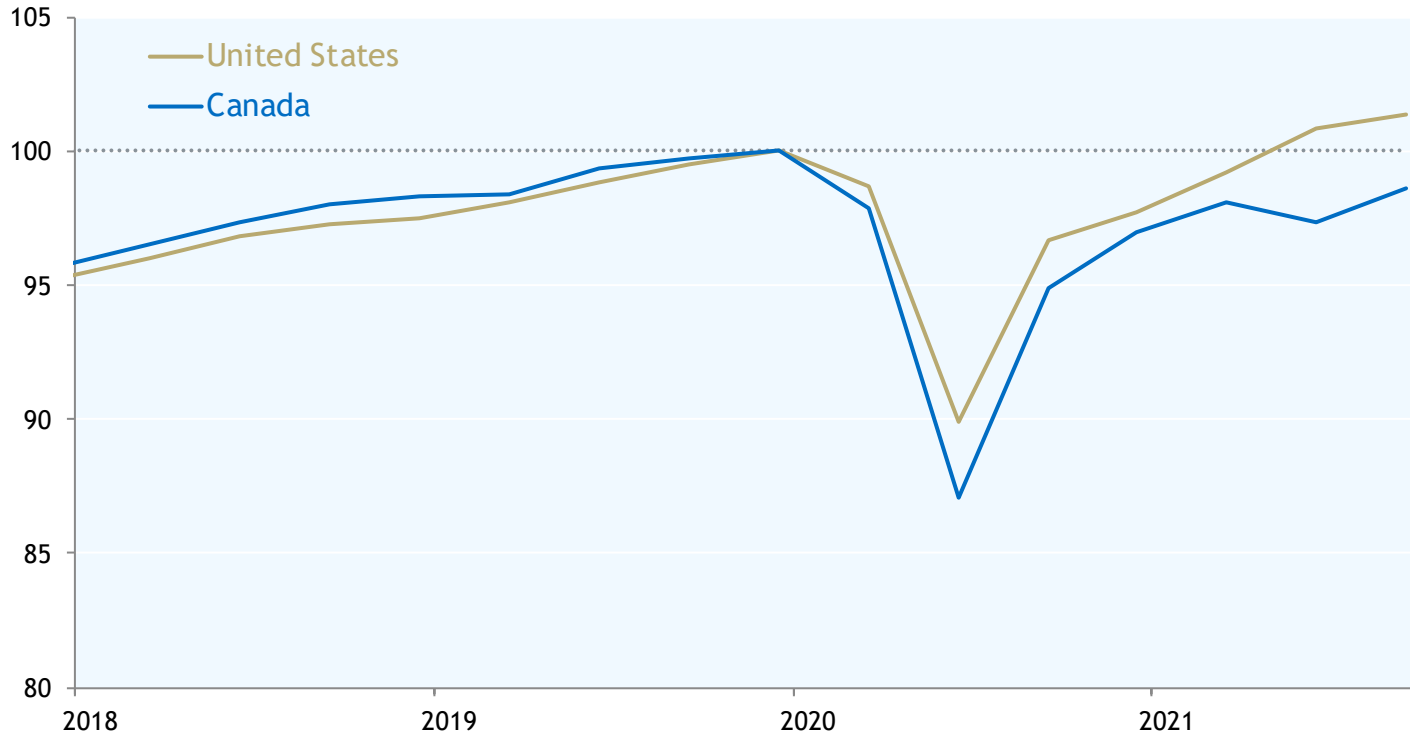
Shortage of microchips caused auto plants to shut down



