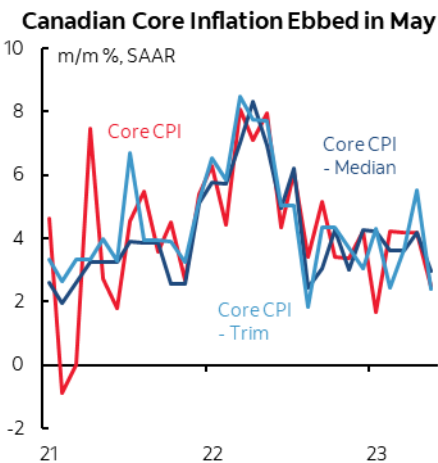


Contributors

Derek Holt

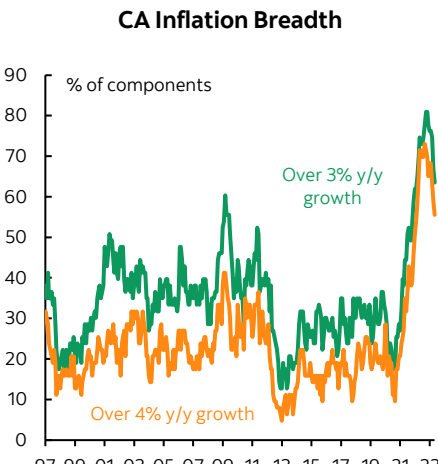
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Chart 1



Sources: Scotiabank Economics, Statistics Canada.

Chart 2



Sources: Scotiabank Economics, Statistics Canada.

Canadian Inflation Tentatively Favours a Skip

- Canadian inflation sharply ebbed at the margin in May
- There remains a case for going back-to-back...
- ...but much softer core gauges and history favour a skip...
- ...with more key data ahead

Canadian CPI, m/m % // y/y %, seasonally unadjusted, May:

Actual: 0.4 / 3.4
 Scotia: 0.5 / 3.5
 Consensus: 0.4 / 3.4
 Prior: 0.7 / 4.4

Canadian core inflation, m/m SAAR % // y/y %, May:

Trimmed mean: 2.4 (revised from 4.9 / 4.2 to 5.5 / 4.2)
 Weighted median: 3.0 (prior revised from 4.8 / 4.2 to 4.2 / 4.3)
 CPI ex-f&e: 2.5 (prior revised from 4.2 / 4.4 to 4.2 / 4.4)

The BoC's July meeting could well go right down to the wire again.

Canadian inflationary pressures sharply ebbed at the margin and this gives the Bank of Canada a little more breathing room to potentially spread out possible further tightening. I would still hike in July if it were me and given continued upside risk to trend inflation, but the BoC's emphasis upon intermeeting data dependence and lessons on the fine tuning stages in the past make me doubtful at this point that Governing Council will go back-to-back. Significant revisions to core price pressures at the margin lend caution to being overly reliant upon the first swings at the data.

Bank of Canada Implications

Our forecast remains for a 25bps hike in Q3 but we have positioned the call over July versus September as being highly data dependent. At the margin, this data tentatively leans against July.

There is clear precedence for how BoC policy adjustments do not have to go in a straight line with back-to-back steps. Intuitively this is appealing when the policy rate is already well into restrictive territory and uncertainty is elevated, but this intuition is backed up by past examples since then, such as skipping a hike in September 2018 along a hiking path, or skipping a cut in March 2015 in between a pair of reductions.

In terms of domestic information impacting the call, I still want to see the full suite of data before the July decision, including Friday's BoC surveys, Friday's April and May GDP estimates and then the following Friday's jobs and wages, but at this stage even post-CPI pricing for a July hike seems high to me.

High data dependence is nevertheless confronted by trend upside pressures on inflation risk. The economy remains well into excess demand with no real progress away from this as incremental pressures build.

I don't see the Fed as necessarily impacting the BoC's decision next month. This morning's US macro data was very strong across the board in terms of durable goods orders, as massive 12.2% m/m lift to new home sales, a much larger than expected jump in consumer confidence and a nearly 1% jump in repeat sales home prices for the second straight monthly gain. While this is not first tier inflation or jobs data, it lends itself toward an impression that the US household sector is handling rate hikes rather well to date and given other influences like job markets and the overall state of US household finances.

