

Canada's Inflation Myths

- Canadian inflation exceeded expectations again...
- ...and the myths keep piling up

Canadian CPI, m/m / y/y %, September:

Actual: 0.2 / 4.4

Scotia: 0.3 / 4.4

Consensus: 0.1 / 4.3

Prior: 0.2 / 4.1

Canadian core CPI, y/y % change, September:

Average: 2.7 (prior 2.6)

Weighted median: 2.8 (prior 2.7)

Common component: 1.8 (prior 1.8%)

Trimmed mean: 3.4 (prior 3.3%)

Canadian inflation climbed by more than consensus estimated again. The reaction in CAD and short-rates was fairly muted either because it wasn't a wild break from where markets were leaning and/or because it's likely best treated as a placeholder with most of the BoC's projections and decision making process at an advanced stage ahead of next Wednesday's communications.

Readings like these nevertheless marginally reinforce expectations for a shift to the reinvestment phase of the QE program on October 27th, while still indicating that rate hikes lie some time further away than markets are pricing around March/April and closer toward when the BoC thinks spare capacity shuts. To that effect, we foresee the Bank of Canada transitioning toward four rate hikes over 2022H2 starting in July and then four more in 2023.

It's still the case that inflation is high for reasons other than year-ago base effects. The seasonally adjusted and annualized pace of inflation was 5.2% in September. Chart 1 shows the trend. We've been getting very elevated readings for six months now and starting back in April when lockdowns were in place into late Spring/early Summer. That is one bit of information that indicates that the price pressures we are seeing are not just a reopening spurt.

It's also the case that this is not really a narrowly-driven phenomenon. Central tendency measures of inflation are meant to weed out some narrow drivers, and they too have escalated and not off particularly soft levels of a year-ago either (chart 2). Further, when it's your home, your car and fuelling it, your grocery bill and your utilities that are driving the biggest weighted contributions to inflation, then clearly we're looking at something impacting a rather large chunk of a typical household's budget (chart 3).

We'll have more to say on inflation including a sustained overshoot of the 2% target and the BoC outlook in our pending forecast release and accompanying materials. For now, the remaining charts offer a broader perspective on the underlying details.

