

Contributors

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Chart 1

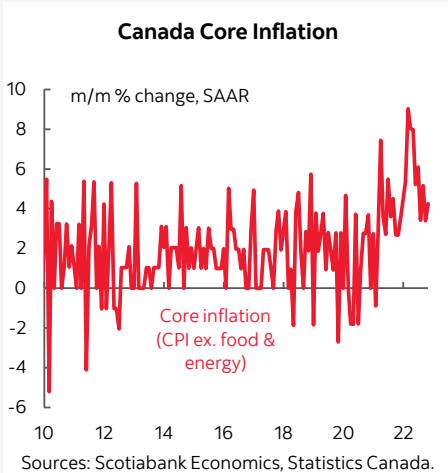
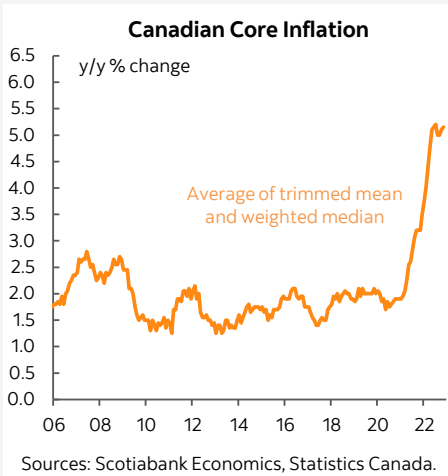


Chart 2



Hot Core CPI Adds to BoC Hike Risk!

- Core CPI is still tracking over double the BoC's target
- Markets react by retaining a bias toward another hike in January

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

Actual: 0.1 / 6.8
 Scotia: -0.2 / 6.3
 Consensus: 0.0 / 6.7
 Prior: 0.7 / 6.9
 Average 'Core' CPI ex-common: 5.2% y/y (5.1% prior)
 "Core" CPI ex-food/energy: 0.35% m/m // 4.3% SAAR

Key here is that traditional core inflation remains well above the BoC's target and that keeps hike risk alive into the January meeting.

MARKETS AND THE BANK OF CANADA

Markets reacted the way they should have by putting mild upward pressure on the Canadian two-year yield that has increased by 5bps post-data. Markets are pricing 16bps of a hike on January 25th.

The BoC has been very clear that it is open to either another hike or a pause on January 25th. Any other interpretation must have listened to something other than the statement, the next day's appearance by Deputy Governor Kozicki and the following Monday's speech and press conference by Governor Macklem. With further updates on inflation, jobs and BoC surveys between now and then plus external developments it's prudent to say that we're still left with a highly data dependent outcome into that meeting that could yet go either way. Markets are splitting the difference and retaining flexibility. Scotia Economics will firm up its assessment closer to the meeting.

Also note that developments since the BoC delivered its communications have made them somewhat stale. China's abandonment of Covid Zero poses new risks that I think are slanted to another round of supply chain pressures and inflation risk. Furthermore, other central banks from the Fed to the ECB and the BoJ all doubled down after the BoC's wishy washy assessment.

HOT CORE

Headline inflation was up 0.1% m/m in seasonally unadjusted terms which translates into a gain of 0.4% m/m in seasonally adjusted terms and that owes itself to the firm core reading.

CPI excluding food and energy was up 0.35% m/m SA and at an annualized rate that's 4.3% which is up from 3.4% the prior month. The trend is shown in chart 1. We're off the peak from earlier in the year but these are not cool numbers by any stretch. In any world other than the pandemic the BoC would be freaking out over core inflation readings that are still doubling its target.

Chart 2 shows that the average of the two central tendency gauges of 'core' inflation edged up a tick to 5.2% y/y.

DON'T CHERRY-PICK THE DETAILS

Chart 3 shows the month-over-month seasonally adjusted percentage changes in prices across all 55 components of the CPI basket. There were a few powerful outliers. The biggest gainers have very low weights in the basket.

Now I suppose you could cherry-pick the data and say exclude this, not that, and arrive at slightly different conclusions. For instance, removing rent that was relatively hot at 1.2% m/m SA with a weight of 6.6% would knock core CPI ex-f&e down to 0.27% m/m SA or 3.3% at a seasonally adjusted and annualized rate (SAAR) which retains the same point that core inflation is hotter than the BoC's target. To me it makes no sense to exclude a category that is a safety valve on the housing market's affordability issues and lack of confidence in nearer-term house prices. Rent inflation is unlikely to go away any time soon. It may also have support through the immigration surge given that a significant number of new arrivals first land in the rental market.

