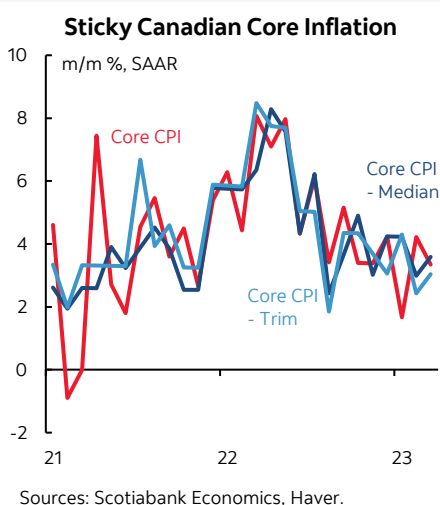
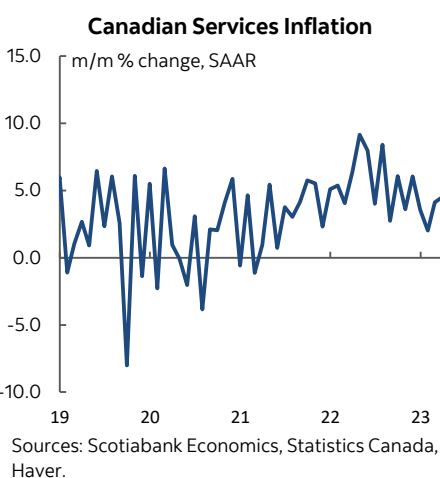


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Chart 1

Chart 2


Canadian Core Inflation Remains Sticky as Upside Risks are Returning

- It's not the year-over-year headline rate that matters one iota...
- ...as higher frequency core gauges remain sticky...
- ...reaffirming the BoC's concern over stalled progress
- Why core inflation faces renewed upside risk with idiosyncratic Canadian drivers

Canadian CPI, m/m % NSA // y/y %, March:

Actual: 0.5 / 4.3
 Scotia: 0.7 / 4.5
 Consensus: 0.5 / 4.3
 Prior: 0.4 / 5.2

Canadian trimmed mean // weighted median // average, y/y %, March:

Actual: 4.4 / 4.6 / 4.5
 Prior: 4.8 / 4.9 / 4.9 (unrevised)

Canadian core inflation remains sticky and persistently above the BoC's 2% headline target with no evidence of continued progress. Chart 1 illustrates this point by tracking the month-over-month rates of core inflation at a seasonally adjusted and annualized pace. Two of the three measures picked up and the third one slipped with all of them continuing to rest at 3% or higher (chart 1).

This observation reaffirms Governor Macklem's stance that the easy part of getting inflation lower has passed and now we're left with the more persistent pressures that are not building upon prior progress. The result will likely continue to merit a cautious tone by Governor Macklem during his pending testimony this morning in which he is likely to flag stalled progress while leaning against cutting this year and retaining a hike option.

Markets largely shrugged off the readings. There was a slight initial cheapening in Canada 2s post-data but that probably had more to do with the coincidental cheapening in US 2s following US bank earnings and hawkish comments from St. Louis Fed President Bullard who said he favours further rate hikes in a plural sense. These moves were subsequently reversed with little net change holding at the time of sending this publication.

The year-over-year rate of inflation cooled to 4.3% from 5.2% but is largely irrelevant in terms of evaluating monetary policy risks. Ditto for the trimmed mean (4.4% from 4.8%) and weighted median (4.6% from 4.9%) year-over-year gauges.

In order to evaluate price pressures at the margin—and hence not influenced by base effects—we need to use the highest frequency measures. Using year-over-year risks repeating one of the mistakes that the BoC and Fed made when inflation was first starting to take off and they dismissed it as a base effect argument while ignoring incremental pressures. Today presents the opposite risk of misjudging inflation's decline as year-over-year rates continue to plunge over the duration of the year with uncertain effects beyond.

Hence the focus upon trimmed mean at 3% m/m SAAR, weighted median (3.6% m/m SAAR) and CPI ex-food and energy (3.3% m/m SAAR).

DETAILS

Governor Macklem is keeping a close eye on services inflation and it remains firm. Chart 2 shows the month-over-month seasonally adjusted and annualized rate of services inflation that is holding around the elevated average of the past year.

