

Contributors

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Chart 1

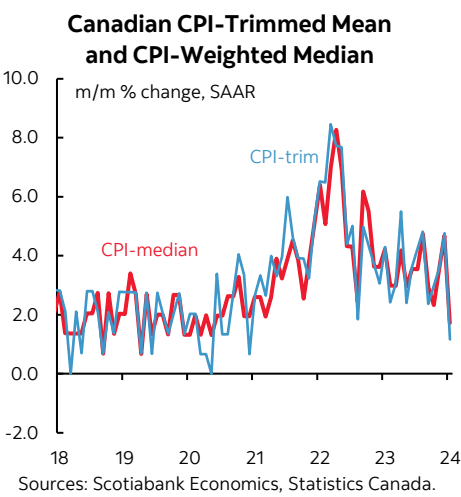
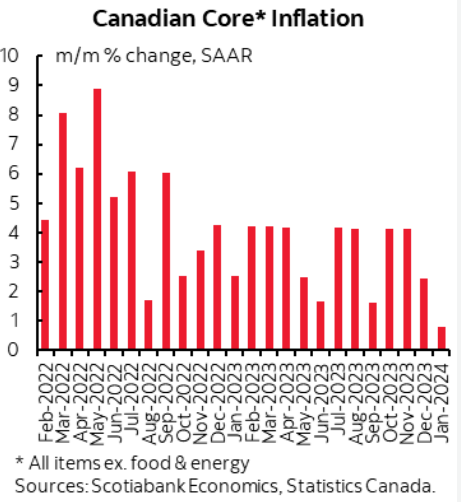


Chart 2



Canadian CPI—Chill, It’s Just One Month!

- Canadian core inflation suddenly decelerated
- It’s just one month on a hot trend...
- ...so expect the BoC to take it in stride while markets over-react
- Time may tell if El Niño was a factor

Canadian CPI, m/m NSA // y/y, January:

Actual: 0.0 / 2.9
 Scotia: 0.6 / 3.5
 Consensus: 0.4 / 3.3
 Prior: -0.3 / 3.4

Core inflation, m/m SAAR // y/y, January:

Trimmed mean CPI: 1.2 / 3.4
 Weighted median CPI: 1.7 / 3.3

It’s just one month folks. Chill. That’s the line I would expect the Bank of Canada to apply here and perhaps by repeating their prior references to taking the ‘ups and downs’ of the measures in stride as one of their Deputy Governors once put it.

Mind you, that’s not what markets are doing in reaction to softer inflation readings than anyone expected and I’m not too thrilled about the miss. That market over-reaction is not particularly surprising given a) positioning swings in markets, and b) the heightened data sensitivity of markets in response to both stronger and weaker than expected indicators.

Details

The BoC’s two preferred core gauges of inflation landed sharply softer than the recent trend and there was significant breadth to the softening. Trimmed mean CPI was up by just 1.7% m/m SAAR in January and weighted median CPI was up by just 1.2% (chart 1). Those are indeed soft readings. In fact, they were the softest prints since May 2020 (weighted median) and December 2020 (trimmed mean). Traditional core CPI (ex-food and energy) was also unusually weak (chart 2).

But they come on the heels of the prior month’s 4.7% and 4.8% readings in the same trimmed and median measures respectively and they were the hottest since August. Charts 3 and 4 show softness in both core goods and services prices.

Chart 5 shows what was in and out of trimmed mean CPI this time.

Chart 3

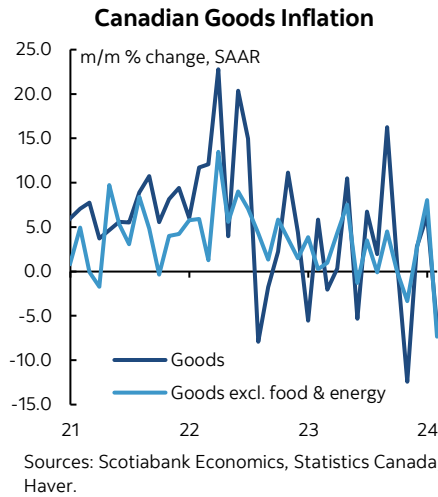
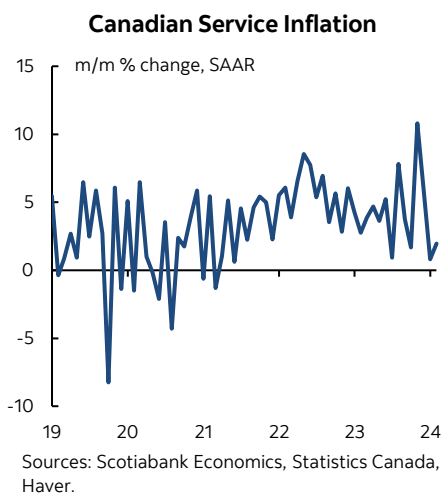


Chart 4



The Bank of Canada is searching for a more convincing trend. One month doesn't cut it; call it mean reversion off of a hot prior reading for now and wait for more evidence. The 3- and 6-month averages are now running at about 3¼% m/m SAAR.

Therefore we may have only just begun to enter phase 1 of assessing progress on core inflation from the BoC's perspective as communicated since last Fall. Phase 1 requires sustained evidence that underlying inflation is moving toward 2%. Phase 2 requires evidence that this is going to be sustainable. Phase 3 could then begin to discuss when to ease if phase 1 and phase 2 go well. One month's data doesn't say much at all about that process. Over reacting to it could come back to bite markets in the tender spots given ongoing inflation risk in Canada.

That said, I am surprised by the breadth of the price softness in January.

