

Contributors

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Chart 1

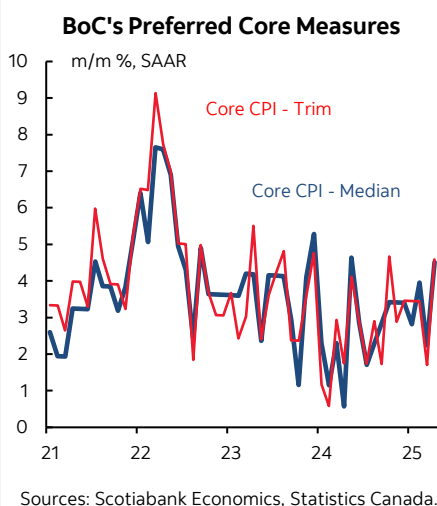
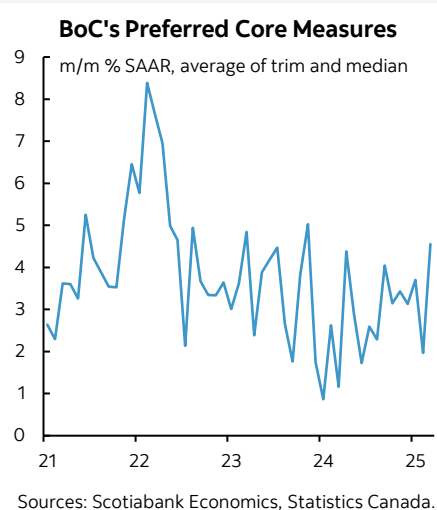


Chart 2



No Way The Bank of Canada Should Be Cutting

- Core inflation continues to run too hot despite modest slack...
- ...as other drivers are keeping the heat on
- Markets reacted by slashing cut pricing toward our hold view
- Why the BoC shouldn't be cutting

CDN CPI, m/m // y/y %, NSA, April:

Actual: -0.1 / 1.7

Scotia: -0.2 / 1.6

Consensus: -0.2 / 1.6

Prior: +0.3 / 2.3

Core inflation, m/m % SAAR, April:

Trimmed mean CPI: 4.6

Weighted median CPI: 4.5

June 4th BoC cut pricing was slashed in the wake of a hot set of core inflation readings for April that was consistent with my guidance. We still need to hear from BoC Governor Macklem later this week and also see GDP for Q1, March and April on May 30th that will inform Q2 momentum, but as of now it's looking like a stretch bet to expect the BoC to cut. Layer on several other points along with forward-looking inflation risks and the case for cutting is very weak.

Markets reacted by reducing June 4th cut pricing from -17bps pre-CPI to about 8bps now. CAD curiously depreciated into the numbers and then appreciated by about a quarter cent to the USD post-CPI. Full-year BoC cut pricing is now on the fence between -25bps and -50bps compared to about -75bps priced in early April. Our forecast remains no cut this year but we're also constantly pulling new information into our projections.

First the data, then the BoC comments. Key is that the BoC's preferred core measures both lit up in this report (charts 1, 2). Trimmed mean CPI was up by 4.6% m/m SAAR with weighted median up 4.5%. Those readings along with revisions helped to lift the y/y readings to 3.1% from 2.8% (TM) and 3.2% from 2.9% (WM). The year-over-year readings are not spot

measures; they are monthly weighted contributions to a full year reading that is slow to turn which is why m/m SAAR with your choice of smoothing is preferred as a sign of price pressures at the margin. The core measures focus on central tendencies over noise in the tails by removing the top and bottom 20% of the basket (trimmed mean) and focusing on the weighted 50th percentile price (weighted median). The TM and WM measures also exclude the effects of tax changes like the carbon tax cut.

Traditional core CPI (ex-food and energy) was also warm at 4% m/m SAAR.

These are not just flashes in the pan. As chart 3 shows, the readings have been far too warm for far too long now. Despite a modest amount of slack in the economy as measured by traditional output gaps, the Canadian economy is still generating sharp underlying price pressures which reflects other influences I'll come back to.

Chart 3

Canadian Core CPI Measures		
Month	Weighted Median	Trimmed Mean
Jan-2024	2.3	1.2
Feb-2024	1.1	0.6
Mar-2024	2.3	2.9
Apr-2024	0.6	1.7
May-2024	4.6	4.1
Jun-2024	2.9	2.9
Jul-2024	1.7	1.7
Aug-2024	2.3	2.9
Sep-2024	2.8	1.7
Oct-2024	3.4	4.7
Nov-2024	3.4	2.9
Dec-2024	3.4	3.5
Jan-2025	2.8	3.4
Feb-2025	4.0	3.4
Mar-2025	2.2	1.7
Apr-2025	4.5	4.6

Sources: Scotiabank Economics, Statistics Canada.

May 20, 2025

Also disconcerting is that the breadth of price increases is on the rise again (chart 4). The SA factor for traditional core CPI wasn't terribly unusual (ex-f&e) this time (chart 5).

Travel tours lit up the recreation category's 10% weight (chart 6). Charts 7–15 showcase various components with a few accompanying observations. Bear in mind that goods prices fell because of the carbon tax cut that is not removed from that subindex but is not included in the BoC's preferred core gauges. Service price inflation accelerated. Shelter cost was partly weighed down by the carbon tax cut effect on home energy bills but rent spiked higher and homeowners' replacement cost was little changed. Gasoline prices fell by 10% m/m NSA and 18.1% y/y almost entirely due to the carbon tax's elimination despite fatter refinery margins. Vehicle prices continue to rise and don't need tariffs to make it worse but they will. Maybe keeping travel dollars at home is driving restaurant inflation.

Charts 16–19 break down the basket in terms of m/m and m/m contributions as well as the y/y equivalents. Charts 20–21 show the breakdown of trimmed mean CPI and the weighted contributions of each of the included prices.

BOC IMPLICATIONS

There is no way that the BoC should be cutting any time soon, if at all. Despite modest slack, other forces are keeping core inflation at sticky, elevated levels even before trade war effects bite through supply chain effects.