Chart 3

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

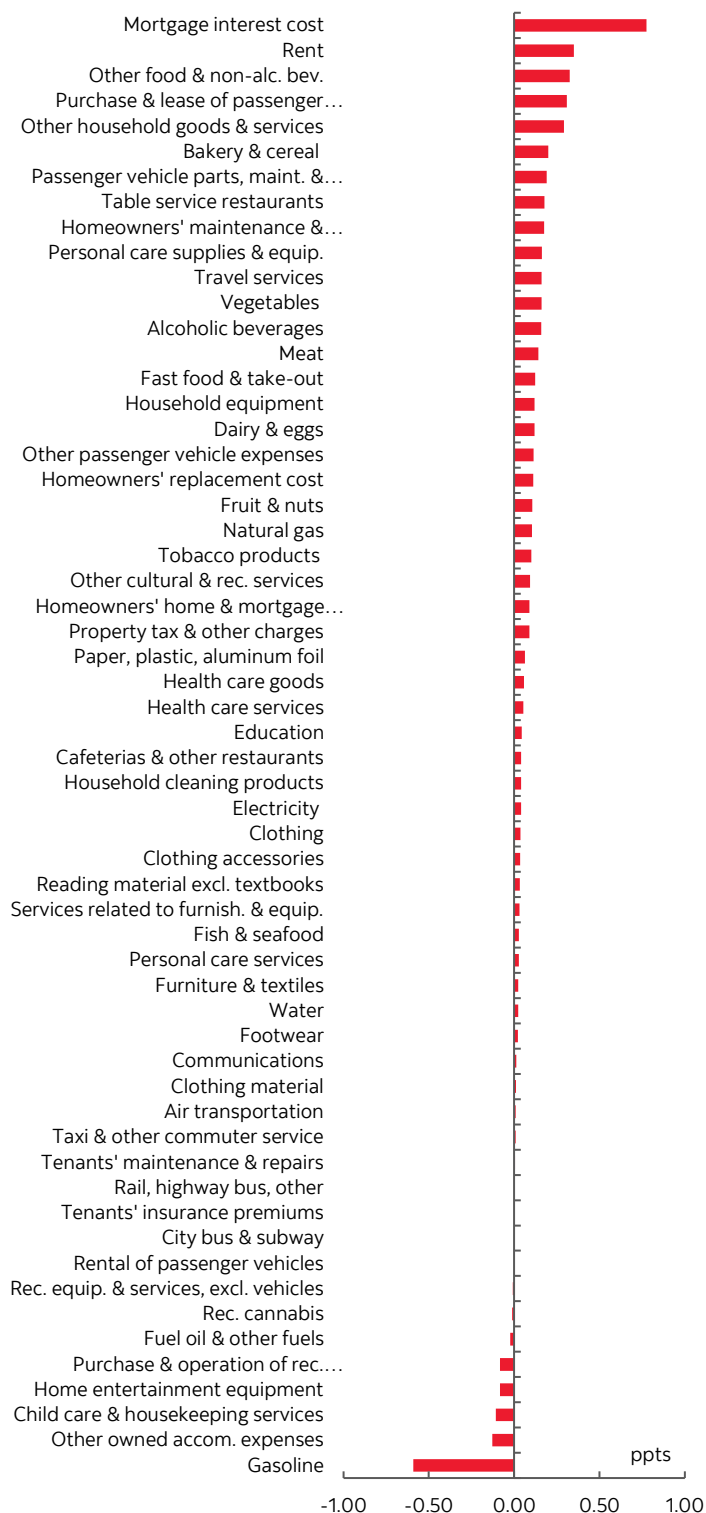


Chart 4