- clothing and footwear prices have usually been down by -0.1% during months of January in recent years, but this time they fell by -3.9%
- recreation/education/reading is usually up by an average of about 0.7% m/m NSA but this time fell -0.7%. Chart 6 breaks down this component.
- airfare has dipped -14% m/m NSA in a typical January but by fell 24% now.
- auto prices are usually up by +1.5%, but this time they slipped by -0.1%
- restaurant prices are usually up 0.6% m/m but this time fell by 0.1%.
- several food categories were unusually weak (meat, dairy, bakery). Politics?

You could speculate that some of this weakness was due to El Niño but the historical evidence isn't all that compelling. For instance, little to no snow and warmer than usual temperatures in big parts of the country probably restrained demand for winter sports equipment. Ditto for winter clothing and footwear, and demand for getaways down south. Weaker than normal natural gas and other home heating fuel prices also contributed to softness in headline inflation.

Chart 7 shows the evidence over past El Niños. If you really stretched it you could say that the peak weakness in past strong El Nino events varied each time and was then followed by rebounds, but it's hardly a strong point. You could also argue that El Nino is tougher to evaluate in the current pandemic era.

Charts 8–15 shows other CPI components.

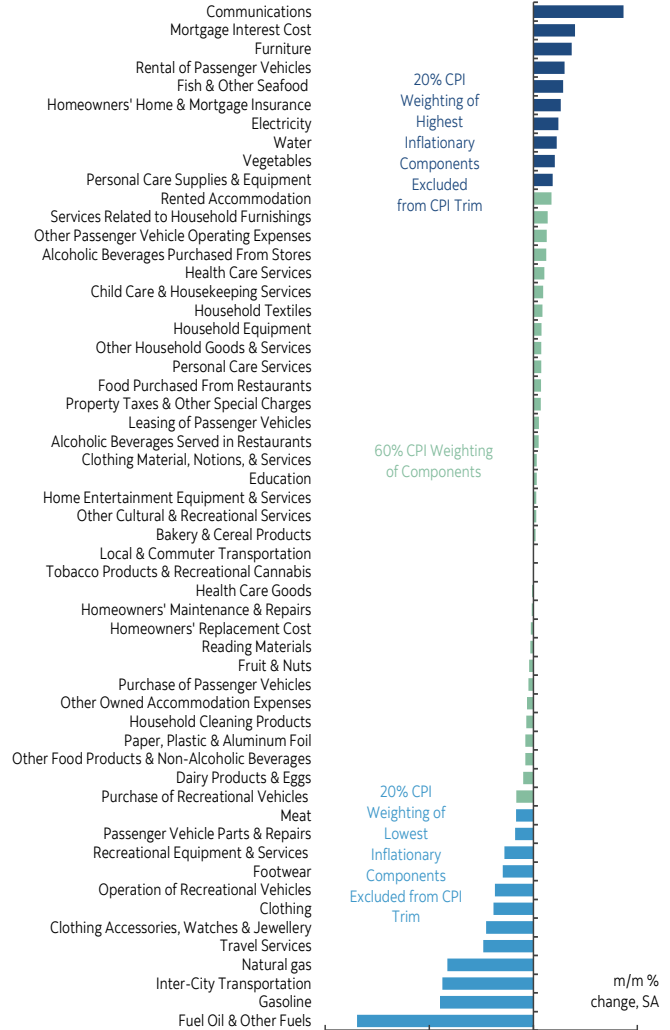
Chart 16 shows the breakdown of the CPI basket in m/m terms and chart 17 does likewise in terms of weighted contributions.

Charts 18–19 shows the same concepts in y/y terms.

Finally, the accompanying table includes further details, micro charts, measures of standard deviations and z-score deviations from norms.

Chart 5

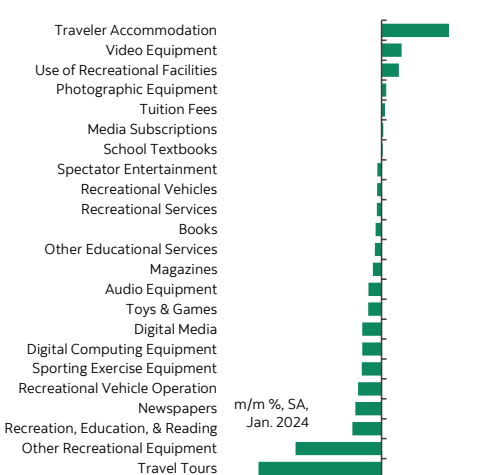
January Single-Month Components Included and Excluded from Bank of Canada Trim Core CPI Measure



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

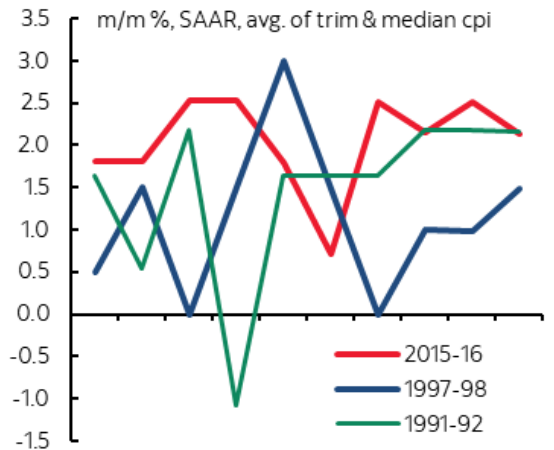
Breakdown of Monthly Changes within Recreation Education and Reading CPI Category



