

Contributors

Derek Holt

VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

Chart 1

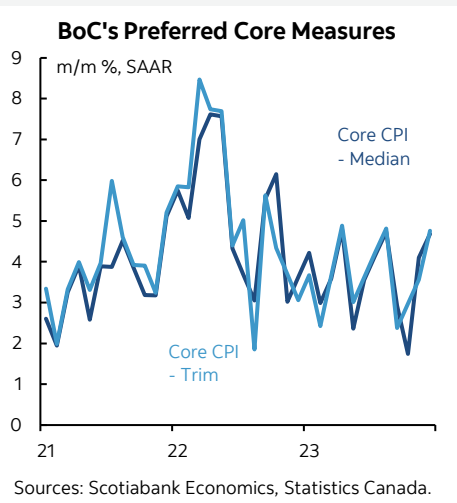
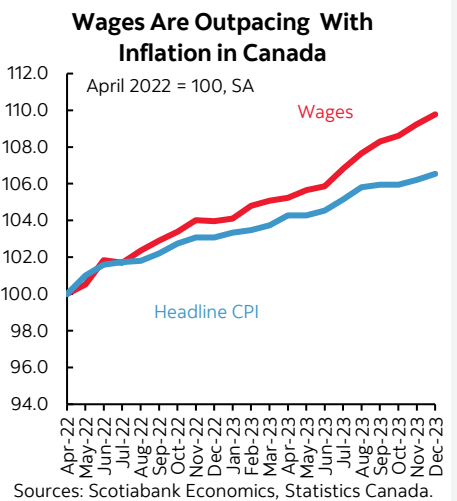


Chart 2



The Bank of Canada is Not on Track For Cutting Any Time Soon

- Canadian core inflation accelerated again...
- ...with upward revisions
- As hot as inflation is, wages are even hotter...
- ...meaning that an awful lot has to go right to get BoC cuts by 2024H2
- Markets further reduced pricing for a nearer-term BoC cut
- Central banks will continue to favour data dependence over forecasts

Canadian CPI m/m SA % / y/y %, December:

Actual: -0.3 / 3.4
 Scotia: -0.3 / 3.4
 Consensus: 0.3 / 3.4
 Prior: 0.1 / 3.1

Trimmed mean CPI: 4.8% m/m SAAR / 3.7% y/y from 3.5%

Weighted median CPI: 4.7% m/m SAAR / 3.6% y/y from 3.6% (revised up from 3.4)

The latest inflation evidence continues to push back against market pricing and some forecasters' views that the Bank of Canada will be cutting by the March and April meetings. March has been mostly wiped out and April's cut pricing was further reduced.

Not going to happen folks. I've argued for a long time that one should be paying those contracts; doing so would have paid off handsomely by now. In fact, I think an awful lot has to go right from here in order to get the BoC to be cutting by the consensus call for around mid-year or even this year and to this point I just don't see the required evidence.

Key is that the BoC's preferred gauges of underlying inflation accelerated again as shown in chart 1. Trimmed mean CPI—that lops off the top and bottom 20% of the CPI basket—landed at 4.8% m/m at a seasonally adjusted and annualized rate. Weighted median CPI—that takes the 50th percentile price—was up by 4.7% m/m SAAR. Both readings are far above the BoC's 2% inflation target and signal no progress toward achieving it any time soon. These are central tendency inflation measures totally unaffected by outlier price changes like mortgage interest.

The year-over-year rates also picked up to 3.7% y/y from 3.5% for trimmed mean and to 3.6% y/y for weighted median CPI with the prior month revised up to 3.6% from 3.4%.

Chart 3

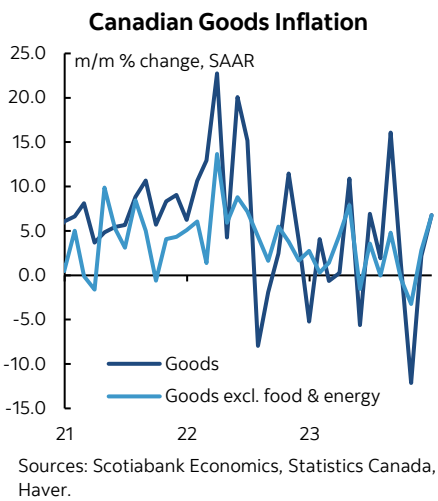
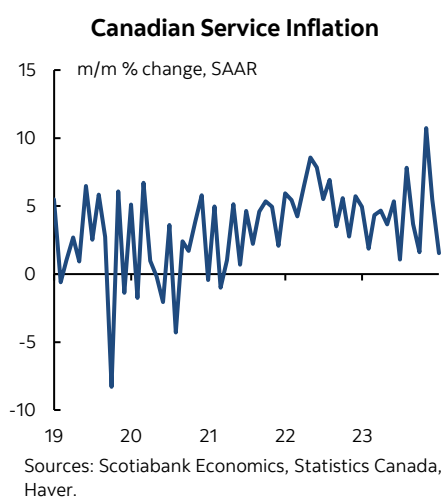


Chart 4



January 16, 2024

There were also material upward revisions to prior months. For example, weighted median CPI in m/m SAAR terms was revised up by 1.2% in September and by 0.6% in November. Trimmed mean was revised up by 0.6% in each of September and October. These revisions provide hotter than previously understood tracking of inflationary pressures prior to December.

