

# Economy at a Glance

Prepared by Alex Carrick, ConstructConnect® Chief Economist

## Multiple layers to the inflation watch story (Part I)



Alex Carrick

There are two major questions overhanging the economies of the U.S. and Canada. (1) Will a re-emergence of coronavirus infections, mainly among the unvaccinated and tied to the Delta variant of the disease, force a slowdown in what was proving to be exceptional gross domestic product (GDP) growth? And (2), the subject of this article, will rapid price increases compel the Federal Reserve and the Bank of Canada to move more aggressively on interest rates?

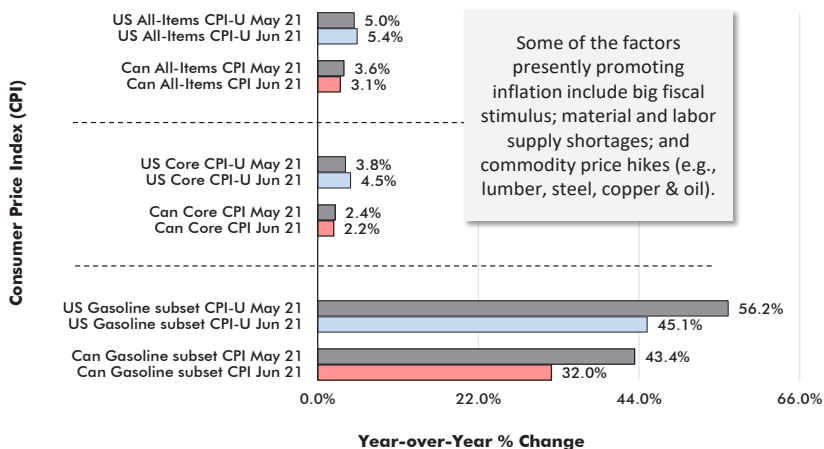
In June, the All-items Consumer Price Index (CPI-U) in the U.S. moved up to +5.4% year over year from +5.0% in May. What's known as 'headline' inflation in America is now increasing at its fastest rate in more than a decade. The 'core' rate of inflation, which omits volatile energy and food components, has increased to +4.5% y/y from the previous period's +3.8%.

In Canada, headline inflation downshifted to +3.1% y/y in June from +3.6% y/y in May and, leaving out food and energy, it eased to +2.2% y/y from +2.4% y/y.

To be continued in *Economy at a Glance*, Vol. 17, Issue 116.

For more articles by Alex Carrick on the Canadian and U.S. economies, please visit: [www.constructconnect.com/blog](http://www.constructconnect.com/blog).

### Graph 1: Inflation Measures (Year-over-Year) U.S. and Canada, Previous Month & Current Month (May & June 2021)



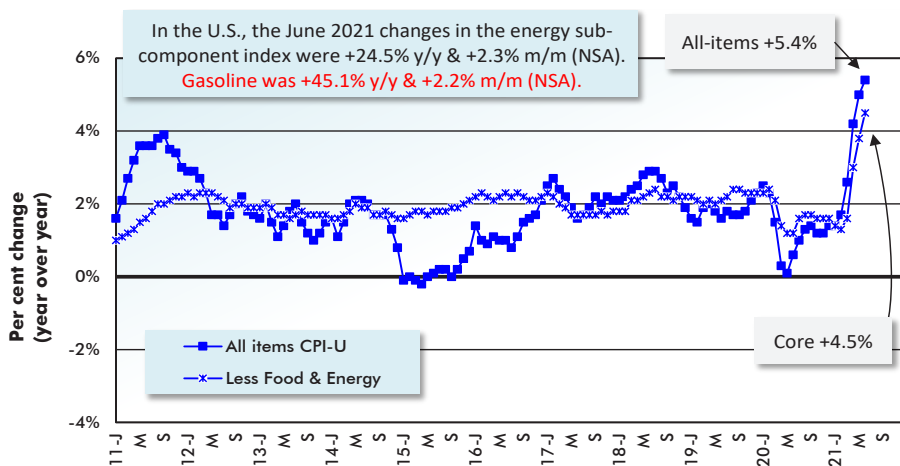
Some of the factors presently promoting inflation include big fiscal stimulus; material and labor supply shortages; and commodity price hikes (e.g., lumber, steel, copper & oil).