At 3.15% y/y, the average of the TM and WM measures is tracking a little warmer than either of the BoC's two scenarios had anticipated for Q2 when they crafted their projections in the April MPR. At that time, they said that under Scenario 1, core CPI would be 2.9% in Q2 and under Scenario 2 it would be 3%. Today's readings for April are higher than both, though obviously there is more data to come in Q2. Still, Macklem has emphasized data dependency and getting early tracking that is hotter than forecast will keep him on guard toward inflation risks.

Inflation expectations across multiple measures remain too high in Canada. They are not great, soft data measures, but the BoC pays attention to them.

At 2.75%, the BoC is at or below its estimate of the neutral policy rate (2.25% to 3.25%). That gives the central bank more optionality into trade wars; or it cut too far which remains my bias in the face of sticky underlying inflation. That is very different from many other global central banks that remain meaningfully above neutral (Fed, ECB, BoE, RBA etc). Furthermore, the BoC ended QT long before other central banks.

Also note that wage growth remains explosive in contract settlements (chart 22). With the exception of you the dear reader, the average Canadian is getting pay hikes in excess of moribund trend productivity growth.

Fiscal policy easing as a substitute for monetary easing also lies ahead starting with nearer term measures like the planned tax cut on Canada Day. Fast forward to a Budget sometime in Fall and dollops of further stimulus are coming.

And CAD remains undervalued as a reflection of the issues facing the currency.

Chart 4

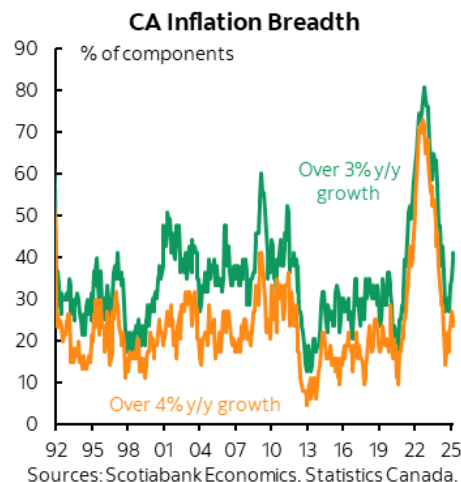


Chart 5

Comparing Canada Core CPI For All Months of April

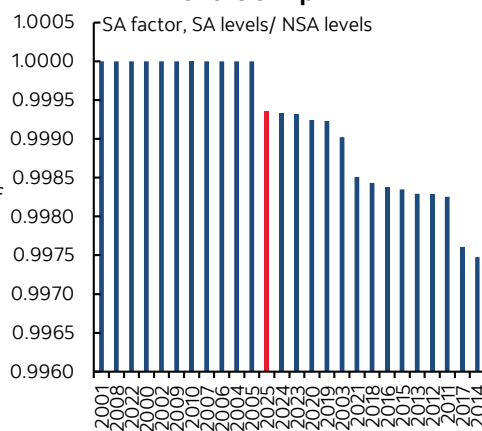


Chart 6

Breakdown of Monthly Changes within Recreation Education and Reading CPI Category

