

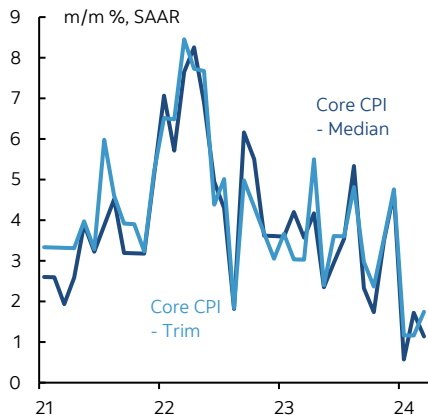
Contributors

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Chart 1

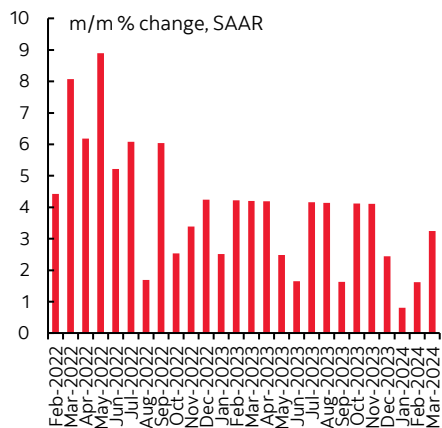
BoC's Preferred Core Measures



Sources: Scotiabank Economics, Statistics Canada.

Chart 2

Canadian Core Inflation



Sources: Scotiabank Economics, Statistics Canada.

Canadian Inflation—More Progress, More Needed

- The BoC's favoured core measures were soft again in March
- Other core measures not so much
- This is encouraging, but still just three months of softness...
- ...with a lot of ground to cover before the June meeting
- What was hot and what was not
- BoC's Macklem to speak shortly

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

Actual: 0.6 / 2.9
 Scotia: 0.7 / 3.0
 Consensus: 0.7 / 2.9
 Prior: 0.3 / 2.8

Average of trimmed mean and weighted median CPI, March: 1.25% m/m SAAR

Make that three in a row!

The Bank of Canada's preferred core inflation gauges were soft again in the month of March. At the margin, that slightly added to June cut pricing. That's welcome news after all that Canadians have been through. But we still need much more evidence. The core question of whether this is a durable soft patch remains open in my opinion.

There is a lot of ground to cover yet between now and the June meeting and I'll give reasons for why I'm not prepared to fundamentally pivot to June. On balance, the high resilience in core services pricing and ongoing suspect disinflation on the goods side of the picture makes me cautious toward declaring victory over inflation especially since it's just three months of evidence with Spring data pending.

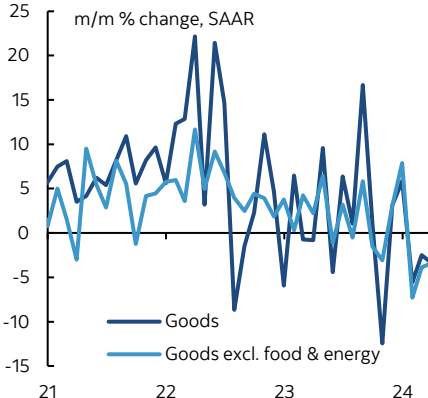
Market Reaction—June Probability Up, Modest Cuts for the Year

CAD depreciated by about half a penny or so versus the USD post-CPI. The Canada two-year yield fell by about 10bps post-data and is outperforming the US front-end.

OIS pricing for the June meeting added another 5bps and is currently sitting at about 19bps of a quarter point cut. The rest of the year's pricing moved closer to our forecast for 75bps of total cuts by year-end at just under 70bps priced. Thus, markets rare leaning toward an earlier start to cutting than our present forecast but a similar end for the year.

Chart 3

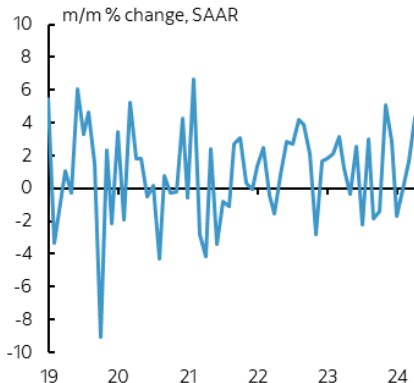
Canadian Goods Inflation



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 4

Canadian Services ex Shelter Inflation



Sources: Scotiabank Economics, Statistics Canada, Haver.

Core Measures Were (Mostly) Soft

The BoC’s preferred core inflation measures were soft. Trimmed mean CPI was up by just 1.75% m/m SAAR and weighted median CPI was up by just 1.15% m/m SAAR (chart 1). Those figures dropped the three-month moving averages to 1.4% m/m SAAR for trimmed mean and 1.2% for weighted median.

