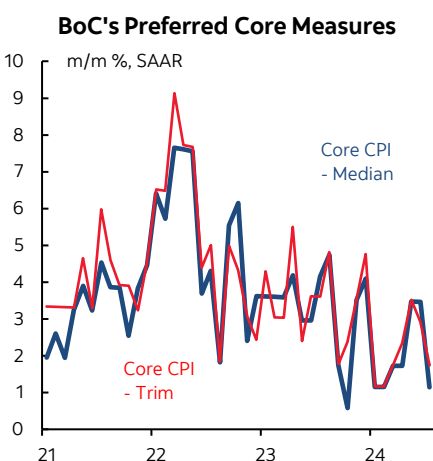


Contributors

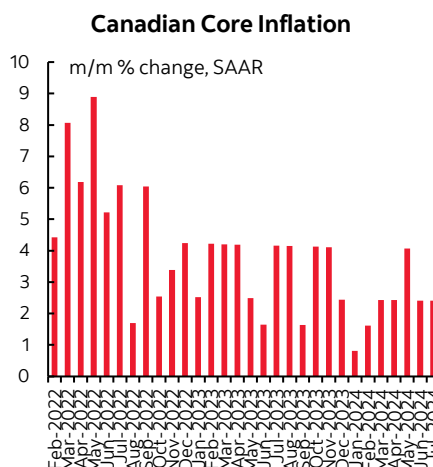
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Canadian Core Inflation Resumes Deceleration—Two New Risks Ahead

- The BoC’s preferred core gauges fell back to one-handed m/m annualized gains
- Breadth of price pressures remains significant
- The assumed bounce back in recreation prices didn’t happen...
- ...as steep travel discounting weighed on the category
- Rail strikes and methodological changes to cellular services lie ahead
- Markets barely reacted to a largely priced outcome

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

Actual: 0.4 / 2.5
 Scotia: 0.5 / 2.6
 Consensus: 0.4 / 2.5
 Prior: -0.1 / 2.7

Trimmed mean CPI: 2.7% y/y (2.8% prior revised from 2.9%); m/m SAAR 1.7% (2.9% prior)

Weighted median CPI: 2.4% y/y (2.6% prior); 1.1% m/m SAAR (3.5% prior revised from 2.9%)

Canadian core inflation ebbed in July using the proper measure calculated as the month-over-month percentage changes in seasonally adjusted trimmed mean and weighted median CPI at an annualized rate (chart 1). They landed at 1.1% m/m SAAR for weighted median and 1.7% for trimmed mean. Traditional core CPI ex-food and energy was also soft but a touch firmer at 2.4% m/m SAAR (chart 2).

The figures are volatile. Both of the BoC’s preferred core readings were soft from January through to April before they accelerated to revised averages of 3.5% in May and 3.2% in June. Falling back to an average of 1.4% in July is welcome relief but continues to merit caution along a volatile path.

There was no market effect on September rate cut expectations or the market’s view that 75bps of cuts will be delivered over the three meetings in September, October and December. Our forecast is for two more cuts this year including September, ending the year at 4%. We tentatively assume a skip in December partly based on uncertainty in the aftermath of the US election, domestic data uncertainty, and the potential contents of a Fall fiscal update into an election year.

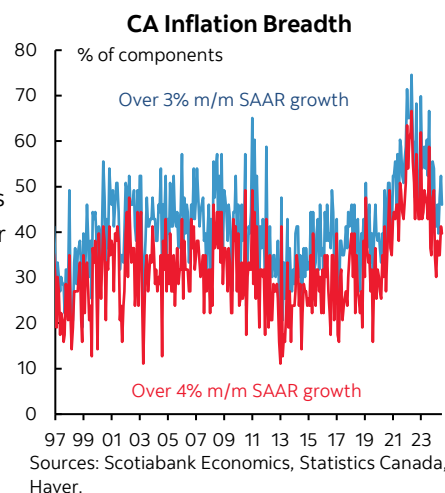
Details

Headline CPI m/m SA was 0.3%, meaning that most of the 0.4% m/m seasonally unadjusted rise in prices was seasonally unusual.

Breadth is shown in chart 3. While off from the peaks, a still considerable portion of the basket is showing price gains over 3% m/m SAAR and over 4% m/m SAAR.

Transportation prices including vehicles and gas were up 0.5% m/m SA. Household ops/ furnishings were up 0.5%. Food was up 0.3%. Clothing increased by 0.3%.

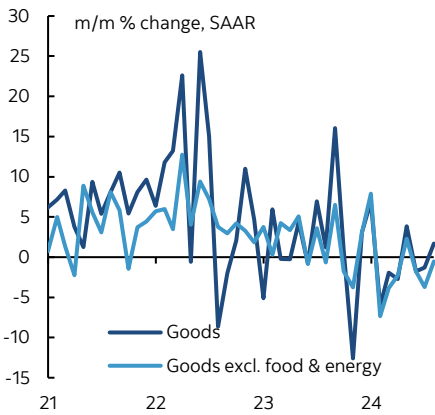
Chart 3



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 4

Canadian Goods Inflation



Sources: Scotiabank Economics, Statistics Canada, Haver.

There was a mild pick-up in goods inflation but it was small effect (chart 4), and this was offset by less services inflation (chart 5).

On the services side, there were softer pressures in core services (chart 6) and also somewhat less pressure on shelter costs including rent (charts 7, 8).

A small part of the reason for the weak m/m weighted median was due to an upward revision to June's m/m SAAR WM rate to 3.5% from 2.9% previously.

Apparently we're not having much fun this summer. Or at least not in terms of travel related activities.

We got 0.4 m/m headline CPI instead of my 0.5 estimate in part because I had factored in an assumed rebound in the recreation/education/reading category that carries about a 10% weight in CPI. That didn't happen. We're getting seasonally unusual weakness in that leisure category that fell -0.7% m/m SA in June and then another 0.2% in July. Falling prices for travel tours are a key part of it in the breakdown (chart 9).

It's easy to imagine a bunch of potential factors behind this category's softness but I'm still a bit surprised. CAD makes travel abroad more expensive but should incite more foreign travel to Canada especially from the US given Canada is a very price sensitive travel destination. Pressures on the finances of some households are not helping, but other households like the two-thirds of households without a mortgage are in better shape. Airfare is expensive in Canada as a perennial factor. Maybe weather also contributed to price discounting as it has been a stinkin' hot summer (with quite a lot of rain) in big parts of the country.