The evidence today supports a Fed hike in July, but the BoC’s decision to hike in June while the Fed whiffed gave the Canadian central bank a bit of breathing room.

DETAILS

The key measures that lean against a July hike are shown in chart 1 and are typically not flashed in mainstream coverage. Traditional core CPI (ex-food and energy) was up by 2.5% m/m SAAR from 4.2% the prior month. Weighted median CPI was up by 3% m/m SAAR versus 4.2% the prior month. Trimmed mean CPI was up by 2.4% m/m SAAR from 5.5% the prior month. The suite of these numbers averages out to 2.6% which is two full points lower than the prior month. That’s still not light but it is a marked adjustment for just one month and reminds us of how volatile the price data can be.

These are the measures that matter versus the year-over-year gauges in the various core measures. Year-over-year traditional core is being influenced by year-ago base effects that on their own would have dropped the measure to 3.5%. Trimmed mean and weighted median are more slowly influenced by shifting base effects because they are not y/y spot measures but are instead rolling, weighted compounded m/m changes that are influenced by price developments over the full past year and not just May 2023 over May 2022.

They are also volatile measures subject to revision and so this merits caution in reacting to them. For instance, the initial estimate for trimmed mean CPI in April was 4.9% m/m SAAR and now that’s 5.5%, but this sharp upward revision was offset by a sharp downward revision to weighted median CPI in April from 4.8% m/m SAAR to 4.2% now. That leaves the April average of the two measures unchanged at 4.85% m/m SAAR.

Breadth also improved again, but we still have a large portion of the basket running fairly hot in year-over-year terms (chart 2).

Goods and core-goods ex food and energy inflation ebbed toward nothing in month-over-month seasonally adjusted terms, but services inflation picked up a touch (chart 3) and is shown at a m/m SAAR pace in chart 4. Goods inflation has proved to be more volatile than services inflation and the latter is drawing relatively more attention from the BoC including perceived connections to labour market strengths.

Charts 5 and 6 show the breakdown of month-over-month changes in prices by component in unweighted terms and in terms of weight contributions to the overall change in CPI. Charts 7 and 8 do likewise with the year-over-year rates.

Chart 9 shows what got included in trimmed mean CPI this month, recalling the fact that it lops off the top and bottom 20% of price changes in weighted contribution terms. One takeaway here is to reinforce the point that while mortgage interest was up, it doesn’t even get included in trimmed mean and is not a factor in terms of how the BoC looks at the drivers of inflation.

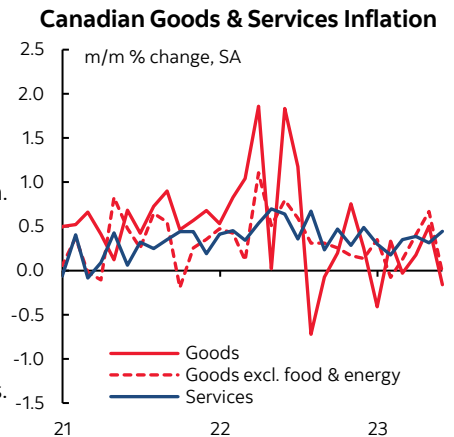
Charts 10–14 provide additional components.

Please also see the table at the back of this publication that provides a breakdown of the CPI basket with micro charts and z-score measures of deviations from trends.

NO EFFECT OF BASKET CHANGES

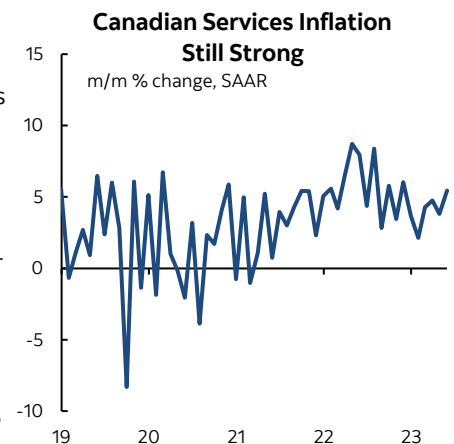
Because Statcan adjusted basket weights using 2022 spending patterns without revising the prior month’s figures using 2021 weights it wasn’t clear if there would be and distortions. There were not. The month-over-month change in CPI would have been the same (0.4% m/m NSA) using the new weights or the old weights. The basket weight changes were not expected to materially impact the year-over-year rate and did not.

