

Contributors

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Chart 1

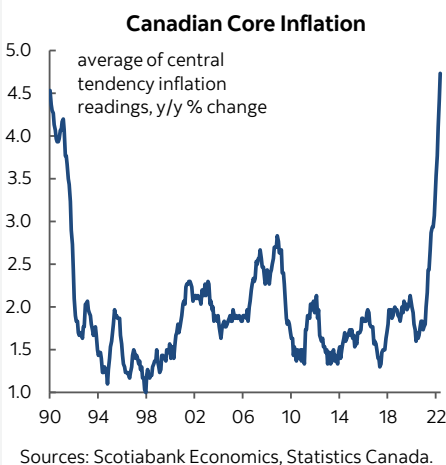
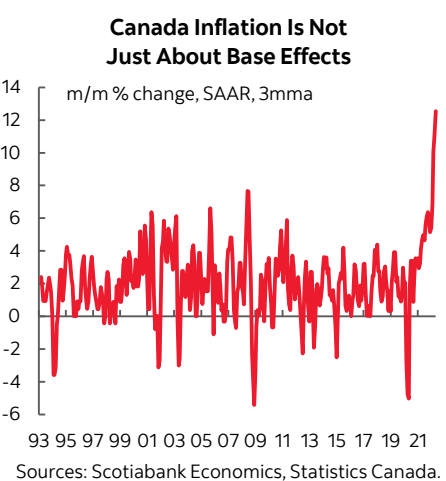


Chart 2



Canadian Inflation and BoC-Speak Reinforce a Bigger Hike at the July Meeting

- **Headline inflation soars to 1983 rate, above consensus, in line with Scotia's estimate**
- **Average core inflation hit the highest on record**
- **Markets shrugged, largely because of aggressive pricing for the BoC's policy rate**
- **BoC's Rogers passively reinforces 75bps priced for July 13th**
- **BoC's Governing Council is weakened by two retirements**

CDN CPI m/m % NSA // y/y %, May:

Actual: 1.4 / 7.7

Scotia: 1.2 / 7.8

Consensus: 1.0 / 7.3

Prior: 0.6 / 6.8

Average 'Core' CPI: 4.7% y/y (4.4% prior, revised up from 4.2%)

Canada's inflation rate continues to soar. Inflation exceeded consensus expectations and came very close to my estimate at the top end of consensus. 7.7% y/y inflation is the hottest since January 1983 and there are no signs of cooling given high breadth, upward revisions and the continuation of hot gains inflationary pressures at the margin.

Average 'core' inflation using the Bank of Canada's preferred inflation readings climbed to 4.7% y/y which is the highest since at least 1990 when the series began (chart 1). The prior month's average of these measures was revised up to 4.4% from 4.2% previously. All of the three measures are well above the BoC's target with trimmed mean at 5.4% y/y, weighted median CPI at 4.9% and common component at 3.9%.

CPI on a month-over-month, seasonally adjusted basis at an annualized rate (SAAR) hit 13.6% for the hottest such gain on record. Here too there is no evidence of cooling pressures; in fact, it's the opposite (chart 2).

Prefer to take out energy and food inflation because, ya know, who pays that anyway?? Well ok, if you must, but CPI ex-food and energy was up 8% on the same m/m SAAR basis which matches the prior month's reading after hitting 9% in March. CPI excluding the eight most volatile items that the BoC used to target back in the Mesozoic era was 7.7% m/m SAAR which is cooling from 12.4% in March and 9.5% in April.

Breadth is ginormous. 75% of the CPI basket is rising by 3% y/y or more, 71% is up by 4% + and 57% of the basket is up by 5% or more (chart 3).

By province, the hottest pressures are in little ol' PEI at 11.1% y/y. Other Atlantic provinces plus BC and Manitoba are 8-handled, while Ontario, Quebec, Alberta and Saskatchewan are all seeing inflation at a 7-handled y/y pace.

Chart 4 shows that while core goods price inflation may be topping out recently at still high rates over recent months, service price inflation continues to accelerate.

Charts 5 and 6 show the housing drivers of inflation. Canada does not use owners' equivalent rent like the US and instead uses the replacement cost concept that is driven by the house-only component of the new house price index. In other words, a cooling pace of builder price increases is softening the direct contributions of housing to inflation. Still, the lagging effects of past big gains in house prices and uncertainty toward future changes in house prices are driving more pressures in rental markets in the context of tight supply. The rotation of demand from owner-occupied toward rental housing is continuing to add to inflationary pressures.

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Chart 7 breaks down some of the key measures of food price inflation that are connected to more people getting out and re-engaging in more normal activities at the same time that food commodity prices have risen. Some of this activity is indeed within the Bank of Canada's influence in my opinion since some of it is demand-driven and not just a function of imported food price shocks. It remains too convenient for the BoC to deflect responsibility for high inflation in favour of pointing toward global forces.