As hot as Canadian underlying inflation appears to be, wage growth remains hotter yet. Chart 2 shows that wage growth has been outpacing inflation for an extended period of time. Add in tumbling productivity. The combination of all of that makes it extraordinarily difficult to imagine the BoC cutting any time soon.

Core goods inflation drove much of the upward pressure in December as CPI ex-food and energy was up by 6.7% m/m SAAR (chart 3).

Services inflation ebbed last month but remains very volatile and rather warm on a trend basis (chart 4).

In all, we're still in an environment in which the executive ranks at central banks are very likely to retain a high degree of mistrust toward what models are forecasting for inflation after their many failures. Instead, they will remain highly data dependent and have comfort to ease only when they have a sustained period of much softer readings that are expected to persist. One cannot have that comfort in Canada to date as inflation risk continues to push higher.

Other Details

Headline CPI fell -0.3% m/m on a seasonally unadjusted basis as expected and that translates into a seasonally adjusted rise of +0.3% m/m. December is normally a down month for seasonal price pressures against which seasonal adjustment factors compensate.

On an SA basis, food was up 0.4% m/m, shelter 0.4, household operations/ furnishing and equipment fell -0.2%, clothing and footwear was up 0.5, health and personal care ticked higher by 0.1, rec/education/reading fell by -1.3, and the so-called 'sins' were up by 0.1%.

Shelter costs were sharply higher again (chart 5) mainly due to rent (chart 6) as the way Canada captures house prices in CPI was soft again (chart 7). Watch how this evolves in future as the massive surge in excessive immigration transitions from the rental stock into the owned accommodation housing stock as explained and including a chart in my morning note.

Transportation costs also jumped higher (chart 8) due to a combination of airfare (chart 9), auto prices (chart 10) and gasoline prices (chart 11).

Food price inflation accelerated again (chart 12).

Travel tours and accommodations dragged down the recreation/education/reading category (chart 13).

Chart 14 provides a breakdown of the whole CPI basket in year-over-year terms. Chart 15 does the same thing in terms of each component's weighted contributions.

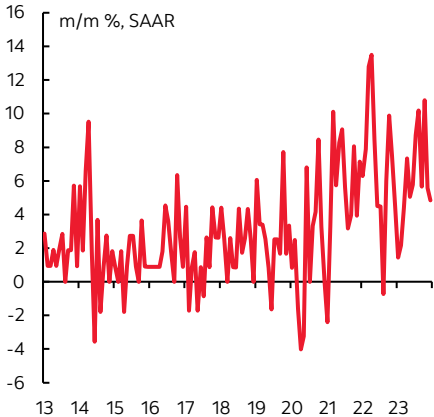
Charts 16 and 17 do the same things for month-over-month inflation.

Please also see the accompanying table that provides a more detailed breakdown of the basket and its components including micro charts and z-score measures of deviations from trends.

With thanks as always to Jay Parmar for his research assistance.

Chart 5

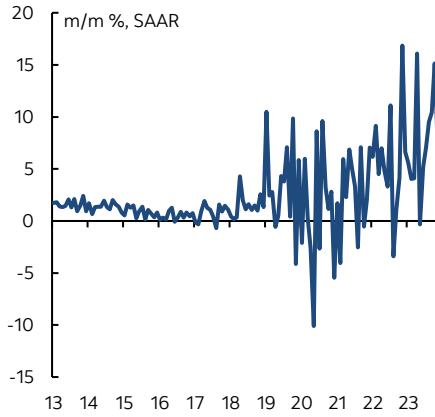
Shelter Cost Soaring High in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 6

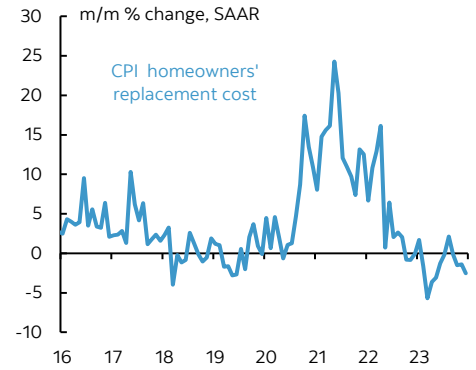
Rents Soaring in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 7

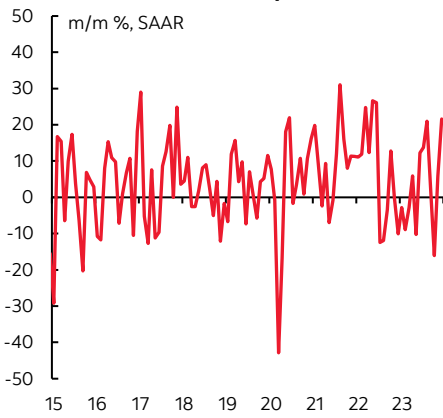
Canada CPI: Homeowners' Replacement Cost



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 8

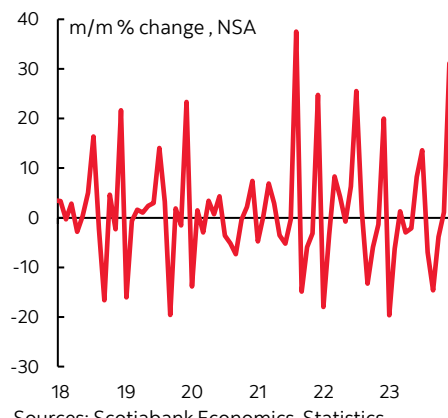
Canada CPI: Transportation



Sources: Scotiabank Economics, Statistics Canada.