CONTACTS

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Chart 1

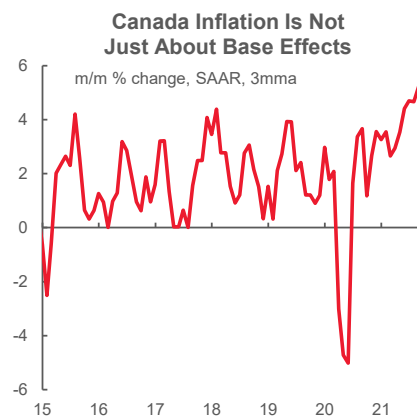


Chart 2

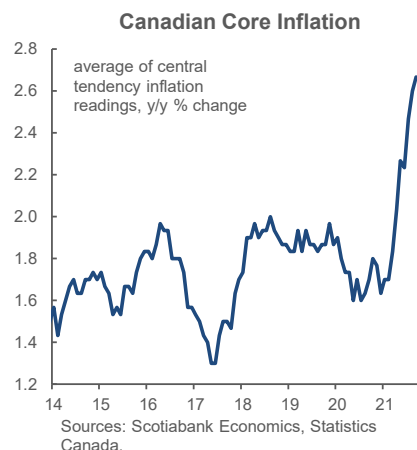


Chart 3

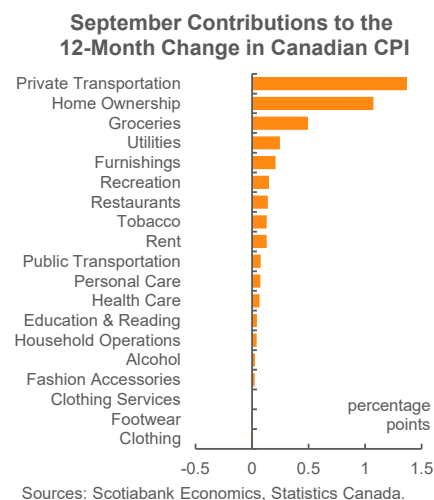
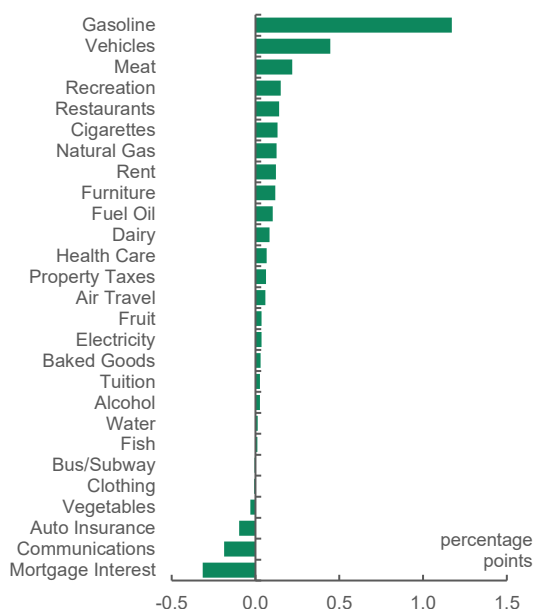


Chart 4

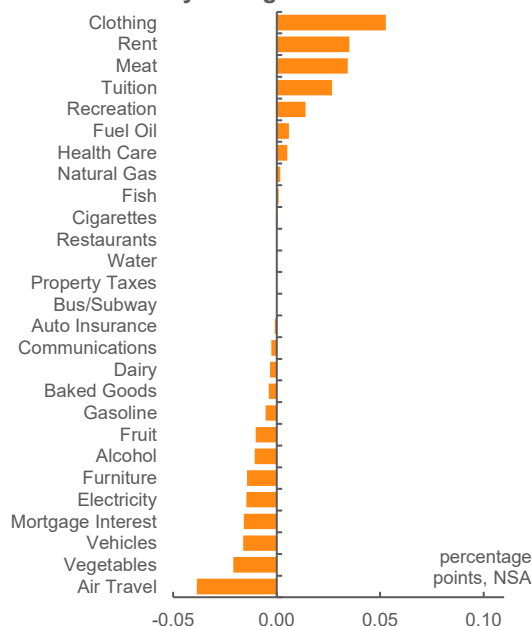
September Detailed Category Contributions to the 12-Month Change in Canadian CPI



Source: Scotiabank Economics, Statistics Canada.

Chart 5

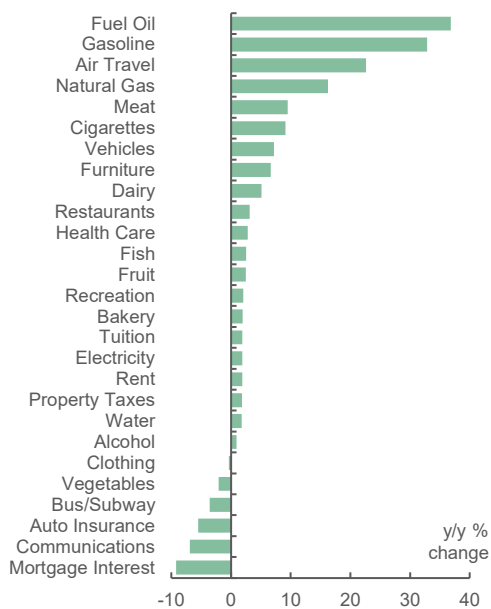
September Detailed Category Contributions to the Monthly Change in Canadian CPI



Source: Scotiabank Economics, Statistics Canada.

Chart 6

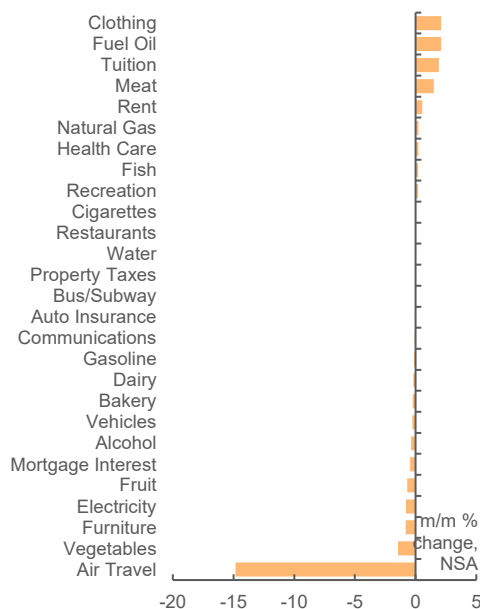
September Components in the 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