Chart 8 shows that airfare was a cooler contributor to m/m inflation than I had thought. Maybe I just got ripped off, ha.

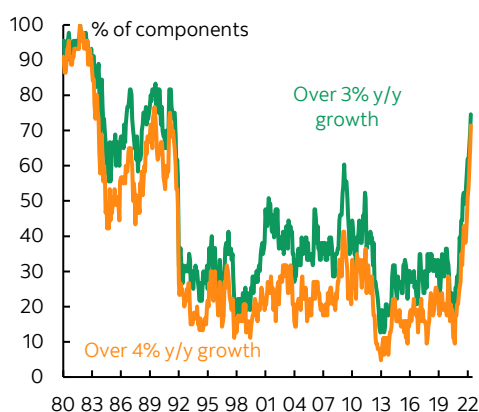
Chart 9 shows the weighted contributions to the month-over-month change in seasonally unadjusted prices and chart 10 shows the unweighted changes. The top contributors by this measure were led by higher gasoline prices but there was high breadth across more limited individual contributions in the rest of the basket.

Chart 11 shows the weighted contributions to the year-over-year change in CPI and chart 12 breaks down the basket in raw, unweighted y/y terms. The top weighted contributor to year-over-year inflation is gasoline that accounts for 2.1 percentage points out of the 7.7% headline, but the other 5.6 percentage points is driven by a very broad array of price pressures.

BANK OF CANADA IMPLICATIONS & MARKETS

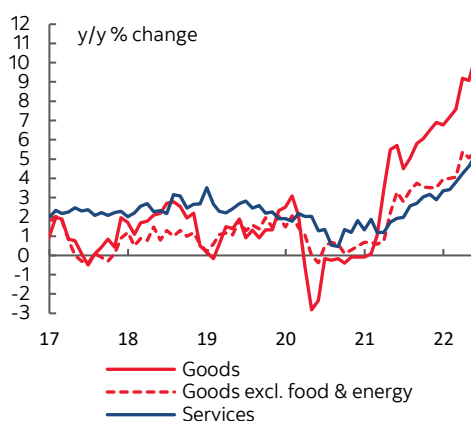
There was only a modest reaction to the figures. The Canadian dollar slightly appreciated in the aftermath and the yield on the 2-year Government of Canada bond that aligns toward what markets are thinking in terms of the BoC's rate path had climbed 2–3bps initially but has since rallied back toward where it began. Still, Canada is underperforming Treasury yields. Global forces are dominating markets.

Chart 3
Canadian Inflation Showing High Breadth



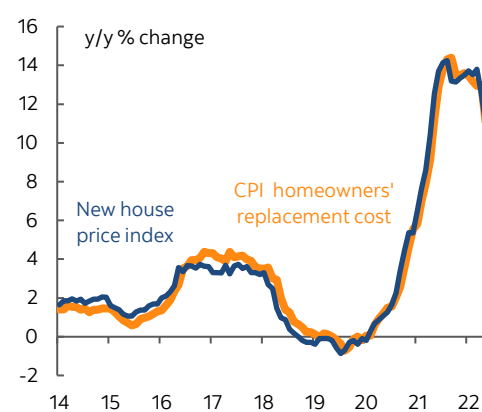
Sources: Scotiabank Economics, Statistics Canada.

Chart 4
Canadian Goods & Services Inflation



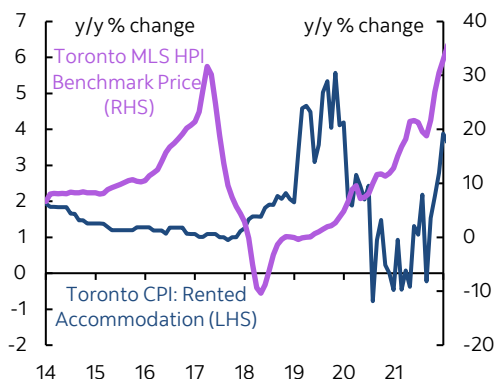
Sources: Scotiabank Economics, Statistics Canada.

Chart 5
Housing's Inflation Factor



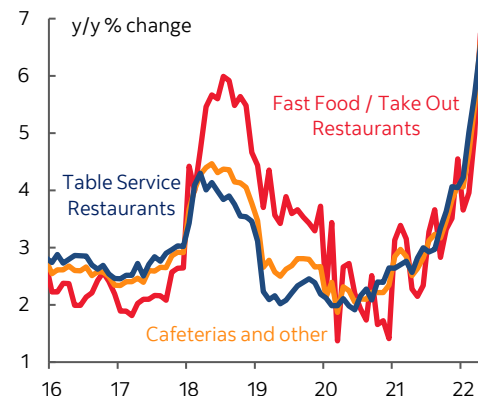
Sources: Scotiabank Economics, Statistics Canada.