Chart 3



Sources: Scotiabank Economics, Statistics Canada, Haver.

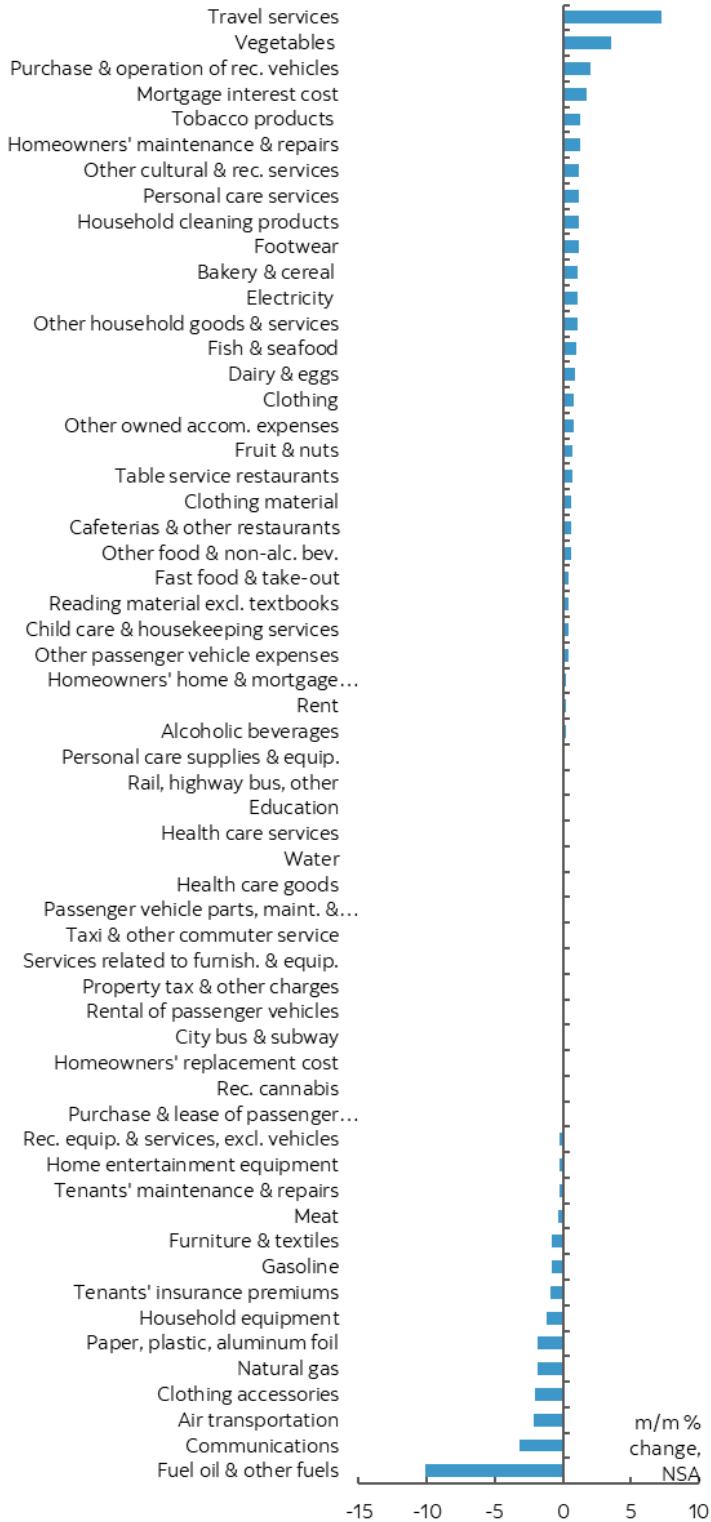
Chart 4



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