

## Economic and Social Reports

# Assessing the rise in broad-based inflationary pressure during 2021 and 2022



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# Assessing the rise in broad-based inflationary pressure during 2021 and 2022

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A key feature of the buildup in inflationary pressure over the last two years is the extent to which it became increasingly broad-based, with elevated price increases affecting a gradually wider set of products and services. During this period, higher prices for gasoline, shelter, food, and consumer durables have all put upward pressure on headline inflation, as supply disruptions coupled with strong household demand fueled price growth.<sup>1</sup>

While consumer inflation eased in late 2022 on lower gas prices, key sources of upward price pressure, including food and shelter, showed little signs of moderating.<sup>2</sup> December 2022 marked the twenty-first consecutive month that the headline rate has been above three percent, and the tenth consecutive month above six percent. Overall consumer prices have risen by 11.4% during the past two years, while grocery prices have increased 17.4%.

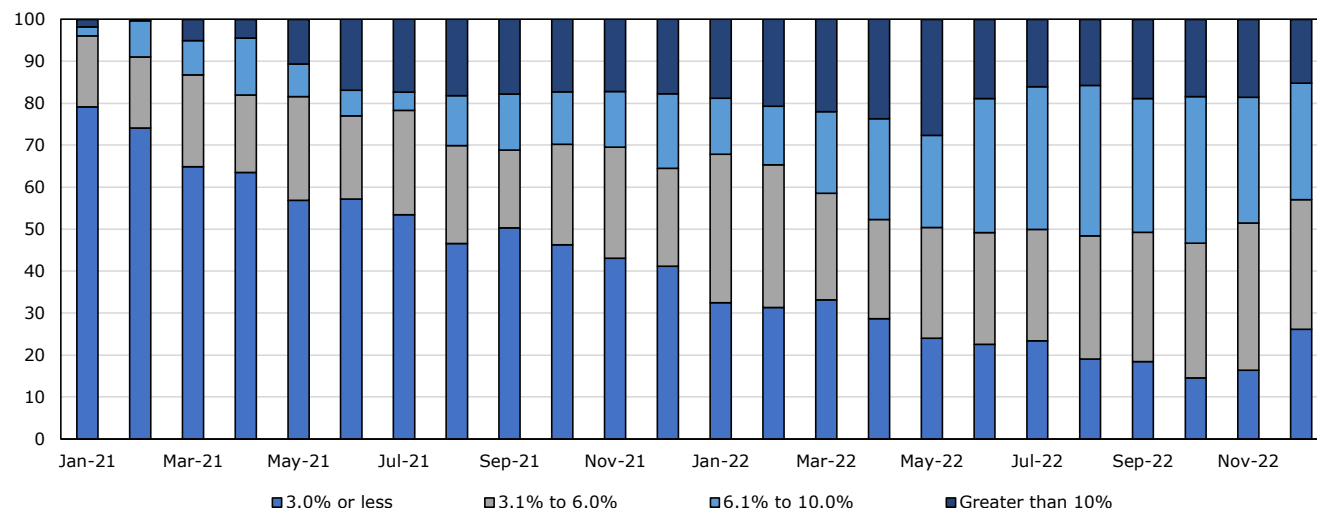
This article highlights the amount of consumer spending that has been impacted by high inflation since price pressures began to build in early 2021. Using expenditure weights from the Consumer Price Index (CPI), it reports on the share of the expenditure basket that falls into different inflationary ranges, first based on all measured products and services, and then separately for food products purchased at grocery stores.

Chart 1 classifies each of the specific products and services used to calculate the CPI into four distinct price ranges: those with year-over-year price changes of three percent or less; those with price growth of more than three percent to an upper bound of six percent; those in the more-than-six to ten percent range; and lastly, products and services with yearly price increases that exceed the ten percent mark. Each of these goods and services is then weighted by its corresponding CPI basket weight to provide an estimate of the share of consumer spending on products in each of these price ranges.<sup>3</sup>

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1. For a detailed presentation on consumer inflation, see Research to Insights: Consumer price inflation, recent trends and analysis.
  2. Before adjusting for seasonality, the all-items index fell 0.6% from November to December of 2022, the largest monthly decrease since the initial COVID lockdowns in April 2020. December's headline decrease largely reflected a 13.1% decline in gasoline prices. In contrast, grocery prices rose 0.3% from November to December, while shelter costs were up 0.4%, bolstered by the sharp rise in mortgage interest costs.
  3. Each good or service in the CPI basket is representative of consumer spending patterns, and price movements are assigned a basket share that is proportional to the consumption expenditure for which they account. These expenditure weights are fixed; accordingly, they do not account for changes in spending patterns from period to period. Basket weights from the 2017 reference year are used from January 2021 to May 2021, weights from the 2020 reference year are used from June 2021 to April 2022, and weights from the 2021 reference year are used from May 2022 to December 2022, corresponding with the introduction of each basket in the calculation of the CPI.