Chart 9

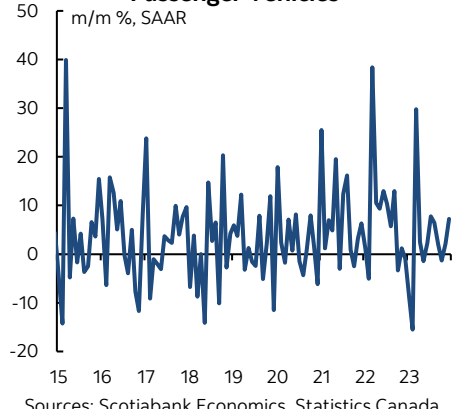
Canadian Air Transportation CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 10

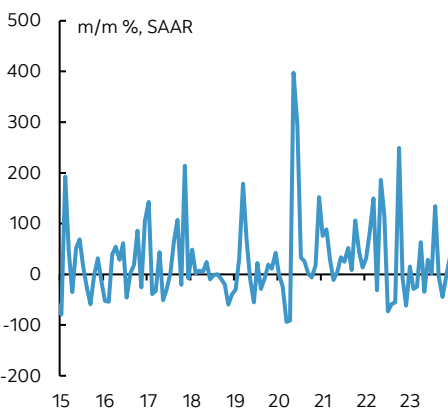
Canada CPI: Private Purchase of Passenger Vehicles



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 11

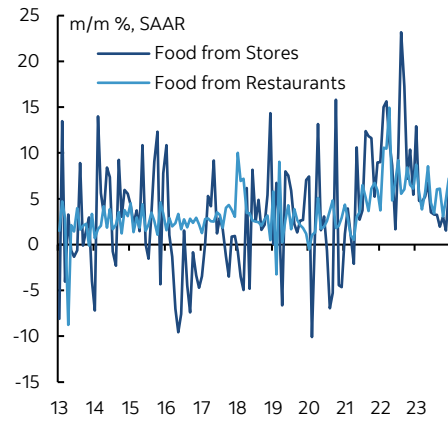
Canada CPI: Gasoline



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 12

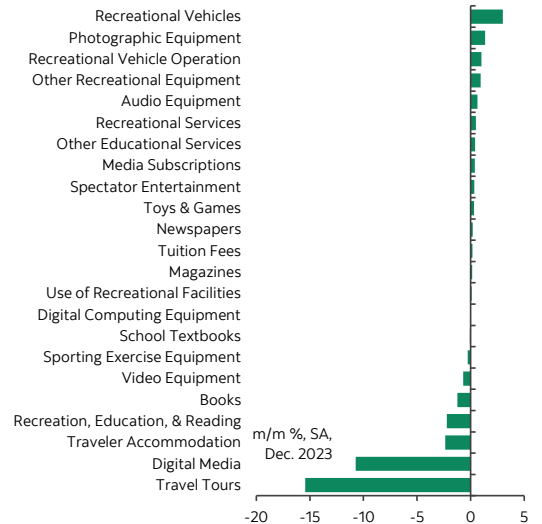
Canada CPI: Food Prices



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 13

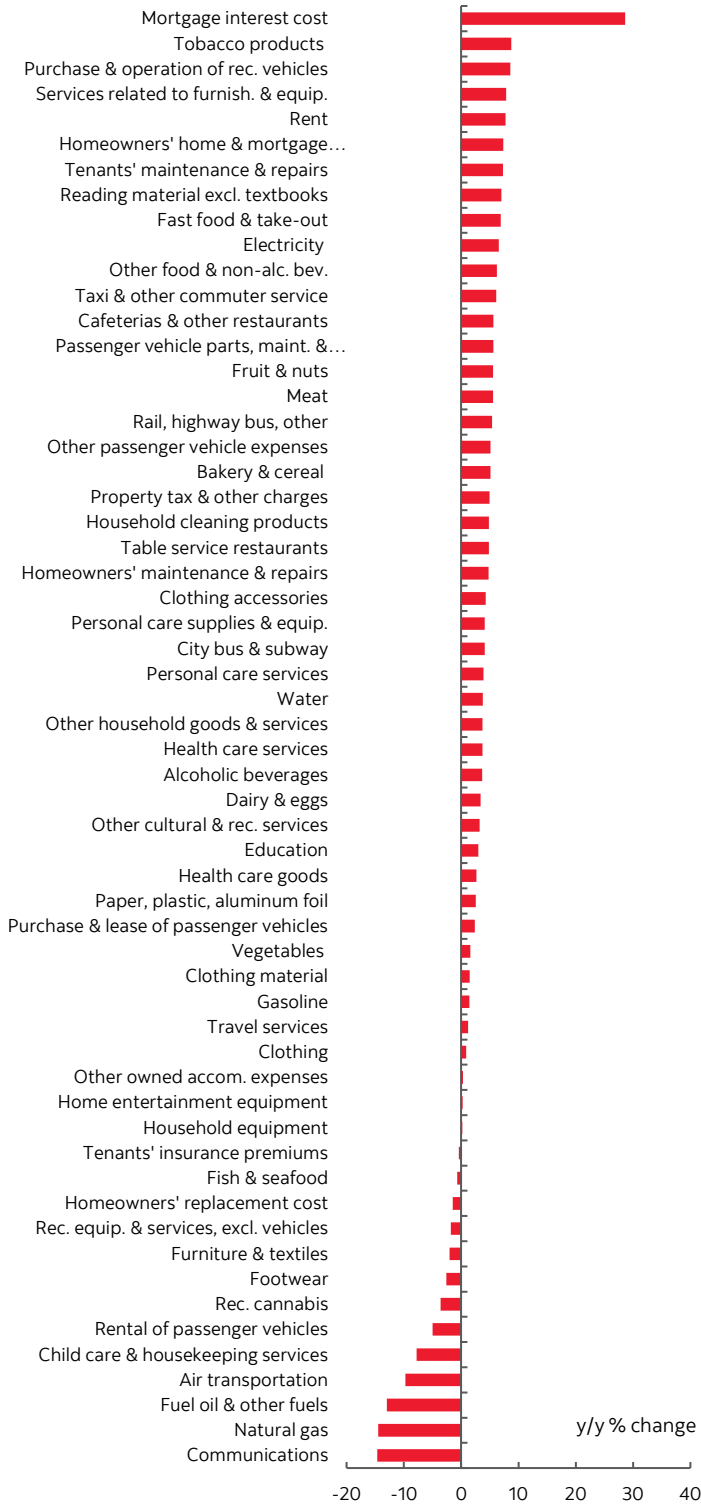
Breakdown of Monthly Changes within Recreation Education and Reading CPI Category