# Transitioning to the expansion phase

## Real GDP: Canada and United States

Indexed to Q4 2019 = 100



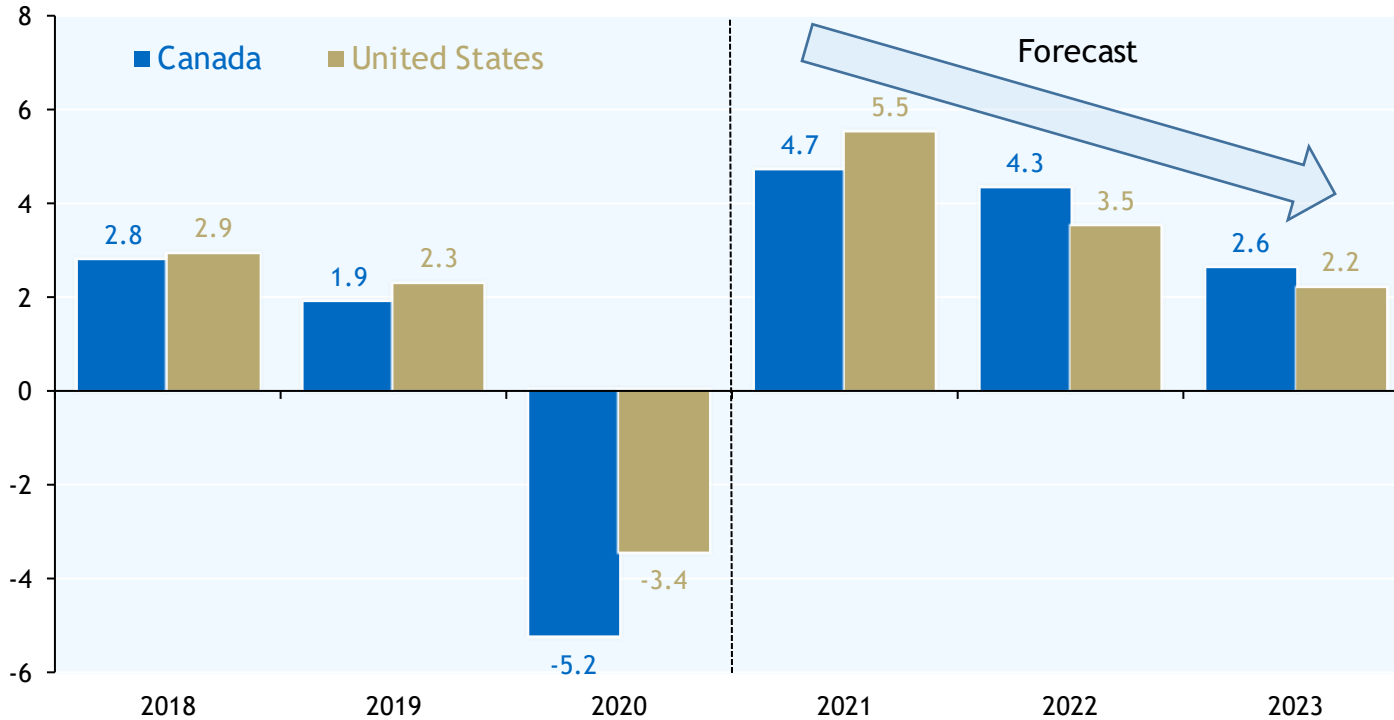
Source: Statistics Canada, US Bureau of Economic Analysis, RBC Economics

Canadian economy close to 99% recovered; US now above pre-pandemic levels

# The pace will slow

## Economic growth outlook

Real GDP, annual % change



Source: Statistics Canada, US Bureau of Economic Analysis, RBC Economics

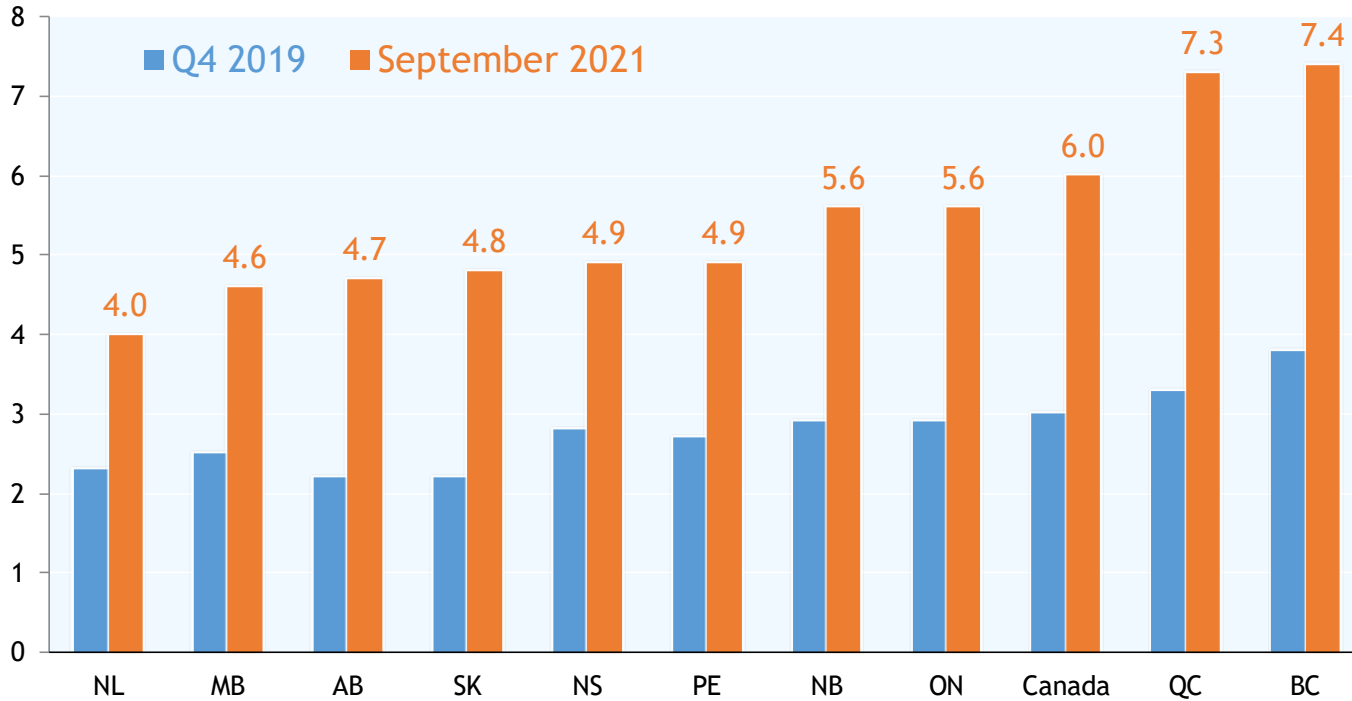
Activity to increasingly bump up against capacity limits