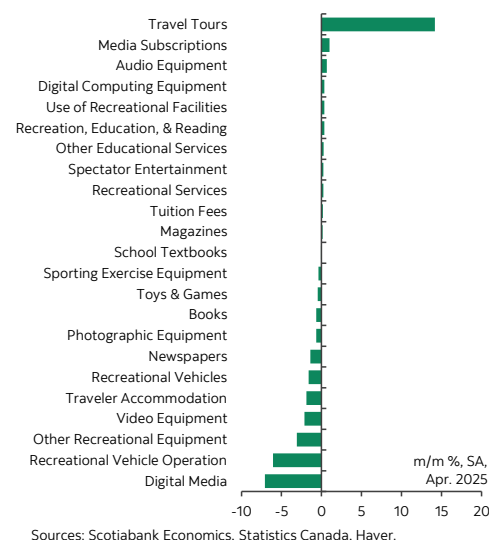


Chart 22

Canadian Wage Settlements

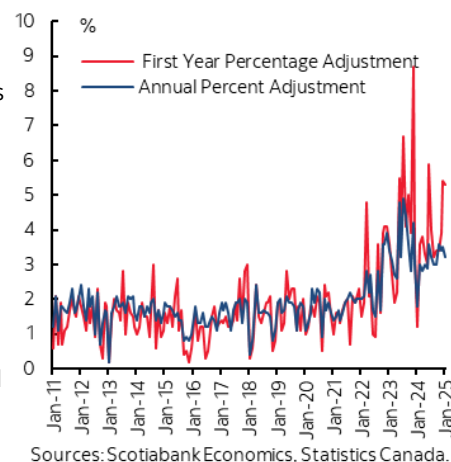


Chart 7

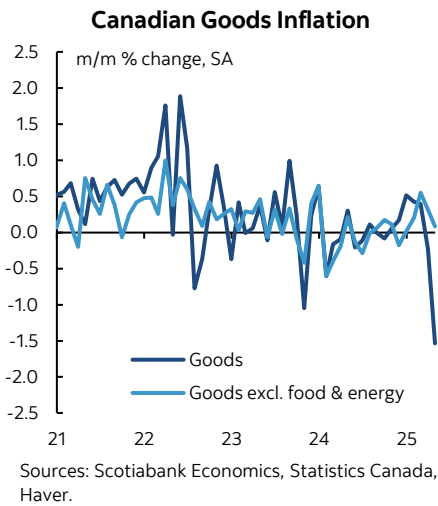


Chart 8

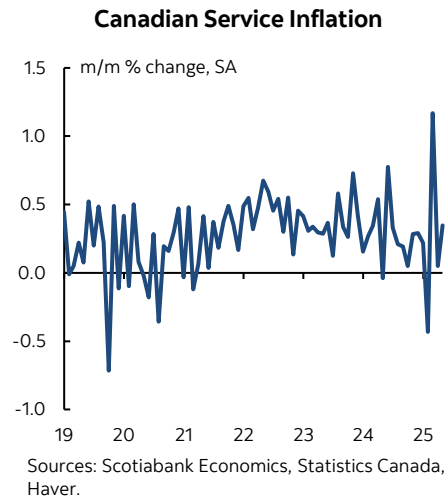


Chart 9

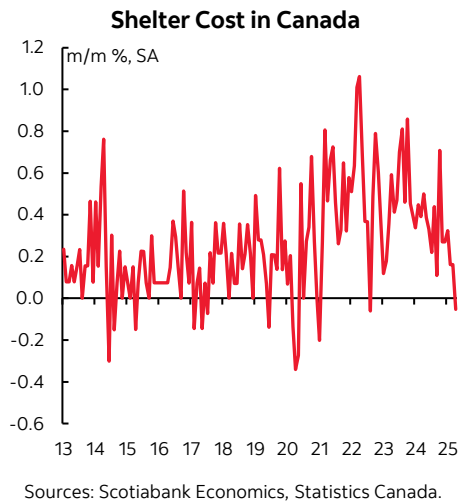


Chart 10

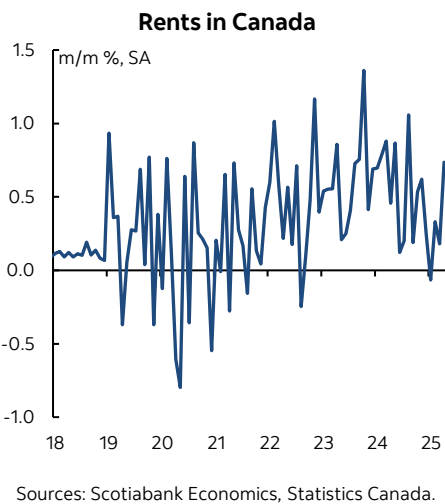


Chart 11

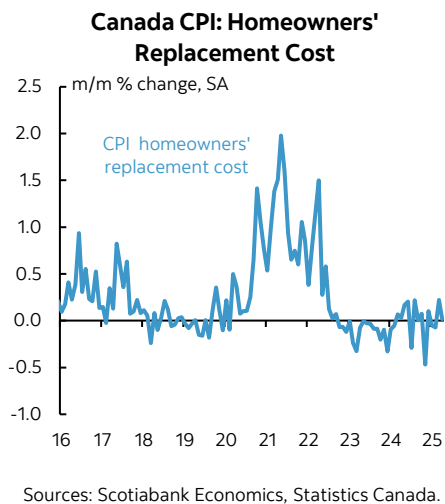


Chart 12

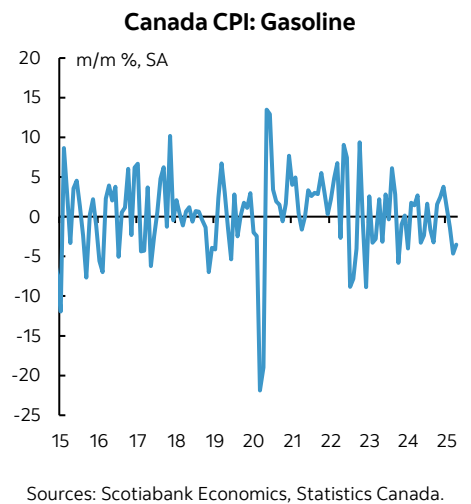


Chart 13

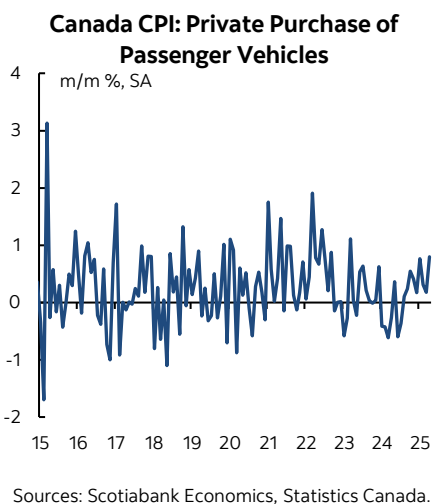


Chart 14