Chart 6
Rent Inflation Following House Prices



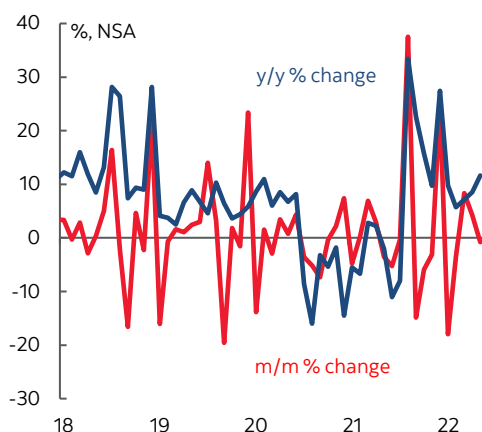
Sources: Scotiabank Economics, Statistics Canada, CREA.

Chart 7
Food Purchased from Restaurants Inflation



Sources: Scotiabank Economics, Statistics Canada.

Chart 8
Canadian Air Transportation CPI



Sources: Scotiabank Economics, Statistics Canada.

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Still, it would have taken a lot to impact what is already priced for the Bank of Canada. 75bps is done for July 13th from a markets standpoint and I think they hike by that amount. By year-end, markets have about a 3½% policy rate which is toward where I see it going and without ruling out further upside risk.

BOC'S ROGERS PASSIVELY REINFORCES 75BPS HIKE

BoC Senior Deputy Governor Rogers' appearance at a Globe and Mail fireside chat after CPI offered nothing new of direct relevance to market expectations for Bank of Canada policy. It was a general discussion of views previously expressed in BoC communications and continued to err on a rather defensive side.

Having said that, since Rogers is the last BoC official scheduled to speak before the Bank of Canada goes into communications blackout on Tuesday, July 5th, it may be material that she did not use the opportunity to explicitly lean against market pricing for a 75bps rate hike on July 13th or even in veiled fashion. She did not explicitly say they'll hike 75bps, but if the BoC wishes to avoid abrupt surprises to markets and cares at all about this after all the legitimate knocks against its credibility—which under present circumstances it absolutely should—then it passed on the opportunity to correct expectations. Between now and the July 13th statement, MPR and press conference we'll get the BoC's twin consumer and business surveys including measures of inflation expectations that probably moved up again, plus another jobs report on July 8th.

After Rogers' appearance, the BoC announced that Deputy Governor Tim Lane will be retiring after the September meeting. This follows the retirement of Larry Schembri. The BoC will be replacing one of the spots and sticking to its "usual complement of six people." Lane is respected for his depth on monetary policy theory and practice, transitions and crises, and digital currencies and other payments system issues. We'll see who is appointed going forward but at the moment the BoC's Governing Council is entering Fall in a weakened position having lost two significant members of its Governing Council.

The accompanying table provides a more detailed breakdown of the CPI basket including weighted and unweighted contributions, micro charts of components, and z-score measures of deviations from trend by component.

