



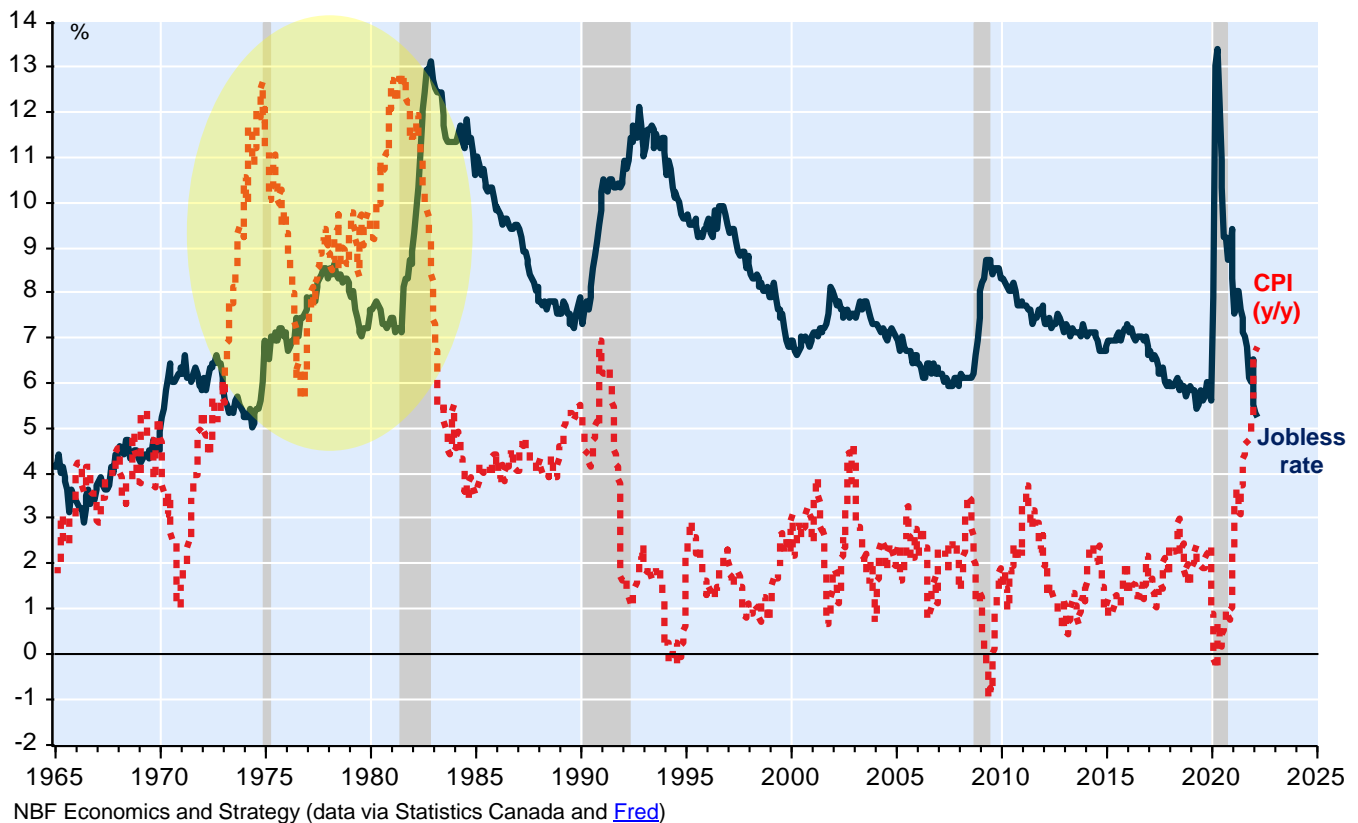
## Canada Watch

By Stéfane Marion

The 12-month change in consumer prices surprised on the upside again in April, surging to 31-year high of 6.8%. As today's Hot Chart shows, CPI inflation is well above the unemployment rate for only the third time in about fifty years (March 1973 and May 1977). Gerald Bouey was the Bank of Canada (BoC) Governor during this period and the institution was using monetary aggregates as intermediate targets to anchor inflation. After seeing inflation surge for the second time in four years, Mr. Bouey quipped "we didn't abandon monetary aggregates, they abandoned us". By 1982 the BoC was done with money supply targeting. Fast forward to today's inflation surge. As recently as last **November**, the Bank of Canada stated that the unemployment rate did not fully reflect the experience of individual workers during the pandemic and, therefore, the extent of labor market slack and resulting inflationary pressure. With the jobless rate at a 48-year low of 5.2% and inflation well above that level, we think that low unemployment is still a good indicator of inflationary pressures. Unlike the monetary aggregates of the 1970s, the BoC can't claim that the jobless rate has "abandoned us" in assessing domestic inflationary pressures. Yet to this day, the BoC remains one of the only major central banks in the world that still refuses to publish a forecast of the unemployment rate (see [here](#) for the list).

### Canada: The BoC was wrong to abandon the jobless rate

Unemployment rate (UR) and CPI inflation – yellow area delimits period of stagflation



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