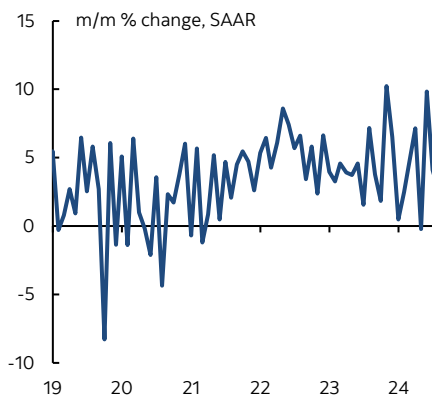
COMING RISKS

Figures for August and September may be interesting on three counts. One is regular data uncertainty in the context of ongoing upside risks to inflation (see morning note), but the other two are unusual.

Near-term price pressures partly depend on how long the likely rail strike lasts and how pervasive its effects may be. What has me worried about the duration is that

Chart 5

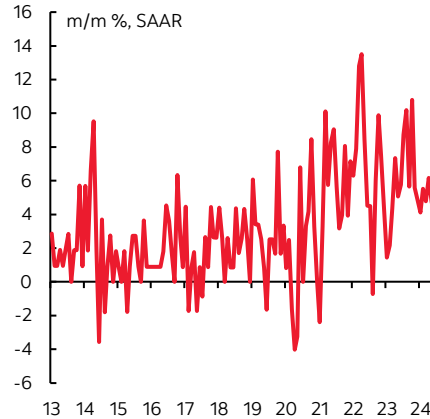
Canadian Service Inflation



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 7

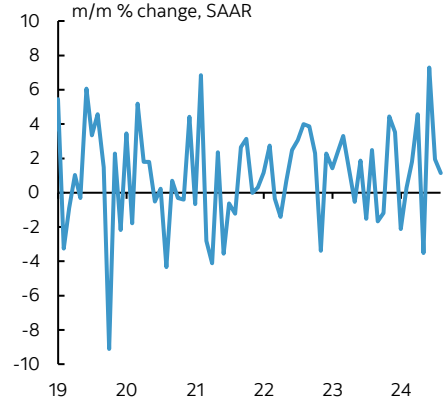
Shelter Cost in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 6

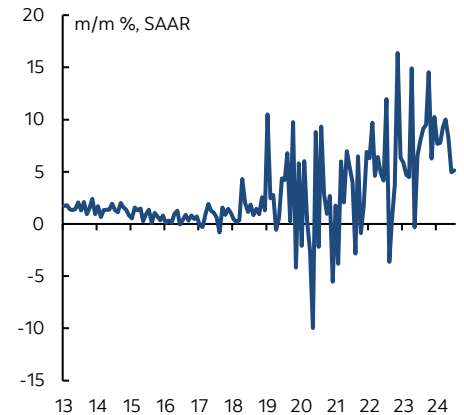
Canadian Services ex Shelter Inflation



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 8

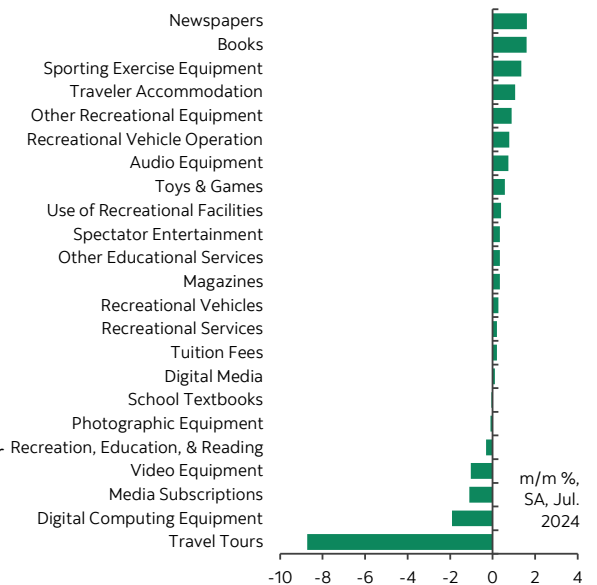
Rents in Canada



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 9

Breakdown of Monthly Changes within Recreation Education and Reading CPI Category



Sources: Scotiabank Economics, Statistics Canada, Haver.

both sides are saying they remain far apart and that the labour regs have changed given the left wing Federal government's pro-union policies that are against intervention. This raises the risk of supply shocks at a key time for retailers that are ordering their goods for the holiday season. A short strike is no big deal. A prolonged one could be quite disruptive to stocking and prices. Ditto for some key commodities like potash, wheat, etc. Oil by rail is less susceptible with those flows roughly tied with the lows of the past decade in part due to TransMountain.

Of much lesser concern is that Statcan has stated there will be methodological changes to how it captures cellular services prices in next month's CPI

for August ([here](#)). Charts 10–11 when combined with a 1.5% weight on cellular services in CPI show why it may matter somewhat. For example, when the category was down by about -25% y/y earlier this year it was contributing -0.3% to -0.4% to the deceleration in y/y inflation. My eyes started to glaze over while reading their methodological update but I'm unsure what effect the changes may have on this category and its weight in CPI.

The cellular category is a great example of the difficulties associated with measuring inflation. Recall it's not just about measuring prices, but also quality changes that get factored into CPI. What you've observed on your bills is only part of the issue. More data, broader networks, faster speeds, etc also factor into inflation stats through hedonic adjustments.

Please also see the collection of charts on the following pages and the detailed table at the back of this publication.

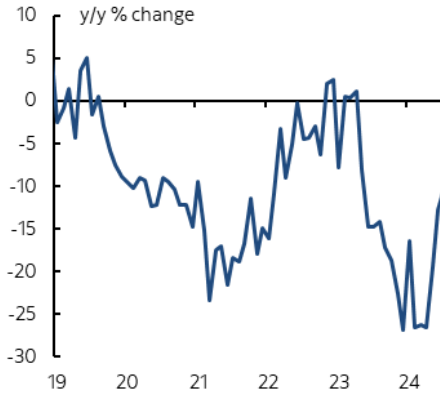
Markets Barely Flinched

There were relatively modest market moves in the aftermath of the release. USDCAD moved up (ie: CAD depreciated) by about a third of a cent. The 2-year GoC moved down by 4–5bps and is matching the performance of US 2s this morning. The September BoC meeting was priced for -25bps and remains as such. Only 2–3bps was added onto market pricing for -75bps more to year-end.