# Labour shortages are a growing issue...

## Job vacancy rates

Job vacancies as % of filled and unfilled positions

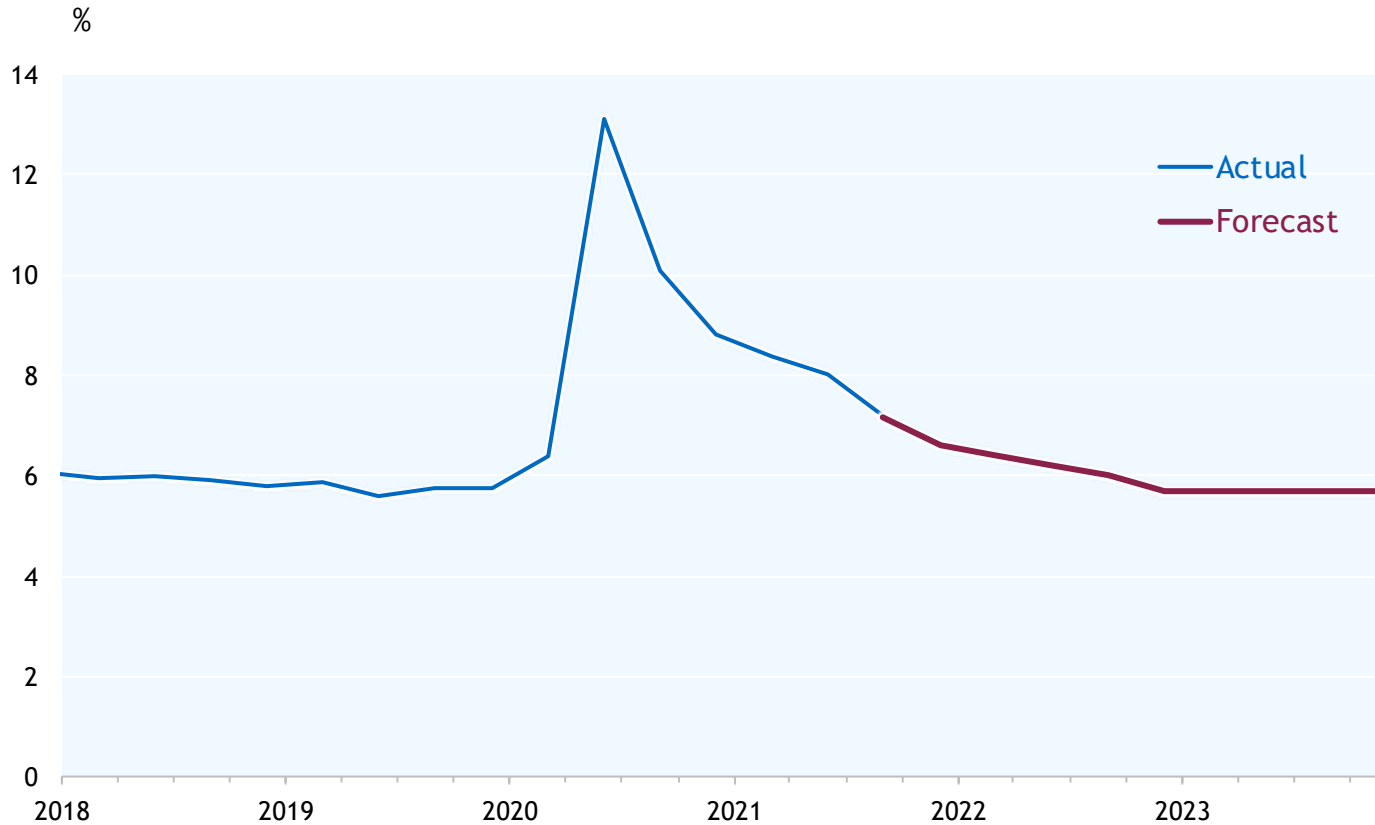


Source: Statistics Canada, RBC Economics

Will intensify wage pressures; tough for businesses but positive for workers

...as the pool of unemployed worker shrinks

## Unemployment rate: Canada



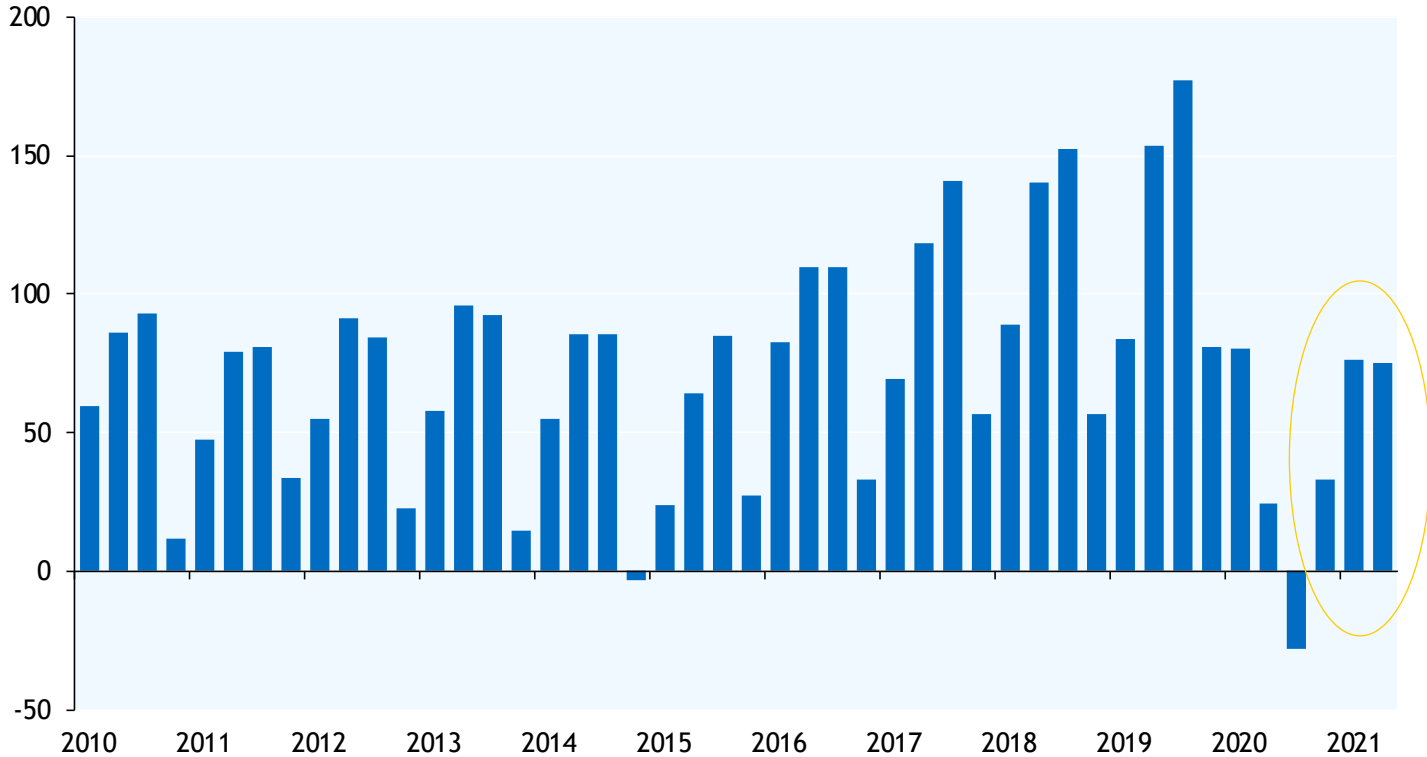
Source: Statistics Canada, RBC Economics

Unemployment rate back near (low) pre-pandemic levels by the middle of 2022

# Immigration will help

## Net in-migration: Canada

Thousands of people per quarter, not seasonally adjusted



Source: Statistics Canada, RBC Economics

Federal government to aggressively make up for last year's drop; upped its targets