The key inflation figure monitored by the **U.S. Fed** is the price index for Personal Consumption Expenditures (PCE), excluding food & energy. In June 2021, it was +3.4% y/y.

The **Bank of Canada** monitors 3 'preferred' measures of core inflation, 'common', 'median' and 'trim'. Year over year, in June 2021, they were +1.7%, +2.4% and +2.6% respectively.

\*\*Core\* inflation for both countries excludes highly volatile items – i.e., mainly food & energy products.  
Data sources: Bureau of Labor Statistics & Statistics Canada/Chart: ConstructConnect — CanaData.

### Graph 2: U.S. Inflation: All Items (CPI-U) vs All Items Less Food & Energy (i.e., 'Core') (Not Seasonally Adjusted)



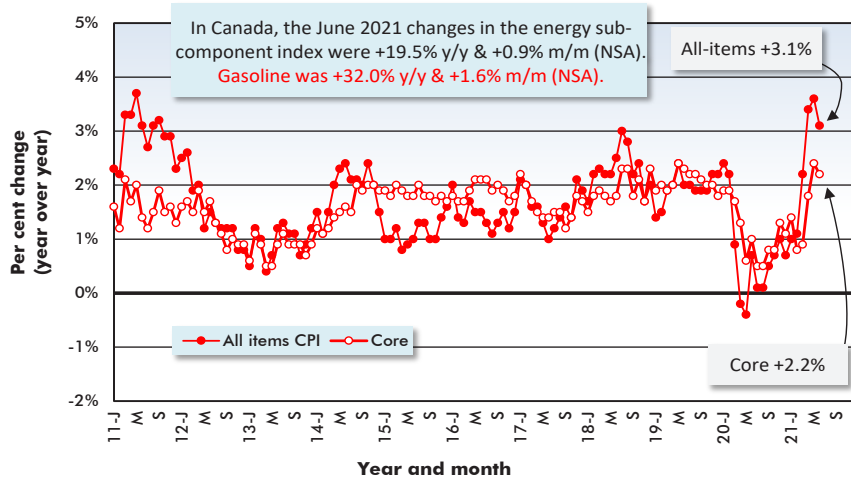
- Year over Year Changes in some Sub-Indices:
- car & truck rental, +87.7%;
  - used cars & trucks, +45.2%;
  - laundry equipment, +29.4%;
  - airline fares, +24.6%;
  - women's dresses, +15.8%;
  - natural gas services, +15.6%;
  - jewelry, +12.3%;
  - vehicle insurance, +11.3%;
  - hotel/motel rooms, +16.9%.
- 
- food at job sites/schools, -29.9%;
  - telephone hardware, -17.8%;
  - tickets, sporting events, -7.2%.

The Federal Reserve pays particular attention to the **price index for Personal Consumption Expenditures** (PCE in national accounts), excluding food & energy. In June 2021, it was +3.4% y/y.

The latest data points are for June 2021. The U.S. figure (CPI-U) is the All Items Consumer Price Index for All Urban Consumers. \*Core inflation is CPI-U less its often most volatile sub-components, food and energy.

Data source: U.S. Bureau of Labor Statistics (Department of Labor)/Chart: ConstructConnect — CanaData.

### Graph 3: Canada Inflation: All Items CPI vs Core\* (Not Seasonally Adjusted)



- Year over Year Changes in some Sub-Indices:
- rental of vehicles, +29.8%;
  - jewellery, +14.1%;
  - wooden furniture, +13.6%;
  - fresh/frozen poultry, +11.2%;
  - fridges & freezers, +9.8%.
- 
- tomatoes, -30.3%;
  - cellular services, -21.5%;
  - pasta, -11.2%;
  - fresh/frozen beef, -11.1%;
  - fresh vegetables, -7.5%.
- The average for the 3 separate Bank of Canada 'core' index measurements ('common', 'median' & 'trim') in June 2021 was +2.2% y/y.