March Detailed Category 12-Month Change in Canadian CPI

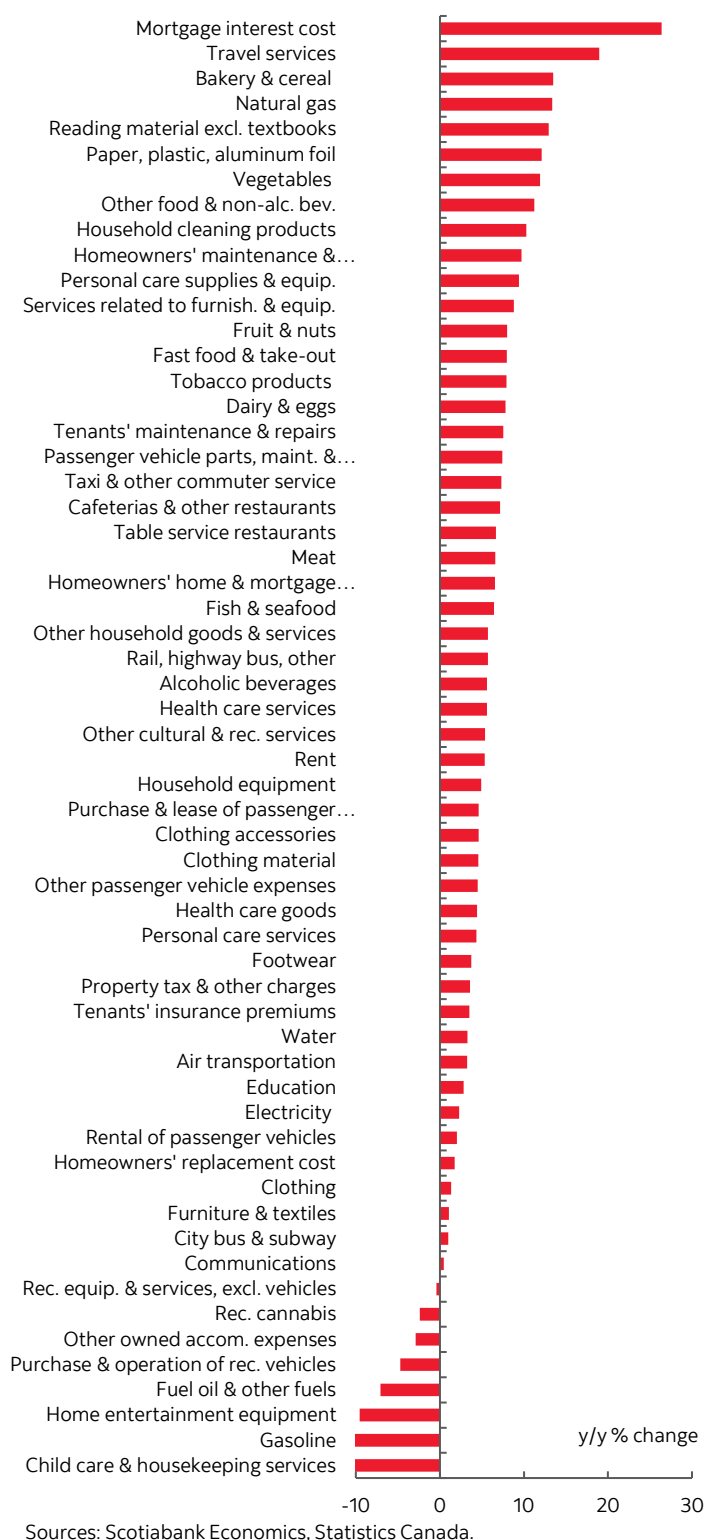
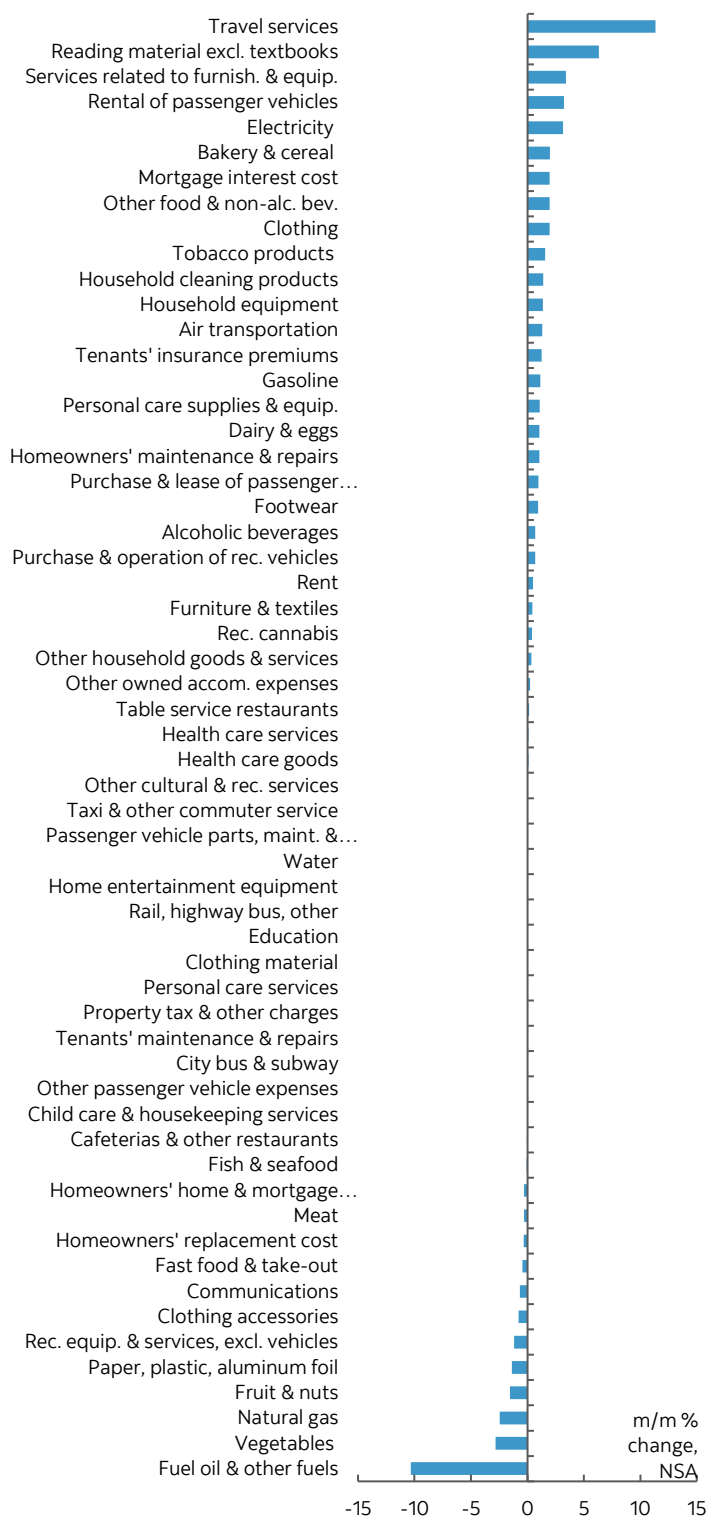