Now onto things that matter more, like Jackson Hole...

Chart 10

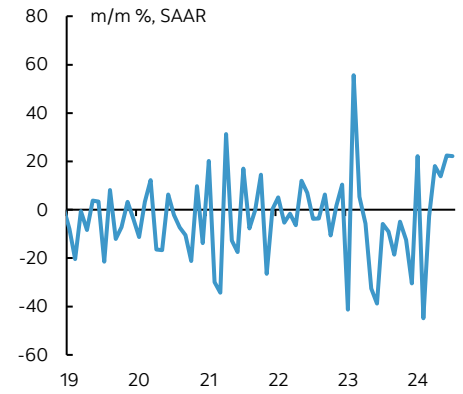
Canada CPI: Cellular Services



Sources: Scotiabank Economics, Statistics Canada.

Chart 11

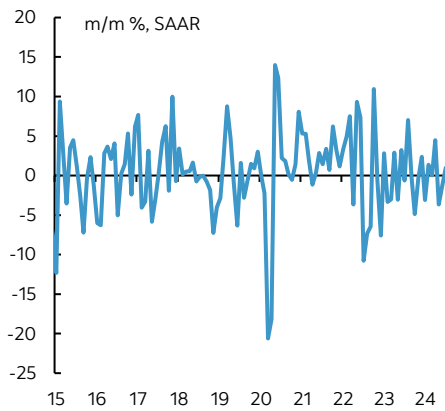
Canada CPI: Communications



Sources: Scotiabank Economics, Statistics Canada.

Chart 12

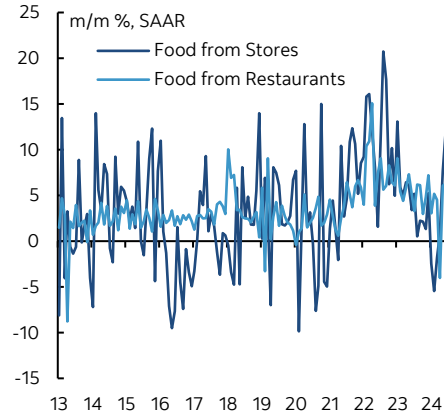
Canada CPI: Gasoline



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 13

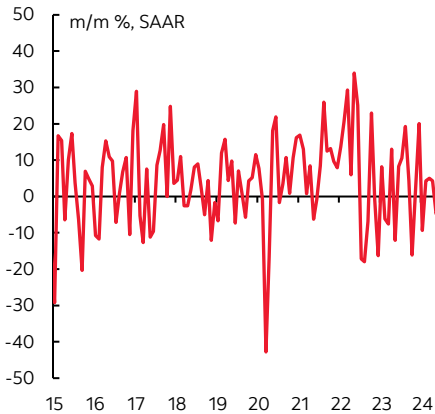
Canada CPI: Food Prices



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 14

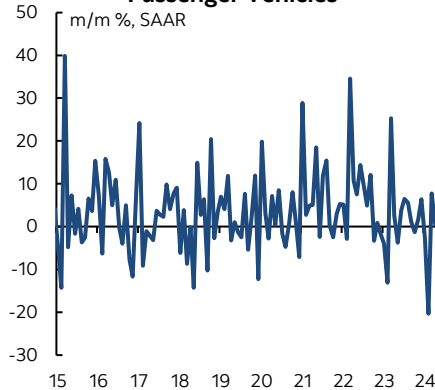
Canada CPI: Transportation



Sources: Scotiabank Economics, Statistics Canada.

Chart 15

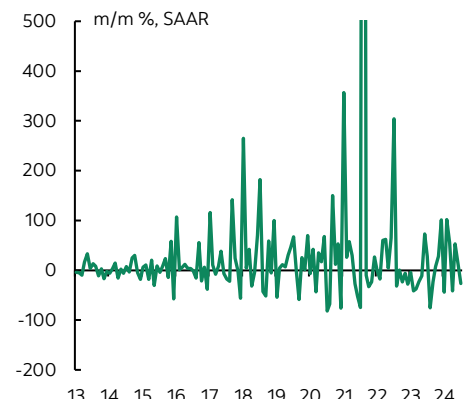
Canada CPI: Private Purchase of Passenger Vehicles



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 16

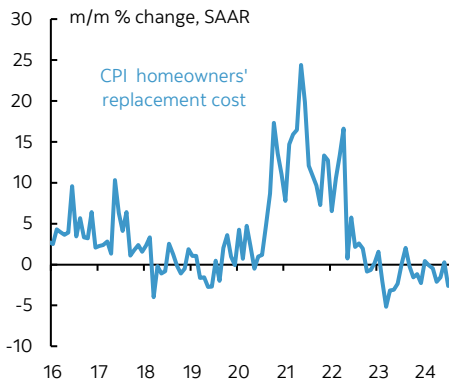
Canada CPI: Air Transportation



Sources: Scotiabank Economics, Statistics Canada.

Chart 17

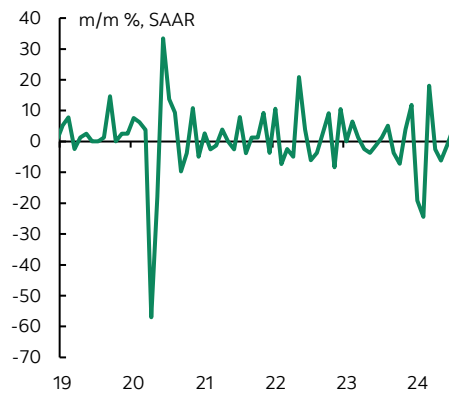
Canada CPI: Homeowners' Replacement Cost



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 18

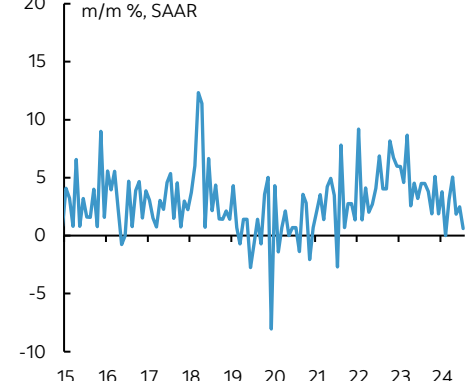
Canada CPI: Clothing & Footwear



Sources: Scotiabank Economics, Statistics Canada.