The latest data points are for June 2021. The Canada figure (CPI) is the All Items Consumer Price Index. \*Core inflation is CPI-U less its often most volatile sub-components, food and energy.

Data source: Statistics Canada/Chart: ConstructConnect — CanaData.

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## Multiple layers to the inflation watch story (Part 2)

Continued from *Economy at a Glance*, Vol. 17, Issue 115.

The problem in assessing what the Fed and the BoC might do with interest rates, however, is that they focus on different measures of inflation than the rest of us. The Fed closely monitors prices tied to Personal Consumption Expenditures (PCE) in the National Accounts, and that measure is currently restrained at only +3.4% y/y for May. (The reporting period for the PCE measure always trails the CPI by a month.)

The BoC looks at three measures of inflation it has labeled 'common', 'median' and 'trim'. At +1.7% y/y for 'common', +2.4% y/y for 'median' and +2.6% y/y for 'trim', they are currently (June 2021) averaging a hardly worrisome +2.2% y/y. A fuller explanation of the BoC's preferred inflation measures can be found in a footnote at the end of this article\*.

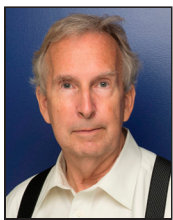
The Fed and BoC aren't expressing any great concern about inflation, adopting the stance that present upticks in prices will prove temporary. A year ago, when consumers were in the early stages of lockdown, prices for many items — i.e., men's and women's clothing, airline tickets, hotel and motel room rates, even gasoline — nosedived. Now, naturally enough, with economic activity moving closer to full swing, those same items are moving up in price again and a 'low base effect' in the year-over-year percentage change calculation is exaggerating the climb.

### The Joe and Jill average take on inflation

But the 'low base effect' is far from being the whole story. There are some severe material and labour shortages.

Car makers are unable to maintain previous target production levels because their sources of computer chips are unable to fulfill contracted orders. One consequence has been a surge in used car and truck prices, +45.2% y/y in the U.S. In Canada, the cost of renting passenger vehicles is +29.8% y/y.

Restaurants that are re-opening are cordoning off sections of their dining space because they can't find the staff to wait on all their tables (and this is even after adding more 'social distancing' room between patrons.) Also, recent harder-to-obtain, and therefore expensive, entrée items (beginning with some specialty seafoods) are being left off menus.



Alex Carrick

And everybody (you, me and Joe and Jill average) knows that anything contributing to an easier lifestyle while we've all been staying indoors more, at home, during the pandemic has gone up in price. 'Laundry equipment' as a sub-item of the U.S. CPI-U is +29.4% y/y. 'Refrigerators and freezers' as a sub-item of Canada's CPI are +9.8% y/y. 'Furniture' in the U.S. is +10.8% y/y. 'Wooden furniture' in Canada is +13.6% y/y and 'upholstered furniture', +10.3% y/y.

### On the wages lookout

When the inflation question will become super-interesting is in about six to nine months from now, in late 2021 and early 2022. By then, most of the material supply shortage issues will have been worked out. But there's the matter of wage increases remaining to be addressed.

Overcoming the shortages of workers to fill key positions will require promotional hiring and re-education efforts carried out over extended time frames; also, when possible, investments in automation that will take capital expenditures. Topping up staffing in the short term will almost certainly mean more financial rewards and benefits being offered to prospective employees. And that may well keep the inflationary fires burning.