Further, if you start selectively cherry picking, then why not also exclude the five weakest seasonally adjusted categories including clothing and accessories, communications, inter-city transportation and electricity that would add back 0.07 ppts to m/m SA inflation? Exclude those and rent and you're back at the same point we started with: core is hot. Inflation data has to be read as the totality of all influences and doing so gives us well above target core inflation no matter how we slice and dice it.

Chart 4 shows that breadth remains very high. 81% of the basket is running over 3% y/y (unchanged) and 70% is over 4% (a touch lower than the 73% peak).

Chart 5 shows a breakdown of the m/m percentage changes in prices by category and chart 6 does likewise in terms of weighted contributions to the overall change in prices. Charts 7 and 8 do the same thing for the year-over-year rates of change.

For further details please see the accompanying table that breaks down the full basket with multiple measures and offers micro charts and "z-score" measures of the extent to which today's price changes deviate from past historical norms by component.

Chart 3



Chart 4
CA Inflation Still Showing High Breadth

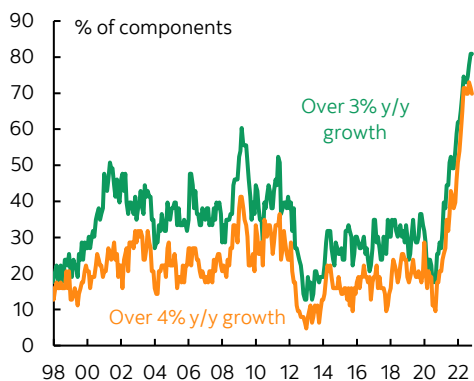


Chart 5

November Detailed Category Monthly Change in Canadian CPI

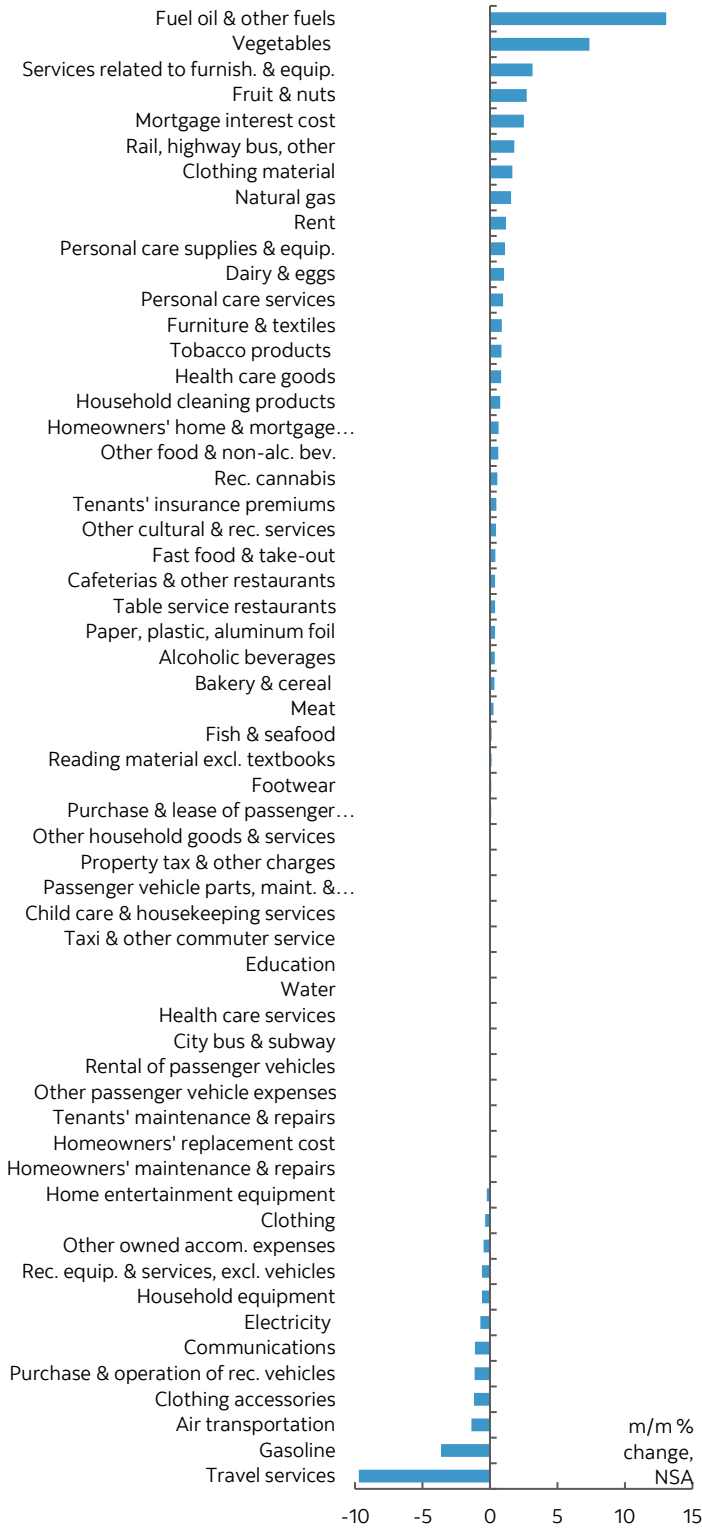
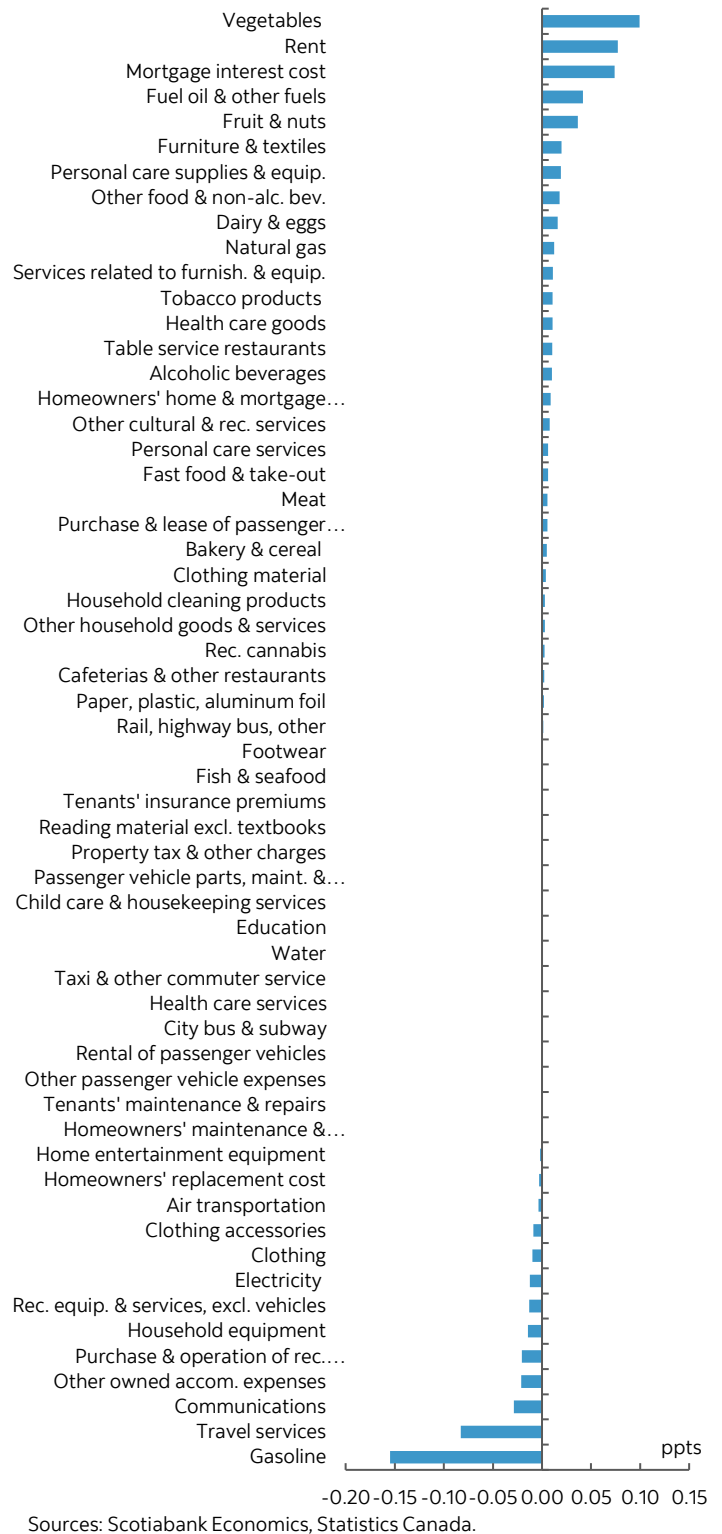