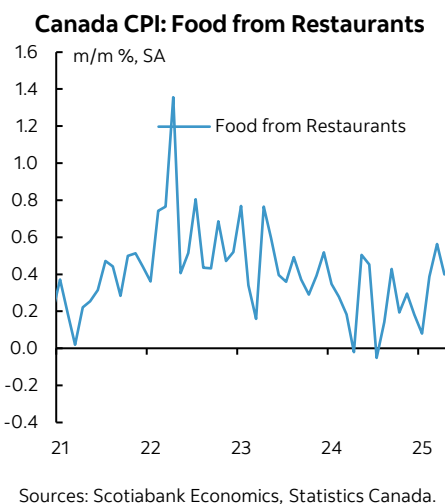


Chart 15

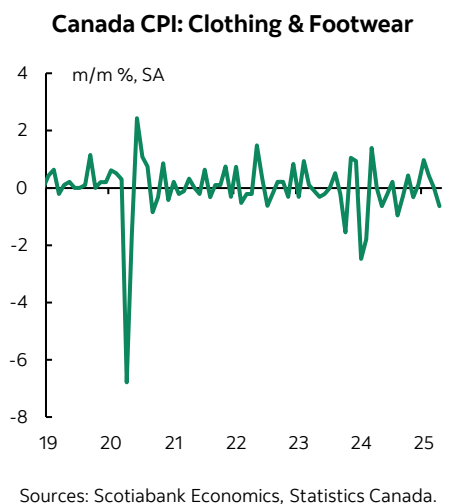


Chart 16

April Detailed Category Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 17

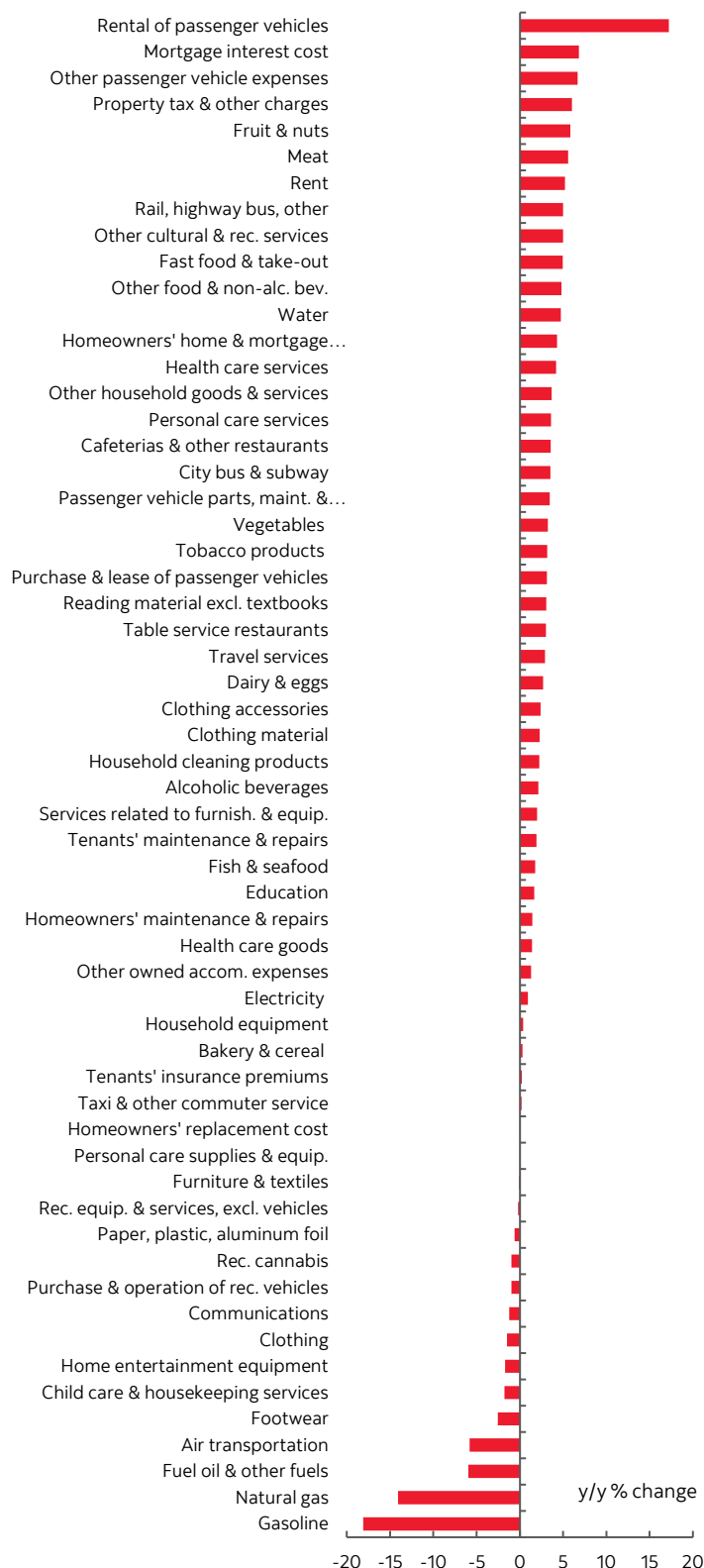
April Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 18

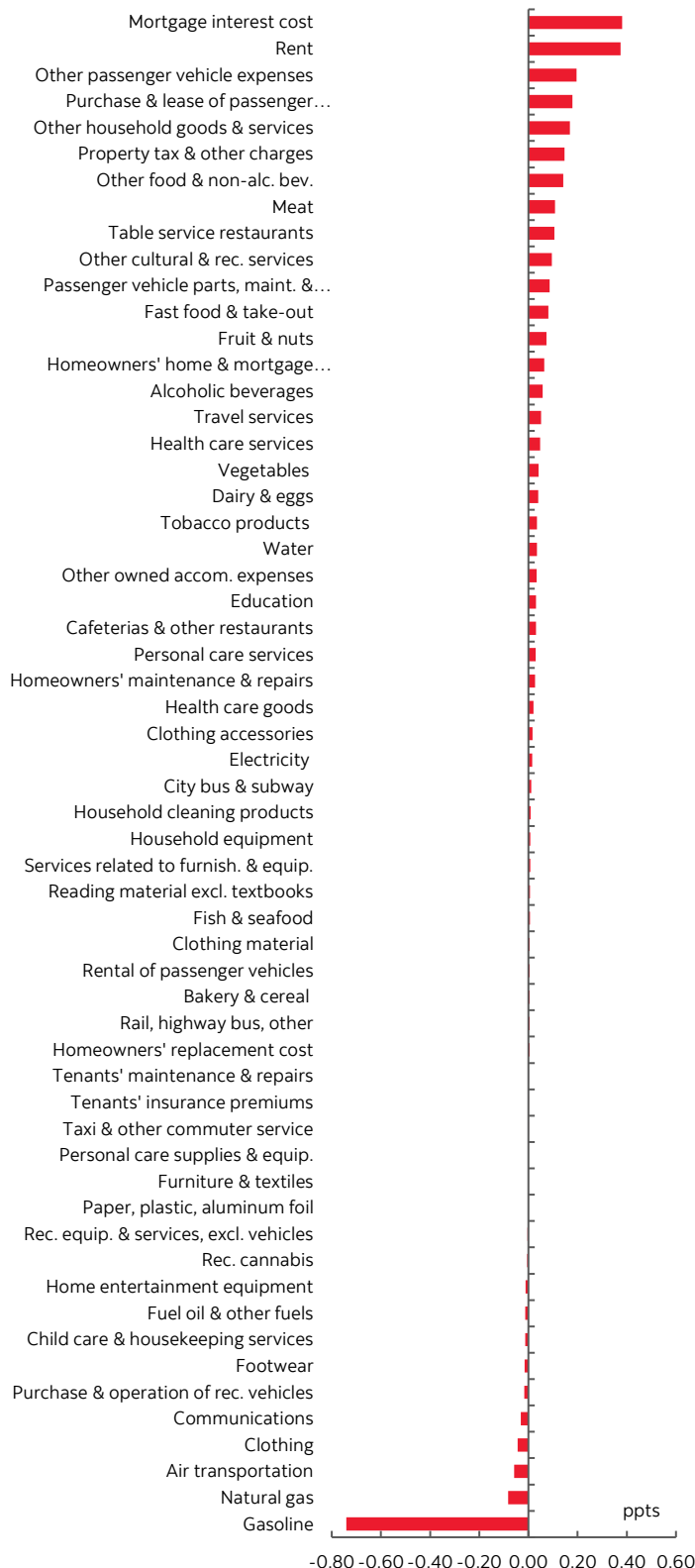
April Detailed Category 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 19

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



Sources: Scotiabank Economics, Statistics Canada.