Other core measures were less cooperative but likely to play second fiddle in the BoC’s way of looking at inflation. Traditional CPI ex-food and energy was up by 3.3% m/m SAAR (chart 2) and the three-month moving average is now at 1.9% m/m SAAR. CPI excluding the eight most volatile items and indirect taxes was up by 2.4% m/m SAAR.

Resilient Services, Goods Disinflation

All of the weakness we’re getting remains on the goods side of the picture (chart 3) while core services inflation ex-housing jumped higher (chart 4).

Goods CPI was down -0.3% m/m SA and so was core goods CPI ex-food and energy. Core services ex-shelter was up by 0.3% m/m SA.

Headline Weighed Down by Food and Gas

Headline CPI was up by 0.3% m/m SA. Cool food prices (+0.1% m/m SA) weighed on the headline reading as grocers continued to cut prices while restaurant inflation remains hot (chart 5).

Gasoline prices slipped by -0.1% m/m SA as the 4.9% m/m NSA rise was roughly in line with longer-term seasonal norms and little changed in m/m annualized terms (chart 6).

What Was Hot...

Shelter inflation remains very hot (chart 7). Rent inflation remains elevated (charts 8, 9).

Clothing prices rebounded sharply in March as discounting subsided and gave way to the introduction of new Spring lines at higher prices (chart 10).

There was also a rebound in vehicle prices that were up by about 7% m/m SAAR (chart 11).

The recreation, reading and education category was up by 0.6% m/m SA. Chart 12 shows a break down of that category.

Air transportation was sharply higher in March (chart 13).