Chart 5

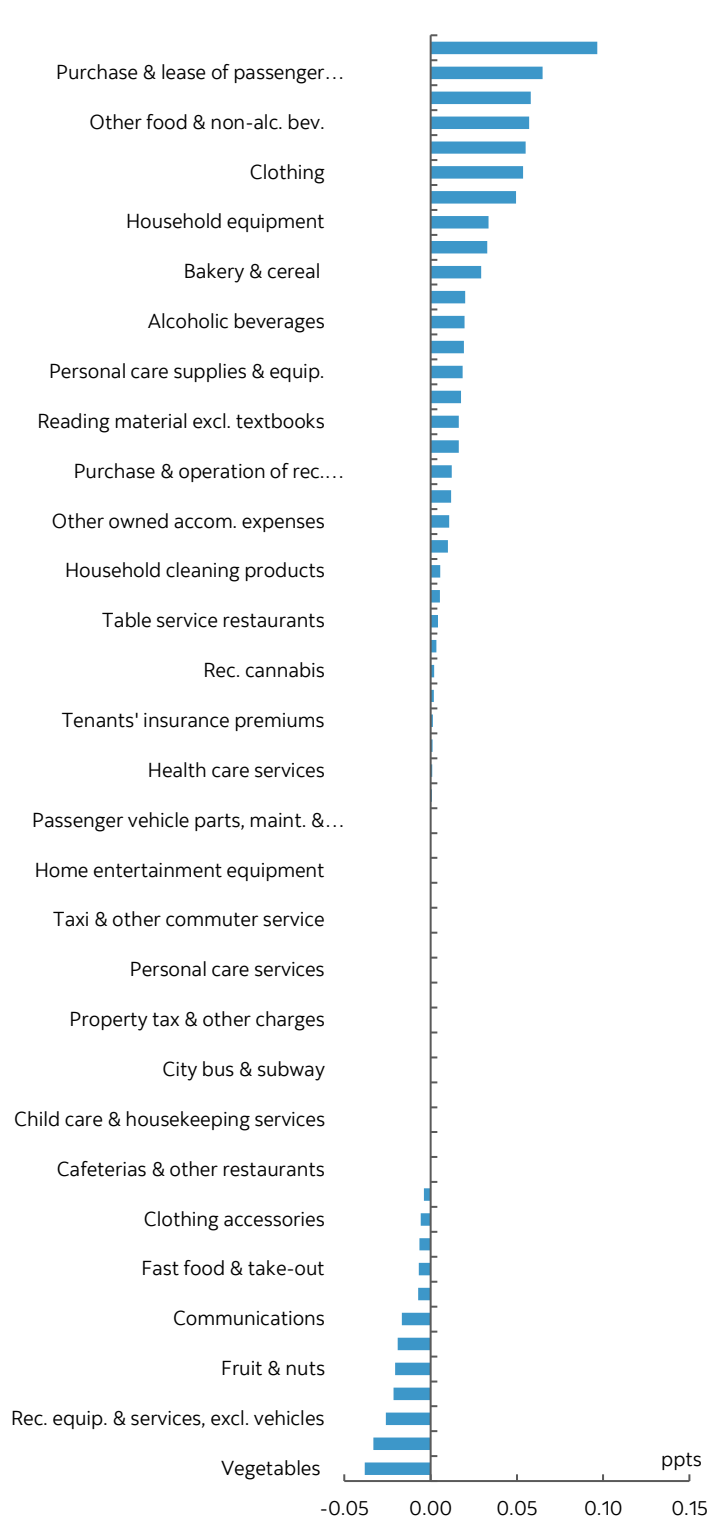
March Detailed Category Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

March Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

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Chart 3 shows the breakdown of the CPI basket in m/m NSA terms by component and chart 4 does the same thing in terms of their weighted contributions to growth. Charts 5 and 6 do likewise for year-over-year rates.

Charts 7–11 portray select components of the basket. In particular, note that seasonal March break plans drove some heat in the recreation/education category as travel tour prices soared.

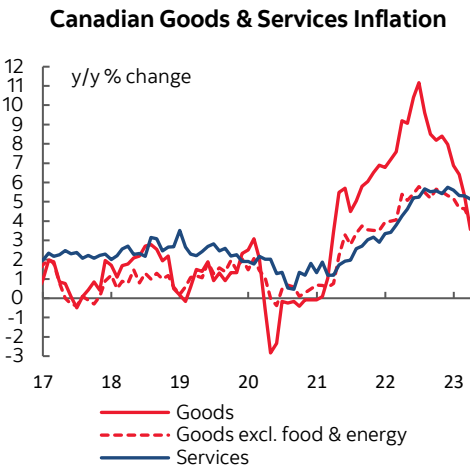
Please see the accompanying detailed table including micro-charts and z-score measures of deviations from trends by component.