 5

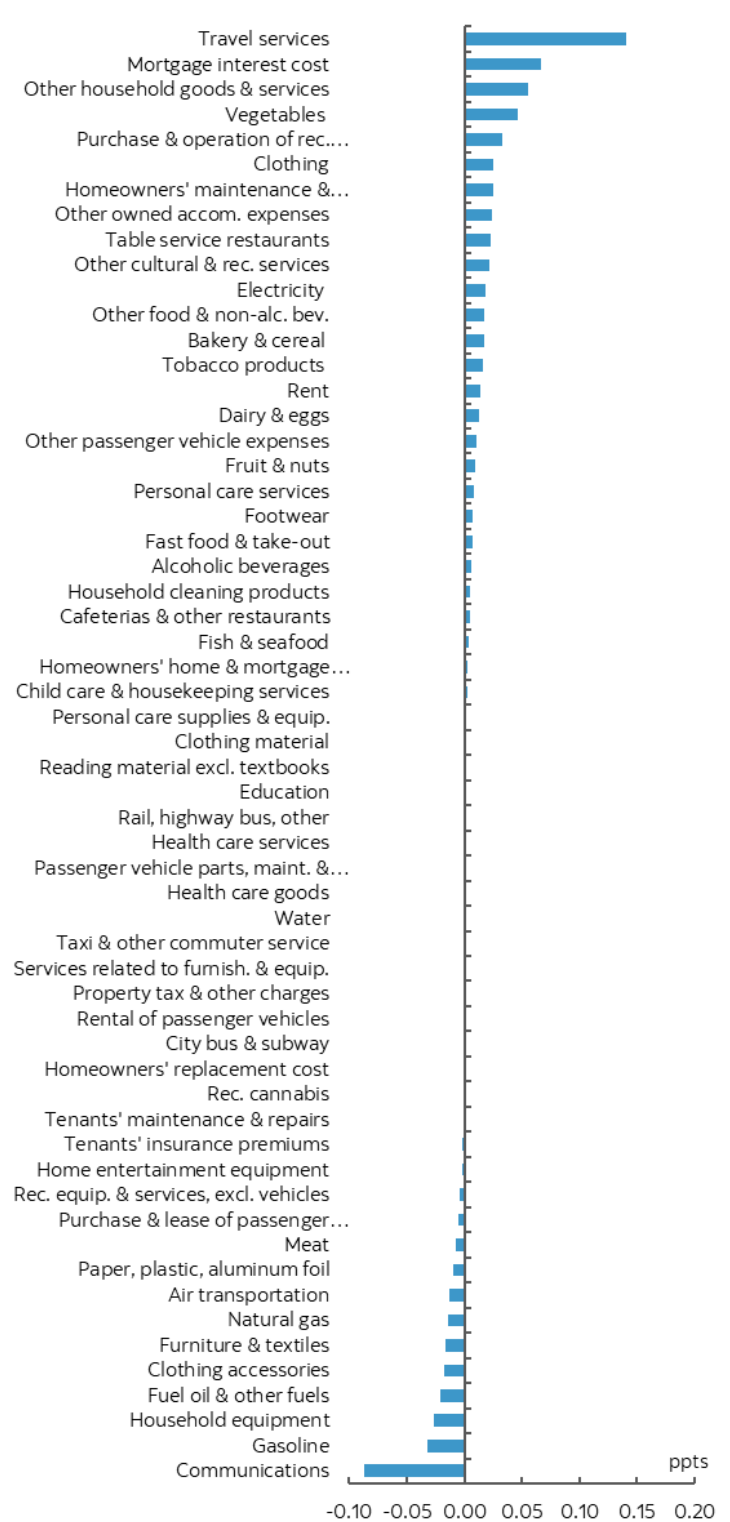
May Detailed Category Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 6