Chart 5

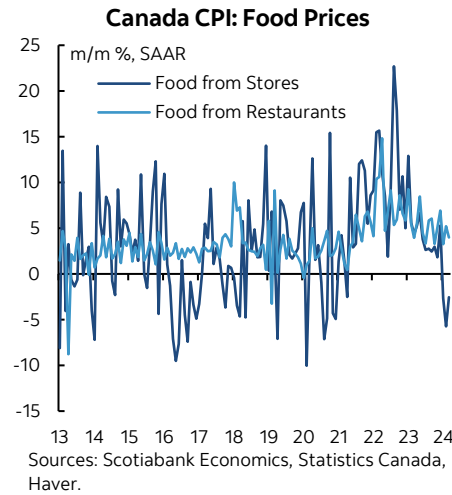


Chart 6

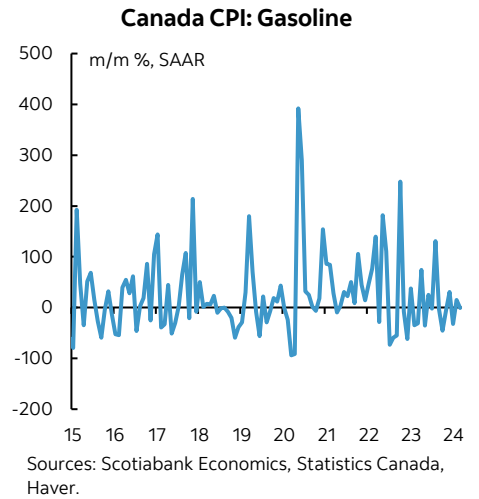


Chart 7

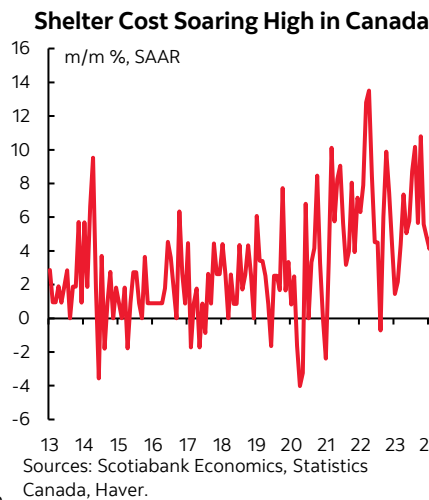


Chart 8

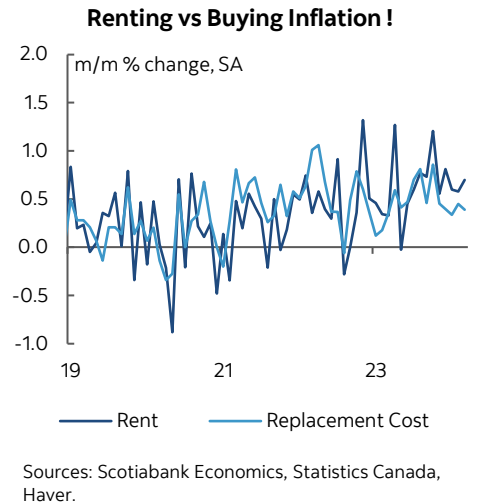


Chart 9

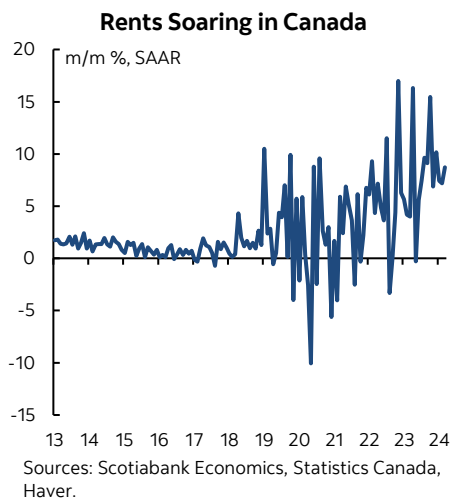
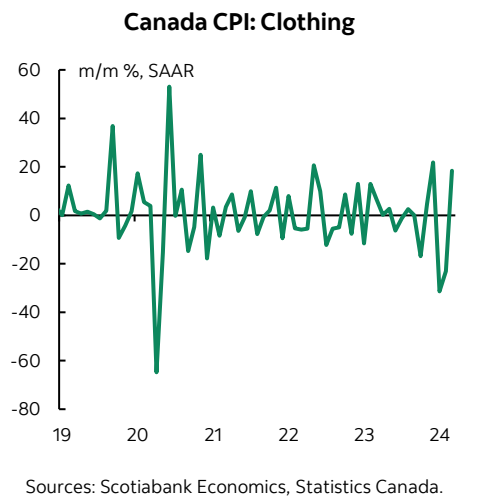


Chart 10



...And What Was Not

Communications prices fell again (chart 14). There were smaller declines in March over February than the prior month, but still, cell service pricing fell another 1.6% m/m NSA (-25% m/m in February). Internet service prices fell another 2.1% m/m NSA (-13.7% m/m NSA in February)

Chart 15 provides a break down of the whole household operations category.

Further Details

Please see breakdowns of the CPI basket in terms of weighted contributions to y/y inflation (chart 16) and weighted contributions to month-over-month seasonally adjusted inflation (chart 17).

Chart 18 shows a breakdown of what was included in trimmed mean CPI last month.

Year-to-Date Tracking

There remains ongoing unusual softness in several categories including ones affected by seasonal changes and regulatory pressure. Charts 19–22 provide depictions in addition to the earlier chart for grocery prices.

BoC Implications

Governor Macklem speaks at 1:15pmET today on a panel alongside Fed Chair Powell. Watch for his reaction if asked by the moderator, former Finance Minister Morneau, what he thinks. There will be no audience Q&A or press conference.

To begin easing and embolden markets to price more must have more data and developments to support it in the wake of how central banks massively misjudged inflation over recent years. If a cut follows such a soft patch then it will be very revealing of the BoC's bias to look through inflation risk at the beginning and cut at the first whiff of softening pressures.

There is still a lot of ground to cover until the June 5th BoC meeting. April CPI arrives on May 21st and the odds of a rebound from the forces driving goods disinflation are rising at the same time that carbon taxes will factor in with implications for headline CPI and any pass through.