Chart 9

March Detailed Category Contributions to Monthly Change in Canadian CPI

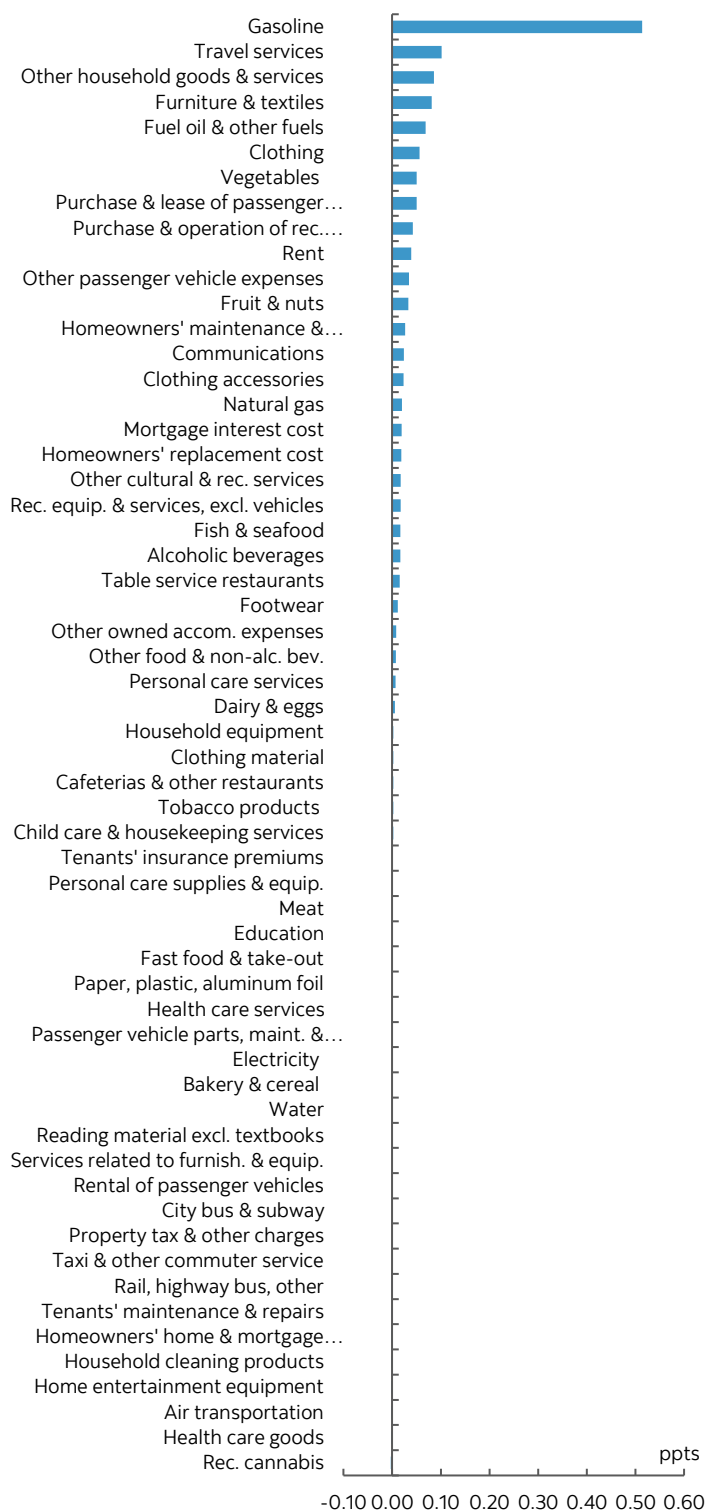


Chart 10

May Detailed Category Monthly Change in Canadian CPI

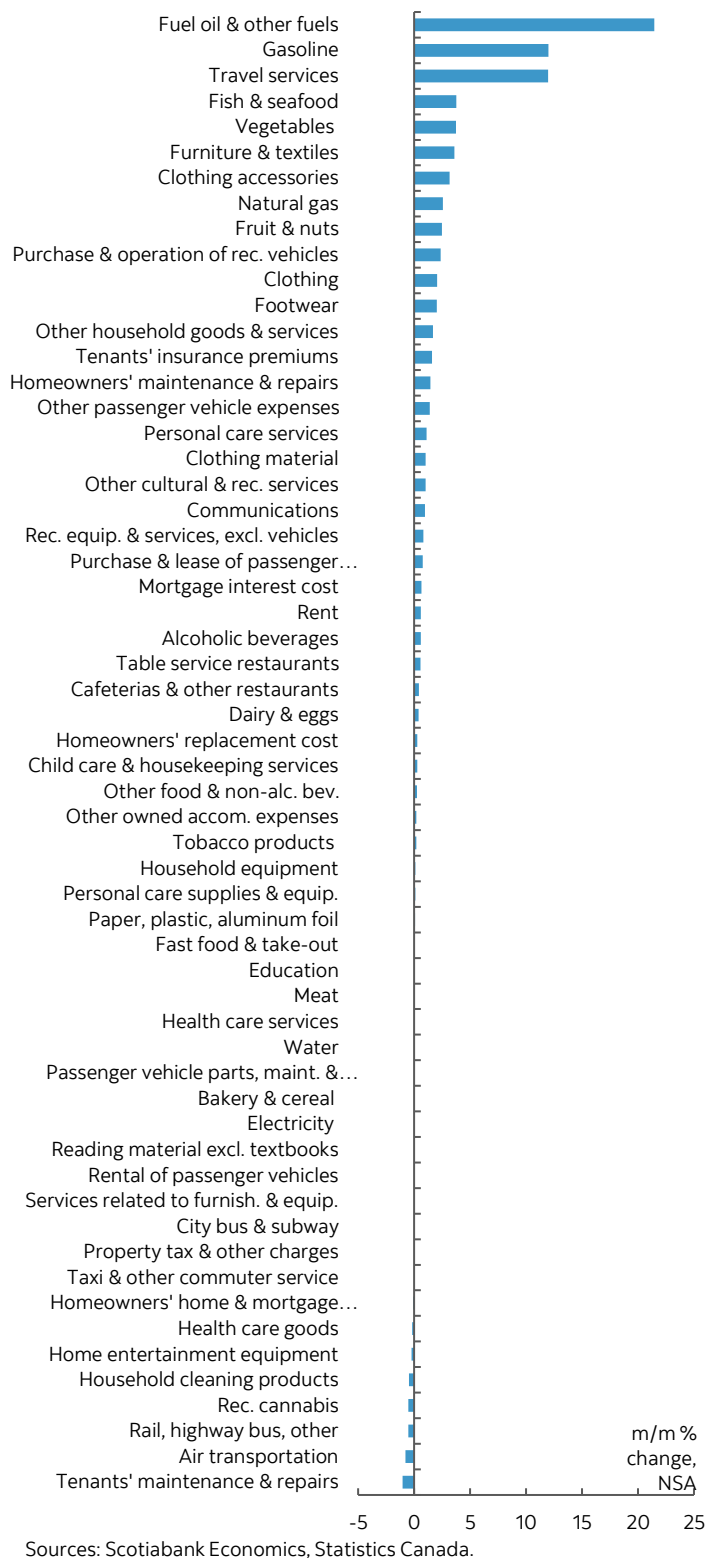
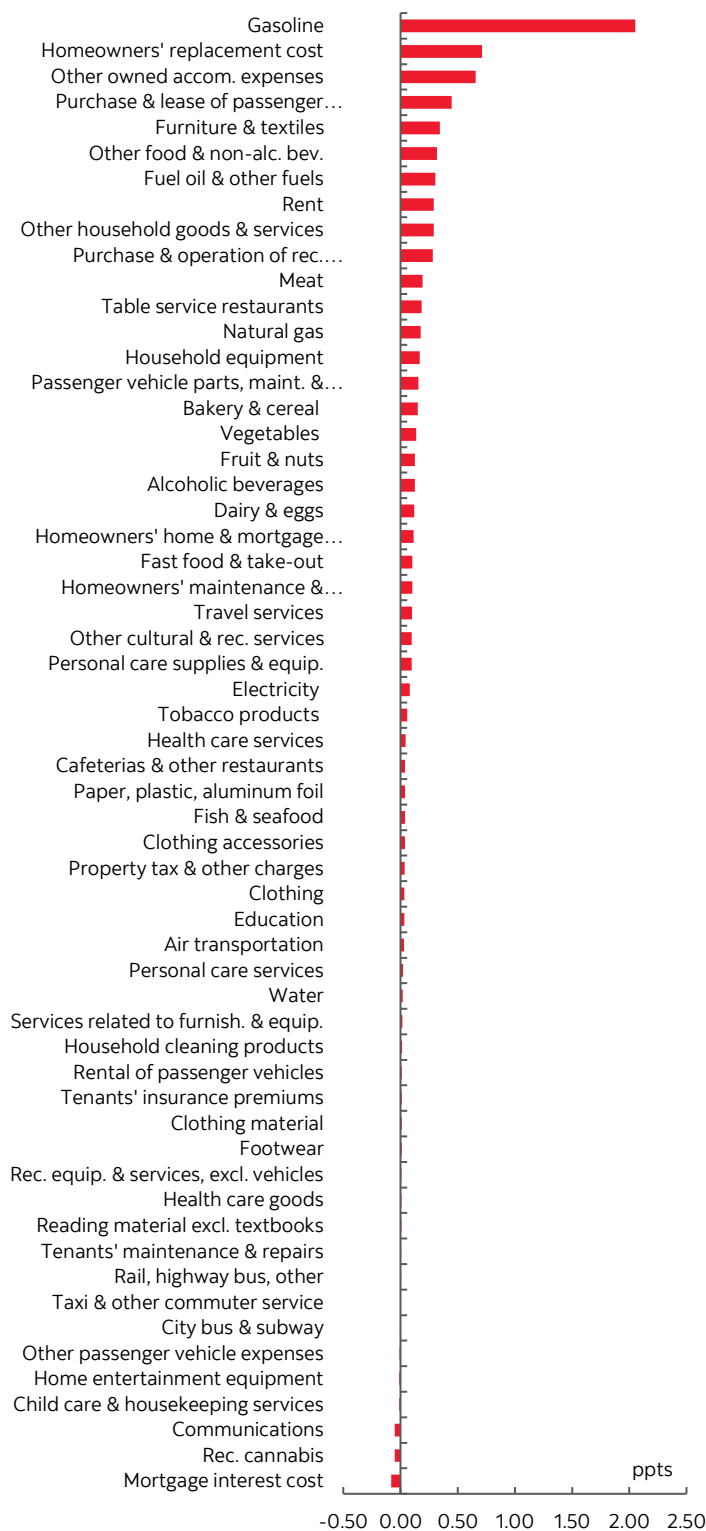


Chart 11

May Detailed Category Contributions to 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.



























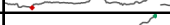

































































Chart 12

May Detailed Category 12-Month Change in Canadian CPI






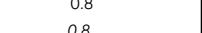

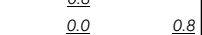

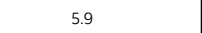

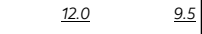

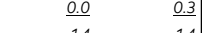





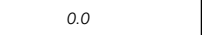



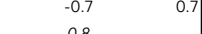

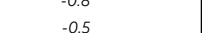

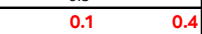



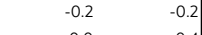





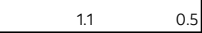



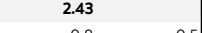



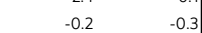



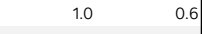

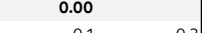

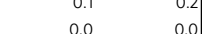

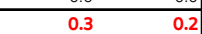



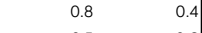





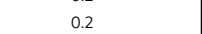




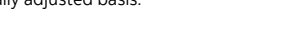













Sources: Scotiabank Economics, Statistics Canada.

