

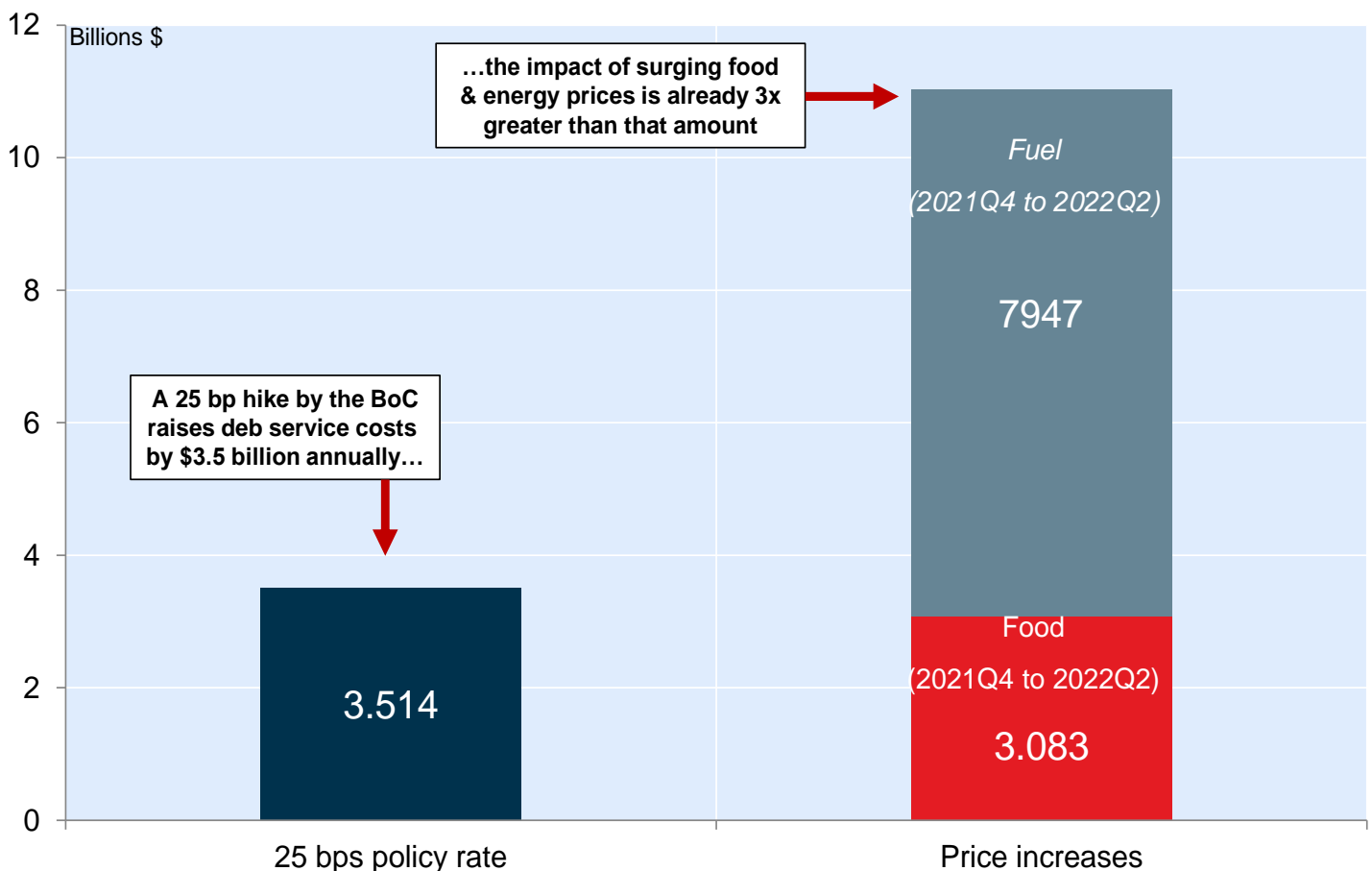
## Canada Watch

By Matthieu Arseneau

The jump in resource prices combined with relative weakness of the loonie in the wake of the Russian invasion is likely to make Canada's terms of trade in the first half of 2022 the most favourable on record and contribute to strong nominal GDP growth. As for growth in real terms, that's another story as the price rises boost profits in the short term but not necessarily investment, especially if businesses doubt the sustainability of the new price levels. Consumers, meanwhile, have been rapidly losing purchasing power since the start of the year, notably through their energy bills. By our calculation, the effect on households of food and gasoline price rises in H1 2022 could be equivalent to the impact of a 78-basis-point hike in the Bank of Canada policy rate on debt service cost. And that doesn't consider the longer-term effect of food price inflation (transmission delay) and a possible rise in the cost of transporting goods. This is a development that must be considered in the ongoing central bank interest rate normalization process. See the [March Monthly Economic Monitor](#) for more details.

### Canada: Surging food and energy prices already equal to 3 rate hikes!

Basis points equivalent of rising fuel and food prices on debt service costs (annualized)



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