Chart 11

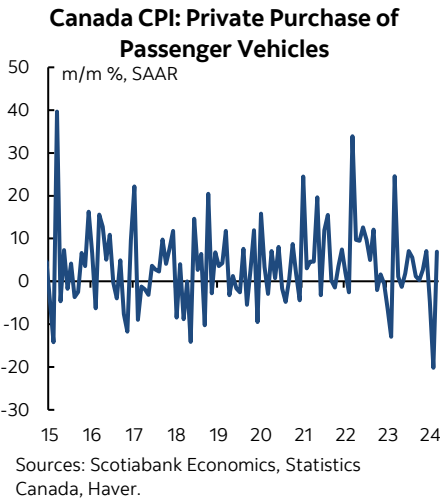


Chart 13

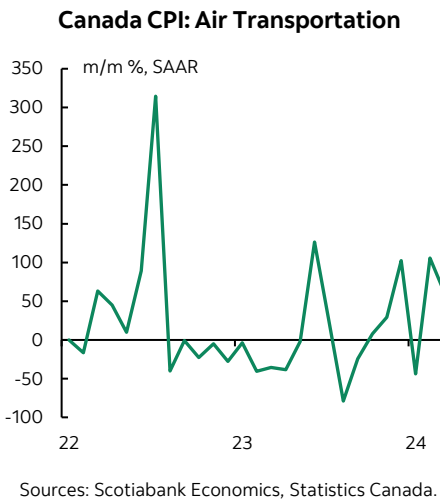


Chart 15

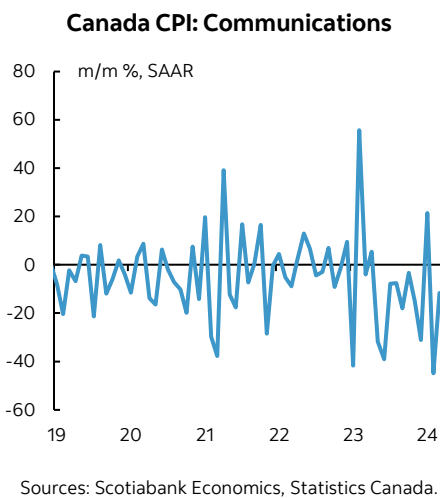


Chart 12

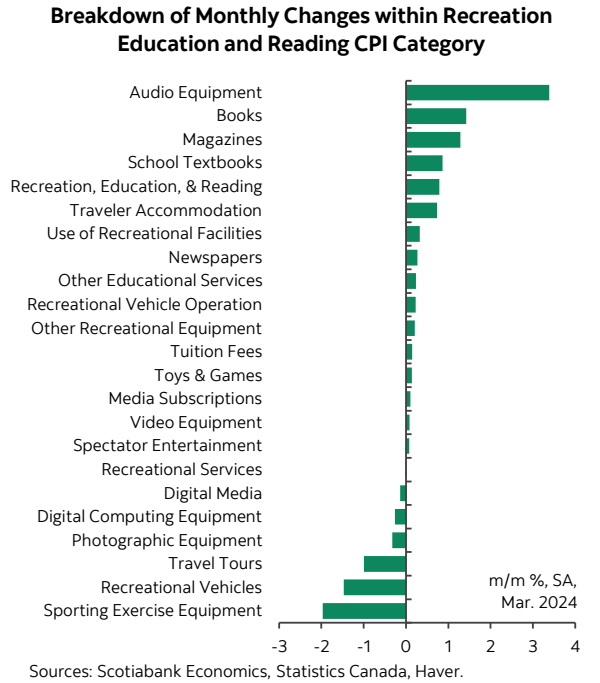


Chart 14

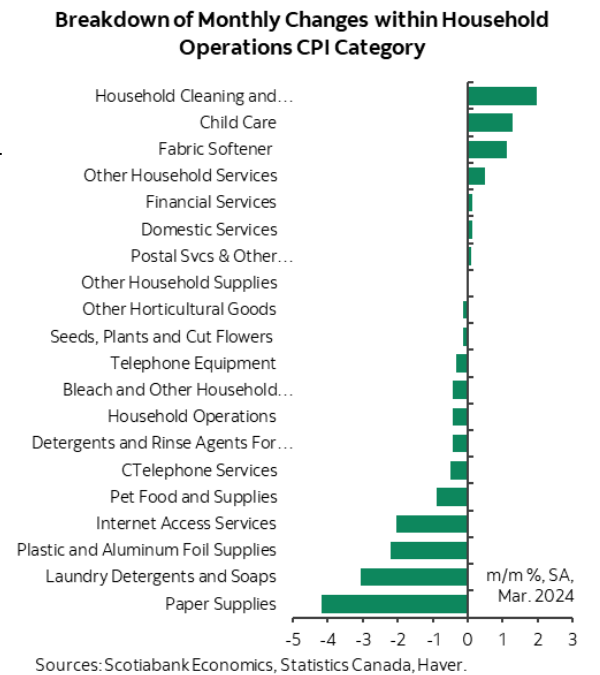


Chart 16

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



Sources: Scotiabank Economics, Statistics Canada.

Chart 17

March Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Q1 GDP lands on May 31st. There may be upside risk to the BoC’s forecast with growth tracking north of 3% q/q SAAR.

The Federal government’s budget that lands later today will have to be incorporated into the BoC’s forecasts at least partially before June and fully in the July MPR forecast update.