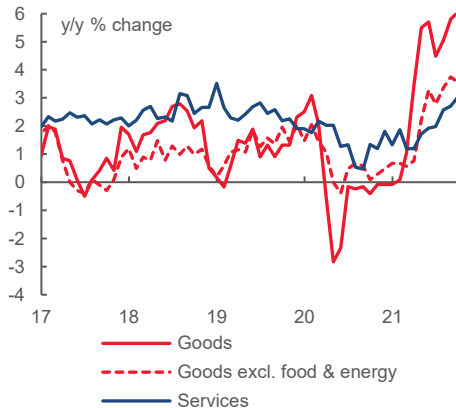
September Components in the Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 8

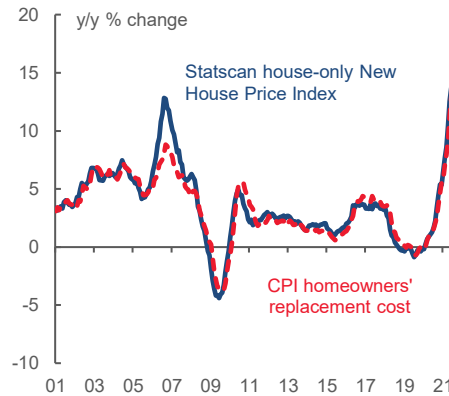
Canadian Goods & Services Inflation



Sources: Scotiabank Economics, Statistics Canada.

Chart 9

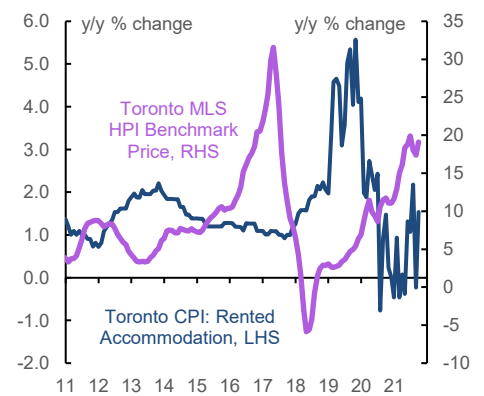
Housing's Direct Contribution to Canadian Inflation



Sources: Scotiabank Economics, Statistics Canada.

Chart 10

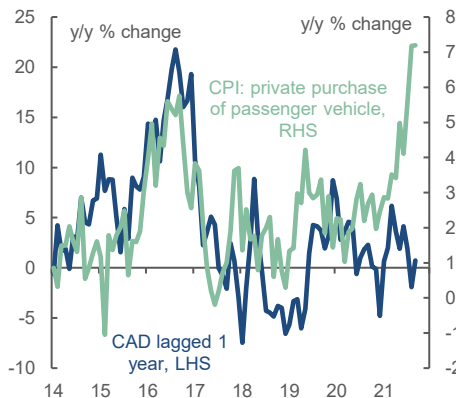
Will Rent Inflation Follow Soaring House Prices?



Sources: Scotiabank Economics, Statistics Canada, CREA.

Chart 11

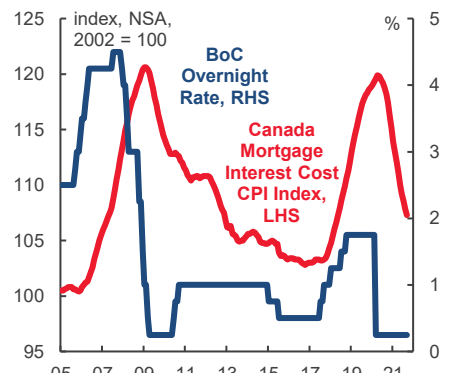
Auto Price Inflation and the C\$



Sources: Scotiabank Economics, Statistics Canada, Bank of Canada.

Chart 12

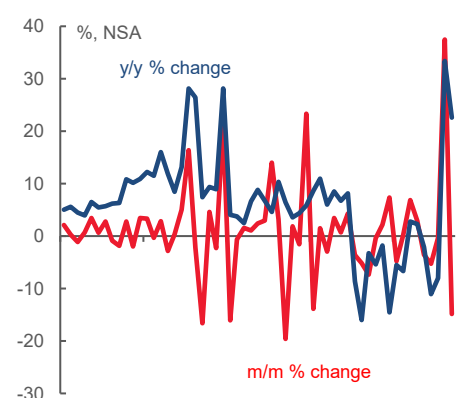
Canadian Mortgage Interest Costs CPI Index



Sources: Scotiabank Economics, Bank of Canada, Statistics Canada.