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May 2022					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	8.8			0.8	0.5	15.94	1.40	0.13	2.1	1.7	3.9	2.2	1.5	4.6
Food, stores	9.7			1.0		11.14	1.08	0.11	1.7	2.4	3.3	2.0	2.0	3.8
Meat	9.0			0.1	-0.2	2.14	0.19	0.00	2.5	3.6	1.8	3.4	3.6	1.6
Fish & seafood	8.5			3.8	1.8	0.44	0.04	0.02	2.9	1.4	3.9	2.8	2.5	2.3
Dairy products & eggs	7.9			0.4	0.3	1.52	0.12	0.01	0.2	1.5	5.0	0.6	1.5	4.9
Bakery & cereal products	10.1			0.0	-0.5	1.48	0.15	0.00	0.5	2.1	4.7	1.2	2.3	3.8
Fruit, fruit prep. & nuts	9.4			2.5	1.6	1.34	0.13	0.03	1.8	4.4	1.7	2.0	3.5	2.1
Vegetables & vegetable prep.	10.2			3.7	2.4	1.35	0.14	0.05	4.9	6.4	0.8	3.6	5.8	1.1
Other food & non-alcoholic beverages	10.9			0.3	0.5	2.91	0.32	0.01	1.0	1.5	6.4	1.3	1.7	5.6
Food, restaurants	6.8			0.3		4.80	0.33	0.02	3.0	0.7	5.7	2.6	0.7	5.8
Table service restaurants	6.9			0.6		2.68	0.18	0.02	2.9	0.6	7.3	2.6	0.6	6.7
Fast food & take-out	6.7			0.1		1.54	0.10	0.00	3.2	1.2	2.9	2.6	1.2	3.6
Cafeterias & other restaurants	6.8			0.4		0.58	0.04	0.00	3.0	0.6	6.2	2.6	0.7	6.0
Shelter	7.4			0.7	0.7	29.80	2.22	0.20	1.8	0.6	9.6	1.7	0.8	7.3
Rented accomm.	4.5			0.6		6.77	0.31	0.04	1.3	0.8	4.0	1.3	0.6	5.4
Rent	4.4			0.6		6.57	0.29	0.04	1.3	0.8	3.8	1.3	0.6	5.2
Tenants' insurance premiums	10.3			1.6		0.11	0.01	0.00	1.1	1.6	5.7	0.3	1.6	6.1
Tenants' maintenance & repairs	7.1			-1.0		0.08	0.01	0.00	2.2	1.0	4.7	2.6	2.2	2.1
Owned accomm.	7.3			0.4		19.46	1.41	0.07	2.3	0.4	11.7	1.7	0.8	6.7
Mortgage interest cost	-2.7			0.7	0.7	2.94	-0.08	0.02	2.1	3.6	-1.3	-0.1	3.6	-0.7
Homeowners' replacement cost	11.1			0.3	0.3	6.44	0.71	0.02	1.9	1.7	5.5	2.1	1.5	6.0
Property tax & other charges	1.5			0.0	0.1	2.47	0.04	0.00	2.4	0.6	-1.7	2.8	0.7	-1.8
Homeowners' home & mortgage insurance	8.4			-0.1	-0.1	1.37	0.12	0.00	5.2	2.3	1.4	4.5	2.6	1.5
Homeowners' maintenance & repairs	5.7			1.5	1.5	1.81	0.10	0.03	2.0	1.1	3.3	2.0	1.4	2.5
Other owned accommodation expenses	14.8			0.2	-0.1	4.43	0.66	0.01	2.0	1.2	10.6	2.4	2.0	6.3
Water, fuel, & elec.	14.3			2.5		3.57	0.51	0.09	0.8	2.1	6.4	2.5	3.4	3.5
Electricity	4.6			0.0	0.0	1.75	0.08	0.00	1.2	4.4	0.8	2.5	3.8	0.6
Water	2.7			0.0	0.2	0.72	0.02	0.00	3.7	0.9	-1.1	4.9	1.4	-1.5
Natural gas	22.7			2.5	2.5	0.78	0.18	0.02	-1.3	9.0	2.6	0.4	10.6	2.1
Fuel oil & other fuels	95.1			21.5	21.4	0.32	0.30	0.07	-0.1	15.5	6.1	5.1	14.2	6.3
Household operations, furniture & equipment	5.5			1.3	1.6	14.50	0.79	0.19	1.2	1.0	4.1	1.4	0.9	4.6
Household ops.	2.9			1.1		9.30	0.27	0.11	1.3	1.1	1.4	2.1	1.3	0.7
Communications	-2.0			0.9	1.0	2.54	-0.05	0.02	0.0	2.8	-0.7	1.5	2.9	-1.3
Child care & housekeeping services	-1.6			0.3	0.3	0.76	-0.01	0.00	3.4	1.4	-3.6	3.3	1.3	-3.7
Household cleaning products	3.2			-0.5	-0.7	0.40	0.01	0.00	1.3	1.9	1.0	0.8	1.9	1.2
Paper, plastic, aluminum foil	7.5			0.1	0.3	0.52	0.04	0.00	2.2	2.2	2.4	2.0	2.0	2.8
Other household goods & services	5.7			1.7	1.0	5.11	0.29	0.09	1.8	0.5	8.2	2.4	1.1	3.1
Household furnishings & equip.	10.4			1.6		5.20	0.54	0.08	0.8	1.7	5.6	0.1	1.6	6.5
Furniture & textiles	15.1			3.6		2.28	0.34	0.08	0.4	2.1	6.9	-0.3	2.1	7.2
Household equipment	6.9			0.1	0.9	2.42	0.17	0.00	0.9	1.7	3.6	0.0	1.8	3.8
Services related to furnishings & equipment	4.5			0.0	0.3	0.35	0.02	0.00	2.4	1.8	1.1	2.7	2.9	0.6
Clothing & footwear	2.2			2.2	1.4	4.3	0.10	0.10	0.6	1.2	1.3	0.3	1.4	1.3
Clothing	1.2			2.1	1.4	2.73	0.03	0.06	0.5	1.6	0.4	-0.3	2.1	0.7
Footwear	1.8			2.0	0.8	0.57	0.01	0.01	0.4	1.2	1.3	0.1	1.4	1.2
Clothing accessories	5.0			3.2		0.75	0.04	0.02	1.0	1.8	2.2	2.3	2.6	1.1
Clothing material	4.7			1.0		0.23	0.01	0.00	2.2	0.7	3.8	2.7	1.2	1.8