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 14

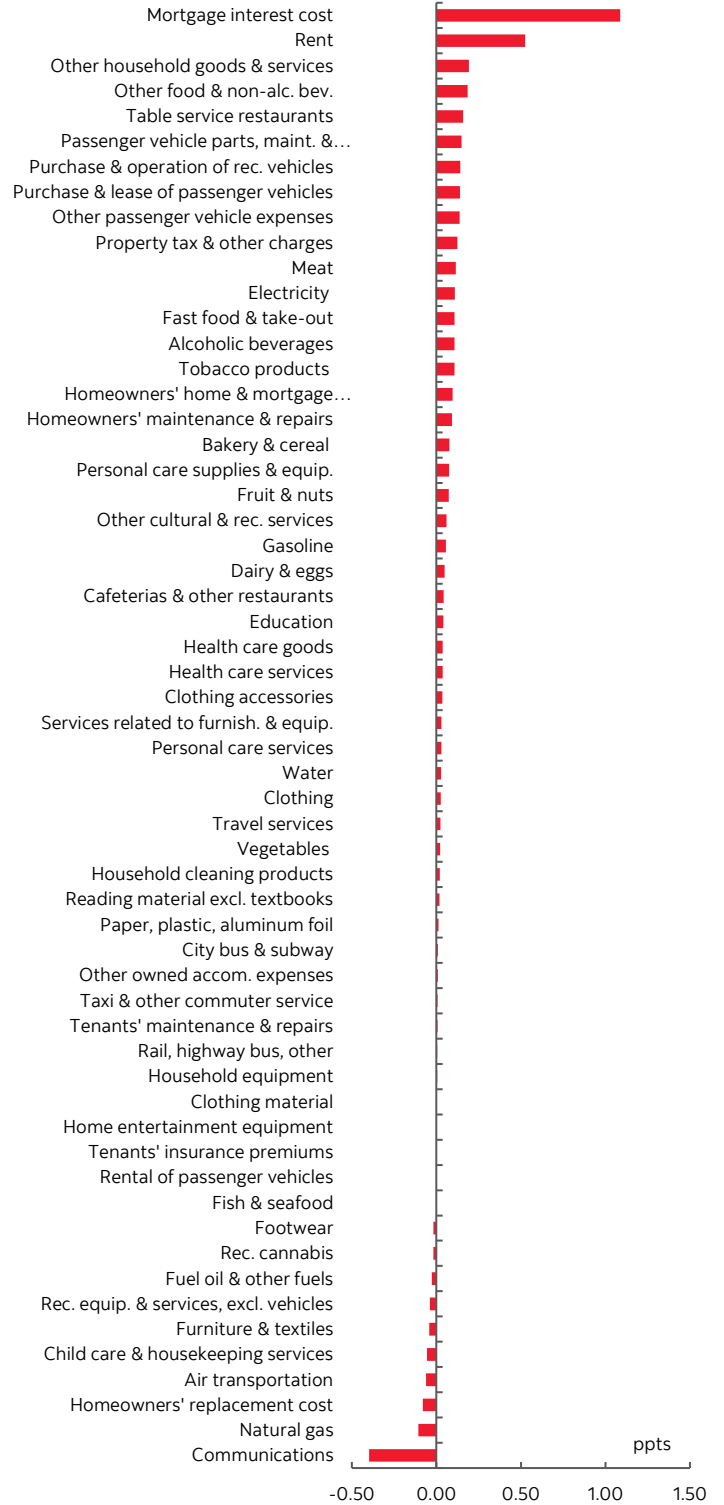
December Detailed Category 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 15