Chart 13

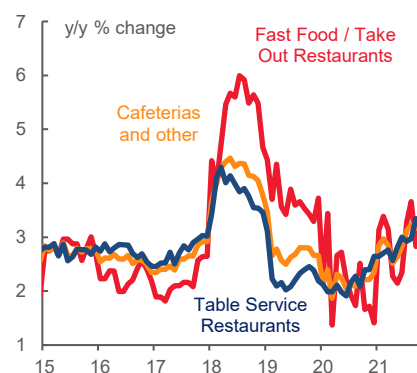
Canadian Air Transportation CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 14

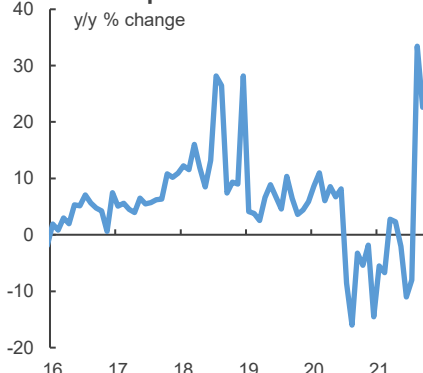
Food Purchased from Restaurants Inflation



Sources: Scotiabank Economics, Statistics Canada.

Chart 15

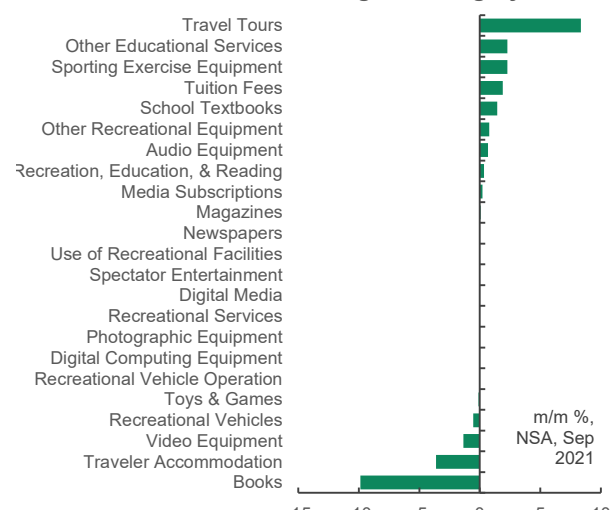
Canadian Air Transportation Expenditure Index



Sources: Scotiabank Economics, Statistics Canada.

Chart 16

Breakdown of Monthly Changes within Recreation Education and Reading CPI Category






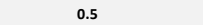

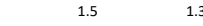

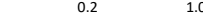

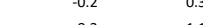

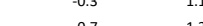



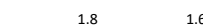

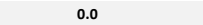

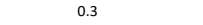

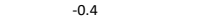

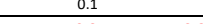



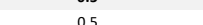

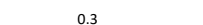

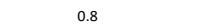

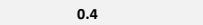

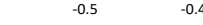
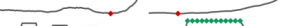
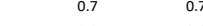

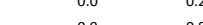
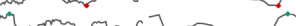
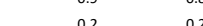

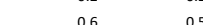
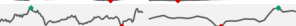

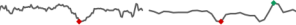


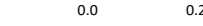

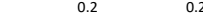







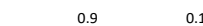

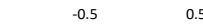

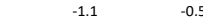

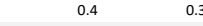

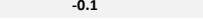

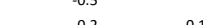

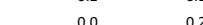





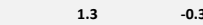

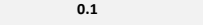


Sources: Scotiabank Economics, Statistics Canada.



























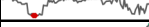









































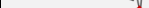
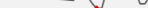
Chart 17

September Components Included and Excluded from Bank of Canada Trim Core CPI Measure



Sources: Scotiabank Economics, Statistics Canada.