THE PATH FORWARD

As previously argued ([here](#)), I think that several forward-looking drivers of inflation are likely to become more heated and this may very well require additional policy tightening lest inflation expectations never come fully under control around the BoC's desired levels. They include:

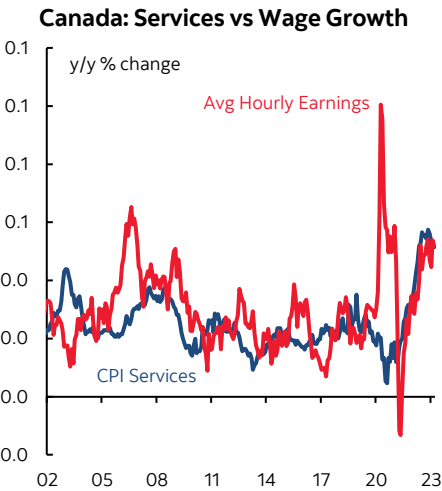
1. Evidence that housing is bottoming. Canada is likely to achieve a bottom for housing's influence on CPI earlier than elsewhere because of the way Canada captures house prices in CPI by using replacement costs derived from new home prices. This contrasts with the US in which market rent changes driving lagging influences upon owners equivalent rent.
2. This view toward housing is driven by very tight housing inventories and soaring immigration. Governor Macklem is too dismissive toward the impact that immigration may have on inflation by assuming that it impacts supply and demand simultaneously. It does not. When has it ever?? Especially in Canada, where a demand infusion always arrives before supply gets added in lagging fashion. If Canada sticks with its half-million per year immigration target then it faces the likelihood of serial upward pressure upon house prices as supply persistently lags demand. There may be concomitant social challenges as well. To be clear, this is not a knock against immigration as regular readers would know given my longstanding support for higher immigration in order to offset aging influences and as a driver of longer-run economic growth. There are, however, costs and benefits to doing so.
3. With firmer housing demand and prices may come spillover effects onto other parts of the CPI basket. If you've ever bought a home, new or resale, then you'd know what I mean by that!
4. Canada's job market is very tight and it is generating wage pressures that are far in excess of productivity gains with the latter being a national embarrassment throughout the pandemic.
5. Public sector wage gains risk fanning private wage gains and with spillover effects into core CPI. I argued this point in the Global Week Ahead and there is substantial cross-country evidence for this point ([here](#), and box 2.1 [here](#)).
6. The weight on public sector wage gains in Canada has dramatically risen as shown in charts 9 and 10 in my week ahead. Massive public sector hiring throughout the pandemic has caused worker shortages in the private sector and with that has gone damage to potential GDP growth through permanent impairment of private sector output and wealth creation.
7. Fiscal policy remains highly stimulative. Also see the week ahead for this argument and why I think Governor Macklem is too cavalier in dismissing the ongoing and incremental role of fiscal policy.
8. Canada has yet to make a dent in terms of opening up disinflationary slack. Once and if it makes such progress then there will be lagging effects on core inflation, but the economy and labour market have not even begun to make that journey despite 1.5 years since the bond market started to materially tighten conditions in anticipation of tighter monetary policy.

Chart 7



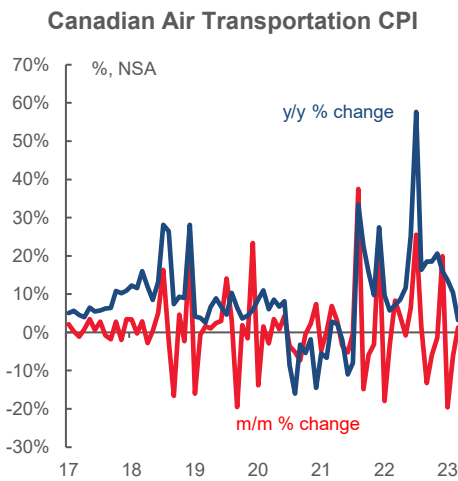
Sources: Scotiabank Economics, Statistics Canada.

Chart 8



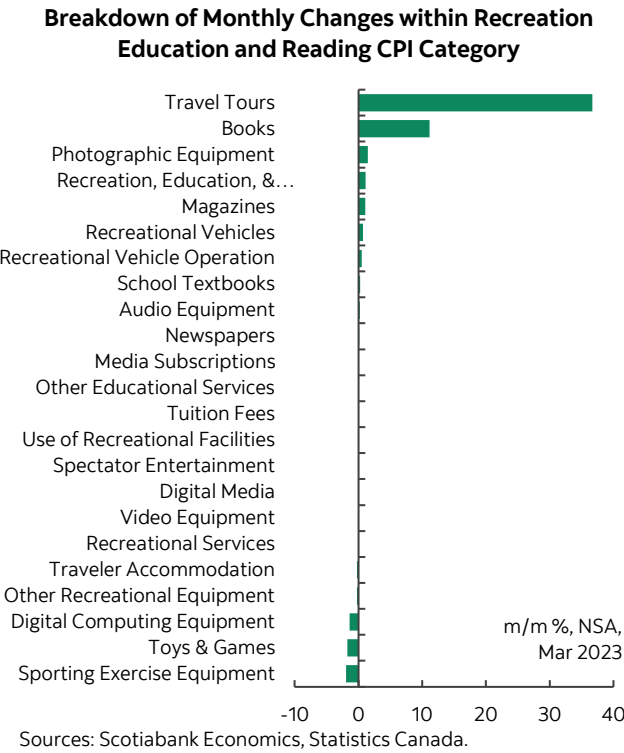
Sources: Scotiabank Economics, Haver Analytics.