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 7

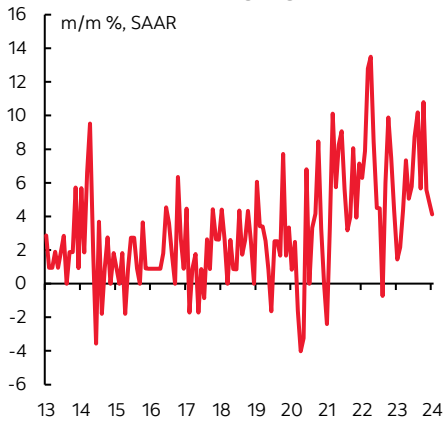
Impact of Past El Nino on Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 8

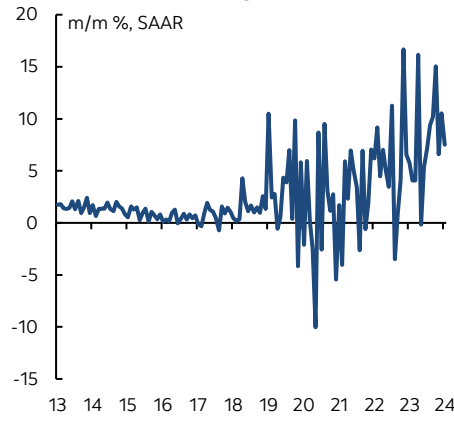
Shelter Cost Soaring High in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 9

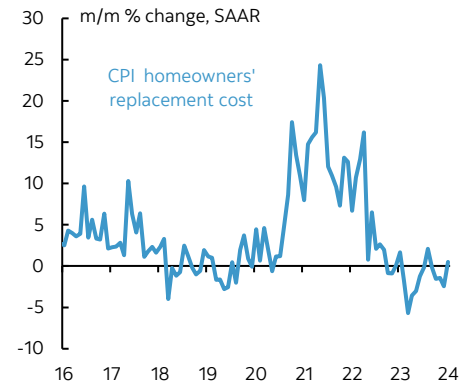
Rents Soaring in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 10

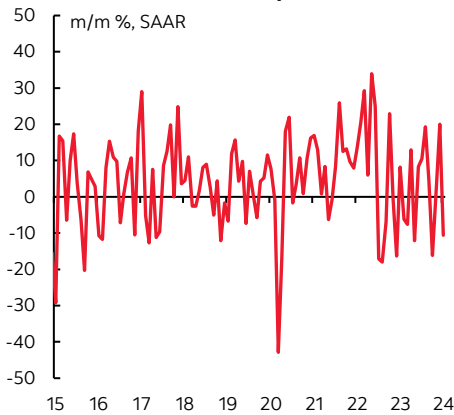
Canada CPI: Homeowners' Replacement Cost



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 11

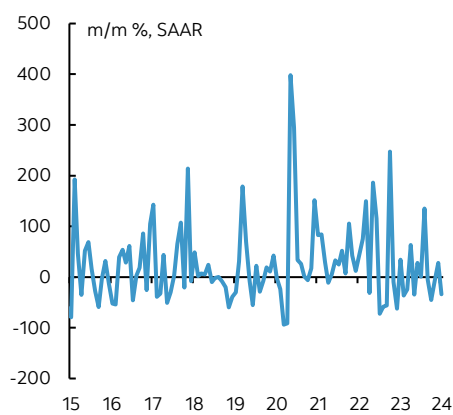
Canada CPI: Transportation



Sources: Scotiabank Economics, Statistics Canada.

Chart 12

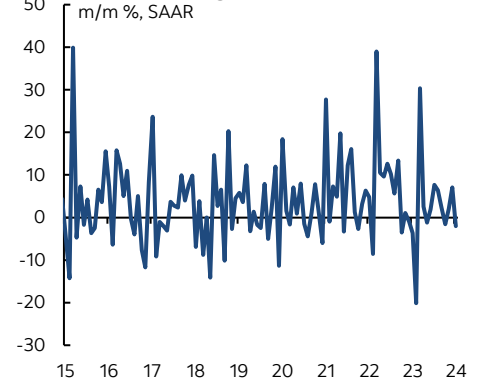
Canada CPI: Gasoline



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 13

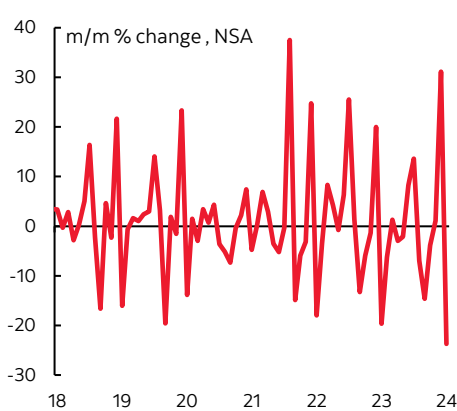
Canada CPI: Private Purchase of Passenger Vehicles



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 14

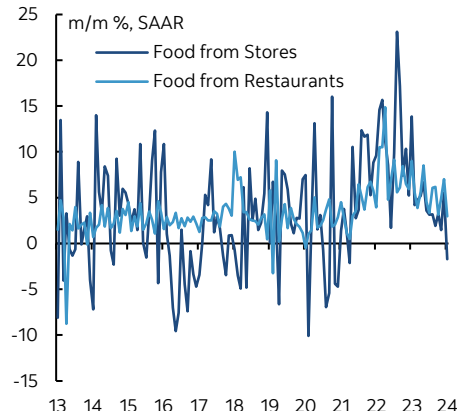
Canadian Air Transportation CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 15