Data updated as of Sep 2021				Weighted Contributions (ppts)*				5-Year Pre-Pandemic			10-Year Pre-Pandemic			
CA INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend	Pandemic trend (Jan 2019–Present)	m/m % change, NSA	m/m % change, SA**	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Food	3.9			0.3	0.9	16.24	0.63	0.05	2.1	1.7	1.0	2.2	1.5	1.2
Food, stores	4.2			0.5		11.74	0.50	0.05	1.7	2.4	1.0	2.0	2.0	1.1
Meat	9.5			1.5	1.3	2.32	0.22	0.03	2.5	3.6	2.0	3.4	3.6	1.7
Fish & seafood	2.5			0.2	1.0	0.44	0.01	0.00	2.9	1.4	-0.3	2.8	2.5	-0.1
Dairy products & eggs	5.1			-0.2	0.3	1.62	0.08	0.00	0.2	1.5	3.2	0.6	1.5	3.0
Bakery & cereal products	1.9			-0.3	1.1	1.52	0.03	0.00	0.5	2.1	0.7	1.2	2.3	0.3
Fruit, fruit prep. & nuts	2.5			-0.7	1.2	1.44	0.04	-0.01	1.8	4.4	0.1	2.0	3.5	0.1
Vegetables & vegetable prep.	-2.1			-1.4	1.6	1.45	-0.03	-0.02	4.9	6.4	-1.1	3.6	5.8	-1.0
Other food & non-alcoholic beverages	5.3			1.8	1.6	2.96	0.16	0.05	1.0	1.5	2.8	1.3	1.7	2.3
Food, restaurants	3.1			0.0		4.50	0.14	0.00	3.0	0.7	0.2	2.6	0.7	0.7
Table service restaurants	3.3			0.3		2.46	0.08	0.01	2.9	0.6	0.9	2.6	0.6	1.2
Fast food & take-out	2.8			-0.4		1.48	0.04	-0.01	3.2	1.2	-0.3	2.6	1.2	0.2
Cafeterias & other restaurants	3.2			0.1		0.56	0.02	0.00	3.0	0.6	0.3	2.6	0.7	0.8
Shelter	4.8			0.3	0.3	30.03	1.45	0.10	1.8	0.6	5.1	1.7	0.8	3.9
Rented accomm.	2.0			0.5		6.63	0.13	0.04	1.3	0.8	0.9	1.3	0.6	1.1
Rent	1.9			0.5		6.47	0.12	0.04	1.3	0.8	0.8	1.3	0.6	1.0
Tenants' insurance premiums	4.4			0.3		0.09	0.00	0.00	1.1	1.6	2.1	0.3	1.6	2.5
Tenants' maintenance & repairs	4.8			0.8		0.06	0.00	0.00	2.2	1.0	2.4	2.6	2.2	1.0
Owned accomm.	5.4			0.4		19.73	1.07	0.07	2.3	0.4	7.4	1.7	0.8	4.5
Mortgage interest cost	-9.2			-0.5	-0.4	3.43	-0.32	-0.02	2.1	3.6	-3.1	-0.1	3.6	-2.6
Homeowners' replacement cost	14.4			0.7	0.7	5.61	0.81	0.04	1.9	1.7	7.5	2.1	1.5	8.3
Property tax & other charges	1.9			0.0	0.2	3.40	0.06	0.00	2.4	0.6	-1.0	2.8	0.7	-1.3