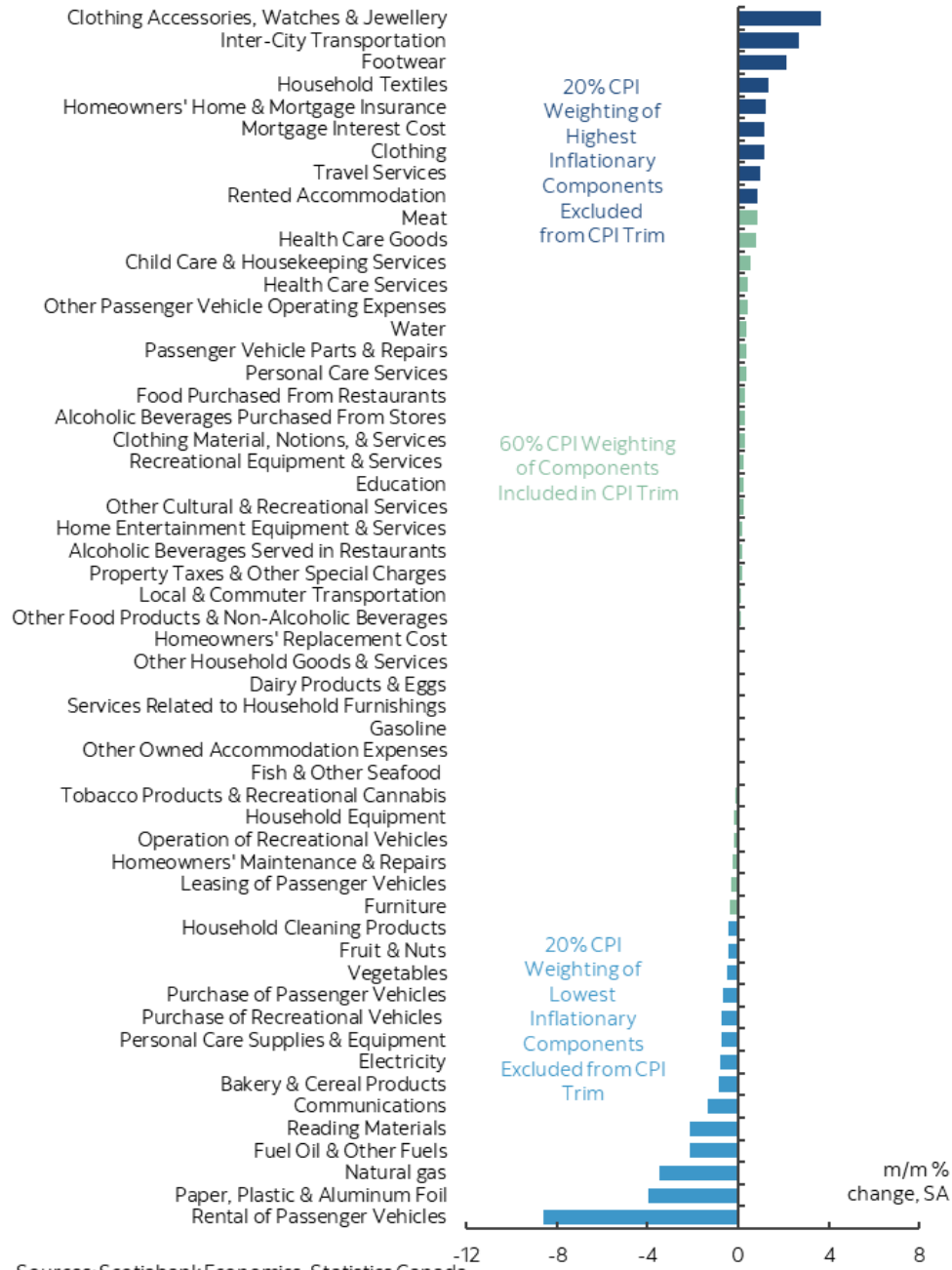
The Federal Reserve’s cuts keep getting pushed down and out. At over 1.38 to the USD the currency has lost about three cents in a week. Emboldening cuts would strongly risk CAD punching through 1.40 and stoking more import price inflation.

All the while Canadian productivity, wages and unit labour costs continue to combine to drive inflation risk.

Now bring on the Spring housing market over April–June.

Lastly, please see the accompanying table at the back of this publication for further details on the components including micro charts and z-score measures of deviations from trends.

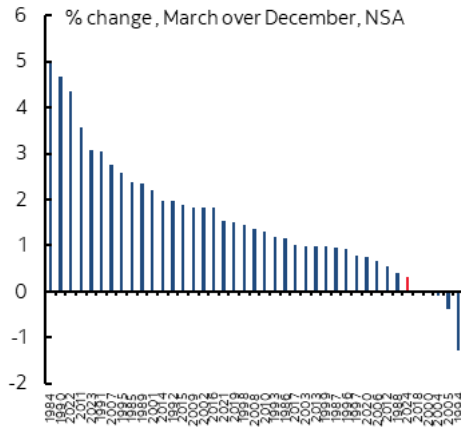
Chart 18 March Single-Month Components Included and Excluded from Bank of Canada Trim Core CPI Measure



Sources: Scotiabank Economics, Statistics Canada.

Chart 19

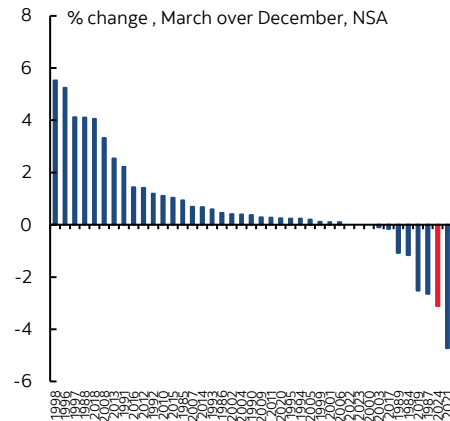
Canada CPI: Food from Stores



Sources: Scotiabank Economics, Statistics Canada.