Chart 19

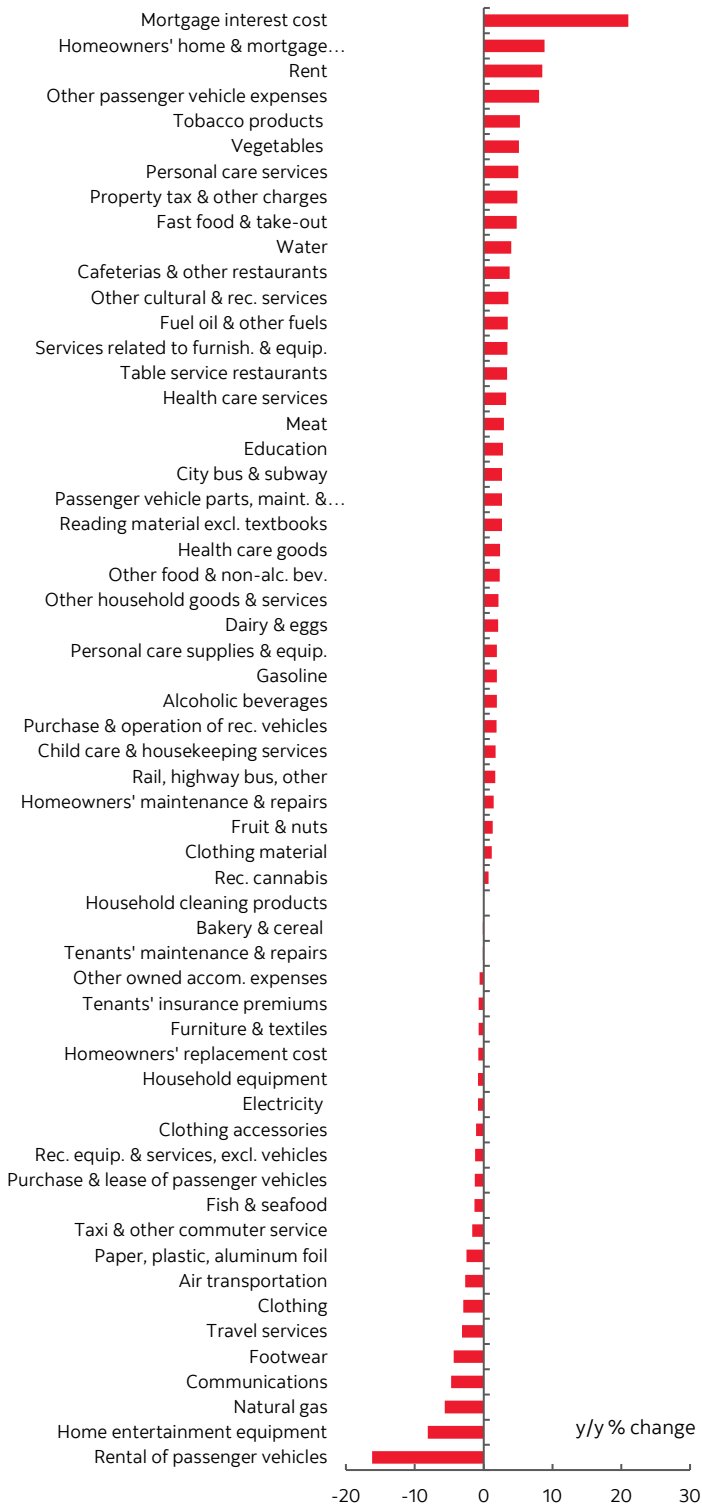
Canada CPI: Alcoholic Beverages & Tobacco Products



Sources: Scotiabank Economics, Statistics Canada.

Chart 20

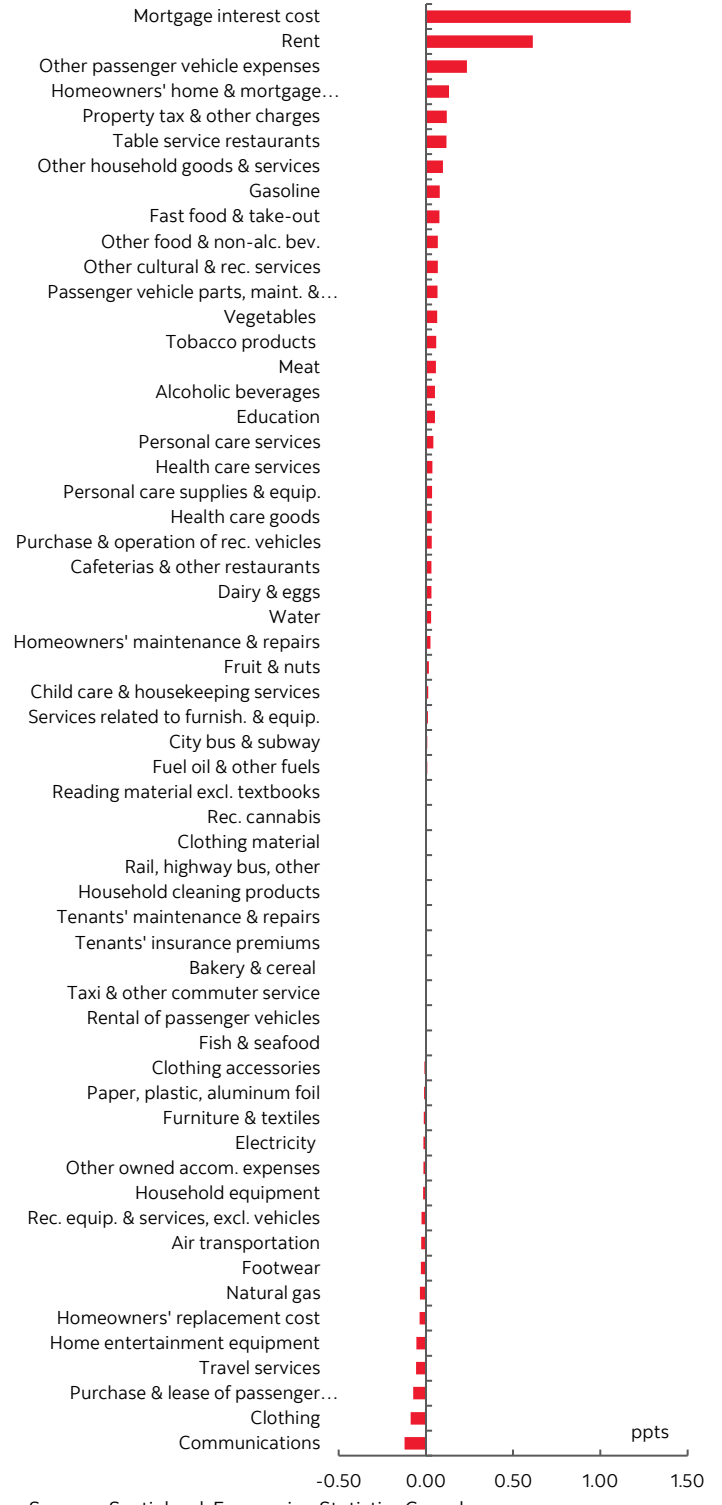
July Detailed Category 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 21