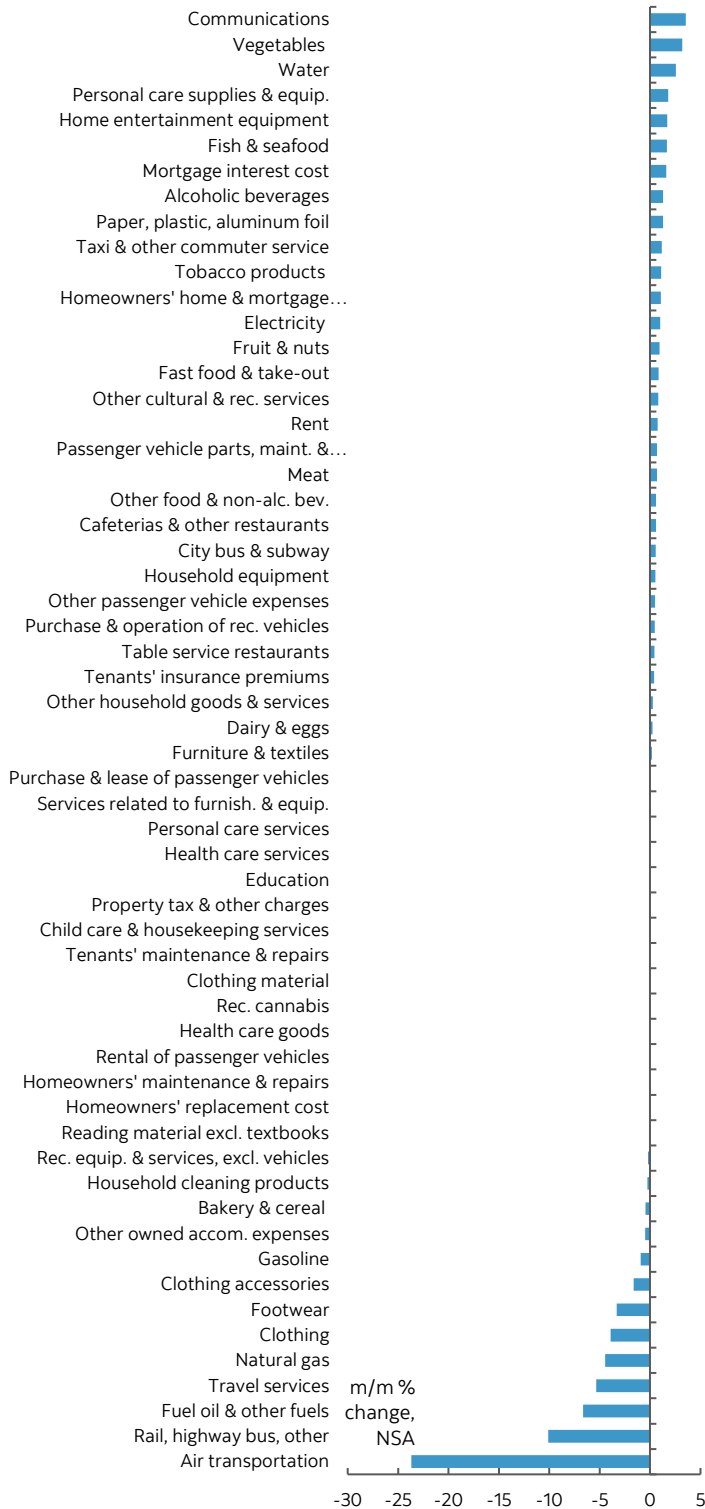
Canada CPI: Food Prices



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 16

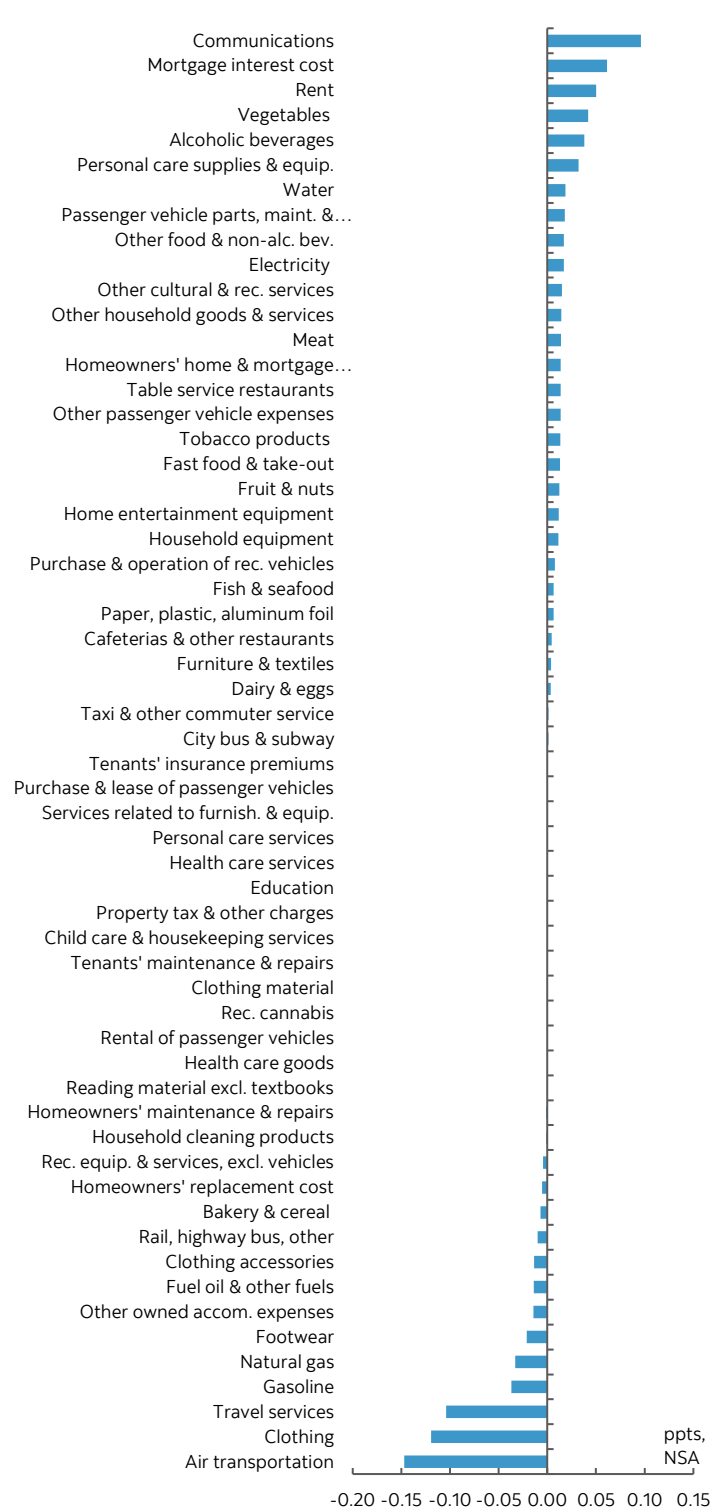
January Detailed Category Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 17