June 22, 2022

May 2022														
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	14.6			3.5	3.6	16.9	2.46	0.60	1.7	3.1	4.1	2.3	3.0	4.1
Private trans.	15.1			3.8		16.1	2.43	0.61	1.3	3.2	4.3	2.2	3.2	4.1
Purchase, lease, rental of passenger vehicles	6.8			0.8		6.71	0.46	0.05	2.3	1.5	3.0	1.9	1.6	3.0
<i>Purchase & lease of passenger vehicles</i>	<i>6.7</i>			<i>0.8</i>		<i>6.65</i>	<i>0.45</i>	<i>0.05</i>	<i>2.3</i>	<i>1.5</i>	<i>2.9</i>	<i>1.9</i>	<i>1.6</i>	<i>2.9</i>
<i>Rental of passenger vehicles</i>	<i>19.4</i>			<i>0.0</i>	<i>0.8</i>	<i>0.06</i>	<i>0.01</i>	<i>0.00</i>	<i>1.4</i>	<i>5.2</i>	<i>3.5</i>	<i>1.2</i>	<i>4.1</i>	<i>4.5</i>
Operation of passenger vehicles	21.6			5.9		9.37	2.02	0.55	0.7	5.7	3.7	2.4	5.4	3.5
<i>Gasoline</i>	<i>48.0</i>			<i>12.0</i>	<i>9.5</i>	<i>4.28</i>	<i>2.05</i>	<i>0.51</i>	<i>-0.6</i>	<i>13.5</i>	<i>3.6</i>	<i>3.0</i>	<i>12.2</i>	<i>3.7</i>
<i>Passenger vehicle parts, maintenance & repairs</i>	<i>6.1</i>			<i>0.0</i>	<i>0.3</i>	<i>2.56</i>	<i>0.16</i>	<i>0.00</i>	<i>1.9</i>	<i>0.3</i>	<i>12.1</i>	<i>1.6</i>	<i>0.8</i>	<i>5.8</i>
<i>Other passenger vehicle expenses</i>	<i>-0.4</i>			<i>1.4</i>	<i>1.4</i>	<i>2.53</i>	<i>-0.01</i>	<i>0.03</i>	<i>2.4</i>	<i>2.2</i>	<i>-1.3</i>	<i>2.6</i>	<i>2.0</i>	<i>-1.5</i>
Public trans.	4.6			-0.4		0.82	0.04	0.00	4.8	3.9	-0.1	3.4	3.7	0.3
Local & commuter transportation	-3.5			0.0	0.1	0.28	-0.01	0.00	1.5	0.5	-10.2	2.2	1.2	-4.9
<i>City bus & subway</i>	<i>-4.2</i>			<i>0.0</i>		<i>0.17</i>	<i>-0.01</i>	<i>0.00</i>	<i>2.1</i>	<i>0.7</i>	<i>-8.4</i>	<i>2.8</i>	<i>1.4</i>	<i>-4.8</i>
<i>Taxi & other commuter service</i>	<i>-0.5</i>			<i>0.0</i>		<i>0.11</i>	<i>0.00</i>	<i>0.00</i>	<i>0.1</i>	<i>0.8</i>	<i>-0.8</i>	<i>0.9</i>	<i>1.2</i>	<i>-1.2</i>
Inter-city transportation	10.9			-0.7	0.7	0.37	0.04	0.00	6.2	5.7	0.8	3.9	5.8	1.2
<i>Air transportation</i>	<i>11.6</i>			<i>-0.8</i>		<i>0.26</i>	<i>0.03</i>	<i>0.00</i>	<i>6.5</i>	<i>6.2</i>	<i>0.8</i>	<i>4.0</i>	<i>6.4</i>	<i>1.2</i>
<i>Rail, highway bus, other</i>	<i>6.8</i>			<i>-0.5</i>		<i>0.07</i>	<i>0.00</i>	<i>0.00</i>	<i>2.7</i>	<i>1.8</i>	<i>2.3</i>	<i>2.0</i>	<i>4.2</i>	<i>1.1</i>