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



Sources: Scotiabank Economics, Statistics Canada.

Chart 22

July Detailed Category Monthly Change in Canadian CPI

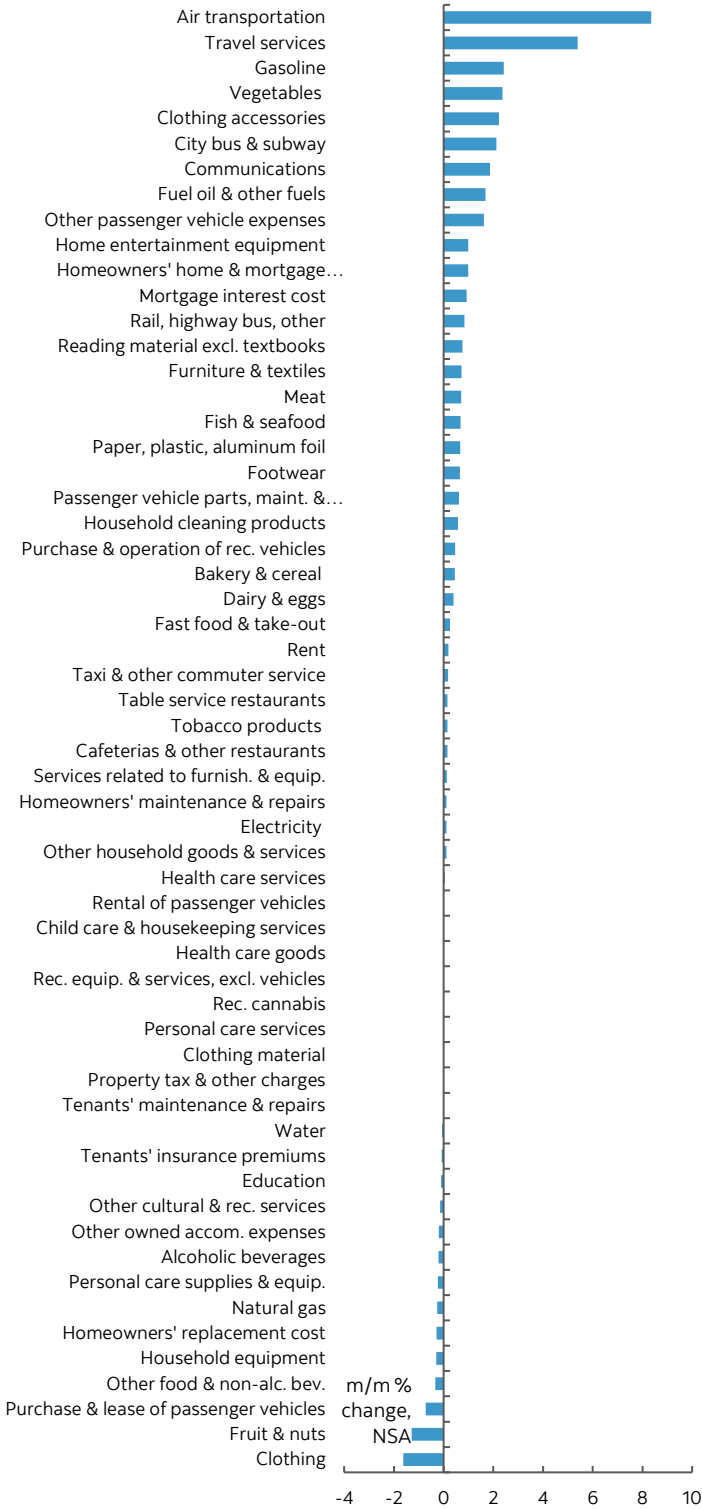
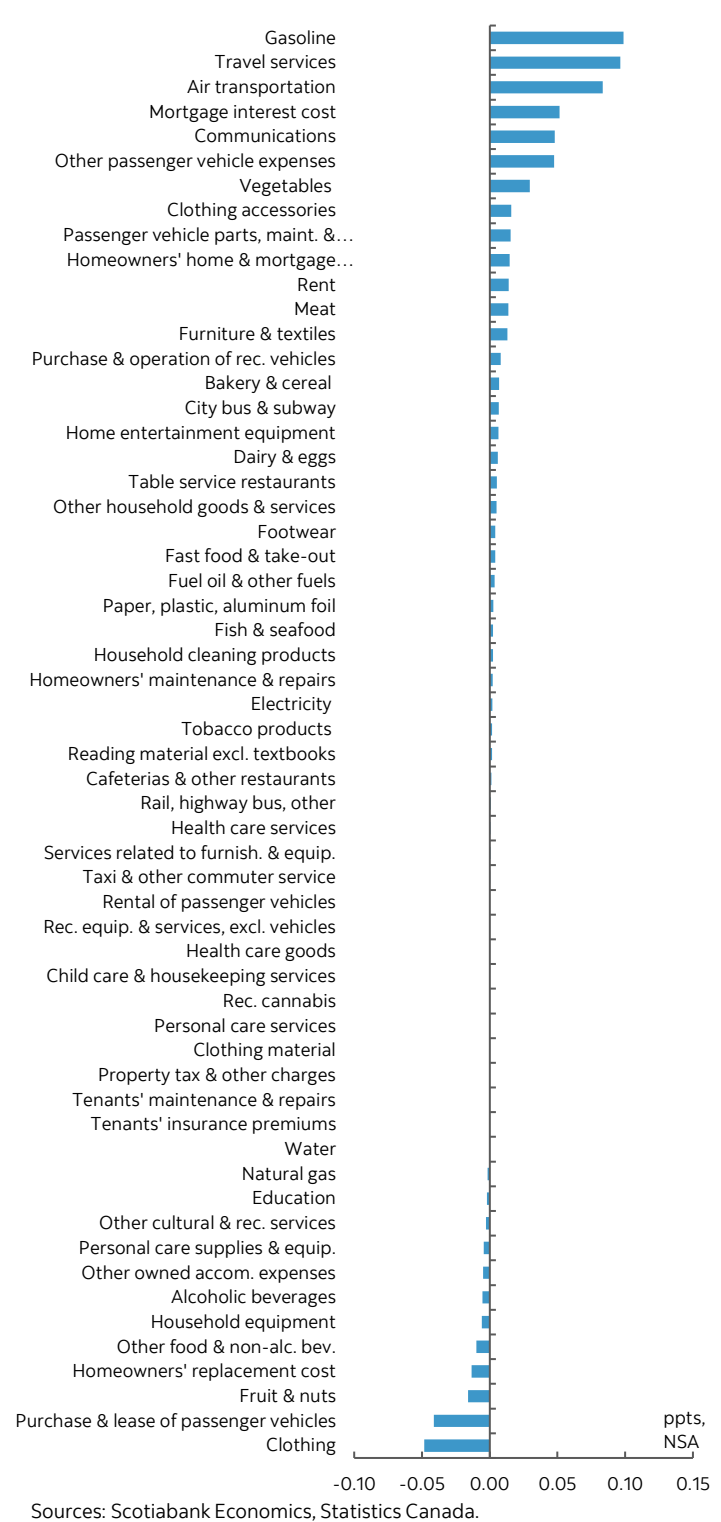