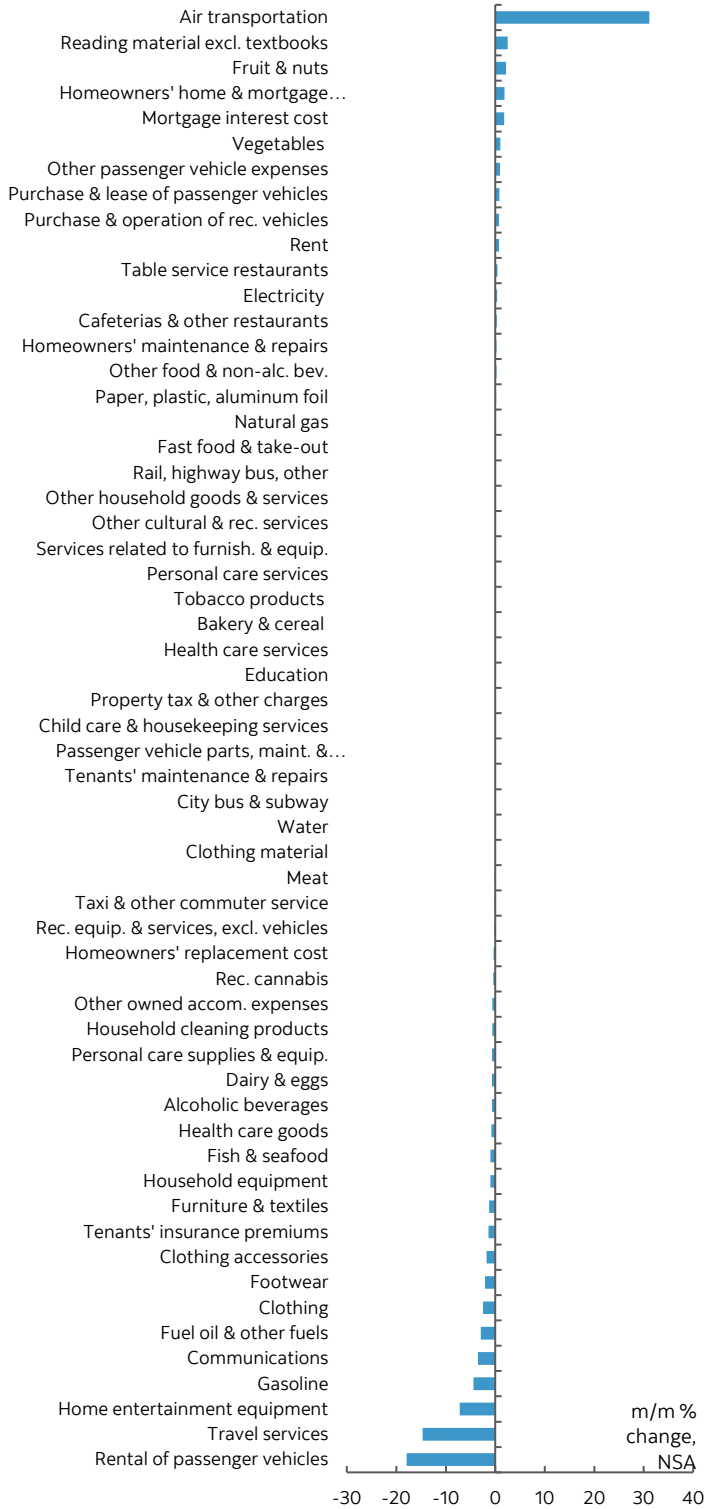
December Detailed Category Contributions to 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 16