Chart 20

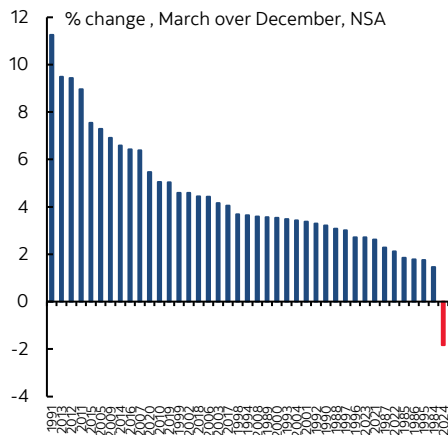
Canada CPI: Communications



Sources: Scotiabank Economics, Statistics Canada.

Chart 21

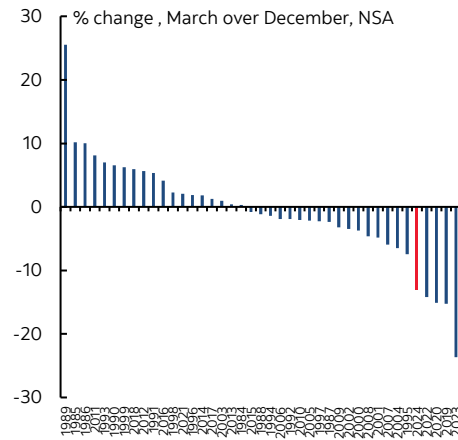
Canada CPI: Clothing



Sources: Scotiabank Economics, Statistics Canada.

Chart 22

Canada CPI: Air Transportation



Sources: Scotiabank Economics, Statistics Canada.

April 16, 2024

Mar 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	3.0			-0.2	0.1	16.65	0.49	-0.03	2.1	1.7	0.5	2.2	1.5	0.5
Food, stores	1.9			-0.3		11.04	0.21	-0.03	1.7	2.4	0.1	2.0	2.0	-0.1
Meat	3.4			0.5	0.9	2.07	0.07	0.01	2.5	3.6	0.3	3.4	3.6	0.0
Fish & seafood	-1.0			-0.4	-0.1	0.39	0.00	0.00	2.9	1.4	-2.8	2.8	2.5	-1.5
Dairy products & eggs	0.7			0.9	0.0	1.47	0.01	0.01	0.2	1.5	0.3	0.6	1.5	0.1
Bakery & cereal products	0.8			-0.4	-0.9	1.52	0.01	-0.01	0.5	2.1	0.2	1.2	2.3	-0.2
Fruit, fruit prep. & nuts	-0.4			-1.6	-0.4	1.33	-0.01	-0.02	1.8	4.4	-0.5	2.0	3.5	-0.7
Vegetables & vegetable prep.	2.6			-3.5	-0.5	1.32	0.03	-0.05	4.9	6.4	-0.4	3.6	5.8	-0.2
Other food & non-alcoholic beverages	3.0			0.8	0.1	2.95	0.09	0.02	1.0	1.5	1.3	1.3	1.7	1.0
Food, restaurants	5.1			0.0		5.61	0.29	0.00	3.0	0.7	3.2	2.6	0.7	3.5
Table service restaurants	4.4			-0.1		3.29	0.15	0.00	2.9	0.6	2.9	2.6	0.6	2.9
Fast food & take-out	6.4			0.2		1.57	0.10	0.00	3.2	1.2	2.7	2.6	1.2	3.3
Cafeterias & other restaurants	5.2			0.0		0.76	0.04	0.00	3.0	0.6	3.5	2.6	0.7	3.6
Shelter	6.5			0.4	0.4	28.34	1.85	0.11	1.8	0.6	8.0	1.7	0.8	6.1
Rented accommodation	8.3			0.9	0.9	7.03	0.59	0.07	1.3	0.8	8.8	1.3	0.6	11.9
Rent	8.5			0.9		6.79	0.58	0.06	1.3	0.8	8.8	1.3	0.6	12.1
Tenants' insurance premiums	-0.4			0.6		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	6.8			0.5		17.96	1.22	0.09	2.3	0.4	10.6	1.7	0.8	6.1
Mortgage interest cost	25.4			1.2	1.2	3.80	0.96	0.05	2.1	3.6	6.4	-0.1	3.6	7.1
Homeowners' replacement cost	-1.0			0.0	0.1	5.47	-0.05	0.00	1.9	1.7	-1.8	2.1	1.5	-2.1
Property tax & other charges	4.9			0.0	0.2	2.51	0.12	0.00	2.4	0.6	4.4	2.8	0.7	3.1