Chart 23

July Detailed Category Contributions to Monthly Change in Canadian CPI

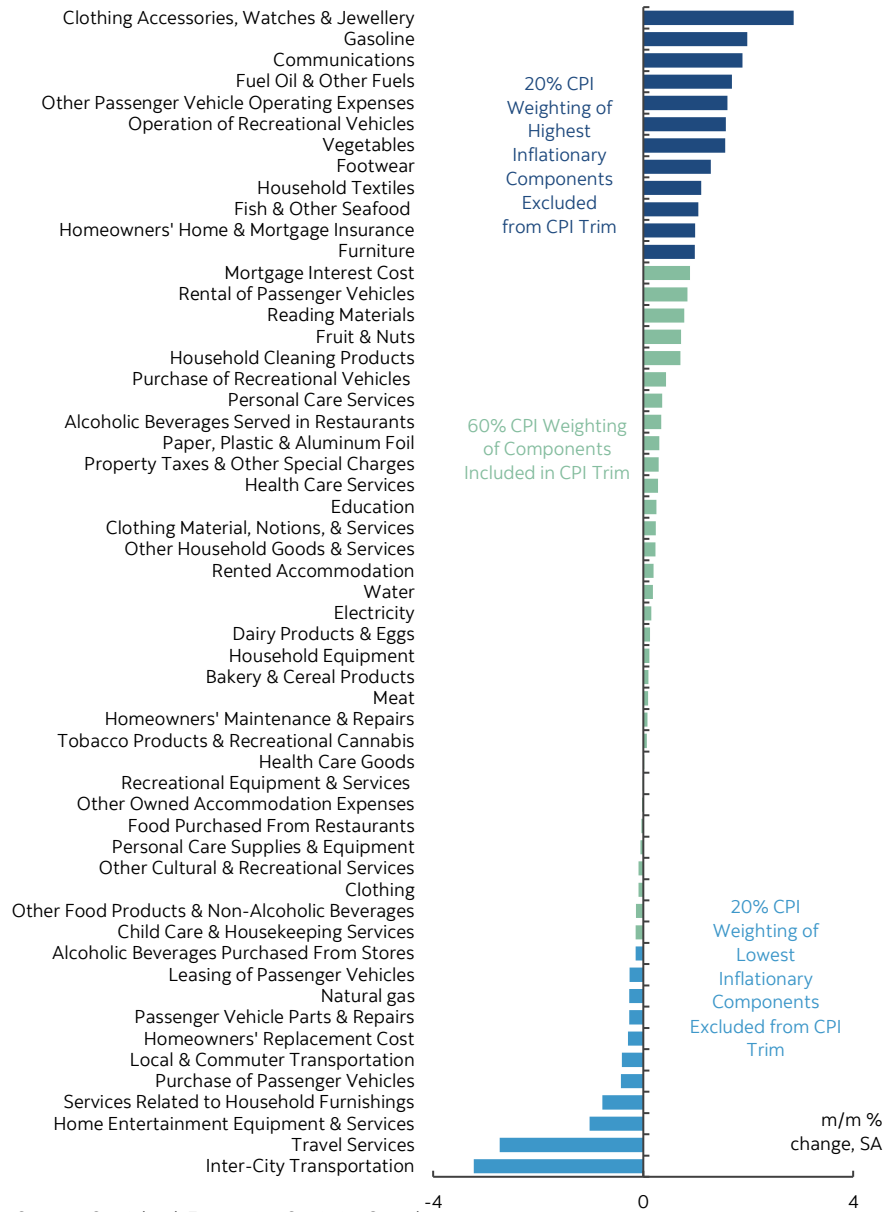


Sources: Scotiabank Economics, Statistics Canada.

Sources: Scotiabank Economics, Statistics Canada.

Chart 24

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



Sources: Scotiabank Economics, Statistics Canada.