# Housing market is still exceptionally busy...

## Home resales: Canada

Thousand units, seasonally adjusted and annualized



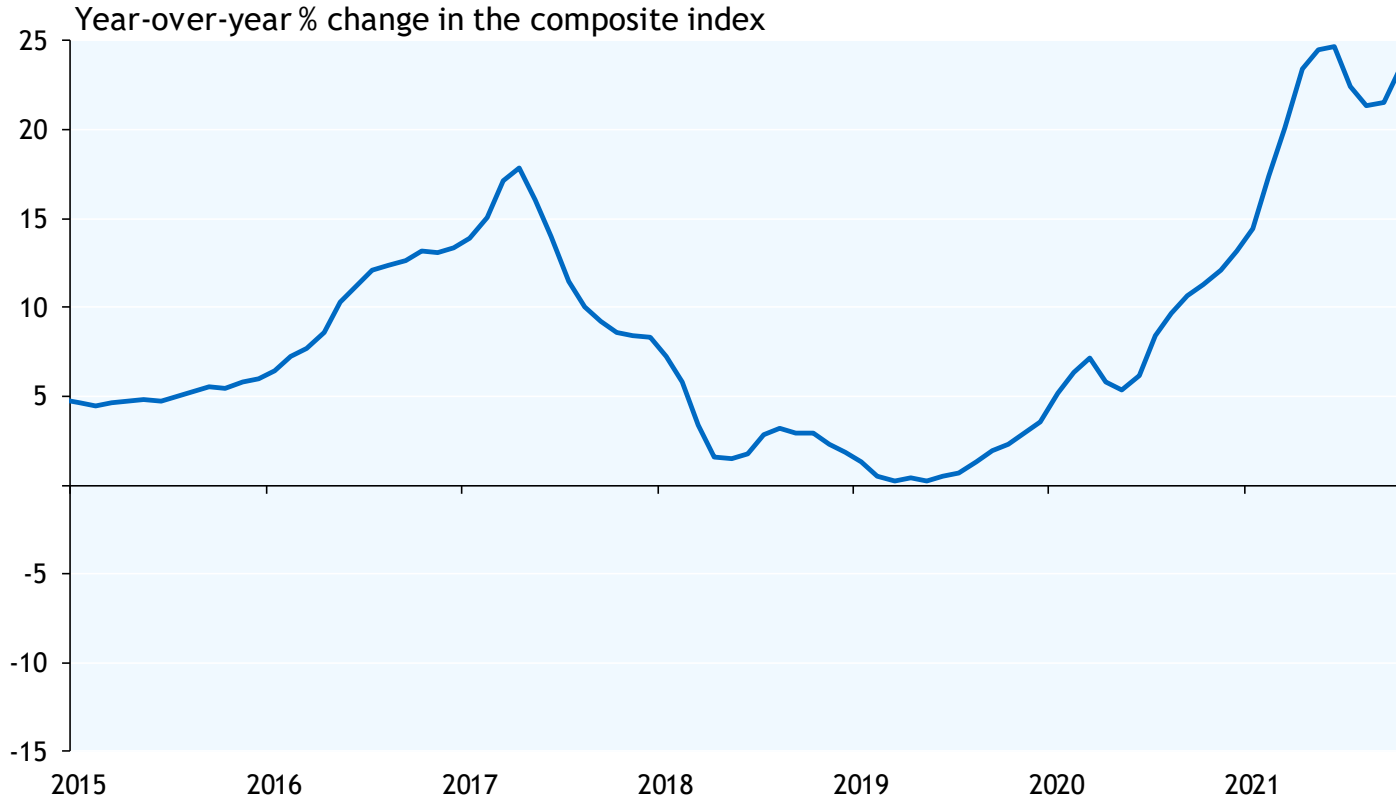
Source: Canadian Real Estate Association, RBC Economics

Expected to calm down next year



...and home prices continue to rise...

## MLS Home Price Index: Canada



Source: Canadian Real Estate Association, RBC Economics

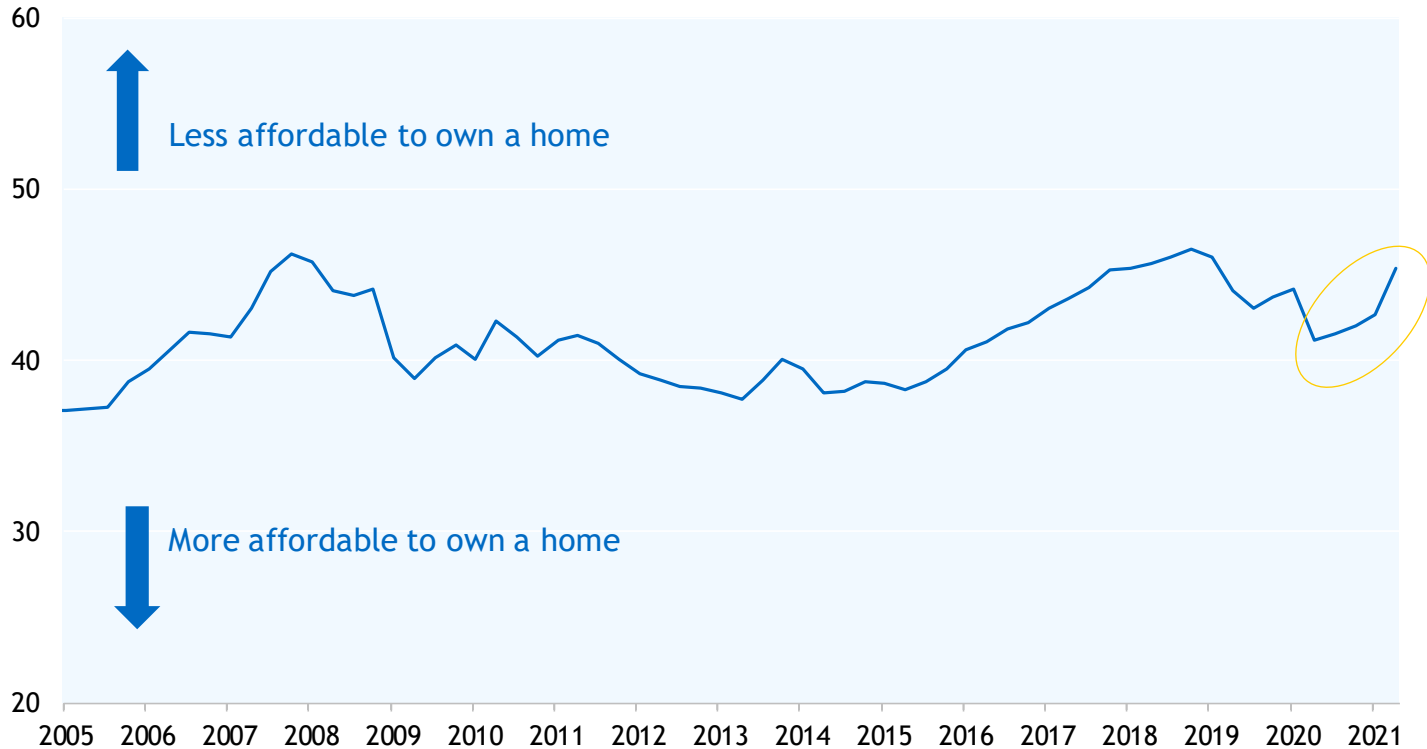
Buyers compete aggressively amid exceptionally low inventories