Chart 9



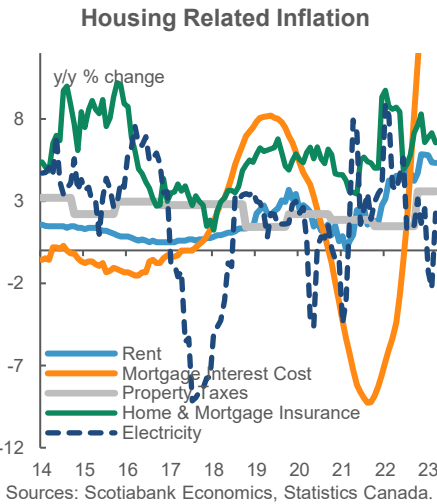
Sources: Scotiabank Economics, Statistics Canada.

Chart 10






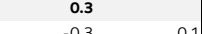
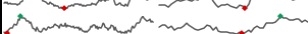
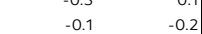

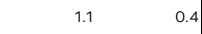

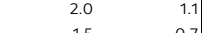

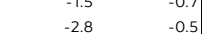

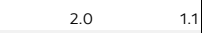



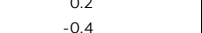

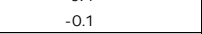





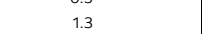

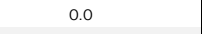



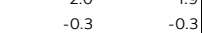

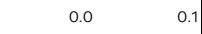

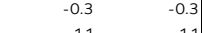

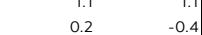



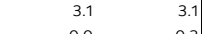

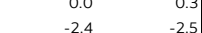

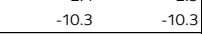





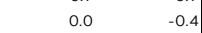

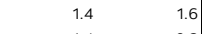

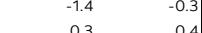





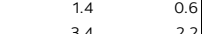
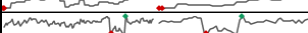
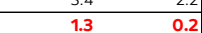

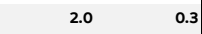










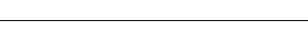
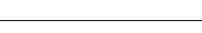






Sources: Scotiabank Economics, Statistics Canada.

Chart 11



Sources: Scotiabank Economics, Statistics Canada.