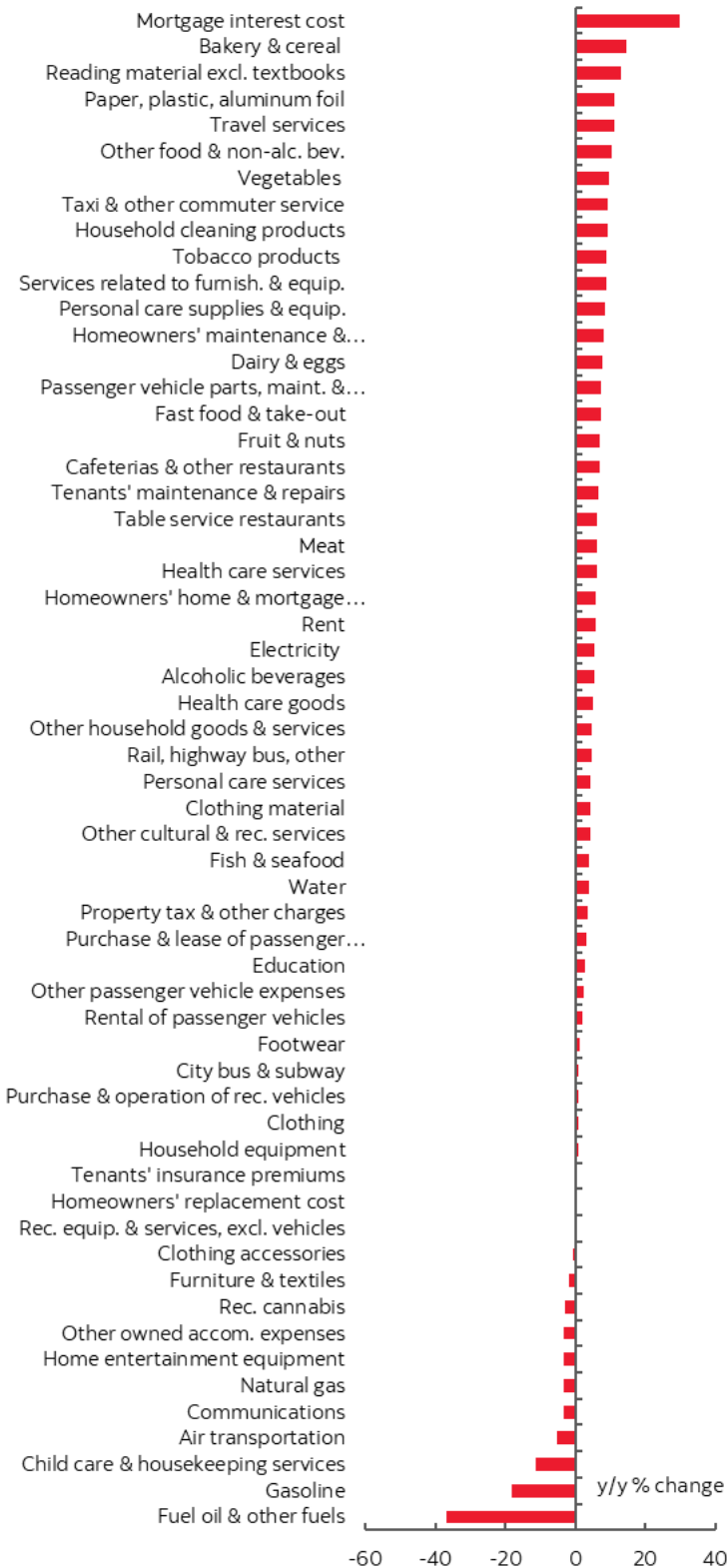
May Detailed Category Contributions to Monthly Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 7