Homeoners' home & mortgage insurance	5.3			0.9	0.8	1.38	0.07	0.01	5.2	2.3	0.0	4.5	2.6	0.3
Homeowners' maintenance & repairs	2.6			0.2	0.2	1.66	0.04	0.00	2.0	1.1	0.5	2.0	1.4	0.4
Other owned accommodation expenses	14.2			0.6	0.5	4.26	0.61	0.03	2.0	1.2	10.1	2.4	2.0	6.0
Water, fuel, & elec.	6.8			-0.2		3.67	0.25	-0.01	0.8	2.1	2.8	2.5	3.4	1.3
Electricity	1.9			-0.8	-0.5	1.85	0.03	-0.01	1.2	4.4	0.2	2.5	3.8	-0.1
Water	1.8			0.0	0.2	0.77	0.01	0.00	3.7	0.9	-2.1	4.9	1.4	-2.2
Natural gas	16.3			0.2	0.2	0.77	0.13	0.00	-1.3	9.0	1.9	0.4	10.6	1.5
Fuel oil & other fuels	36.8			2.1	2.1	0.28	0.10	0.01	-0.1	15.5	2.4	5.1	14.2	2.2
Household operations, furniture & equipment	1.5			0.1	0.2	14.89	0.23	0.01	1.2	1.0	0.3	1.4	0.9	0.1
Household ops.	0.4			0.1		9.79	0.04	0.01	1.3	1.1	-0.8	2.1	1.3	-1.3
Communications	-6.9			-0.1	-0.1	2.73	-0.19	0.00	0.0	2.8	-2.5	1.5	2.9	-3.0
Child care & housekeeping services	3.1			0.9	0.1	0.78	0.02	0.01	3.4	1.4	-0.2	3.3	1.3	-0.1
Household cleaning products	-0.2			-0.5	0.5	0.45	0.00	0.00	1.3	1.9	-0.8	0.8	1.9	-0.5
Paper, plastic, aluminum foil	5.9			-1.1	-0.5	0.52	0.03	-0.01	2.2	2.2	1.7	2.0	2.0	2.0
Other household goods & services	4.4			0.4	0.3	5.31	0.23	0.02	1.8	0.5	5.4	2.4	1.1	1.9
Household furnishings & equip.	4.1			-0.1		5.10	0.21	0.00	0.8	1.7	1.9	0.1	1.6	2.5
Furniture & textiles	6.3			-0.5		2.22	0.14	-0.01	0.4	2.1	2.8	-0.3	2.1	3.1
Household equipment	2.5			0.2	0.1	2.40	0.06	0.01	0.9	1.7	0.9	0.0	1.8	1.3
Services related to furnishings & equipment	4.3			0.0	0.2	0.34	0.01	0.00	2.4	1.8	1.1	2.7	2.9	0.6
Clothing & footwear	0.2			1.5	-0.4	4.0	0.01	0.06	0.6	1.2	-0.3	0.3	1.4	-0.1
Clothing	-0.4			2.1	-0.4	2.50	-0.01	0.05	0.5	1.6	-0.5	-0.3	2.1	0.0
Footwear	-1.0			1.3	-0.3	0.57	-0.01	0.01	0.4	1.2	-1.1	0.1	1.4	-0.7
Clothing accessories	3.4			0.1		0.67	0.02	0.00	1.0	1.8	1.3	2.3	2.6	0.4
Clothing material	2.9			0.0		0.26	0.01	0.00	2.2	0.7	1.1	2.7	1.2	0.2