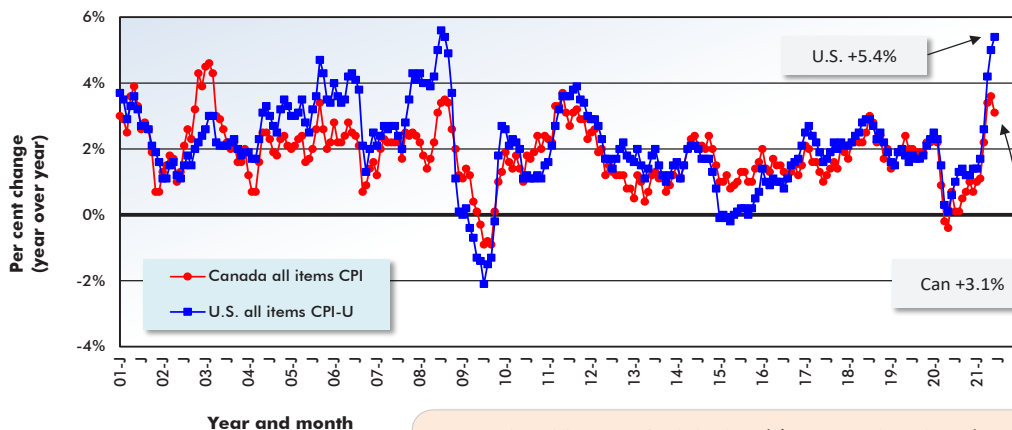
To view more charts from this article, visit: <https://bit.ly/3kz77yX>.

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**Graph 4: U.S. vs Canada All-Items Inflation (CPI & CPI-U Not Seasonally Adjusted)**

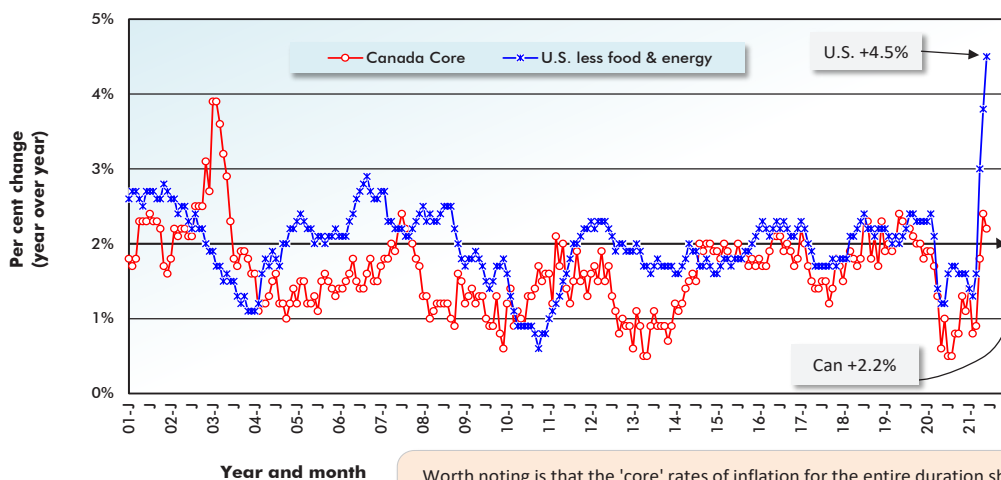


The latest data points are for June 2021.

Data source: Statistics Canada and U.S. Bureau of Labor Statistics (BLS).  
Chart: ConstructConnect — CanaData.

In non-CPI pricing news, Statistics Canada's New Housing Price Index (NHPI) for single-family homes in June 2021 was +11.9% y/y. In America, the Federal Housing Finance Agency (FHFA)'s latest selling price index for existing single-family homes was +18.0% y/y (May 21/May 20).

**Graph 5: U.S. vs Canada Core\* Inflation (CPI Core & CPI-U Less Food and Energy Not Seasonally Adjusted)**



The latest data points are for June 2021.  
\*Core is all-items inflation less its often most volatile sub-components, food and energy.

Data source: Statistics Canada and U.S. Bureau of Labor Statistics (BLS).  
Chart: ConstructConnect — CanaData.

Worth noting is that the 'core' rates of inflation for the entire duration shown in the graph, and for both the U.S. and Canada, have never dropped to zero, not even in slowdowns/recessions (2001; 2008-09; and 2020).