April 18, 2023

Mar 2023						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	8.9			0.2	0.4	15.94	1.42	0.03	2.1	1.7	4.0	2.2	1.5	4.6
Food, stores	9.7			0.3		11.14	1.08	0.03	1.7	2.4	3.3	2.0	2.0	3.8
Meat	6.6			-0.3	0.1	2.14	0.14	-0.01	2.5	3.6	1.2	3.4	3.6	0.9
Fish & seafood	6.4			-0.1	-0.2	0.44	0.03	0.00	2.9	1.4	2.5	2.8	2.5	1.5
Dairy products & eggs	7.8			1.1	0.4	1.52	0.12	0.02	0.2	1.5	5.0	0.6	1.5	4.8
Bakery & cereal products	13.5			2.0	1.1	1.48	0.20	0.03	0.5	2.1	6.3	1.2	2.3	5.3
Fruit, fruit prep. & nuts	8.0			-1.5	-0.7	1.34	0.11	-0.02	1.8	4.4	1.4	2.0	3.5	1.7
Vegetables & vegetable prep.	11.9			-2.8	-0.5	1.35	0.16	-0.04	4.9	6.4	1.1	3.6	5.8	1.4
Other food & non-alcoholic beverages	11.2			2.0	1.1	2.91	0.33	0.06	1.0	1.5	6.6	1.3	1.7	5.7
Food, restaurants	7.2			0.0		4.80	0.34	0.00	3.0	0.7	6.3	2.6	0.7	6.3
Table service restaurants	6.7			0.2		2.68	0.18	0.00	2.9	0.6	6.9	2.6	0.6	6.3
Fast food & take-out	8.0			-0.4		1.54	0.12	-0.01	3.2	1.2	3.9	2.6	1.2	4.6
Cafeterias & other restaurants	7.2			-0.1		0.58	0.04	0.00	3.0	0.6	6.7	2.6	0.7	6.4
Shelter	5.4			0.4	0.4	29.80	1.62	0.11	1.8	0.6	6.2	1.7	0.8	4.7
Rented accommodation	5.3			0.6	0.6	6.77	0.36	0.04	1.3	0.8	5.0	1.3	0.6	6.8
Rent	5.3			0.5		6.57	0.35	0.03	1.3	0.8	4.9	1.3	0.6	6.7
Tenants' insurance premiums	3.5			1.3		0.11	0.00	0.00	1.1	1.6	1.5	0.3	1.6	2.0
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	5.7			0.4		19.46	1.11	0.08	2.3	0.4	8.1	1.7	0.8	4.8
Mortgage interest cost	26.4			2.0	1.9	2.94	0.78	0.06	2.1	3.6	6.7	-0.1	3.6	7.4
Homeowners' replacement cost	1.7			-0.3	-0.3	6.44	0.11	-0.02	1.9	1.7	-0.1	2.1	1.5	-0.3
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	6.5			-0.3	-0.3	1.37	0.09	0.00	5.2	2.3	0.6	4.5	2.6	0.8
Homeowners' maintenance & repairs	9.7			1.1	1.1	1.81	0.18	0.02	2.0	1.1	6.9	2.0	1.4	5.3
Other owned accommodation expenses	-2.9			0.2	-0.4	4.43	-0.13	0.01	2.0	1.2	-4.0	2.4	2.0	-2.7
Water, fuel, & elec.	4.0			-0.1		3.57	0.14	0.00	0.8	2.1	1.5	2.5	3.4	0.5
Electricity	2.3			3.1	3.1	1.75	0.04	0.06	1.2	4.4	0.3	2.5	3.8	0.0
Water	3.3			0.0	0.3	0.72	0.02	0.00	3.7	0.9	-0.5	4.9	1.4	-1.1
Natural gas	13.4			-2.4	-2.5	0.78	0.10	-0.02	-1.3	9.0	1.6	0.4	10.6	1.2
Fuel oil & other fuels	-7.1			-10.3	-10.3	0.32	-0.02	-0.03	-0.1	15.5	-0.5	5.1	14.2	-0.9
Household operations, furniture & equipment	3.3			0.4	-0.1	14.50	0.47	0.05	1.2	1.0	2.0	1.4	0.9	2.1
Household ops.	3.2			0.0		9.30	0.29	0.00	1.3	1.1	1.6	2.1	1.3	0.9
Communications	0.5			-0.7	-0.7	2.54	0.01	-0.02	0.0	2.8	0.2	1.5	2.9	-0.4
Child care & housekeeping services	-14.2			0.0	-0.4	0.76	-0.11	0.00	3.4	1.4	-12.8	3.3	1.3	-13.2
Household cleaning products	10.3			1.4	1.6	0.40	0.04	0.01	1.3	1.9	4.8	0.8	1.9	4.9
Paper, plastic, aluminum foil	12.1			-1.4	-0.3	0.52	0.06	-0.01	2.2	2.2	4.4	2.0	2.0	5.1
Other household goods & services	5.7			0.3	0.4	5.11	0.29	0.02	1.8	0.5	8.2	2.4	1.1	3.1
Household furnishings & equip.	3.4			1.1		5.20	0.18	0.06	0.8	1.7	1.5	0.1	1.6	2.1
Furniture & textiles	1.1			0.4		2.28	0.02	0.01	0.4	2.1	0.3	-0.3	2.1	0.7
Household equipment	4.9			1.4	0.6	2.42	0.12	0.03	0.9	1.7	2.4	0.0	1.8	2.7
Services related to furnishings & equipment	8.8			3.4	2.2	0.35	0.03	0.01	2.4	1.8	3.5	2.7	2.9	2.1
Clothing & footwear	2.4			1.3	0.2	4.3	0.10	0.05	0.6	1.2	1.5	0.3	1.4	1.5
Clothing	1.3			2.0	0.3	2.73	0.04	0.05	0.5	1.6	0.5	-0.3	2.1	0.7
Footwear	3.8			0.9	0.3	0.57	0.02	0.01	0.4	1.2	2.9	0.1	1.4	2.5
Clothing accessories	4.6			-0.8		0.75	0.03	-0.01	1.0	1.8	2.0	2.3	2.6	0.9
Clothing material	4.6			0.0		0.23	0.01	0.00	2.2	0.7	3.5	2.7	1.2	1.7