Health & personal care	3.6			0.1	0.4	4.62	0.2	0.01	1.4	0.4	5.6	1.3	0.9	2.7
Health care	2.2			-0.1		2.26	0.0	0.00	1.3	0.6	1.5	1.1	0.8	1.3
Health care goods	0.6			-0.2	-0.2	1.31	0.0	0.00	0.5	0.7	0.1	-0.1	1.1	0.6
Health care services	4.5			0.0	0.4	0.96	0.0	0.00	2.5	0.6	3.6	2.9	0.8	2.1
Personal Care	5.0			0.3		2.36	0.1	0.01	1.5	0.5	6.6	1.5	1.2	3.0
Personal care supplies & equipment	5.7			0.1	0.7	1.72	0.1	0.00	0.4	0.9	5.6	0.5	1.6	3.2
Personal care services	3.6			1.1	0.5	0.64	0.0	0.01	2.9	0.7	0.9	2.7	1.4	0.6
Recreation, education & reading	5.4			1.9	0.7	9.29	0.5	0.18	1.7	0.8	4.7	1.3	0.9	4.8
Recreation	6.3			2.43		7.43	0.47	0.18	1.4	1.0	4.8	0.6	1.2	4.6
Recreational equipment & services, excl. vehicles	0.4			0.8	0.5	2.18	0.0	0.02	-0.8	1.6	0.8	-2.2	2.0	1.3
Purchase & operation of recreational vehicles	15.9			2.4	-0.1	1.78	0.3	0.04	2.6	1.8	7.2	1.9	2.0	7.2
Home entertainment equipment	-1.3			-0.2	-0.3	0.88	0.0	0.00	-3.8	2.0	1.2	-4.9	2.2	1.6
Travel services	11.7			12.0	7.3	0.85	0.1	0.10	0.8	2.9	3.7	0.4	2.8	4.0
Other cultural & rec. services	5.6			1.0	0.6	1.75	0.1	0.02	3.5	1.1	2.0	3.4	1.4	1.6
Educ. & reading	2.0			0.00		1.86	0.04	0.00	2.5	1.4	-0.4	3.0	1.1	-0.8
Education	2.0			0.1	0.2	1.60	0.0	0.00	2.4	1.4	-0.3	3.0	1.2	-0.8
Reading material excl. textbooks	2.7			0.0	0.0	0.26	0.0	0.00	3.8	2.8	-0.4	3.2	2.9	-0.2
Alcoholic beverages, tobacco & rec. cannabis	3.0			0.3	0.2	4.63	0.1	0.02	3.2	1.2	-0.2	2.7	1.3	0.2
Alcoholic beverages	4.4			0.58		2.83	0.12	0.02	1.7	0.5	5.1	1.4	0.7	4.1
Alc. beverages served in licensed establishments	5.5			0.8	0.4	0.67	0.0	0.01	1.8	0.6	6.1	2.0	0.7	5.1
Alc. beverages purchased from stores	4.1			0.5	0.6	2.16	0.1	0.01	1.7	0.7	3.7	1.1	1.1	2.8
Tobacco products	4.6			0.18		1.28	0.06	0.00	5.6	2.1	-0.5	4.8	2.8	-0.1
Cigarettes	4.6			0.2		1.16	0.1	0.00	5.6	2.1	-0.5	4.8	2.8	-0.1
Other tobacco products & supplies	4.8			0.2		0.11	0.0	0.00	5.6	2.0	-0.4	4.9	2.6	0.0
Rec. cannabis	-10.3			-0.54		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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