...though the trend is poised to flatten

## Housing affordability: Canada

Ownership costs of an average home as % of median household income



Source: RPS, Statistics Canada, Bank of Canada, RBC Economics

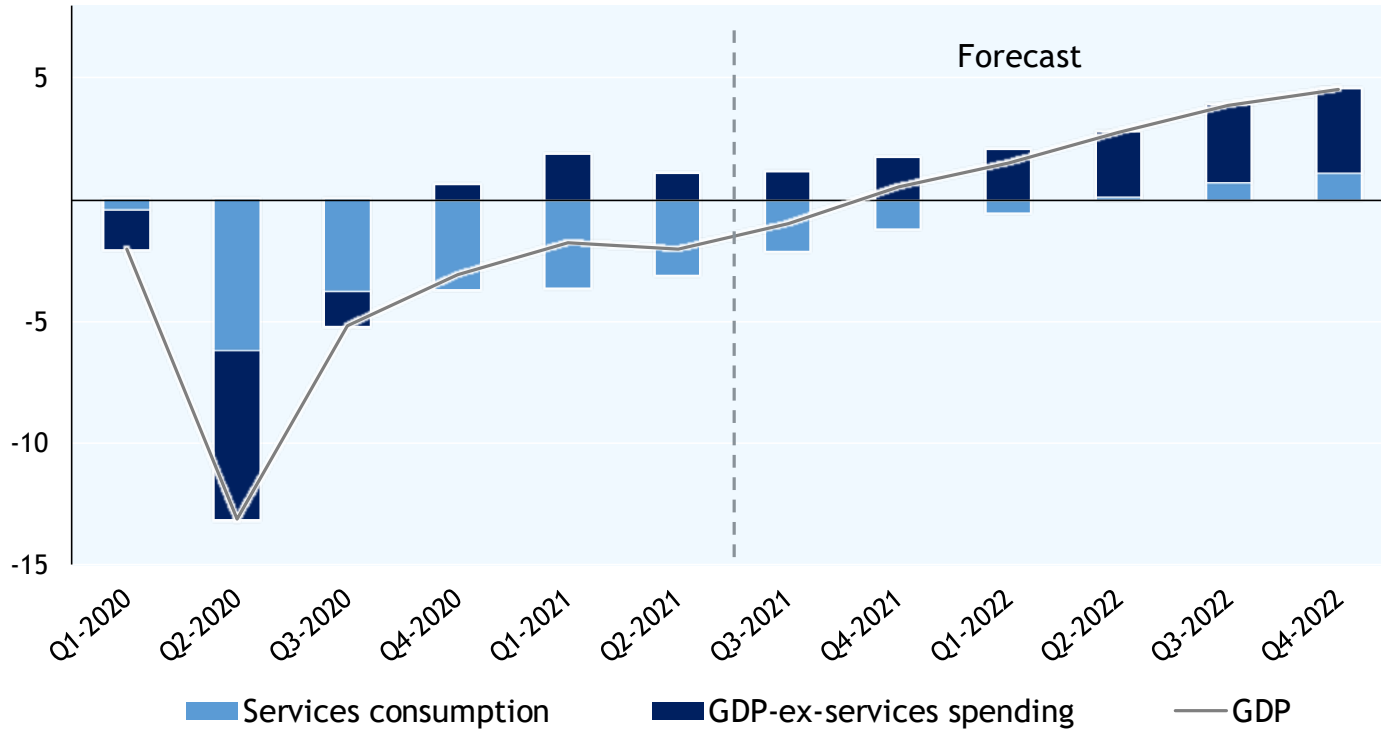
Affordability set to worsen further as interest rates rise