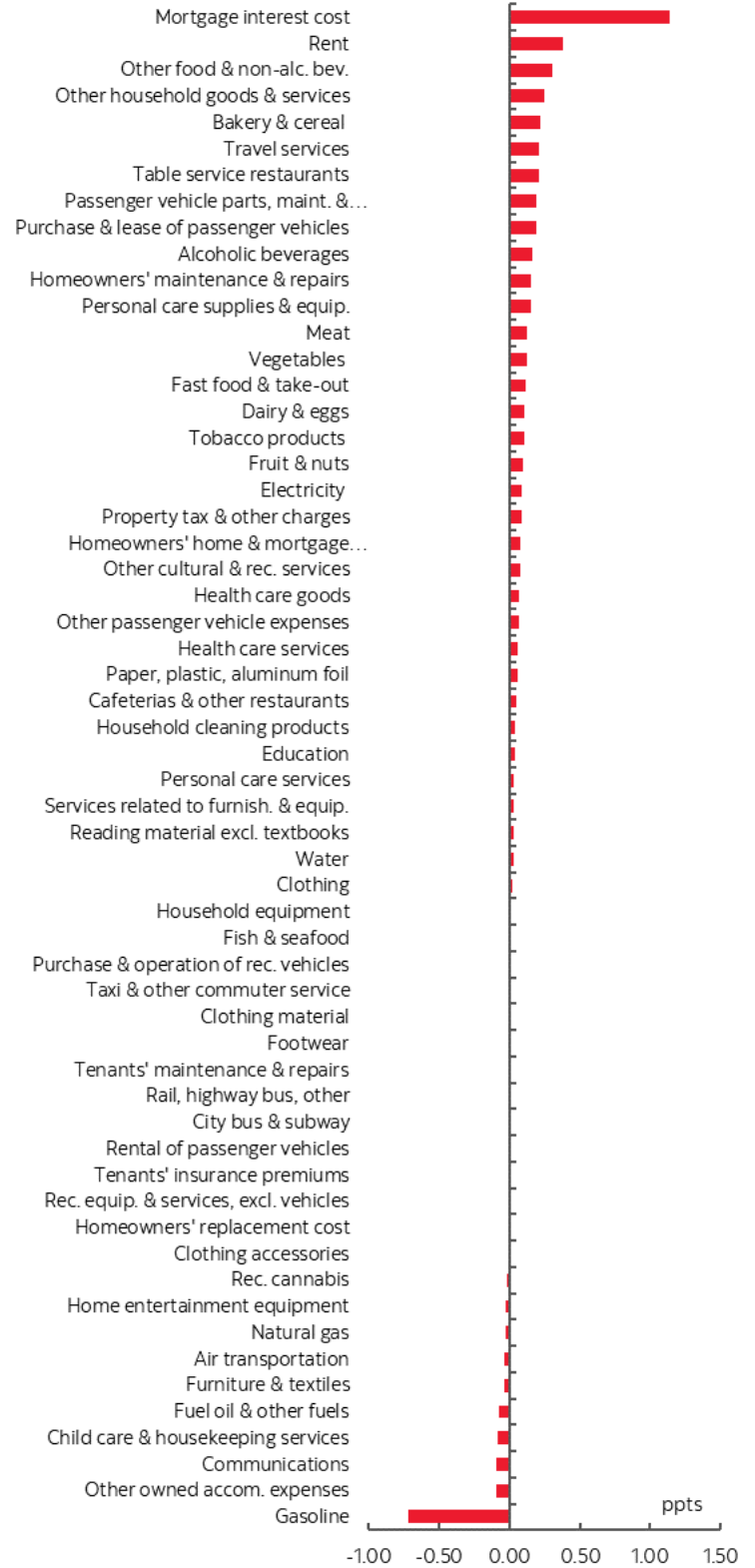
May Detailed Category 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 8