Chart 6

November Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

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Chart 7

November Detailed Category 12-Month Change in Canadian CPI

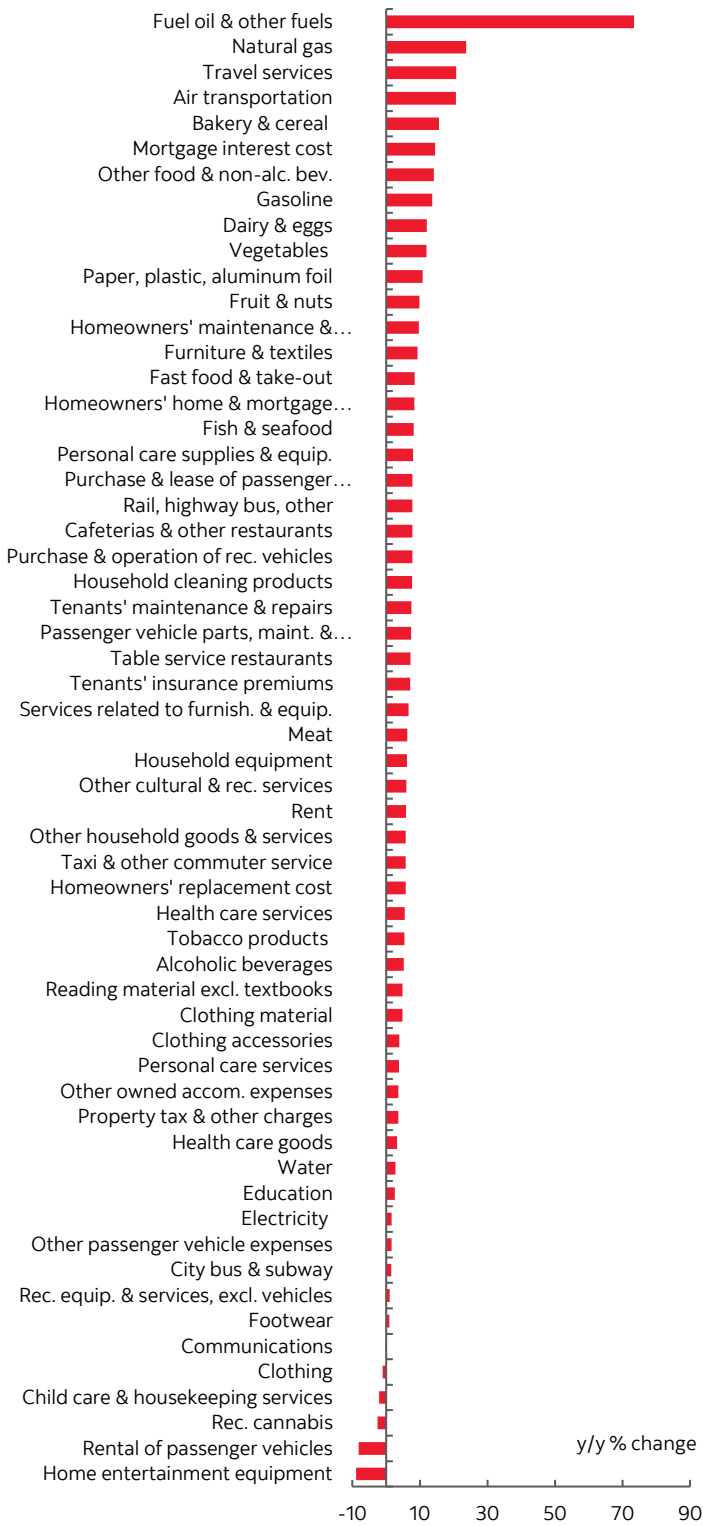
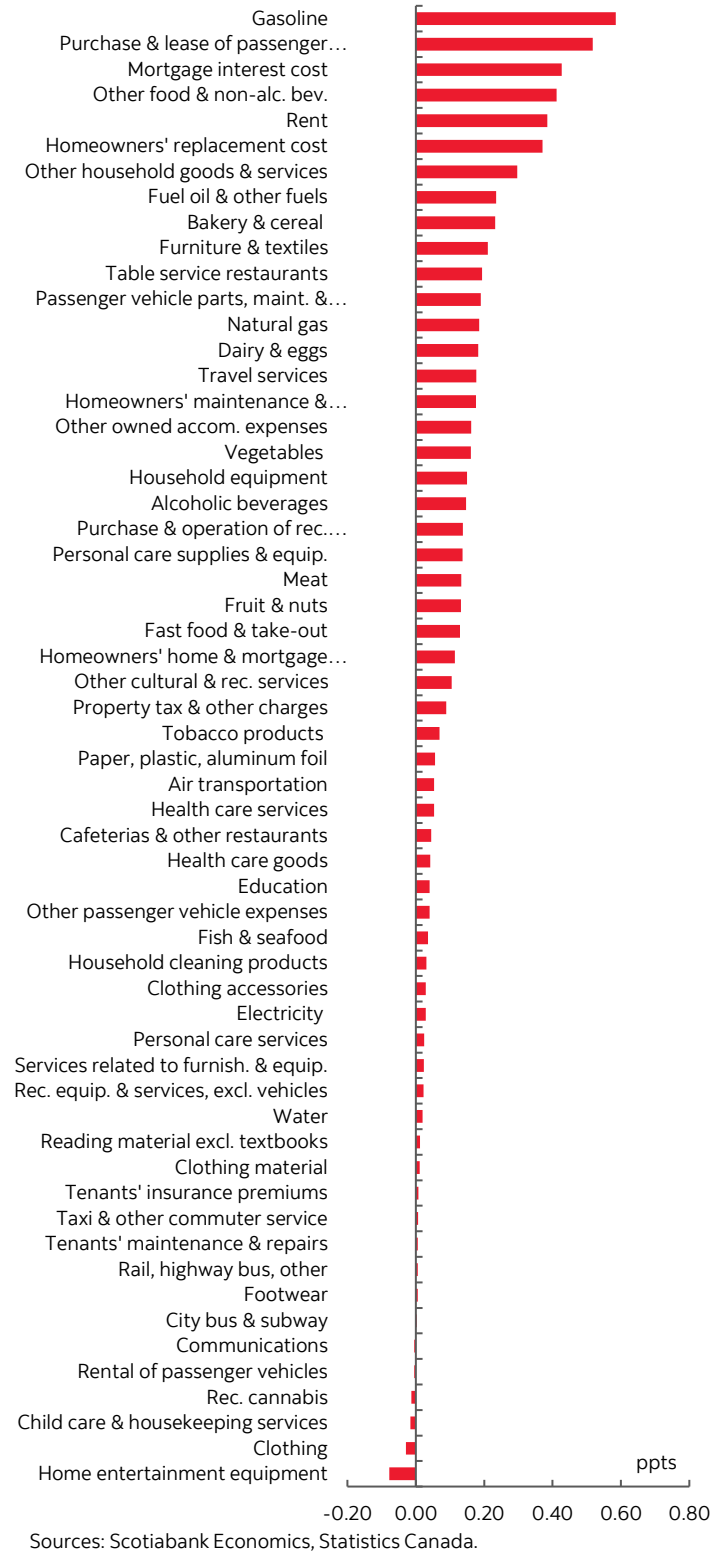