April 18, 2023

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Transportation	0.3		0.7	-0.6	16.9	0.05	0.12	1.7	3.1	-0.4	2.3	3.0	-0.7
Private trans.	0.1		0.7		16.1	0.01	0.11	1.3	3.2	-0.4	2.2	3.2	-0.7
Purchase, lease, rental of passenger vehicles	4.7		1.1		6.71	0.32	0.08	2.3	1.5	1.6	1.9	1.6	1.7
<u>Purchase & lease of passenger vehicles</u>	<u>4.6</u>		<u>1.0</u>		<u>6.65</u>	<u>0.31</u>	<u>0.06</u>	<u>2.3</u>	<u>1.5</u>	<u>1.5</u>	<u>1.9</u>	<u>1.6</u>	<u>1.7</u>
<u>Rental of passenger vehicles</u>	<u>2.0</u>		<u>3.2</u>	<u>1.7</u>	<u>0.06</u>	<u>0.00</u>	<u>0.00</u>	<u>1.4</u>	<u>5.2</u>	<u>0.1</u>	<u>1.2</u>	<u>4.1</u>	<u>0.2</u>
Operation of passenger vehicles	-3.2		0.5		9.37	-0.30	0.05	0.7	5.7	-0.7	2.4	5.4	-1.0
<u>Gasoline</u>	<u>-13.8</u>		<u>1.2</u>	<u>-3.8</u>	<u>4.28</u>	<u>-0.59</u>	<u>0.05</u>	<u>-0.6</u>	<u>13.5</u>	<u>-1.0</u>	<u>3.0</u>	<u>12.2</u>	<u>-1.4</u>
<u>Passenger vehicle parts, maintenance & repairs</u>	<u>7.4</u>		<u>0.0</u>	<u>0.5</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>
<u>Other passenger vehicle expenses</u>	<u>4.5</u>		<u>0.0</u>	<u>0.0</u>	<u>2.53</u>	<u>0.11</u>	<u>0.00</u>	<u>2.4</u>	<u>2.2</u>	<u>1.0</u>	<u>2.6</u>	<u>2.0</u>	<u>1.0</u>
Public trans.	3.9		0.6		0.82	0.03	0.00	4.8	3.9	-0.2	3.4	3.7	0.1
Local & commuter transportation	3.9		0.0	0.0	0.28	0.01	0.00	1.5	0.5	4.9	2.2	1.2	1.5
<u>City bus & subway</u>	<u>1.0</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>-1.5</u>	<u>2.8</u>	<u>1.4</u>	<u>-1.2</u>
<u>Taxi & other commuter service</u>	<u>7.3</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>8.8</u>	<u>0.9</u>	<u>1.2</u>	<u>5.3</u>
Inter-city transportation	3.7		1.1	-1.6	0.37	0.01	0.00	6.2	5.7	-0.4	3.9	5.8	0.0
<u>Air transportation</u>	<u>3.2</u>		<u>1.3</u>		<u>0.26</u>	<u>0.01</u>	<u>0.00</u>	<u>6.5</u>	<u>6.2</u>	<u>-0.5</u>	<u>4.0</u>	<u>6.4</u>	<u>-0.1</u>
<u>Rail, highway bus, other</u>	<u>5.7</u>		<u>0.0</u>		<u>0.07</u>	<u>0.00</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>1.7</u>	<u>2.0</u>	<u>4.2</u>	<u>0.9</u>
Health & personal care	6.5		0.5	0.5	4.62	0.3	0.02	1.4	0.4	12.8	1.3	0.9	6.2
Health care	4.9		0.1		2.26	0.1	0.00	1.3	0.6	6.2	1.1	0.8	4.7
Health care goods	4.4		0.1	0.0	1.31	0.1	0.00	0.5	0.7	5.5	-0.1	1.1	4.1
Health care services	5.6		0.1	0.4	0.96	0.1	0.00	2.5	0.6	5.5	2.9	0.8	3.4
Personal Care	8.0		0.8		2.36	0.2	0.02	1.5	0.5	12.1	1.5	1.2	5.6
Personal care supplies & equipment	9.4		1.1	1.0	1.72	0.2	0.02	0.4	0.9	9.6	0.5	1.6	5.5
Personal care services	4.4		0.0	0.4	0.64	0.0	0.00	2.9	0.7	2.0	2.7	1.4	1.1
Recreation, education & reading	1.6		1.1	0.2	9.29	0.2	0.11	1.7	0.8	-0.1	1.3	0.9	0.4
Recreation	1.0		1.20		7.43	0.08	0.09	1.4	1.0	-0.4	0.6	1.2	0.3
Recreational equipment & services, excl. vehicles	-0.4		-1.2	-1.3	2.18	0.0	-0.03	-0.8	1.6	0.3	-2.2	2.0	0.9
Purchase & operation of recreational vehicles	-4.7		0.7	-0.1	1.78	-0.1	0.01	2.6	1.8	-4.0	1.9	2.0	-3.4
Home entertainment equipment	-9.5		0.0	-0.3	0.88	-0.1	0.00	-3.8	2.0	-2.8	-4.9	2.2	-2.1
Travel services	19.0		11.4	2.9	0.85	0.2	0.10	0.8	2.9	6.2	0.4	2.8	6.6
Other cultural & rec. services	5.4		0.0	0.3	1.75	0.1	0.00	3.5	1.1	1.7	3.4	1.4	1.4
Educ. & reading	4.2		0.91		1.86	0.08	0.02	2.5	1.4	1.2	3.0	1.1	1.1
Education	2.8		0.0	0.1	1.60	0.0	0.00	2.4	1.4	0.3	3.0	1.2	-0.1
Reading material excl. textbooks	12.9		6.3	6.4	0.26	0.0	0.02	3.8	2.8	3.3	3.2	2.9	3.3
Alcoholic beverages, tobacco & rec. cannabis	5.4		0.9	0.7	4.63	0.3	0.04	3.2	1.2	2.0	2.7	1.3	2.1
Alcoholic beverages	5.6		0.70		2.83	0.16	0.02	1.7	0.5	7.5	1.4	0.7	5.7
Alc. beverages served in licensed establishments	4.6		0.1	0.5	0.67	0.0	0.00	1.8	0.6	4.5	2.0	0.7	3.7
Alc. beverages purchased from stores	5.9		0.9	0.4	2.16	0.1	0.02	1.7	0.7	6.4	1.1	1.1	4.5
Tobacco products	7.9		1.57		1.28	0.10	0.02	5.6	2.1	1.1	4.8	2.8	1.1
Cigarettes	7.7		1.7		1.16	0.1	0.02	5.6	2.1	1.0	4.8	2.8	1.0
Other tobacco products & supplies	10.7		0.5		0.11	0.0	0.00	5.6	2.0	2.5	4.9	2.6	2.2
Rec. cannabis	-2.4		0.41		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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