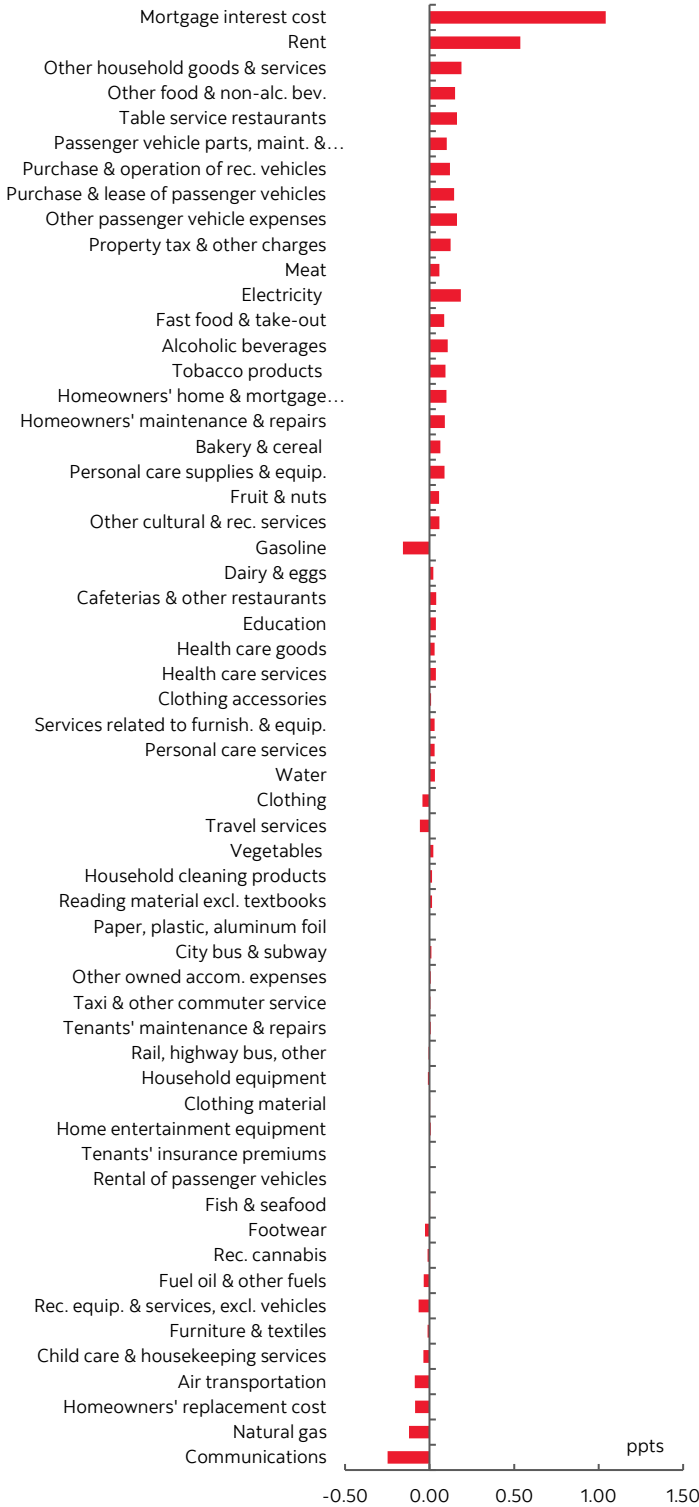
January Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 18