Chart 8

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



Sources: Scotiabank Economics, Statistics Canada.

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December 21, 2022

Nov 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	10.3			1.2	0.7	15.94	1.65	0.19	2.1	1.7	4.8	2.2	1.5	5.6
Food, stores	11.4			1.6		11.14	1.27	0.17	1.7	2.4	4.0	2.0	2.0	4.6
Meat	6.2			0.3	0.6	2.14	0.13	0.01	2.5	3.6	1.0	3.4	3.6	0.8
Fish & seafood	8.1			0.1	0.1	0.44	0.04	0.00	2.9	1.4	3.7	2.8	2.5	2.1
Dairy products & eggs	12.0			1.0	0.8	1.52	0.18	0.02	0.2	1.5	7.7	0.6	1.5	7.6
Bakery & cereal products	15.7			0.3	0.5	1.48	0.23	0.00	0.5	2.1	7.3	1.2	2.3	6.2
Fruit, fruit prep. & nuts	9.8			2.7	1.0	1.34	0.13	0.04	1.8	4.4	1.8	2.0	3.5	2.2
Vegetables & vegetable prep.	12.0			7.4	1.9	1.35	0.16	0.10	4.9	6.4	1.1	3.6	5.8	1.4
Other food & non-alcoholic beverages	14.1			0.6	0.8	2.91	0.41	0.02	1.0	1.5	8.5	1.3	1.7	7.4
Food, restaurants	7.7			0.4		4.80	0.37	0.02	3.0	0.7	7.1	2.6	0.7	7.0
Table service restaurants	7.2			0.4		2.68	0.19	0.01	2.9	0.6	7.9	2.6	0.6	7.2
Fast food & take-out	8.4			0.4		1.54	0.13	0.01	3.2	1.2	4.3	2.6	1.2	5.0
Cafeterias & other restaurants	7.7			0.4		0.58	0.04	0.00	3.0	0.6	7.6	2.6	0.7	7.2
Shelter	7.2			0.6	0.6	29.80	2.16	0.18	1.8	0.6	9.3	1.7	0.8	7.0
Rented accommodation	5.9			1.2	1.2	6.77	0.40	0.08	1.3	0.8	5.8	1.3	0.6	7.8
Rent	5.9			1.2		6.57	0.38	0.08	1.3	0.8	5.6	1.3	0.6	7.6
Tenants' insurance premiums	7.1			0.5		0.11	0.01	0.00	1.1	1.6	3.7	0.3	1.6	4.2
Tenants' maintenance & repairs	7.5			0.0		0.08	0.01	0.00	2.2	1.0	5.1	2.6	2.2	2.3
Owned accommodation	6.7			0.3		19.46	1.31	0.07	2.3	0.4	10.4	1.7	0.8	6.1
Mortgage interest cost	14.5			2.5	2.6	2.94	0.43	0.07	2.1	3.6	3.4	-0.1	3.6	4.1
Homeowners' replacement cost	5.8			0.0	-0.1	6.44	0.37	0.00	1.9	1.7	2.3	2.1	1.5	2.4
Property tax & other charges	3.6			0.0	0.1	2.47	0.09	0.00	2.4	0.6	2.1	2.8	0.7	1.2
Homeowners' home & mortgage insurance	8.3			0.6	0.6	1.37	0.11	0.01	5.2	2.3	1.3	4.5	2.6	1.5
Homeowners' maintenance & repairs	9.7			-0.1	-0.1	1.81	0.18	0.00	2.0	1.1	6.9	2.0	1.4	5.3
Other owned accommodation expenses	3.7			-0.5	-0.2	4.43	0.16	-0.02	2.0	1.2	1.4	2.4	2.0	0.6
Water, fuel, & elec.	12.2			1.3		3.57	0.44	0.05	0.8	2.1	5.4	2.5	3.4	2.9
Electricity	1.6			-0.7	-0.7	1.75	0.03	-0.01	1.2	4.4	0.1	2.5	3.8	-0.2
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	23.7			1.6	1.6	0.78	0.18	0.01	-1.3	9.0	2.8	0.4	10.6	2.2
Fuel oil & other fuels	73.4			13.1	13.0	0.32	0.23	0.04	-0.1	15.5	4.7	5.1	14.2	4.8
Household operations, furniture & equipment	5.2			0.0	0.2	14.50	0.76	0.00	1.2	1.0	3.9	1.4	0.9	4.3
Household ops.	3.8			-0.3		9.30	0.36	-0.03	1.3	1.1	2.2	2.1	1.3	1.4
Communications	-0.2			-1.1	-1.2	2.54	0.00	-0.03	0.0	2.8	-0.1	1.5	2.9	-0.6
Child care & housekeeping services	-2.1			0.0	0.1	0.76	-0.02	0.00	3.4	1.4	-4.0	3.3	1.3	-4.1
Household cleaning products	7.7			0.8	0.5	0.40	0.03	0.00	1.3	1.9	3.4	0.8	1.9	3.5
Paper, plastic, aluminum foil	10.8			0.4	-0.4	0.52	0.06	0.00	2.2	2.2	3.9	2.0	2.0	4.5
Other household goods & services	5.8			0.1	0.4	5.11	0.30	0.00	1.8	0.5	8.4	2.4	1.1	3.2
Household furnishings & equip.	7.6			0.3		5.20	0.39	0.01	0.8	1.7	3.9	0.1	1.6	4.7
Furniture & textiles	9.2			0.9		2.28	0.21	0.02	0.4	2.1	4.2	-0.3	2.1	4.5
Household equipment	6.2			-0.6	0.1	2.42	0.15	-0.01	0.9	1.7	3.2	0.0	1.8	3.4
Services related to furnishings & equipment	6.6			3.1	1.7	0.35	0.02	0.01	2.4	1.8	2.3	2.7	2.9	1.3
Clothing & footwear	0.4			-0.4	-0.4	4.3	0.02	-0.02	0.6	1.2	-0.2	0.3	1.4	0.1
Clothing	-1.1			-0.4	-0.7	2.73	-0.03	-0.01	0.5	1.6	-1.0	-0.3	2.1	-0.4
Footwear	0.9			0.1	0.5	0.57	0.01	0.00	0.4	1.2	0.5	0.1	1.4	0.6
Clothing accessories	3.9			-1.2		0.75	0.03	-0.01	1.0	1.8	1.6	2.3	2.6	0.6
Clothing material	4.8			1.6		0.23	0.01	0.00	2.2	0.7	3.8	2.7	1.2	1.9