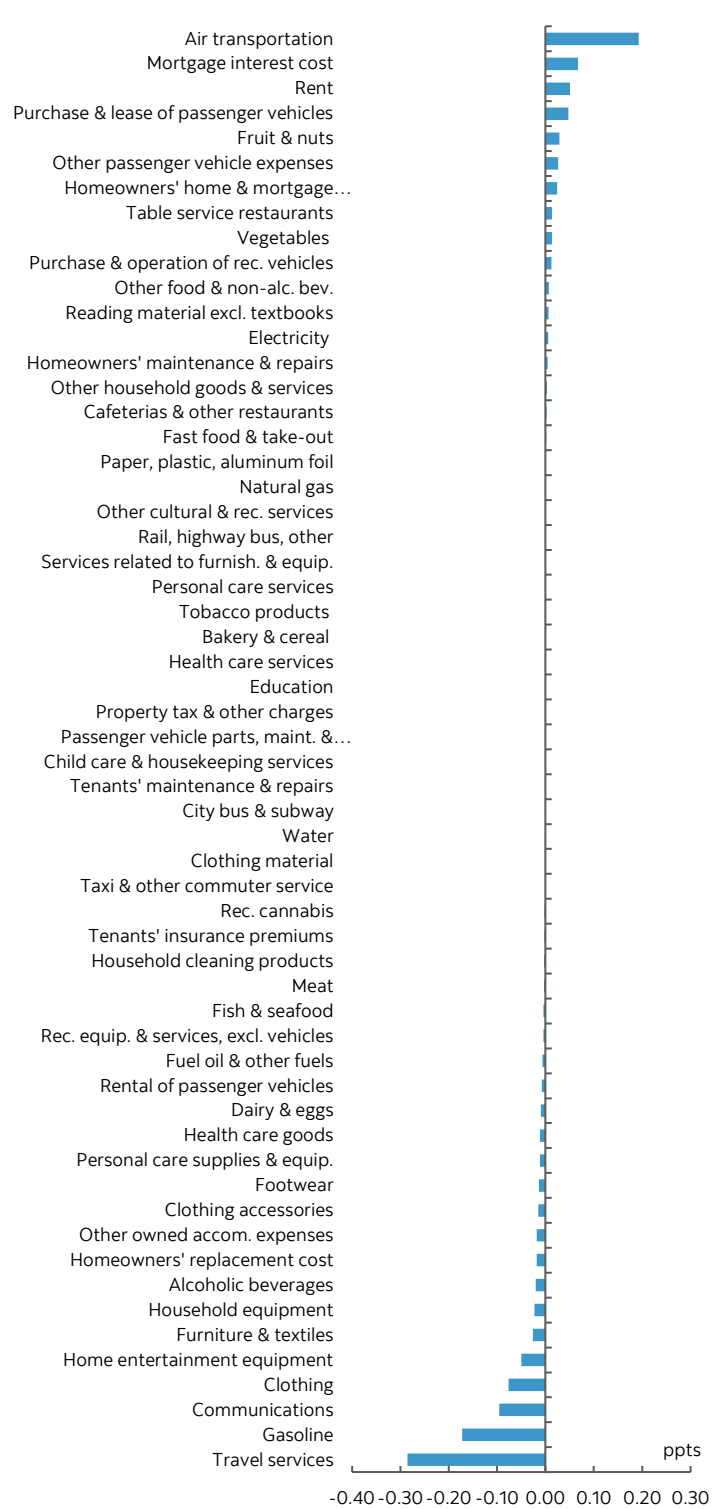
December Detailed Category Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 17

December Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

January 16, 2024

Dec 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	5.0			0.3	0.4	16.65	0.83	0.05	2.1	1.7	1.7	2.2	1.5	1.9
Food, stores	4.7			0.3		11.04	0.51	0.04	1.7	2.4	1.2	2.0	2.0	1.3
Meat	5.5			-0.1	0.8	2.07	0.11	0.00	2.5	3.6	0.9	3.4	3.6	0.6
Fish & seafood	-0.7			-1.0	-0.6	0.39	0.00	0.00	2.9	1.4	-2.5	2.8	2.5	-1.4
Dairy products & eggs	3.4			-0.6	0.2	1.47	0.05	-0.01	0.2	1.5	2.0	0.6	1.5	1.8
Bakery & cereal products	5.1			0.0	-0.1	1.52	0.08	0.00	0.5	2.1	2.2	1.2	2.3	1.7
Fruit, fruit prep. & nuts	5.6			2.2	0.7	1.33	0.07	0.03	1.8	4.4	0.9	2.0	3.5	1.0
Vegetables & vegetable prep.	1.6			1.0	-0.2	1.32	0.02	0.01	4.9	6.4	-0.5	3.6	5.8	-0.3
Other food & non-alcoholic beverages	6.2			0.2	0.9	2.95	0.18	0.01	1.0	1.5	3.4	1.3	1.7	2.9
Food, restaurants	5.6			0.4		5.61	0.32	0.02	3.0	0.7	4.0	2.6	0.7	4.2
Table service restaurants	4.8			0.4		3.29	0.16	0.01	2.9	0.6	3.5	2.6	0.6	3.5
Fast food & take-out	6.9			0.1		1.57	0.11	0.00	3.2	1.2	3.0	2.6	1.2	3.7
Cafeterias & other restaurants	5.6			0.3		0.76	0.04	0.00	3.0	0.6	4.2	2.6	0.7	4.2
Shelter	6.0			0.4	0.4	28.34	1.69	0.11	1.8	0.6	7.1	1.7	0.8	5.4
Rented accommodation	7.5			0.7	0.7	7.03	0.53	0.05	1.3	0.8	7.8	1.3	0.6	10.5
Rent	7.7			0.7		6.79	0.53	0.05	1.3	0.8	7.9	1.3	0.6	10.7
Tenants' insurance premiums	-0.4			-1.4		0.15	0.00	0.00	1.1	1.6	-0.9	0.3	1.6	-0.4
Tenants' maintenance & repairs	7.3			0.0		0.09	0.01	0.00	2.2	1.0	4.9	2.6	2.2	2.2
Owned accommodation	6.7			0.4		17.96	1.21	0.07	2.3	0.4	10.4	1.7	0.8	6.1
Mortgage interest cost	28.6			1.8	1.8	3.80	1.09	0.07	2.1	3.6	7.3	-0.1	3.6	8.0
Homeowners' replacement cost	-1.5			-0.3	-0.3	5.47	-0.08	-0.02	1.9	1.7	-2.0	2.1	1.5	-2.4
Property tax & other charges	4.9			0.0	0.5	2.51	0.12	0.00	2.4	0.6	4.4	2.8	0.7	3.1