Homeowners' home & mortgage insurance	8.8			1.2	1.2	1.31	0.11	0.02	5.2	2.3	1.5	4.5	2.6	1.6
Homeowners' maintenance & repairs	3.3			-0.2	-0.2	1.93	0.06	0.00	2.0	1.1	1.2	2.0	1.4	0.9
Other owned accommodation expenses	1.0			0.7	-0.1	2.93	0.03	0.02	2.0	1.2	-0.8	2.4	2.0	-0.7
Water, fuel, & elec.	1.3			-1.3		3.35	0.04	-0.04	0.8	2.1	0.3	2.5	3.4	-0.3
Electricity	6.5			-0.8	-0.8	1.67	0.11	-0.01	1.2	4.4	1.2	2.5	3.8	1.0
Water	4.3			0.0	0.4	0.73	0.03	0.00	3.7	0.9	0.6	4.9	1.4	-0.5
Natural gas	-10.5			-3.5	-3.5	0.74	-0.08	-0.03	-1.3	9.0	-1.0	0.4	10.6	-1.0
Fuel oil & other fuels	-2.7			-2.1	-2.1	0.21	-0.01	0.00	-0.1	15.5	-0.2	5.1	14.2	-0.6
Household operations, furniture & equipment	-2.3			-0.3	-0.5	14.36	-0.33	-0.04	1.2	1.0	-3.4	1.4	0.9	-4.3
Household ops.	-3.4			-0.7		9.48	-0.32	-0.07	1.3	1.1	-4.2	2.1	1.3	-4.4
Communications	-17.3			-1.4	-1.4	2.71	-0.47	-0.04	0.0	2.8	-6.2	1.5	2.9	-6.6
Child care & housekeeping services	0.7			0.0	0.5	0.71	0.00	0.00	3.4	1.4	-2.0	3.3	1.3	-2.0
Household cleaning products	1.1			-0.7	-0.4	0.42	0.00	0.00	1.3	1.9	-0.1	0.8	1.9	0.1
Paper, plastic, aluminum foil	-3.4			-5.2	-4.0	0.51	-0.02	-0.03	2.2	2.2	-2.5	2.0	2.0	-2.7
Other household goods & services	3.0			-0.1	0.1	5.13	0.15	-0.01	1.8	0.5	2.5	2.4	1.1	0.6
Household furnishings & equip.	-0.3			0.5		4.88	-0.02	0.03	0.8	1.7	-0.7	0.1	1.6	-0.3
Furniture & textiles	1.1			0.9		2.12	0.02	0.02	0.4	2.1	0.3	-0.3	2.1	0.7
Household equipment	-2.5			0.2	-0.2	2.25	-0.06	0.00	0.9	1.7	-2.1	0.0	1.8	-1.4
Services related to furnishings & equipment	5.4			1.1	0.0	0.38	0.02	0.00	2.4	1.8	1.6	2.7	2.9	0.9
Clothing & footwear	-2.7			2.8	1.4	4.7	-0.13	0.13	0.6	1.2	-2.7	0.3	1.4	-2.1
Clothing	-3.6			2.8	1.2	3.05	-0.11	0.09	0.5	1.6	-2.5	-0.3	2.1	-1.6
Footwear	-3.0			3.4	2.1	0.64	-0.02	0.02	0.4	1.2	-2.9	0.1	1.4	-2.2
Clothing accessories	0.1			3.3		0.83	0.00	0.03	1.0	1.8	-0.5	2.3	2.6	-0.9
Clothing material	1.3			0.0		0.22	0.00	0.00	2.2	0.7	-1.3	2.7	1.2	-1.2

