

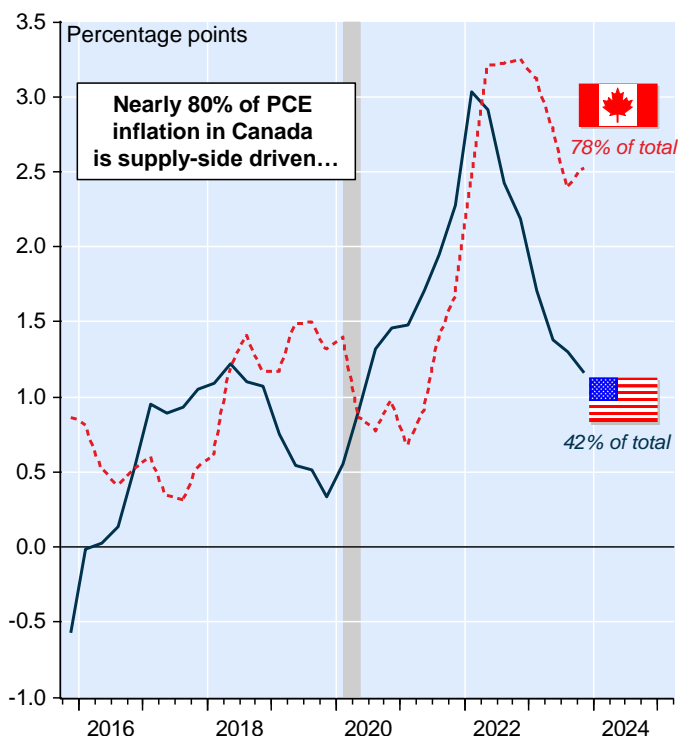
## Canada Watch

By Stéfane Marion & Alexandra Ducharme

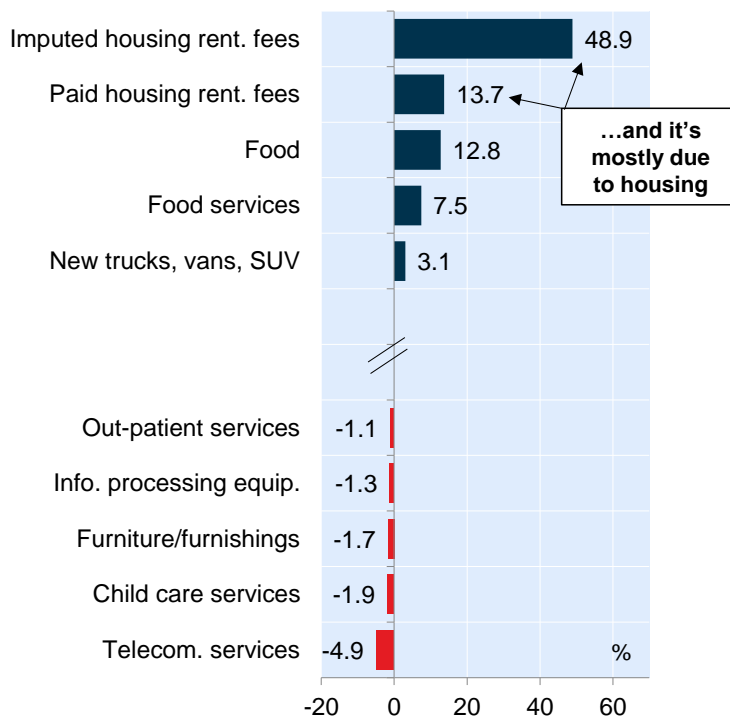
The Consumer Price Index (CPI) is the most widely followed measure of inflation in Canada because it is the timeliest gauge of consumer prices available in the country and, more importantly, the one officially targeted by the Bank of Canada. However, tracking price movements can also be achieved through the Personal Consumption Expenditures (PCE) deflator, offering insights that the CPI may not capture. Unlike the CPI, the PCE deflator adjusts for shifts in the typical consumption basket over quarters. Consequently, as **suggested** by the Federal Reserve of San Francisco, it offers a window into the changing dynamics of supply and demand within its expenditure categories. This is important because Tiff Macklem recently **said** that supply-driven inflation "is not something monetary policy can fix but it is something we need to understand and factor into monetary policy because it is affecting the cost of living for Canadians". So how do Canada and the U.S. compare when it comes to the supply-demand dynamics of inflation? In the United States, the SF Fed estimates that only 42% of total PCE inflation was due to supply factors in Q4 2023. As today's Hot Chart shows, using the SF Fed's methodology, we estimate that this share was a whopping 78% in Canada. Unlike during the COVID recession, supply-side inflation in Canada is not being driven by global supply chain issues, but by domestic factors related to housing. As shown, we estimate that 62.6% of supply-driven inflation is caused by imputed and paid rental fees for housing.

### Canada: Unlike the U.S., PCE inflation is supply-side driven

Percentage points contribution of supply-side factors to annual PCE inflation



Canada: Percentage contribution to annual supply inflation as of 2023Q4 - top 5 and bottom 5 sectors



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