August 20, 2024

Jul 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	2.7			0.3	0.3	16.69	0.45	0.04	2.1	1.7	0.3	2.2	1.5	0.4
Food, stores	2.1			0.3		10.72	0.23	0.03	1.7	2.4	0.2	2.0	2.0	0.1
Meat	3.0			0.7	0.1	1.94	0.06	0.01	2.5	3.6	0.1	3.4	3.6	-0.1
Fish & seafood	-1.3			0.7	1.0	0.37	0.00	0.00	2.9	1.4	-3.0	2.8	2.5	-1.6
Dairy products & eggs	2.1			0.4	0.1	1.47	0.03	0.01	0.2	1.5	1.2	0.6	1.5	1.0
Bakery & cereal products	-0.1			0.5	0.1	1.51	0.00	0.01	0.5	2.1	-0.3	1.2	2.3	-0.6
Fruit, fruit prep. & nuts	1.3			-1.3	0.7	1.25	0.02	-0.02	1.8	4.4	-0.1	2.0	3.5	-0.2
Vegetables & vegetable prep.	5.1			2.4	1.6	1.25	0.06	0.03	4.9	6.4	0.0	3.6	5.8	0.3
Other food & non-alcoholic beverages	2.4			-0.3	-0.1	2.93	0.07	-0.01	1.0	1.5	0.9	1.3	1.7	0.6
Food, restaurants	3.8			0.2		5.97	0.23	0.01	3.0	0.7	1.3	2.6	0.7	1.7
Table service restaurants	3.4			0.2		3.49	0.12	0.01	2.9	0.6	1.0	2.6	0.6	1.3
Fast food & take-out	4.8			0.3		1.63	0.08	0.00	3.2	1.2	1.3	2.6	1.2	1.9
Cafeterias & other restaurants	3.8			0.2		0.85	0.03	0.00	3.0	0.6	1.3	2.6	0.7	1.6
Shelter	5.7			0.2	0.2	29.15	1.67	0.06	1.8	0.6	6.7	1.7	0.8	5.1
Rented accommodation	8.3			0.2	0.2	7.37	0.61	0.01	1.3	0.8	8.7	1.3	0.6	11.8
Rent	8.5			0.2		7.18	0.61	0.01	1.3	0.8	8.8	1.3	0.6	12.0
Tenants' insurance premiums	-0.7			-0.1		0.12	0.00	0.00	1.1	1.6	-1.1	0.3	1.6	-0.6
Tenants' maintenance & repairs	-0.1			0.0		0.08	0.00	0.00	2.2	1.0	-2.2	2.6	2.2	-1.3
Owned accommodation	5.9			0.3		18.55	1.09	0.05	2.3	0.4	8.5	1.7	0.8	5.1
Mortgage interest cost	21.0			0.9	0.9	5.58	1.17	0.05	2.1	3.6	5.2	-0.1	3.6	5.9
Homeowners' replacement cost	-0.8			-0.3	-0.3	4.61	-0.04	-0.01	1.9	1.7	-1.6	2.1	1.5	-2.0
Property tax & other charges	4.9			0.0	0.3	2.43	0.12	0.00	2.4	0.6	4.4	2.8	0.7	3.1
Homeowners' home & mortgage insurance	8.8			1.0	1.0	1.50	0.13	0.01	5.2	2.3	1.6	4.5	2.6	1.7
Homeowners' maintenance & repairs	1.4			0.1	0.1	1.85	0.03	0.00	2.0	1.1	-0.5	2.0	1.4	-0.4
Other owned accommodation expenses	-0.6			-0.2	0.0	2.58	-0.01	0.00	2.0	1.2	-2.1	2.4	2.0	-1.5
Water, fuel, & elec.	-0.5			0.2		3.22	-0.02	0.00	0.8	2.1	-0.6	2.5	3.4	-0.9
Electricity	-0.8			0.1	0.2	1.68	-0.01	0.00	1.2	4.4	-0.4	2.5	3.8	-0.9
Water	4.0			-0.1	0.2	0.74	0.03	0.00	3.7	0.9	0.3	4.9	1.4	-0.6
Natural gas	-5.7			-0.3	-0.3	0.59	-0.03	0.00	-1.3	9.0	-0.5	0.4	10.6	-0.6
Fuel oil & other fuels	3.5			1.7	1.7	0.21	0.01	0.00	-0.1	15.5	0.2	5.1	14.2	-0.1
Household operations, furniture & equipment	-0.1			0.5	0.5	13.01	-0.01	0.07	1.2	1.0	-1.2	1.4	0.9	-1.7
Household ops.	0.1			0.7		8.74	0.01	0.06	1.3	1.1	-1.1	2.1	1.3	-1.6
Communications	-4.7			1.9	1.9	2.58	-0.12	0.05	0.0	2.8	-1.7	1.5	2.9	-2.2
Child care & housekeeping services	1.7			0.0	-0.1	0.75	0.01	0.00	3.4	1.4	-1.2	3.3	1.3	-1.2
Household cleaning products	0.0			0.6	0.7	0.42	0.00	0.00	1.3	1.9	-0.7	0.8	1.9	-0.4
Paper, plastic, aluminum foil	-2.5			0.7	0.3	0.39	-0.01	0.00	2.2	2.2	-2.1	2.0	2.0	-2.3
Other household goods & services	2.1			0.1	0.2	4.61	0.10	0.01	1.8	0.5	0.8	2.4	1.1	-0.2
Household furnishings & equip.	-0.4			0.2		4.27	-0.02	0.01	0.8	1.7	-0.7	0.1	1.6	-0.3
Furniture & textiles	-0.7			0.7		1.79	-0.01	0.01	0.4	2.1	-0.5	-0.3	2.1	-0.2
Household equipment	-0.8			-0.3	0.1	1.96	-0.02	-0.01	0.9	1.7	-1.0	0.0	1.8	-0.5
Services related to furnishings & equipment	3.5			0.1	-0.8	0.35	0.01	0.00	2.4	1.8	0.6	2.7	2.9	0.2
Clothing & footwear	-2.7			-0.6	0.3	4.6	-0.12	-0.03	0.6	1.2	-2.8	0.3	1.4	-2.1
Clothing	-3.0			-1.6	-0.1	2.98	-0.09	-0.05	0.5	1.6	-2.1	-0.3	2.1	-1.3
Footwear	-4.4			0.7	1.3	0.64	-0.03	0.00	0.4	1.2	-4.1	0.1	1.4	-3.1
Clothing accessories	-1.1			2.2		0.71	-0.01	0.02	1.0	1.8	-1.2	2.3	2.6	-1.3
Clothing material	1.2			0.0		0.23	0.00	0.00	2.2	0.7	-1.5	2.7	1.2	-1.3