Data updated as of Sep 2021					Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic			
CA INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend	Pandemic trend (Jan 2019–Present)	m/m % change, NSA	m/m % change, SA**	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Transportation	9.1			-0.4	0.8	16.0	1.46	-0.06	1.7	3.1	2.4	2.3	3.0	2.3
Private trans.	9.0			-0.1		15.3	1.37	-0.01	1.3	3.2	2.4	2.2	3.2	2.1
Purchase, lease, rental of passenger vehicles	7.4			0.0		6.81	0.51	0.00	2.3	1.5	3.4	1.9	1.6	3.4
Purchase & lease of passenger vehicles	7.2			-0.3		6.77	0.48	-0.02	2.3	1.5	3.2	1.9	1.6	3.2
Rental of passenger vehicles	60.4			34.4	35.8	0.04	0.02	0.01	1.4	5.2	11.4	1.2	4.1	14.5
Operation of passenger vehicles	10.3			-0.1		8.44	0.87	0.00	0.7	5.7	1.7	2.4	5.4	1.5
Gasoline	32.8			-0.1	1.2	3.57	1.17	-0.01	-0.6	13.5	2.5	3.0	12.2	2.5
Passenger vehicle parts, maintenance & repairs	2.6			0.0	0.2	2.48	0.06	0.00	1.9	0.3	1.9	1.6	0.8	1.2
Other passenger vehicle expenses	-3.4			0.0	0.0	2.40	-0.08	0.00	2.4	2.2	-2.7	2.6	2.0	-3.0
Public trans.	10.7			-8.2		0.71	0.08	-0.06	4.8	3.9	1.5	3.4	3.7	2.0
Local & commuter transportation	-2.8			0.0	0.2	0.25	-0.01	0.00	1.5	0.5	-8.9	2.2	1.2	-4.4
City bus & subway	-3.6			0.0		0.20	-0.01	0.00	2.1	0.7	-7.6	2.8	1.4	-4.4
Taxi & other commuter service	0.5			0.0		0.05	0.00	0.00	0.1	0.8	0.4	0.9	1.2	-0.3
Inter-city transportation	20.3			-13.4	-7.7	0.30	0.06	-0.04	6.2	5.7	2.5	3.9	5.8	2.8
Air transportation	22.6			-14.8		0.26	0.06	-0.04	6.5	6.2	2.6	4.0	6.4	2.9
Rail, highway bus, other	-0.8			-1.2		0.04	0.00	0.00	2.7	1.8	-2.0	2.0	4.2	-0.7
Health & personal care	3.0			0.3	0.3	4.68	0.1	0.01	1.4	0.4	4.1	1.3	0.9	2.0
Health care	2.8			0.2		2.34	0.1	0.01	1.3	0.6	2.6	1.1	0.8	2.1
Health care goods	1.9			0.1	0.1	1.41	0.0	0.00	0.5	0.7	2.0	-0.1	1.1	1.8
Health care services	4.0			0.3	0.1	0.93	0.0	0.00	2.5	0.6	2.7	2.9	0.8	1.4
Personal Care	3.2			0.5		2.34	0.1	0.01	1.5	0.5	3.2	1.5	1.2	1.5
Personal care supplies & equipment	3.4			0.6	0.9	1.71	0.1	0.01	0.4	0.9	3.2	0.5	1.6	1.8
Personal care services	2.6			0.0	0.2	0.63	0.0	0.00	2.9	0.7	-0.4	2.7	1.4	-0.1
Recreation, education & reading	2.1			0.3	0.4	9.40	0.2	0.03	1.7	0.8	0.5	1.3	0.9	0.9
Recreation	2.1			0.19		7.30	0.15	0.01	1.4	1.0	0.7	0.6	1.2	1.2
Recreational equipment & services, excl. vehicles	-4.1			0.6	0.1	2.03	-0.1	0.01	-0.8	1.6	-2.1	-2.2	2.0	-0.9
Purchase & operation of recreational vehicles	7.2			-0.4	0.2	1.65	0.1	-0.01	2.6	1.8	2.5	1.9	2.0	2.7
Home entertainment equipment	1.4			-0.9	-1.5	1.03	0.0	-0.01	-3.8	2.0	2.5	-4.9	2.2	2.8
Travel services	1.9			1.5	1.6	0.89	0.0	0.01	0.8	2.9	0.4	0.4	2.8	0.5
Other cultural & rec. services	4.9			0.2	0.3	1.70	0.1	0.00	3.5	1.1	1.3	3.4	1.4	1.1
Educ. & reading	2.1			0.89		2.10	0.04	0.02	2.5	1.4	-0.3	3.0	1.1	-0.8
Education	2.1			1.9	0.0	1.82	0.0	0.04	2.4	1.4	-0.2	3.0	1.2	-0.7
Reading material excl. textbooks	2.6			-5.3	-5.3	0.28	0.0	-0.01	3.8	2.8	-0.4	3.2	2.9	-0.2
Alcoholic beverages, tobacco & rec. cannabis	2.1			-0.2	-0.1	4.80	0.1	-0.01	3.2	1.2	-0.9	2.7	1.3	-0.4
Alcoholic beverages	0.9			-0.37		2.85	0.03	-0.01	1.7	0.5	-1.6	1.4	0.7	-0.6
Alc. beverages served in licensed establishments	1.6			0.1	0.2	0.55	0.0	0.00	1.8	0.6	-0.5	2.0	0.7	-0.7
Alc. beverages purchased from stores	1.0			-0.5	-0.4	2.30	0.0	-0.01	1.7	0.7	-1.0	1.1	1.1	0.0
Tobacco products	9.1			0.04		1.44	0.13	0.00	5.6	2.1	1.7	4.8	2.8	1.5
Cigarettes	9.1			0.0		1.34	0.1	0.00	5.6	2.1	1.7	4.8	2.8	1.5
Other tobacco products & supplies	8.8			0.0		0.11	0.0	0.00	5.6	2.0	1.6	4.9	2.6	1.5
Rec. cannabis	-9.8			0.00		0.50	-0.05	0.00						

*Number may not add due to rounding

** Only available for components that are tracked on a seasonally adjusted basis.

Sources: Scotiabank Economics, Statistics Canada.

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