Chart 20

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

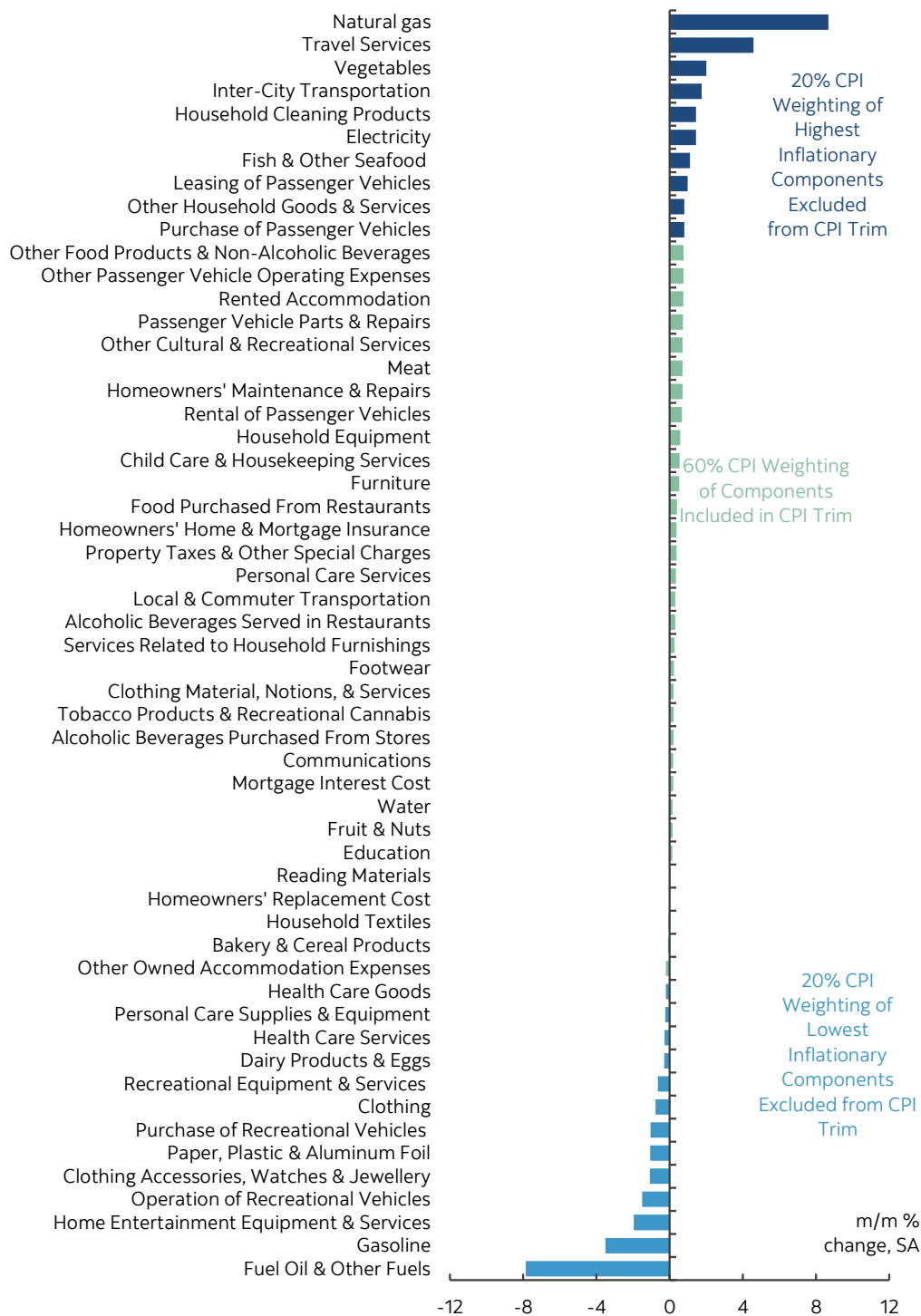
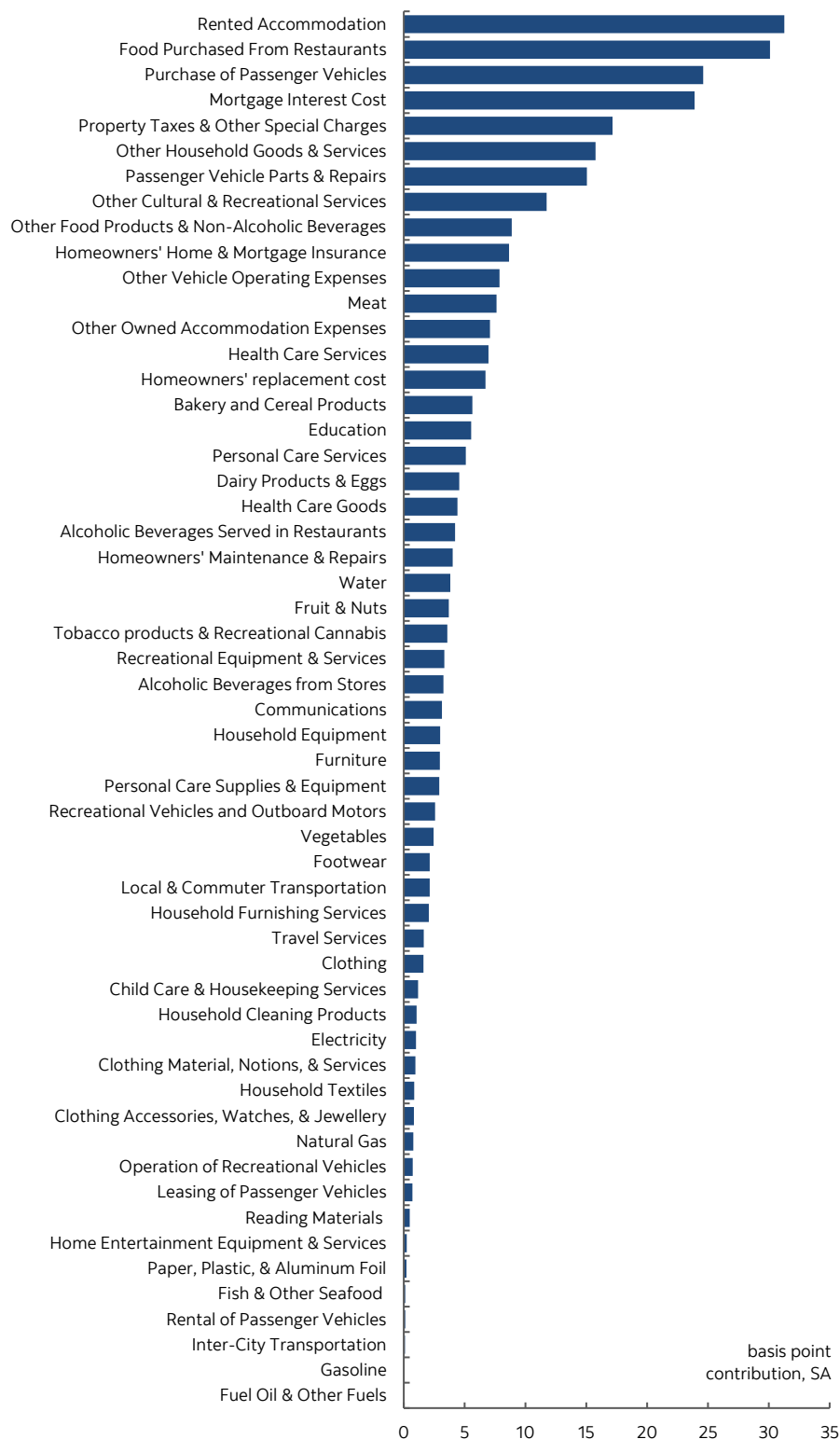