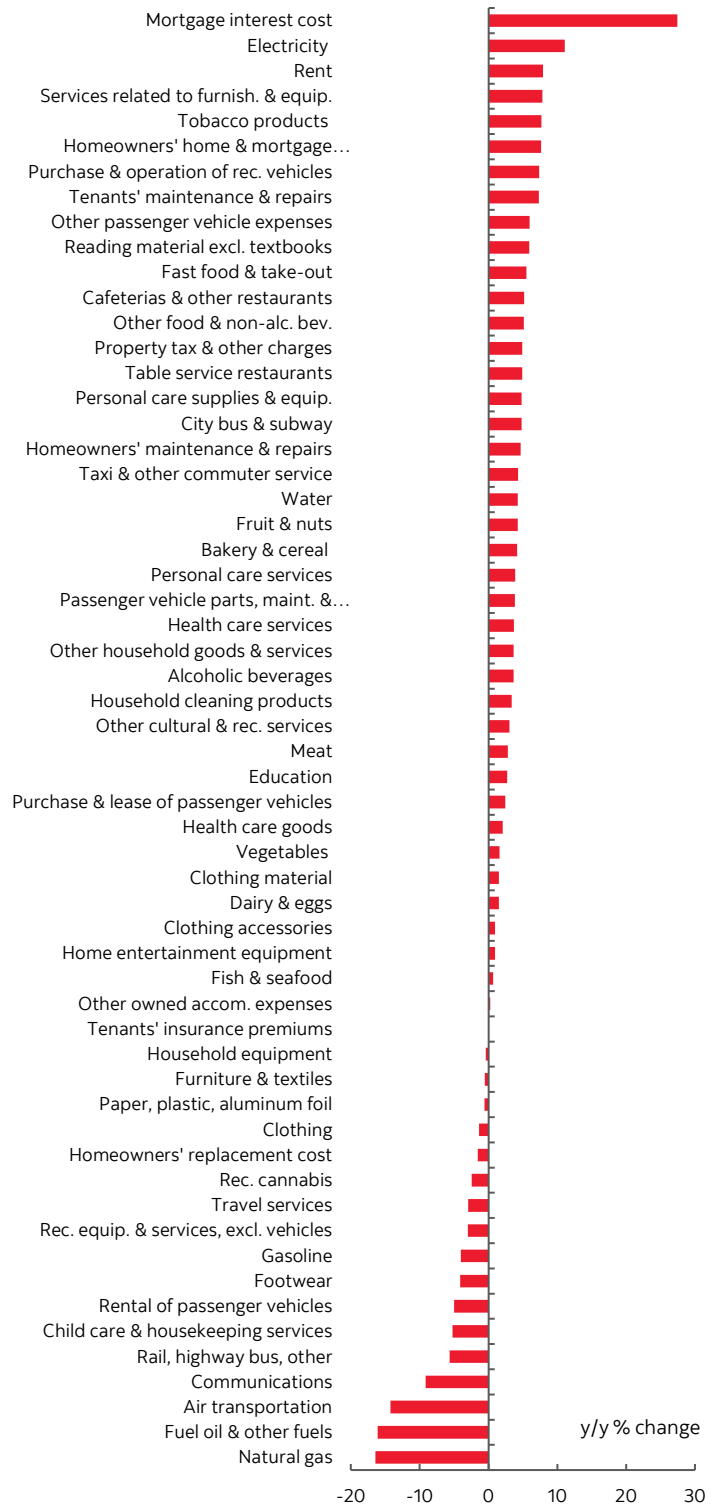
January Detailed Category Contributions to 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 19

