

What Is Inflation?

Not exactly sure what inflation is? Curious about the Consumer Price Index, headline inflation and core inflation? Read on!

What is inflation?

Inflation is **when prices go up**.

So it's just another word for price increases?

Yes. When the price of food goes up, it's called food inflation. When the price of rent goes up, it's called shelter inflation.

What causes inflation?

Prices can rise for **a number of reasons**, including increased demand, supply chain disruptions and higher production costs.

How is inflation calculated?

Inflation is **expressed as a percentage**. For example, if Statistics Canada reports that inflation was up 2.8% year over year in August, that means prices were 2.8% higher in August than they were a year earlier.

How does the government track inflation?

Statistics Canada tracks the prices of a selection of items called a **basket of goods and services**. The basket includes basics like food, clothing, insurance and utilities. Statistics Canada then reports on the change in those prices in a monthly inflation report.

What is the inflation report called?

The inflation report is officially known as the **Consumer Price Index or CPI** report.

What exactly is in the inflation report?

The inflation report details **headline inflation** and certain measures of **core inflation**.

What is headline inflation?

Headline inflation is the **overall rate of inflation** in the economy.

How is it measured?

Headline inflation is measured by calculating the price change for **all items in the basket of goods and services** that Statistics Canada monitors.

Is headline inflation sometimes called something else?

Yes. Headline inflation is also known as **CPI inflation, total CPI inflation** and **all-items CPI**.

Is it the same as core inflation?

No. Headline inflation includes all items in the basket of goods and services. **Core inflation doesn't include items whose prices tend to be volatile.**

Is there just one form of core inflation?

No. **Core inflation is calculated in a variety of ways.** One common measure of core inflation is headline inflation excluding food and energy.

Why does Statistics Canada report on core inflation?

Some prices tend to be volatile, so **core inflation is often a better indicator of the underlying rate of price growth.**

How does inflation affect you?

When prices go up, your paycheck doesn't go as far. In other words, your **purchasing power** goes down.

That means when inflation is high, you may have to change your spending habits. You always need food and a place to live, so you may be left with much less **disposable income** to spend on things like eating out and going on vacation.

And when inflation is high, **interest rates** often go up. That's because central banks like the Bank of Canada will raise their [policy interest rate](#) to get inflation under control. They hope that higher borrowing costs will encourage people and businesses to spend less. If you have a mortgage, credit card or other loan with a variable interest rate, you may pay more in interest.



Conversely, if central banks want to encourage more spending, they may lower their policy interest rate. This can boost demand for goods and services by making it cheaper for consumers and businesses to borrow money. This increased demand can in turn result in higher prices.



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