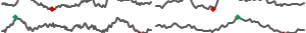
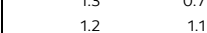



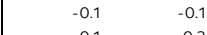

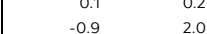

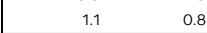



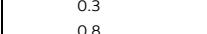





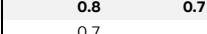

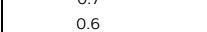

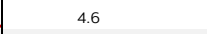



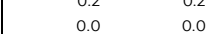



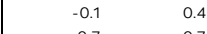

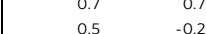

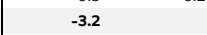

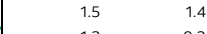
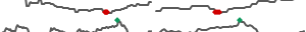
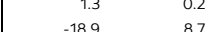

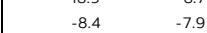





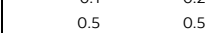

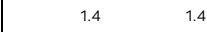

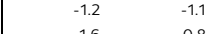


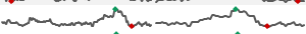
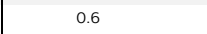

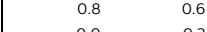

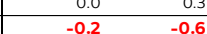

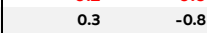

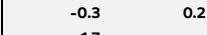

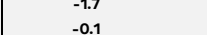
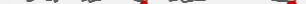
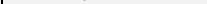
Chart 21

Weighted Component Contributions to the April Trimmed Mean Core CPI Measure






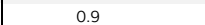

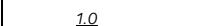

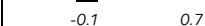
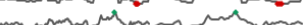
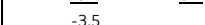

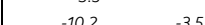

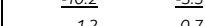

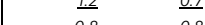
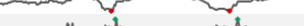




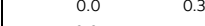

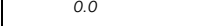

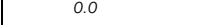

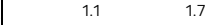

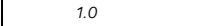


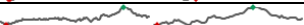




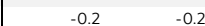

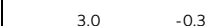





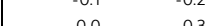
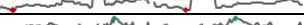
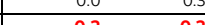





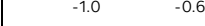

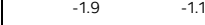

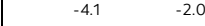

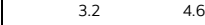

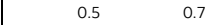











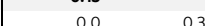

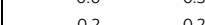

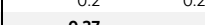

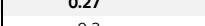


Sources: Scotiabank Economics, Statistics Canada.