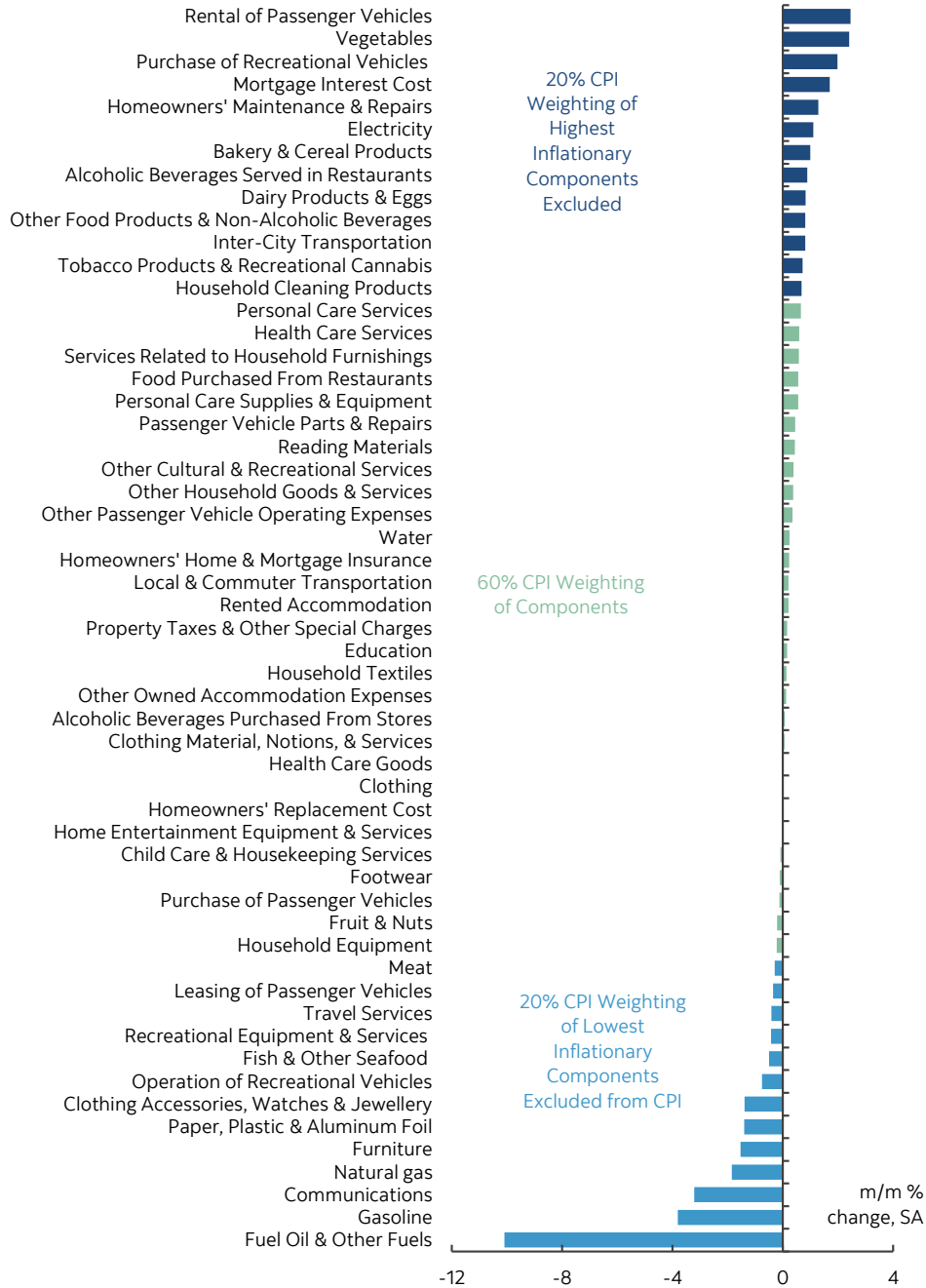
May Detailed Category Contributions to 12-Month Change in Canadian CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 9

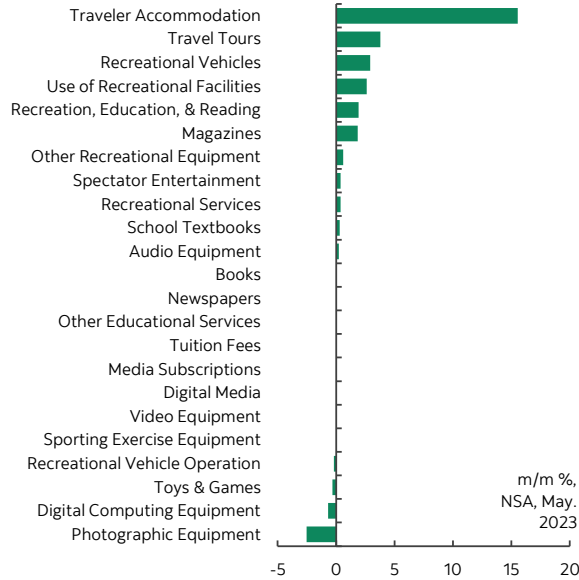
May Single-Month Components Included and Excluded from Bank of Canada Trim Core CPI Measure



Sources: Scotiabank Economics, Statistics Canada.