Homeowners' home & mortgage insurance	7.4			1.8	1.8	1.31	0.10	0.02	5.2	2.3	0.9	4.5	2.6	1.1
Homeowners' maintenance & repairs	4.8			0.2	0.2	1.93	0.09	0.00	2.0	1.1	2.5	2.0	1.4	1.9
Other owned accommodation expenses	0.3			-0.6	-0.2	2.93	0.01	-0.02	2.0	1.2	-1.4	2.4	2.0	-1.1
Water, fuel, & elec.	-1.0			0.0		3.35	-0.03	0.00	0.8	2.1	-0.8	2.5	3.4	-1.0
Electricity	6.5			0.4	0.4	1.67	0.11	0.01	1.2	4.4	1.2	2.5	3.8	1.1
Water	3.8			0.0	0.3	0.73	0.03	0.00	3.7	0.9	0.1	4.9	1.4	-0.8
Natural gas	-14.5			0.1	0.1	0.74	-0.11	0.00	-1.3	9.0	-1.5	0.4	10.6	-1.4
Fuel oil & other fuels	-13.0			-2.9	-0.7	0.21	-0.03	-0.01	-0.1	15.5	-0.8	5.1	14.2	-1.3
Household operations, furniture & equipment	-1.7			-0.9	-0.2	14.36	-0.24	-0.13	1.2	1.0	-2.7	1.4	0.9	-3.5
Household ops.	-2.4			-0.9		9.48	-0.22	-0.09	1.3	1.1	-3.3	2.1	1.3	-3.5
Communications	-14.7			-3.5	-3.5	2.71	-0.40	-0.10	0.0	2.8	-5.2	1.5	2.9	-5.7
Child care & housekeeping services	-7.8			0.0	0.5	0.71	-0.06	0.00	3.4	1.4	-8.1	3.3	1.3	-8.4
Household cleaning products	4.8			-0.6	-0.3	0.42	0.02	0.00	1.3	1.9	1.9	0.8	1.9	2.1
Paper, plastic, aluminum foil	2.6			0.2	0.0	0.51	0.01	0.00	2.2	2.2	0.2	2.0	2.0	0.3
Other household goods & services	3.7			0.1	0.4	5.13	0.19	0.00	1.8	0.5	4.1	2.4	1.1	1.3
Household furnishings & equip.	-0.2			-1.1		4.88	-0.01	-0.05	0.8	1.7	-0.6	0.1	1.6	-0.1
Furniture & textiles	-2.0			-1.2		2.12	-0.04	-0.03	0.4	2.1	-1.2	-0.3	2.1	-0.8
Household equipment	0.2			-1.0	0.2	2.25	0.00	-0.02	0.9	1.7	-0.4	0.0	1.8	0.1
Services related to furnishings & equipment	7.8			0.0	0.5	0.38	0.03	0.00	2.4	1.8	2.9	2.7	2.9	1.8
Clothing & footwear	0.9			-2.2	0.5	4.7	0.04	-0.11	0.6	1.2	0.3	0.3	1.4	0.5
Clothing	0.9			-2.5	0.8	3.05	0.03	-0.08	0.5	1.6	0.2	-0.3	2.1	0.5
Footwear	-2.6			-2.1	-0.3	0.64	-0.02	-0.01	0.4	1.2	-2.6	0.1	1.4	-1.9
Clothing accessories	4.3			-1.8		0.83	0.04	-0.01	1.0	1.8	1.8	2.3	2.6	0.8
Clothing material	1.5			0.0		0.22	0.00	0.00	2.2	0.7	-1.0	2.7	1.2	-1.0