May 20, 2025

Apr 2025					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	3.8			0.4	0.5	16.69	0.63	0.06	2.1	1.7	1.0	2.2	1.5	1.1
Food, stores	3.8			0.3		10.72	0.41	0.03	1.7	2.4	0.9	2.0	2.0	0.9
Meat	5.6			1.3	0.7	1.94	0.11	0.03	2.5	3.6	0.9	3.4	3.6	0.6
Fish & seafood	1.8			1.2	1.1	0.37	0.01	0.00	2.9	1.4	-0.8	2.8	2.5	-0.4
Dairy products & eggs	2.7			-1.0	-0.3	1.47	0.04	-0.01	0.2	1.5	1.6	0.6	1.5	1.4
Bakery & cereal products	0.3			-0.1	-0.1	1.51	0.00	0.00	0.5	2.1	-0.1	1.2	2.3	-0.4
Fruit, fruit prep. & nuts	5.8			0.1	0.2	1.25	0.07	0.00	1.8	4.4	0.9	2.0	3.5	1.1
Vegetables & vegetable prep.	3.2			-0.9	2.0	1.25	0.04	-0.01	4.9	6.4	-0.3	3.6	5.8	-0.1
Other food & non-alcoholic beverages	4.8			1.1	0.8	2.93	0.14	0.03	1.0	1.5	2.5	1.3	1.7	2.0
Food purchased from restaurants	3.6			0.4	0.4	5.97	0.22	0.02	3.0	0.7	1.0	2.6	0.7	1.4
Table service restaurants	3.0			0.3		3.49	0.10	0.01	2.9	0.6	0.2	2.6	0.6	0.6
Fast food & take-out	5.0			0.8		1.63	0.08	0.01	3.2	1.2	1.4	2.6	1.2	2.0
Cafeterias & other restaurants	3.6			0.4		0.85	0.03	0.00	3.0	0.6	0.9	2.6	0.7	1.4
Shelter	3.4			-0.1	-0.1	29.15	0.98	-0.02	1.8	0.6	2.7	1.7	0.8	2.1
Rented accommodation	5.1			0.8	0.7	7.37	0.38	0.06	1.3	0.8	4.8	1.3	0.6	6.4
Rent	5.2			0.7		7.18	0.37	0.05	1.3	0.8	4.8	1.3	0.6	6.5
Tenants' insurance premiums	0.2			0.6		0.12	0.00	0.00	1.1	1.6	-0.5	0.3	1.6	0.0
Tenants' maintenance & repairs	1.9			4.6		0.08	0.00	0.00	2.2	1.0	-0.3	2.6	2.2	-0.3
Owned accommodation	3.5			0.2		18.55	0.65	0.03	2.3	0.4	2.9	1.7	0.8	2.2
Mortgage interest cost	6.8			0.2	0.2	5.58	0.38	0.01	2.1	3.6	1.3	-0.1	3.6	1.9
Homeowners' replacement cost	0.1			0.0	0.0	4.61	0.00	0.00	1.9	1.7	-1.1	2.1	1.5	-1.4
Property tax & other charges	6.0			0.0	0.4	2.43	0.15	0.00	2.4	0.6	6.4	2.8	0.7	4.6
Homeowners' home & mortgage insurance	4.3			-0.1	0.4	1.50	0.06	0.00	5.2	2.3	-0.4	4.5	2.6	-0.1
Homeowners' maintenance & repairs	1.4			0.7	0.7	1.85	0.03	0.01	2.0	1.1	-0.5	2.0	1.4	-0.4
Other owned accommodation expenses	1.3			0.5	-0.2	2.58	0.03	0.01	2.0	1.2	-0.6	2.4	2.0	-0.6
Water, fuel, & elec.	-1.4			-3.2		3.22	-0.05	-0.10	0.8	2.1	-1.0	2.5	3.4	-1.1
Electricity	0.9			1.5	1.4	1.68	0.02	0.02	1.2	4.4	0.0	2.5	3.8	-0.4
Water	4.7			1.3	0.2	0.74	0.04	0.01	3.7	0.9	1.1	4.9	1.4	-0.1
Natural gas	-14.1			-18.9	8.7	0.59	-0.08	-0.11	-1.3	9.0	-1.4	0.4	10.6	-1.4
Fuel oil & other fuels	-6.0			-8.4	-7.9	0.21	-0.01	-0.02	-0.1	15.5	-0.4	5.1	14.2	-0.8
Household operations, furniture & equipment	1.1			0.8	0.3	13.01	0.15	0.11	1.2	1.0	0.0	1.4	0.9	-0.3
Household ops.	1.6			1.0		8.74	0.14	0.09	1.3	1.1	0.2	2.1	1.3	-0.4
Communications	-1.2			0.1	0.2	2.58	-0.03	0.00	0.0	2.8	-0.5	1.5	2.9	-1.0
Child care & housekeeping services	-1.8			0.5	0.5	0.75	-0.01	0.00	3.4	1.4	-3.8	3.3	1.3	-3.9
Household cleaning products	2.2			1.4	1.4	0.42	0.01	0.01	1.3	1.9	0.5	0.8	1.9	0.7
Paper, plastic, aluminum foil	-0.6			-1.2	-1.1	0.39	0.00	0.00	2.2	2.2	-1.3	2.0	2.0	-1.3
Other household goods & services	3.7			1.6	0.8	4.61	0.17	0.07	1.8	0.5	3.9	2.4	1.1	1.2
Household furnishings & equip.	0.4			0.7		4.27	0.02	0.03	0.8	1.7	-0.3	0.1	1.6	0.2
Furniture & textiles	-0.1			0.6		1.79	0.00	0.01	0.4	2.1	-0.3	-0.3	2.1	0.1
Household equipment	0.4			0.8	0.6	1.96	0.01	0.02	0.9	1.7	-0.3	0.0	1.8	0.2
Services related to furnishings & equipment	2.0			0.0	0.3	0.35	0.01	0.00	2.4	1.8	-0.2	2.7	2.9	-0.3
Clothing & footwear	-0.8			-0.2	-0.6	4.6	-0.04	-0.01	0.6	1.2	-1.2	0.3	1.4	-0.8
Clothing	-1.5			0.3	-0.8	2.98	-0.04	0.01	0.5	1.6	-1.2	-0.3	2.1	-0.6
Footwear	-2.5			-0.3	0.2	0.64	-0.02	0.00	0.4	1.2	-2.5	0.1	1.4	-1.9
Clothing accessories	2.4			-1.7		0.71	0.02	-0.01	1.0	1.8	0.8	2.3	2.6	0.0
Clothing material	2.3			-0.1		0.23	0.01	0.00	2.2	0.7	0.1	2.7	1.2	-0.3