December 21, 2022

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Transportation	8.5			-0.9	0.1	16.9	1.44	-0.15	1.7	3.1	2.2	2.3	3.0	2.1
Private trans.	8.4			-0.9		16.1	1.35	-0.14	1.3	3.2	2.2	2.2	3.2	2.0
Purchase, lease, rental of passenger vehicles	7.7			0.1		6.71	0.51	0.01	2.3	1.5	3.5	1.9	1.6	3.5
<i>Purchase & lease of passenger vehicles</i>	<u>7.8</u>			<u>0.1</u>		<u>6.65</u>	<u>0.52</u>	<u>0.01</u>	<u>2.3</u>	<u>1.5</u>	<u>3.6</u>	<u>1.9</u>	<u>1.6</u>	<u>3.6</u>
<i>Rental of passenger vehicles</i>	<u>-8.1</u>			<u>0.0</u>	<u>0.3</u>	<u>0.06</u>	<u>0.00</u>	<u>0.00</u>	<u>1.4</u>	<u>5.2</u>	<u>-1.8</u>	<u>1.2</u>	<u>4.1</u>	<u>-2.3</u>
Operation of passenger vehicles	8.9			-1.6		9.37	0.84	-0.15	0.7	5.7	1.5	2.4	5.4	1.2
<i>Gasoline</i>	<u>13.7</u>			<u>-3.6</u>	<u>-0.6</u>	<u>4.28</u>	<u>0.58</u>	<u>-0.15</u>	<u>-0.6</u>	<u>13.5</u>	<u>1.1</u>	<u>3.0</u>	<u>12.2</u>	<u>0.9</u>
<i>Passenger vehicle parts, maintenance & repairs</i>	<u>7.4</u>			<u>0.0</u>	<u>0.4</u>	<u>2.56</u>	<u>0.19</u>	<u>0.00</u>	<u>1.9</u>	<u>0.3</u>	<u>16.0</u>	<u>1.6</u>	<u>0.8</u>	<u>7.5</u>
<i>Other passenger vehicle expenses</i>	<u>1.6</u>			<u>0.0</u>	<u>0.0</u>	<u>2.53</u>	<u>0.04</u>	<u>0.00</u>	<u>2.4</u>	<u>2.2</u>	<u>-0.4</u>	<u>2.6</u>	<u>2.0</u>	<u>-0.5</u>
Public trans.	11.9			-0.5		0.82	0.10	0.00	4.8	3.9	1.8	3.4	3.7	2.3
Local & commuter transportation	3.4			0.0	0.1	0.28	0.01	0.00	1.5	0.5	3.9	2.2	1.2	1.0
<i>City bus & subway</i>	<u>1.5</u>			<u>0.0</u>		<u>0.17</u>	<u>0.00</u>	<u>0.00</u>	<u>2.1</u>	<u>0.7</u>	<u>-0.8</u>	<u>2.8</u>	<u>1.4</u>	<u>-0.9</u>
<i>Taxi & other commuter service</i>	<u>5.8</u>			<u>0.0</u>		<u>0.11</u>	<u>0.01</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>7.0</u>	<u>0.9</u>	<u>1.2</u>	<u>4.0</u>
Inter-city transportation	18.5			-0.8	-0.7	0.37	0.07	0.00	6.2	5.7	2.2	3.9	5.8	2.5
<i>Air transportation</i>	<u>20.6</u>			<u>-1.4</u>		<u>0.26</u>	<u>0.05</u>	<u>0.00</u>	<u>6.5</u>	<u>6.2</u>	<u>2.3</u>	<u>4.0</u>	<u>6.4</u>	<u>2.6</u>
<i>Rail, highway bus, other</i>	<u>7.8</u>			<u>1.8</u>		<u>0.07</u>	<u>0.01</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>2.9</u>	<u>2.0</u>	<u>4.2</u>	<u>1.4</u>