January Detailed Category 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

February 20, 2024

Jan 2024			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		0.7	0.1	16.65	0.65	0.12	2.1	1.7	1.1	2.2	1.5	1.2
Food, stores	3.4		0.8		11.04	0.37	0.09	1.7	2.4	0.7	2.0	2.0	0.7
Meat	2.8		0.7	-0.7	2.07	0.06	0.01	2.5	3.6	0.1	3.4	3.6	-0.2
Fish & seafood	0.7		1.7	1.1	0.39	0.00	0.01	2.9	1.4	-1.6	2.8	2.5	-0.8
Dairy products & eggs	1.5		0.2	-0.4	1.47	0.02	0.00	0.2	1.5	0.8	0.6	1.5	0.6
Bakery & cereal products	4.2		-0.5	0.1	1.52	0.06	-0.01	0.5	2.1	1.8	1.2	2.3	1.3
Fruit, fruit prep. & nuts	4.2		0.9	-0.2	1.33	0.06	0.01	1.8	4.4	0.5	2.0	3.5	0.6
Vegetables & vegetable prep.	1.6		3.2	0.8	1.32	0.02	0.04	4.9	6.4	-0.5	3.6	5.8	-0.3
Other food & non-alcoholic beverages	5.1		0.6	-0.3	2.95	0.15	0.02	1.0	1.5	2.7	1.3	1.7	2.2
Food, restaurants	5.1		0.5		5.61	0.29	0.03	3.0	0.7	3.2	2.6	0.7	3.5
Table service restaurants	4.9		0.4		3.29	0.16	0.01	2.9	0.6	3.7	2.6	0.6	3.6
Fast food & take-out	5.5		0.8		1.57	0.09	0.01	3.2	1.2	1.9	2.6	1.2	2.5
Cafeterias & other restaurants	5.2		0.6		0.76	0.04	0.00	3.0	0.6	3.5	2.6	0.7	3.6
Shelter	6.2		0.3	0.3	28.34	1.75	0.10	1.8	0.6	7.5	1.7	0.8	5.7
Rented accommodation	7.8		0.7	0.7	7.03	0.55	0.05	1.3	0.8	8.1	1.3	0.6	11.0
Rent	7.9		0.7		6.79	0.54	0.05	1.3	0.8	8.1	1.3	0.6	11.0
Tenants' insurance premiums	0.1		0.4		0.15	0.00	0.00	1.1	1.6	-0.6	0.3	1.6	-0.1
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	1.20	0.07	2.3	0.4	10.4	1.7	0.8	6.0
Mortgage interest cost	27.4		1.6	1.6	3.80	1.04	0.06	2.1	3.6	7.0	-0.1	3.6	7.7
Homeowners' replacement cost	-1.6		-0.1	-0.1	5.47	-0.09	-0.01	1.9	1.7	-2.1	2.1	1.5	-2.5
Property tax & other charges	4.9		0.0	0.3	2.51	0.12	0.00	2.4	0.6	4.4	2.8	0.7	3.1
Homeowners' home & mortgage insurance	7.7		1.1	1.0	1.31	0.10	0.01	5.2	2.3	1.1	4.5	2.6	1.2
Homeowners' maintenance & repairs	4.7		-0.1	-0.1	1.93	0.09	0.00	2.0	1.1	2.4	2.0	1.4	1.8
Other owned accommodation expenses	0.2		-0.5	-0.2	2.93	0.01	-0.01	2.0	1.2	-1.4	2.4	2.0	-1.1
Water, fuel, & elec.	0.6		-0.4		3.35	0.02	-0.01	0.8	2.1	-0.1	2.5	3.4	-0.6
Electricity	11.1		1.0	1.0	1.67	0.19	0.02	1.2	4.4	2.3	2.5	3.8	2.2
Water	4.3		2.6	0.9	0.73	0.03	0.02	3.7	0.9	0.6	4.9	1.4	-0.5
Natural gas	-16.4		-4.5	-3.3	0.74	-0.12	-0.03	-1.3	9.0	-1.7	0.4	10.6	-1.6
Fuel oil & other fuels	-16.1		-6.6	-6.8	0.21	-0.03	-0.01	-0.1	15.5	-1.0	5.1	14.2	-1.5
Household operations, furniture & equipment	-0.5		0.8	0.5	14.36	-0.07	0.12	1.2	1.0	-1.6	1.4	0.9	-2.2
Household ops.	-0.9		1.1		9.48	-0.09	0.10	1.3	1.1	-2.0	2.1	1.3	-2.4
Communications	-9.1		3.5	3.5	2.71	-0.25	0.10	0.0	2.8	-3.3	1.5	2.9	-3.7
Child care & housekeeping services	-5.2		0.0	0.4	0.71	-0.04	0.00	3.4	1.4	-6.3	3.3	1.3	-6.5
Household cleaning products	3.4		-0.3	-0.3	0.42	0.01	0.00	1.3	1.9	1.1	0.8	1.9	1.3
Paper, plastic, aluminum foil	-0.6		1.3	-0.3	0.51	0.00	0.01	2.2	2.2	-1.2	2.0	2.0	-1.3
Other household goods & services	3.7		0.3	0.3	5.13	0.19	0.01	1.8	0.5	3.9	2.4	1.1	1.2
Household furnishings & equip.	0.2		0.4		4.88	0.01	0.02	0.8	1.7	-0.4	0.1	1.6	0.1
Furniture & textiles	-0.5		0.2		2.12	-0.01	0.00	0.4	2.1	-0.5	-0.3	2.1	-0.1
Household equipment	-0.4		0.5	0.3	2.25	-0.01	0.01	0.9	1.7	-0.8	0.0	1.8	-0.2
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	-1.3		-3.2	-1.8	4.7	-0.06	-0.15	0.6	1.2	-1.6	0.3	1.4	-1.1
Clothing	-1.4		-3.9	-1.5	3.05	-0.04	-0.12	0.5	1.6	-1.1	-0.3	2.1	-0.5
Footwear	-4.1		-3.3	-1.2	0.64	-0.03	-0.02	0.4	1.2	-3.9	0.1	1.4	-3.0
Clothing accessories	1.0		-1.6		0.83	0.01	-0.01	1.0	1.8	0.0	2.3	2.6	-0.5
Clothing material	1.5		0.0		0.22	0.00	0.00	2.2	0.7	-1.0	2.7	1.2	-1.0