# Consumers aren't done yet

## Drivers of the recovery: Canada

Contribution to % change in real GDP relative to Q4/19



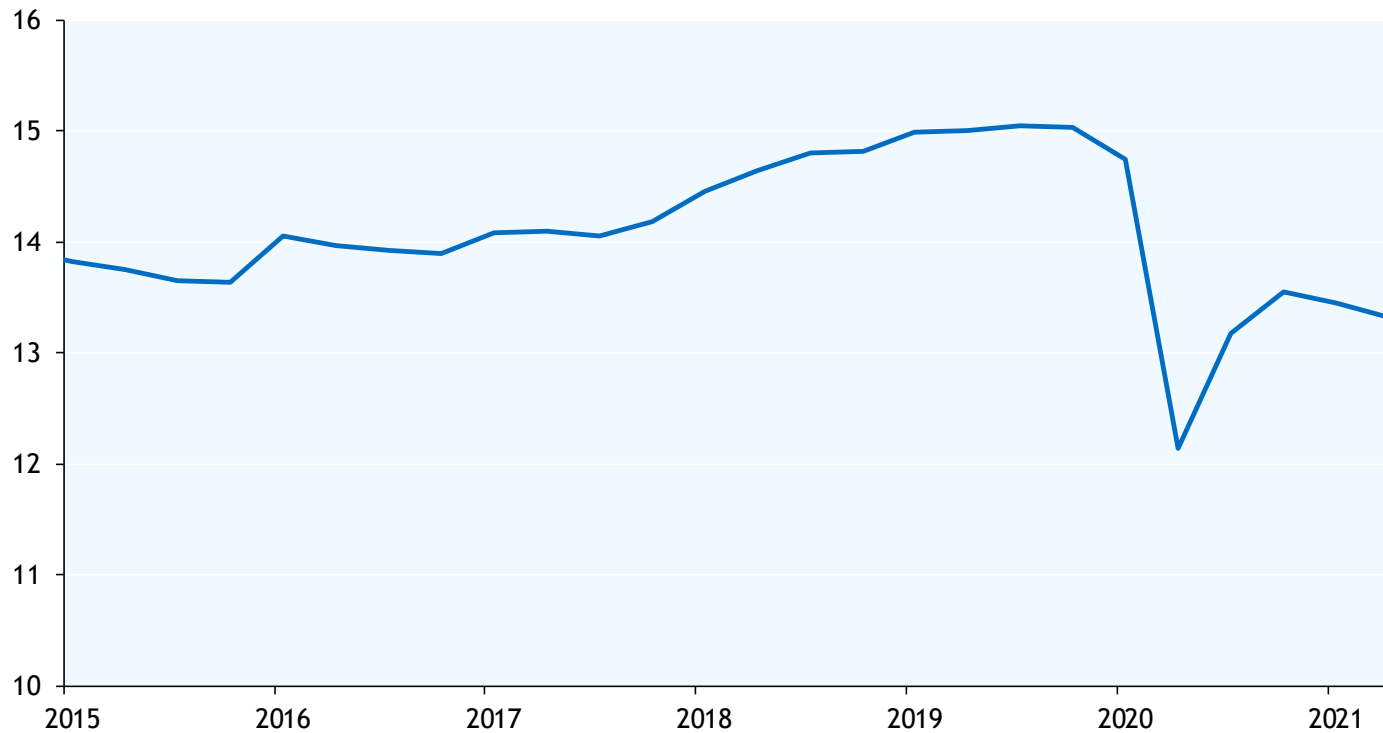
Source: Statistics Canada, RBC Economics

Rotation toward services; lots of pent-up demand

# Households are in good shape...

## Household debt service ratio: Canada

Household debt service as a % of disposable income



Source: Statistics Canada, RBC Economics

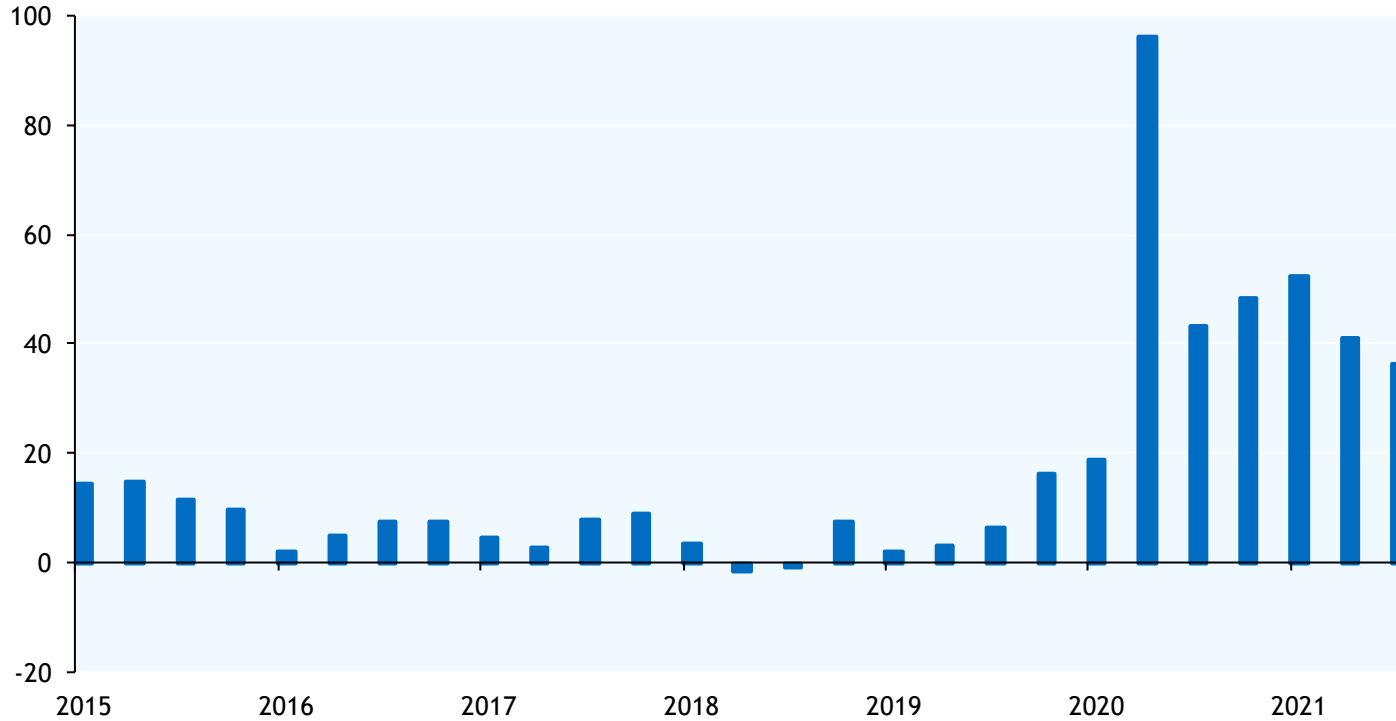
Assets far outpaced liabilities; debt mix improved; low delinquency rates