January 16, 2024

Dec 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
Transportation	3.2			0.6	1.6	16.4	0.53	0.10	1.7	3.1	0.5	2.3	3.0	0.3
Private trans.	3.1			-0.7		15.2	0.47	-0.10	1.3	3.2	0.5	2.2	3.2	0.3
Purchase, lease, rental of passenger vehicles	2.3			0.6		5.98	0.14	0.04	2.3	1.5	0.0	1.9	1.6	0.2
<u>Purchase & lease of passenger vehicles</u>	<u>2.4</u>			<u>0.8</u>		<u>5.95</u>	<u>0.14</u>	<u>0.05</u>	<u>2.3</u>	<u>1.5</u>	<u>0.0</u>	<u>1.9</u>	<u>1.6</u>	<u>0.3</u>
Rental of passenger vehicles	-5.0			-17.9	-0.6	0.04	0.00	-0.01	1.4	5.2	-1.2	1.2	4.1	-1.5
Operation of passenger vehicles	3.9			-1.5		9.25	0.36	-0.14	0.7	5.7	0.6	2.4	5.4	0.3
<u>Gasoline</u>	<u>1.4</u>			<u>-4.4</u>	<u>0.3</u>	<u>3.89</u>	<u>0.06</u>	<u>-0.17</u>	<u>-0.6</u>	<u>13.5</u>	<u>0.1</u>	<u>3.0</u>	<u>12.2</u>	<u>-0.1</u>
<u>Passenger vehicle parts, maintenance & repairs</u>	<u>5.6</u>			<u>0.0</u>	<u>0.5</u>	<u>2.66</u>	<u>0.15</u>	<u>0.00</u>	<u>1.9</u>	<u>0.3</u>	<u>10.7</u>	<u>1.6</u>	<u>0.8</u>	<u>5.1</u>
<u>Other passenger vehicle expenses</u>	<u>5.1</u>			<u>1.0</u>	<u>1.0</u>	<u>2.70</u>	<u>0.14</u>	<u>0.03</u>	<u>2.4</u>	<u>2.2</u>	<u>1.2</u>	<u>2.6</u>	<u>2.0</u>	<u>1.3</u>
Public trans.	-0.4			17.2		1.21	0.00	0.21	4.8	3.9	-1.3	3.4	3.7	-1.0
Local & commuter transportation	5.0			-0.1	0.0	0.35	0.02	0.00	1.5	0.5	7.0	2.2	1.2	2.4
<u>City bus & subway</u>	<u>4.1</u>			<u>0.0</u>		<u>0.23</u>	<u>0.01</u>	<u>0.00</u>	<u>2.1</u>	<u>0.7</u>	<u>2.7</u>	<u>2.8</u>	<u>1.4</u>	<u>0.9</u>
<u>Taxi & other commuter service</u>	<u>6.1</u>			<u>-0.2</u>		<u>0.12</u>	<u>0.01</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>7.4</u>	<u>0.9</u>	<u>1.2</u>	<u>4.3</u>
Inter-city transportation	-6.6			26.5	3.9	0.72	-0.05	0.19	6.2	5.7	-2.2	3.9	5.8	-1.8
<u>Air transportation</u>	<u>-9.7</u>			<u>31.1</u>		<u>0.62</u>	<u>-0.06</u>	<u>0.19</u>	<u>6.5</u>	<u>6.2</u>	<u>-2.6</u>	<u>4.0</u>	<u>6.4</u>	<u>-2.1</u>
<u>Rail, highway bus, other</u>	<u>5.4</u>			<u>0.1</u>		<u>0.10</u>	<u>0.01</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>1.5</u>	<u>2.0</u>	<u>4.2</u>	<u>0.8</u>
Health & personal care	3.7			-0.5	0.1	5.03	0.2	-0.02	1.4	0.4	5.7	1.3	0.9	2.8
Health care	3.1			-0.4		2.46	0.1	-0.01	1.3	0.6	3.1	1.1	0.8	2.5
Health care goods	2.6			-0.8	-0.8	1.44	0.0	-0.01	0.5	0.7	3.0	-0.1	1.1	2.5
Health care services	3.7			0.0	0.3	1.02	0.0	0.00	2.5	0.6	2.2	2.9	0.8	1.1
Personal Care	4.2			-0.5		2.58	0.1	-0.01	1.5	0.5	5.0	1.5	1.2	2.3
Personal care supplies & equipment	4.1			-0.6	0.3	1.81	0.1	-0.01	0.4	0.9	4.0	0.5	1.6	2.2
Personal care services	3.9			0.0	0.4	0.76	0.0	0.00	2.9	0.7	1.4	2.7	1.4	0.8
Recreation, education & reading	1.7			-3.4	-1.3	9.92	0.2	-0.33	1.7	0.8	0.1	1.3	0.9	0.5
Recreation	1.4			-4.08		8.29	0.12	-0.34	1.4	1.0	0.0	0.6	1.2	0.6
Recreational equipment & services, excl. vehicles	-1.8			-0.2	0.2	2.16	0.0	0.00	-0.8	1.6	-0.6	-2.2	2.0	0.2
Purchase & operation of recreational vehicles	8.6			0.8	1.7	1.64	0.1	0.01	2.6	1.8	3.2	1.9	2.0	3.4
Home entertainment equipment	0.2			-7.2	-2.9	0.69	0.0	-0.05	-3.8	2.0	2.0	-4.9	2.2	2.3
Travel services	1.2			-14.7	-11.3	1.94	0.0	-0.29	0.8	2.9	0.1	0.4	2.8	0.3
Other cultural & rec. services	3.2			0.0	0.4	1.87	0.1	0.00	3.5	1.1	-0.2	3.4	1.4	-0.1
Educ. & reading	3.5			0.39		1.63	0.06	0.01	2.5	1.4	0.7	3.0	1.1	0.5
Education	3.0			0.0	0.2	1.38	0.0	0.00	2.4	1.4	0.4	3.0	1.2	0.0
Reading material excl. textbooks	7.0			2.5	2.5	0.25	0.0	0.01	3.8	2.8	1.1	3.2	2.9	1.3
Alcoholic beverages, tobacco & rec. cannabis	4.3			-0.5	0.1	4.53	0.2	-0.02	3.2	1.2	1.0	2.7	1.3	1.2
Alcoholic beverages	3.7			-0.68		2.94	0.11	-0.02	1.7	0.5	3.7	1.4	0.7	3.1
Alc. beverages served in licensed establishments	5.5			0.0	0.3	0.86	0.0	0.00	1.8	0.6	6.1	2.0	0.7	5.1
Alc. beverages purchased from stores	2.7			-1.0	-0.1	2.08	0.1	-0.02	1.7	0.7	1.6	1.1	1.1	1.6
Tobacco products	8.7			0.00		1.23	0.11	0.00	5.6	2.1	1.5	4.8	2.8	1.4
Cigarettes	8.7			0.1		1.12	0.1	0.00	5.6	2.1	1.5	4.8	2.8	1.4
Other tobacco products & supplies	9.4			-0.5		0.11	0.0	0.00	5.6	2.0	1.9	4.9	2.6	1.7
Rec. cannabis	-3.6			-0.42		0.50	-0.02	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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