February 20, 2024

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Transportation	1.2		-1.2	-0.9	16.4	0.20	-0.20	1.7	3.1	-0.2	2.3	3.0	-0.4
Private trans.	1.7		0.0		15.2	0.25	0.00	1.3	3.2	0.1	2.2	3.2	-0.2
Purchase, lease, rental of passenger vehicles	2.3		0.0		5.98	0.14	0.00	2.3	1.5	0.0	1.9	1.6	0.3
<u>Purchase & lease of passenger vehicles</u>	<u>2.4</u>		<u>0.0</u>		<u>5.95</u>	<u>0.14</u>	<u>0.00</u>	<u>2.3</u>	<u>1.5</u>	<u>0.1</u>	<u>1.9</u>	<u>1.6</u>	<u>0.3</u>
<u>Rental of passenger vehicles</u>	<u>-5.0</u>		<u>0.0</u>	<u>1.2</u>	<u>0.04</u>	<u>0.00</u>	<u>0.00</u>	<u>1.4</u>	<u>5.2</u>	<u>-1.2</u>	<u>1.2</u>	<u>4.1</u>	<u>-1.5</u>
Operation of passenger vehicles	1.4		0.0		9.25	0.13	0.00	0.7	5.7	0.1	2.4	5.4	-0.2
<u>Gasoline</u>	<u>-4.0</u>		<u>-0.9</u>	<u>-3.6</u>	<u>3.89</u>	<u>-0.16</u>	<u>-0.04</u>	<u>-0.6</u>	<u>13.5</u>	<u>-0.3</u>	<u>3.0</u>	<u>12.2</u>	<u>-0.6</u>
<u>Passenger vehicle parts, maintenance & repairs</u>	<u>3.8</u>		<u>0.7</u>	<u>-0.7</u>	<u>2.66</u>	<u>0.10</u>	<u>0.02</u>	<u>1.9</u>	<u>0.3</u>	<u>5.5</u>	<u>1.6</u>	<u>0.8</u>	<u>2.8</u>
<u>Other passenger vehicle expenses</u>	<u>6.0</u>		<u>0.5</u>	<u>0.5</u>	<u>2.70</u>	<u>0.16</u>	<u>0.01</u>	<u>2.4</u>	<u>2.2</u>	<u>1.6</u>	<u>2.6</u>	<u>2.0</u>	<u>1.7</u>
Public trans.	-6.6		-15.3		1.21	-0.08	-0.19	4.8	3.9	-2.9	3.4	3.7	-2.7
Local & commuter transportation	4.6		0.7	0.0	0.35	0.02	0.00	1.5	0.5	6.3	2.2	1.2	2.1
<u>City bus & subway</u>	<u>4.8</u>		<u>0.6</u>		<u>0.23</u>	<u>0.01</u>	<u>0.00</u>	<u>2.1</u>	<u>0.7</u>	<u>3.6</u>	<u>2.8</u>	<u>1.4</u>	<u>1.4</u>
<u>Taxi & other commuter service</u>	<u>4.3</u>		<u>1.1</u>		<u>0.12</u>	<u>0.01</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>5.1</u>	<u>0.9</u>	<u>1.2</u>	<u>2.8</u>
Inter-city transportation	-12.6		-22.0	-3.5	0.72	-0.09	-0.16	6.2	5.7	-3.3	3.9	5.8	-2.8
<u>Air transportation</u>	<u>-14.3</u>		<u>-23.7</u>		<u>0.62</u>	<u>-0.09</u>	<u>-0.15</u>	<u>6.5</u>	<u>6.2</u>	<u>-3.4</u>	<u>4.0</u>	<u>6.4</u>	<u>-2.8</u>
<u>Rail, highway bus, other</u>	<u>-5.6</u>		<u>-10.1</u>		<u>0.10</u>	<u>-0.01</u>	<u>-0.01</u>	<u>2.7</u>	<u>1.8</u>	<u>-4.7</u>	<u>2.0</u>	<u>4.2</u>	<u>-1.8</u>
Health & personal care	3.7		0.7	0.4	5.03	0.2	0.03	1.4	0.4	5.9	1.3	0.9	2.9
Health care	2.8		-0.1		2.46	0.1	0.00	1.3	0.6	2.5	1.1	0.8	2.1
Health care goods	2.1		0.0	-0.1	1.44	0.0	0.00	0.5	0.7	2.3	-0.1	1.1	2.0
Health care services	3.7		0.0	0.4	1.02	0.0	0.00	2.5	0.6	2.2	2.9	0.8	1.1
Personal Care	4.6		1.2		2.58	0.1	0.03	1.5	0.5	5.7	1.5	1.2	2.7
Personal care supplies & equipment	4.8		1.8	0.7	1.81	0.1	0.03	0.4	0.9	4.7	0.5	1.6	2.7
Personal care services	3.9		0.0	0.3	0.76	0.0	0.00	2.9	0.7	1.4	2.7	1.4	0.8
Recreation, education & reading	0.3		-0.6	-0.7	9.92	0.0	-0.06	1.7	0.8	-1.8	1.3	0.9	-1.1
Recreation	-0.2		-0.74		8.29	-0.02	-0.06	1.4	1.0	-1.5	0.6	1.2	-0.7
Recreational equipment & services, excl. vehicles	-3.0		-0.2	-1.1	2.16	-0.1	0.00	-0.8	1.6	-1.4	-2.2	2.0	-0.4
Purchase & operation of recreational vehicles	7.4		0.5	-0.7	1.64	0.1	0.01	2.6	1.8	2.6	1.9	2.0	2.8
Home entertainment equipment	1.0		1.7	0.1	0.69	0.0	0.01	-3.8	2.0	2.3	-4.9	2.2	2.7
Travel services	-2.9		-5.4	-1.9	1.94	-0.1	-0.10	0.8	2.9	-1.3	0.4	2.8	-1.2
Other cultural & rec. services	3.1		0.8	0.1	1.87	0.1	0.02	3.5	1.1	-0.4	3.4	1.4	-0.2
Educ. & reading	3.2		0.00		1.63	0.05	0.00	2.5	1.4	0.5	3.0	1.1	0.2
Education	2.7		0.0	0.1	1.38	0.0	0.00	2.4	1.4	0.2	3.0	1.2	-0.2
Reading material excl. textbooks	5.9		-0.1	-0.1	0.25	0.0	0.00	3.8	2.8	0.8	3.2	2.9	0.9
Alcoholic beverages, tobacco & rec. cannabis	4.2		1.1	0.4	4.53	0.2	0.05	3.2	1.2	0.9	2.7	1.3	1.1
Alcoholic beverages	3.6		1.30		2.94	0.11	0.04	1.7	0.5	3.7	1.4	0.7	3.0
Alc. beverages served in licensed establishments	5.3		0.1	0.2	0.86	0.0	0.00	1.8	0.6	5.7	2.0	0.7	4.8
Alc. beverages purchased from stores	2.9		1.9	0.5	2.08	0.1	0.04	1.7	0.7	1.9	1.1	1.1	1.7
Tobacco products	7.7		1.10		1.23	0.09	0.01	5.6	2.1	1.0	4.8	2.8	1.0
Cigarettes	8.3		1.1		1.12	0.1	0.01	5.6	2.1	1.3	4.8	2.8	1.2
Other tobacco products & supplies	1.9		0.8		0.11	0.0	0.00	5.6	2.0	-1.8	4.9	2.6	-1.1
Rec. cannabis	-2.4		0.00		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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