May 20, 2025

Apr 2025														
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	-1.9			-1.5	-1.6	16.9	-0.32	-0.25	1.7	3.1	-1.2	2.3	3.0	-1.4
Private trans.	-1.8			-1.8		15.3	-0.28	-0.28	1.3	3.2	-1.0	2.2	3.2	-1.3
Purchase, lease, rental of passenger vehicles	3.1			0.9		5.76	0.18	0.05	2.3	1.5	0.5	1.9	1.6	0.7
<u>Purchase & lease of passenger vehicles</u>	<u>3.1</u>			<u>1.0</u>		<u>5.73</u>	<u>0.18</u>	<u>0.06</u>	<u>2.3</u>	<u>1.5</u>	<u>0.5</u>	<u>1.9</u>	<u>1.6</u>	<u>0.7</u>
<u>Rental of passenger vehicles</u>	<u>17.2</u>			<u>-0.1</u>	<u>0.7</u>	<u>0.03</u>	<u>0.01</u>	<u>0.00</u>	<u>1.4</u>	<u>5.2</u>	<u>3.1</u>	<u>1.2</u>	<u>4.1</u>	<u>3.9</u>
Operation of passenger vehicles	-4.8			-3.5		9.52	-0.46	-0.33	0.7	5.7	-1.0	2.4	5.4	-1.3
<u>Gasoline</u>	<u>-18.1</u>			<u>-10.2</u>	<u>-3.5</u>	<u>4.09</u>	<u>-0.74</u>	<u>-0.42</u>	<u>-0.6</u>	<u>13.5</u>	<u>-1.3</u>	<u>3.0</u>	<u>12.2</u>	<u>-1.7</u>
<u>Passenger vehicle parts, maintenance & repairs</u>	<u>3.5</u>			<u>1.2</u>	<u>0.7</u>	<u>2.50</u>	<u>0.09</u>	<u>0.03</u>	<u>1.9</u>	<u>0.3</u>	<u>4.4</u>	<u>1.6</u>	<u>0.8</u>	<u>2.3</u>
<u>Other passenger vehicle expenses</u>	<u>6.7</u>			<u>0.8</u>	<u>0.8</u>	<u>2.93</u>	<u>0.20</u>	<u>0.02</u>	<u>2.4</u>	<u>2.2</u>	<u>2.0</u>	<u>2.6</u>	<u>2.0</u>	<u>2.1</u>
Public trans.	-2.8			0.8		1.62	-0.04	0.01	4.8	3.9	-2.0	3.4	3.7	-1.7
Local & commuter transportation	2.6			0.0	0.3	0.43	0.01	0.00	1.5	0.5	2.3	2.2	1.2	0.3
<u>City bus & subway</u>	<u>3.5</u>			<u>0.0</u>		<u>0.31</u>	<u>0.01</u>	<u>0.00</u>	<u>2.1</u>	<u>0.7</u>	<u>1.9</u>	<u>2.8</u>	<u>1.4</u>	<u>0.5</u>
<u>Taxi & other commuter service</u>	<u>0.2</u>			<u>0.0</u>		<u>0.12</u>	<u>0.00</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>0.1</u>	<u>0.9</u>	<u>1.2</u>	<u>-0.6</u>
Inter-city transportation	-4.9			1.1	1.7	1.08	-0.05	0.01	6.2	5.7	-1.9	3.9	5.8	-1.5
<u>Air transportation</u>	<u>-5.8</u>			<u>1.0</u>		<u>1.00</u>	<u>-0.06</u>	<u>0.01</u>	<u>6.5</u>	<u>6.2</u>	<u>-2.0</u>	<u>4.0</u>	<u>6.4</u>	<u>-1.5</u>
<u>Rail, highway bus, other</u>	<u>5.0</u>			<u>2.6</u>		<u>0.09</u>	<u>0.00</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>1.3</u>	<u>2.0</u>	<u>4.2</u>	<u>0.7</u>
Health & personal care	1.9			0.5	-0.3	5.23	0.1	0.03	1.4	0.4	1.2	1.3	0.9	0.7
Health care	2.6			1.2		2.56	0.1	0.03	1.3	0.6	2.3	1.1	0.8	1.9
Health care goods	1.4			-0.2	-0.2	1.44	0.0	0.00	0.5	0.7	1.3	-0.1	1.1	1.4
Health care services	4.2			3.0	-0.3	1.12	0.0	0.03	2.5	0.6	3.0	2.9	0.8	1.7
Personal Care	1.1			-0.1		2.67	0.0	0.00	1.5	0.5	-0.7	1.5	1.2	-0.3
Personal care supplies & equipment	0.0			-0.1	-0.2	1.84	0.0	0.00	0.4	0.9	-0.4	0.5	1.6	-0.3
Personal care services	3.6			0.0	0.3	0.83	0.0	0.00	2.9	0.7	1.0	2.7	1.4	0.6
Recreation, education & reading	1.4			-0.2	0.2	10.27	0.1	-0.02	1.7	0.8	-0.3	1.3	0.9	0.2
Recreation	1.4			-0.18		8.22	0.12	-0.01	1.4	1.0	0.1	0.6	1.2	0.7
Recreational equipment & services, excl. vehicles	-0.2			-1.0	-0.6	2.10	0.0	-0.02	-0.8	1.6	0.4	-2.2	2.0	1.0
Purchase & operation of recreational vehicles	-1.0			-1.9	-1.1	1.77	0.0	-0.03	2.6	1.8	-1.9	1.9	2.0	-1.5
Home entertainment equipment	-1.7			-4.1	-2.0	0.66	0.0	-0.03	-3.8	2.0	1.0	-4.9	2.2	1.5
Travel services	2.9			3.2	4.6	1.79	0.1	0.06	0.8	2.9	0.7	0.4	2.8	0.9
Other cultural & rec. services	5.0			0.5	0.7	1.91	0.1	0.01	3.5	1.1	1.4	3.4	1.4	1.2
Educ. & reading	1.8			0.00		2.05	0.04	0.00	2.5	1.4	-0.5	3.0	1.1	-1.0
Education	1.7			0.0	0.1	1.83	0.0	0.00	2.4	1.4	-0.5	3.0	1.2	-1.1
Reading material excl. textbooks	3.1			0.0	0.1	0.22	0.0	0.00	3.8	2.8	-0.3	3.2	2.9	-0.1
Alcoholic beverages, tobacco & rec. cannabis	2.1			0.2	0.1	4.20	0.1	0.01	3.2	1.2	-0.9	2.7	1.3	-0.5
Alcoholic beverages	2.1			0.13		2.69	0.06	0.00	1.7	0.5	0.8	1.4	0.7	1.1
Alc. beverages served in licensed establishments	3.1			0.0	0.3	0.77	0.0	0.00	1.8	0.6	2.1	2.0	0.7	1.6
Alc. beverages purchased from stores	1.8			0.2	0.2	1.92	0.0	0.00	1.7	0.7	0.1	1.1	1.1	0.6
Tobacco products	3.2			0.27		1.11	0.04	0.00	5.6	2.1	-1.2	4.8	2.8	-0.6
Cigarettes	3.0			0.2		0.94	0.0	0.00	5.6	2.1	-1.2	4.8	2.8	-0.7
Other tobacco products & supplies	4.2			0.6		0.16	0.0	0.00	5.6	2.0	-0.7	4.9	2.6	-0.3
Rec. cannabis	-1.0			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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