Health & personal care	5.5			0.8	0.6	4.62	0.3	0.04	1.4	0.4	10.3	1.3	0.9	5.0
Health care	4.2			0.5		2.26	0.1	0.01	1.3	0.6	4.9	1.1	0.8	3.8
Health care goods	3.2			0.8	0.8	1.31	0.0	0.01	0.5	0.7	3.8	-0.1	1.1	3.0
Health care services	5.5			0.0	0.3	0.96	0.1	0.00	2.5	0.6	5.5	2.9	0.8	3.4
Personal Care	6.7			1.0		2.36	0.2	0.02	1.5	0.5	9.7	1.5	1.2	4.5
Personal care supplies & equipment	7.9			1.1	0.8	1.72	0.1	0.02	0.4	0.9	8.0	0.5	1.6	4.6
Personal care services	3.8			1.0	0.4	0.64	0.0	0.01	2.9	0.7	1.2	2.7	1.4	0.8
Recreation, education & reading	4.1			-1.3	-0.1	9.29	0.4	-0.12	1.7	0.8	3.2	1.3	0.9	3.4
Recreation	4.6			-1.54		7.43	0.34	-0.11	1.4	1.0	3.2	0.6	1.2	3.2
Recreational equipment & services, excl. vehicles	1.0			-0.6	0.6	2.18	0.0	-0.01	-0.8	1.6	1.2	-2.2	2.0	1.6
Purchase & operation of recreational vehicles	7.7			-1.2	-0.3	1.78	0.1	-0.02	2.6	1.8	2.8	1.9	2.0	3.0
Home entertainment equipment	-8.9			-0.2	-0.3	0.88	-0.1	0.00	-3.8	2.0	-2.5	-4.9	2.2	-1.8
Travel services	20.8			-9.7	1.4	0.85	0.2	-0.08	0.8	2.9	6.8	0.4	2.8	7.2
Other cultural & rec. services	6.0			0.4	0.6	1.75	0.1	0.01	3.5	1.1	2.3	3.4	1.4	1.9
Educ. & reading	2.8			0.00		1.86	0.05	0.00	2.5	1.4	0.2	3.0	1.1	-0.1
Education	2.5			0.0	0.2	1.60	0.0	0.00	2.4	1.4	0.1	3.0	1.2	-0.4
Reading material excl. textbooks	4.8			0.1	0.1	0.26	0.0	0.00	3.8	2.8	0.4	3.2	2.9	0.5
Alcoholic beverages, tobacco & rec. cannabis	4.5			0.5	0.5	4.63	0.2	0.03	3.2	1.2	1.1	2.7	1.3	1.3
Alcoholic beverages	5.2			0.35		2.83	0.15	0.01	1.7	0.5	6.7	1.4	0.7	5.2
Alc. beverages served in licensed establishments	4.7			1.4	1.4	0.67	0.0	0.01	1.8	0.6	4.7	2.0	0.7	3.9
Alc. beverages purchased from stores	5.3			0.0	0.2	2.16	0.1	0.00	1.7	0.7	5.5	1.1	1.1	4.0
Tobacco products	5.4			0.85		1.28	0.07	0.01	5.6	2.1	-0.1	4.8	2.8	0.2
Cigarettes	5.6			1.0		1.16	0.1	0.01	5.6	2.1	0.0	4.8	2.8	0.3
Other tobacco products & supplies	3.7			-0.1		0.11	0.0	0.00	5.6	2.0	-0.9	4.9	2.6	-0.5
Rec. cannabis	-2.6			0.53		0.50	-0.01	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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