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Transportation	3.0			1.5	0.2	16.4	0.50	0.24	1.7	3.1	0.4	2.3	3.0	0.2
Private trans.	2.9			1.1		15.2	0.45	0.17	1.3	3.2	0.5	2.2	3.2	0.2
Purchase, lease, rental of passenger vehicles	0.3			-0.2		5.98	0.02	-0.01	2.3	1.5	-1.3	1.9	1.6	-1.0
<u>Purchase & lease of passenger vehicles</u>	<u>0.5</u>			<u>-0.2</u>		<u>5.95</u>	<u>0.03</u>	<u>-0.01</u>	<u>2.3</u>	<u>1.5</u>	<u>-1.2</u>	<u>1.9</u>	<u>1.6</u>	<u>-0.9</u>
Rental of passenger vehicles	-19.1			-12.0	-8.6	0.04	-0.01	0.00	1.4	5.2	-3.9	1.2	4.1	-5.0
Operation of passenger vehicles	4.8			2.1		9.25	0.45	0.19	0.7	5.7	0.7	2.4	5.4	0.5
<u>Gasoline</u>	<u>4.5</u>			<u>4.9</u>	<u>0.0</u>	<u>3.89</u>	<u>0.18</u>	<u>0.19</u>	<u>-0.6</u>	<u>13.5</u>	<u>0.4</u>	<u>3.0</u>	<u>12.2</u>	<u>0.1</u>
<u>Passenger vehicle parts, maintenance & repairs</u>	<u>3.8</u>			<u>0.0</u>	<u>0.4</u>	<u>2.66</u>	<u>0.10</u>	<u>0.00</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>6.2</u>			<u>0.4</u>	<u>0.4</u>	<u>2.70</u>	<u>0.17</u>	<u>0.01</u>	<u>2.4</u>	<u>2.2</u>	<u>1.7</u>	<u>2.6</u>	<u>2.0</u>	<u>1.8</u>
Public trans.	3.2			5.6		1.21	0.04	0.07	4.8	3.9	-0.4	3.4	3.7	0.0
Local & commuter transportation	3.9			0.1	0.1	0.35	0.01	0.00	1.5	0.5	4.9	2.2	1.2	1.4
<u>City bus & subway</u>	<u>4.8</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>3.6</u>	<u>2.8</u>	<u>1.4</u>	<u>1.4</u>
<u>Taxi & other commuter service</u>	<u>2.1</u>			<u>0.2</u>		<u>0.12</u>	<u>0.00</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>2.4</u>	<u>0.9</u>	<u>1.2</u>	<u>1.0</u>
Inter-city transportation	2.6			8.5	2.7	0.72	0.02	0.06	6.2	5.7	-0.6	3.9	5.8	-0.2
<u>Air transportation</u>	<u>2.9</u>			<u>10.0</u>		<u>0.62</u>	<u>0.02</u>	<u>0.06</u>	<u>6.5</u>	<u>6.2</u>	<u>-0.6</u>	<u>4.0</u>	<u>6.4</u>	<u>-0.2</u>
<u>Rail, highway bus, other</u>	<u>-1.6</u>			<u>-0.7</u>		<u>0.10</u>	<u>0.00</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>-2.5</u>	<u>2.0</u>	<u>4.2</u>	<u>-0.9</u>
Health & personal care	3.2			-0.1	0.1	5.03	0.2	0.00	1.4	0.4	4.6	1.3	0.9	2.3
Health care	3.1			0.5		2.46	0.1	0.01	1.3	0.6	3.1	1.1	0.8	2.5
Health care goods	2.7			0.8	0.8	1.44	0.0	0.01	0.5	0.7	3.1	-0.1	1.1	2.6
Health care services	3.6			0.0	0.4	1.02	0.0	0.00	2.5	0.6	2.1	2.9	0.8	1.0
Personal Care	3.3			-0.7		2.58	0.1	-0.02	1.5	0.5	3.3	1.5	1.2	1.6
Personal care supplies & equipment	2.6			-0.9	-0.7	1.81	0.0	-0.02	0.4	0.9	2.4	0.5	1.6	1.3
Personal care services	4.7			0.0	0.4	0.76	0.0	0.00	2.9	0.7	2.5	2.7	1.4	1.4
Recreation, education & reading	1.9			2.0	0.6	9.92	0.2	0.20	1.7	0.8	0.3	1.3	0.9	0.8
Recreation	2.0			2.56		8.29	0.17	0.21	1.4	1.0	0.6	0.6	1.2	1.1
Recreational equipment & services, excl. vehicles	-2.4			0.0	0.3	2.16	-0.1	0.00	-0.8	1.6	-1.0	-2.2	2.0	-0.1
Purchase & operation of recreational vehicles	6.4			0.1	-0.7	1.64	0.1	0.00	2.6	1.8	2.1	1.9	2.0	2.3
Home entertainment equipment	1.7			1.0	0.2	0.69	0.0	0.01	-3.8	2.0	2.7	-4.9	2.2	3.0
Travel services	-0.9			10.7	1.0	1.94	0.0	0.21	0.8	2.9	-0.6	0.4	2.8	-0.5
Other cultural & rec. services	3.0			0.0	0.2	1.87	0.1	0.00	3.5	1.1	-0.4	3.4	1.4	-0.3
Educ. & reading	1.9			-0.28		1.63	0.03	0.00	2.5	1.4	-0.5	3.0	1.1	-1.0
Education	2.7			0.1	0.2	1.38	0.0	0.00	2.4	1.4	0.2	3.0	1.2	-0.2
Reading material excl. textbooks	-2.7			-2.1	-2.1	0.25	0.0	-0.01	3.8	2.8	-2.4	3.2	2.9	-2.1
Alcoholic beverages, tobacco & rec. cannabis	3.2			0.5	0.2	4.53	0.1	0.02	3.2	1.2	0.0	2.7	1.3	0.3
Alcoholic beverages	3.0			0.54		2.94	0.09	0.02	1.7	0.5	2.4	1.4	0.7	2.2
Alc. beverages served in licensed establishments	4.1			0.0	0.2	0.86	0.0	0.00	1.8	0.6	3.8	2.0	0.7	3.1
Alc. beverages purchased from stores	2.5			0.8	0.3	2.08	0.1	0.02	1.7	0.7	1.2	1.1	1.1	1.3
Tobacco products	5.9			0.58		1.23	0.07	0.01	5.6	2.1	0.1	4.8	2.8	0.4
Cigarettes	6.4			0.6		1.12	0.1	0.01	5.6	2.1	0.4	4.8	2.8	0.6
Other tobacco products & supplies	0.4			0.3		0.11	0.0	0.00	5.6	2.0	-2.6	4.9	2.6	-1.7
Rec. cannabis	-2.8			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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