**Chart 1**  
**Consumer price index basket, by magnitude of year-over-year price change,**  
**January 2021 to December 2022**

percentage of basket weight



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

The idea behind Chart 1 is to provide a visual sense for the quantity of consumer spending that has gradually been impacted by high inflation as price pressures have steadily built up. In January 2021, about four-fifths of all expenditure outlays were on products and services that had seen prices rise by three percent or less during the previous twelve months.<sup>4</sup> In that month, spending on products with yearly price increases of more-than-three to six percent accounted for 17% of the expenditure weight. Only 4% of expenditure outlays were on products with elevated price increases of more than 6%.

By December 2021, steady price growth had brought headline consumer inflation to 4.8%. Spending on products in the initial three percent-or-less range now accounted for 41% of outlays, while those in the more-than-three to six percent range comprised just under one quarter of the expenditure weight. Notably, products and services with yearly price increases of more than 6% now accounted for more than one-third (36%) of the expenditure basket, with half of this spending on items with price growth above the ten percent mark.

When headline inflation peaked in June 2022, the share of expenditure outlays in the three percent-or-less range had fallen to 22%, while spending in the elevated ranges of more-than-six percent (the top two ranges) now accounted for one half of the expenditure weight. Almost 20% of expenditure outlays in June were on products with annual price increases of more than ten percent.

While the gradual easing of headline inflation in the second half of 2022 did not substantially alter the extent to which inflationary pressures remained broad-based, some improvement was apparent at year end. After reaching a low of 15% in October, the expenditure share on goods and services in the three percent-or-less range rebounded to 26% in December, as spending in the upper two elevated ranges (yearly increases of more-than-six percent) declined to 43% of the expenditure weight.

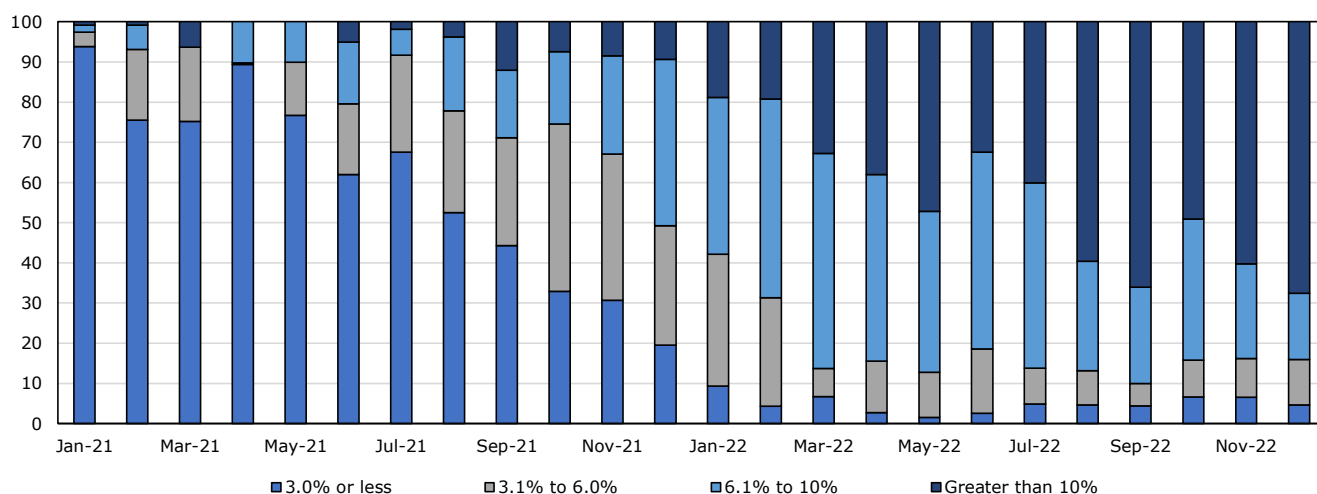
4. Estimates in this range also include products and services with year-over-year price decreases.

## A deeper look at broad-based food inflation

The buildup of inflationary pressure has been far steeper and broader in scope among food products.<sup>5</sup> Chart 2 reproduces the price range estimates reported in Chart 1, focusing solely on food items and their corresponding expenditure weights. At the start of 2021, over 90% of spending on food was on products with yearly price changes of three percent or less; by December 2021, only 20% food expenditures were in this range, while the share of spending on items in the top two elevated price ranges (yearly increases of more than 6%) accounted for one half of food outlays.

**Chart 2**  
**Consumer price index food basket, by magnitude of year-over-year price change, Canada, January 2021 to December 2022**

percentage of basket weight



**Note:** Data are limited to food products purchased from stores.  
**Source:** Statistics Canada, Consumer Price Index, special tabulations.

In early 2022, the share of food spending in elevated ranges escalated rapidly. When headline consumer inflation reached its peak in June, less than 5% of food spending was on items in the three percent-or-less range, while items with yearly price increases of 6% or more accounted for over 80% of the expenditure weight for food products.

The second half of 2022 also 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. In December, food items with yearly price increases of more than 10% accounted for two-thirds of food expenditures.

5. For a recent analysis of factors contributing to food inflation, see Fradella (2022).

## References

Fradella, A. 2022. Behind the numbers: What's causing growth in food prices? Catalogue no. 62F0014M. Ottawa: Statistics Canada. <https://www150.statcan.gc.ca/n1/pub/62f0014m/62f0014m2022014-eng.htm>

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