August 20, 2024

Jul 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
Transportation	2.0		1.3	0.5	16.9	0.34	0.22	1.7	3.1	0.1	2.3	3.0	-0.1
Private trans.	1.9		0.8		15.3	0.29	0.12	1.3	3.2	0.2	2.2	3.2	-0.1
Purchase, lease, rental of passenger vehicles	-1.3		-0.7		5.76	-0.08	-0.04	2.3	1.5	-2.5	1.9	1.6	-2.0
<u>Purchase & lease of passenger vehicles</u>	-1.3		-0.7		5.73	-0.07	-0.04	2.3	1.5	-2.4	1.9	1.6	-1.9
Rental of passenger vehicles	-16.2		0.0	0.8	0.03	0.00	0.00	1.4	5.2	-3.4	1.2	4.1	-4.3
Operation of passenger vehicles	4.0		1.7		9.52	0.38	0.16	0.7	5.7	0.6	2.4	5.4	0.3
Gasoline	1.9		2.4	2.0	4.09	0.08	0.10	-0.6	13.5	0.2	3.0	12.2	-0.1
Passenger vehicle parts, maintenance & repairs	2.7		0.6	-0.3	2.50	0.07	0.02	1.9	0.3	2.1	1.6	0.8	1.3
Other passenger vehicle expenses	8.1		1.6	1.6	2.93	0.24	0.05	2.4	2.2	2.6	2.6	2.0	2.8
Public trans.	0.1		6.1		1.62	0.00	0.10	4.8	3.9	-1.2	3.4	3.7	-0.9
Local & commuter transportation	1.4		1.6	-0.4	0.43	0.01	0.01	1.5	0.5	-0.2	2.2	1.2	-0.7
City bus & subway	2.7		2.1		0.31	0.01	0.01	2.1	0.7	0.8	2.8	1.4	-0.1
Taxi & other commuter service	-1.6		0.2		0.12	0.00	0.00	0.1	0.8	-2.2	0.9	1.2	-2.1
Inter-city transportation	-1.5		7.7	-3.2	1.08	-0.02	0.08	6.2	5.7	-1.3	3.9	5.8	-0.9
Air transportation	-2.7		8.4		1.00	-0.03	0.08	6.5	6.2	-1.5	4.0	6.4	-1.0
Rail, highway bus, other	1.7		0.8		0.09	0.00	0.00	2.7	1.8	-0.6	2.0	4.2	-0.1
Health & personal care	2.9		0.0	0.1	5.23	0.1	0.00	1.4	0.4	3.7	1.3	0.9	1.9
Health care	2.8		0.0		2.56	0.1	0.00	1.3	0.6	2.5	1.1	0.8	2.0
Health care goods	2.4		0.0	0.0	1.44	0.0	0.00	0.5	0.7	2.7	-0.1	1.1	2.3
Health care services	3.3		0.0	0.3	1.12	0.0	0.00	2.5	0.6	1.4	2.9	0.8	0.6
Personal Care	2.9		-0.1		2.67	0.1	0.00	1.5	0.5	2.6	1.5	1.2	1.2
Personal care supplies & equipment	1.9		-0.2	-0.1	1.84	0.0	0.00	0.4	0.9	1.7	0.5	1.6	0.9
Personal care services	5.1		0.0	0.4	0.83	0.0	0.00	2.9	0.7	2.9	2.7	1.4	1.6
Recreation, education & reading	-0.2		1.2	-0.2	10.27	0.0	0.12	1.7	0.8	-2.5	1.3	0.9	-1.7
Recreation	-0.7		1.34		8.22	-0.06	0.11	1.4	1.0	-2.0	0.6	1.2	-1.1
Recreational equipment & services, excl. vehicles	-1.2		0.0	0.0	2.10	0.0	0.00	-0.8	1.6	-0.2	-2.2	2.0	0.5
Purchase & operation of recreational vehicles	1.9		0.5	0.4	1.77	0.0	0.01	2.6	1.8	-0.4	1.9	2.0	0.0
Home entertainment equipment	-8.1		1.0	-1.0	0.66	-0.1	0.01	-3.8	2.0	-2.1	-4.9	2.2	-1.5
Travel services	-3.1		5.4	-2.7	1.79	-0.1	0.10	0.8	2.9	-1.3	0.4	2.8	-1.2
Other cultural & rec. services	3.6		-0.1	-0.1	1.91	0.1	0.00	3.5	1.1	0.1	3.4	1.4	0.2
Educ. & reading	2.7		0.00		2.05	0.06	0.00	2.5	1.4	0.1	3.0	1.1	-0.2
Education	2.8		-0.1	0.3	1.83	0.1	0.00	2.4	1.4	0.3	3.0	1.2	-0.1
Reading material excl. textbooks	2.7		0.8	0.8	0.22	0.0	0.00	3.8	2.8	-0.4	3.2	2.9	-0.2
Alcoholic beverages, tobacco & rec. cannabis	2.7		-0.1	0.1	4.20	0.1	0.00	3.2	1.2	-0.4	2.7	1.3	0.0
Alcoholic beverages	1.9		-0.20		2.69	0.05	-0.01	1.7	0.5	0.3	1.4	0.7	0.7
Alc. beverages served in licensed establishments	3.4		0.0	0.3	0.77	0.0	0.00	1.8	0.6	2.6	2.0	0.7	2.0
Alc. beverages purchased from stores	1.3		-0.3	-0.1	1.92	0.0	-0.01	1.7	0.7	-0.6	1.1	1.1	0.2
Tobacco products	5.3		0.15		1.11	0.06	0.00	5.6	2.1	-0.2	4.8	2.8	0.2
Cigarettes	5.9		0.1		0.94	0.1	0.00	5.6	2.1	0.1	4.8	2.8	0.4
Other tobacco products & supplies	0.3		0.8		0.16	0.0	0.00	5.6	2.0	-2.6	4.9	2.6	-1.8
Rec. cannabis	0.7		0.00		0.50	0.00	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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