...and have plenty of savings to tap into

## Household savings: Canada

In billions of \$ per quarter, seasonally-adjusted



Source: Statistics Canada, RBC Economics

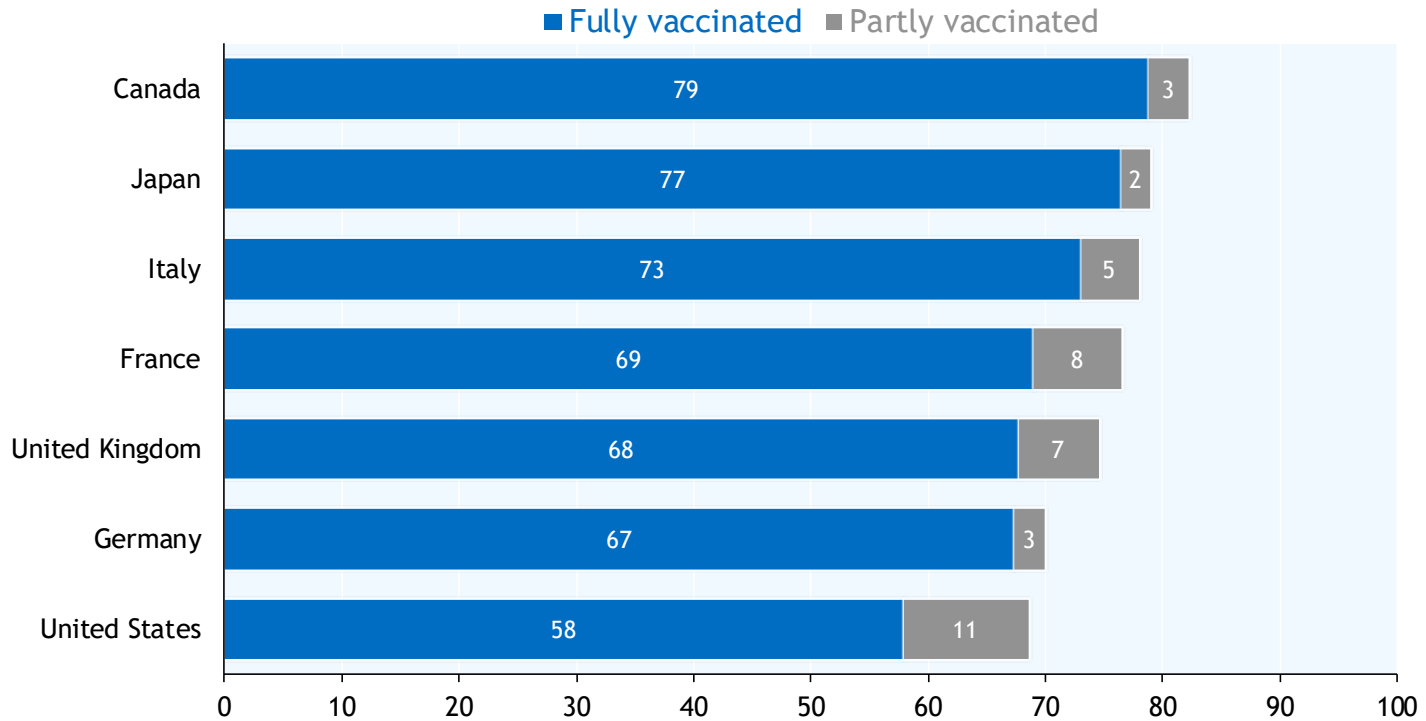
Canadians' bank deposits are way above previous baseline



# Omicron variant the latest source of worry

## Share of people vaccinated against COVID-19

% of entire population, as of November 21, 2021



Source: Our World in Data, RBC Economics

Were it not for Omicron risks, pandemic impact on economy would further ease

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