Chart 10

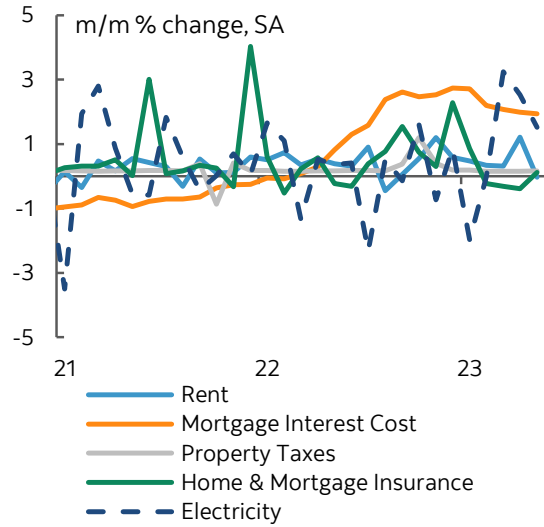
Breakdown of Monthly Changes within Recreation Education and Reading CPI Category



Sources: Scotiabank Economics, Statistics Canada.

Chart 11

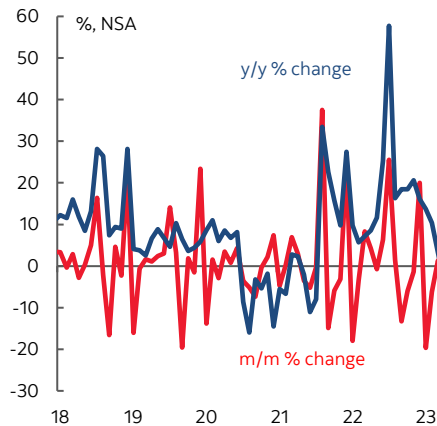
Housing-Related Inflation



Sources: Scotiabank Economics, Statistics Canada, Haver.

Chart 12

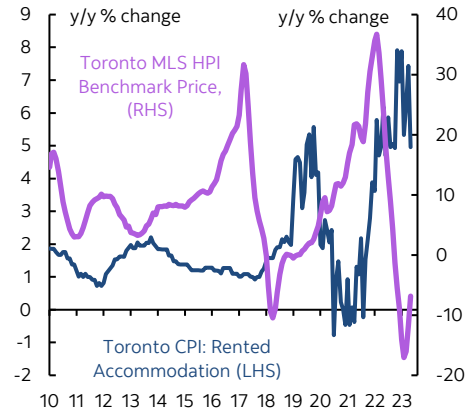
Canadian Air Transportation CPI



Sources: Scotiabank Economics, Statistics Canada.

Chart 13

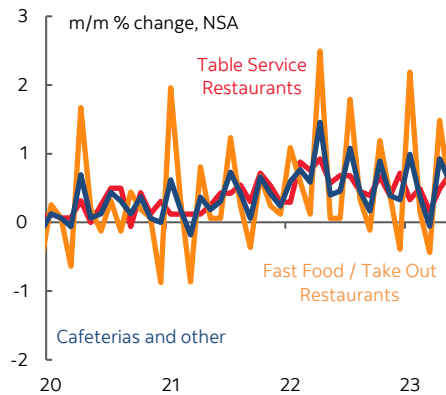
Rent Inflation & House Prices



Sources: Scotiabank Economics, Statistics Canada, CREA.

Chart 14

Food Purchased from Restaurants Inflation



Sources: Scotiabank Economics, Statistics Canada.

June 27, 2023

May 2023					Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic			
CA INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend	Pandemic trend (Jan 2019–Present)	m/m % change, NSA	m/m % change, SA**	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Food	8.3			0.8	0.5	16.65	1.39	0.14	2.1	1.7	3.6	2.2	1.5	4.2
Food, stores	9.0			0.9		11.04	1.00	0.10	1.7	2.4	3.0	2.0	2.0	3.5
Meat	6.3			-0.3	-0.3	2.07	0.13	-0.01	2.5	3.6	1.1	3.4	3.6	0.8
Fish & seafood	3.9			1.0	-0.5	0.39	0.02	0.00	2.9	1.4	0.7	2.8	2.5	0.5
Dairy products & eggs	7.6			0.9	0.8	1.47	0.11	0.01	0.2	1.5	4.8	0.6	1.5	4.6
Bakery & cereal products	14.4			1.1	1.0	1.52	0.22	0.02	0.5	2.1	6.7	1.2	2.3	5.7
Fruit, fruit prep. & nuts	7.1			0.7	-0.2	1.33	0.09	0.01	1.8	4.4	1.2	2.0	3.5	1.4
Vegetables & vegetable prep.	9.5			3.5	2.4	1.32	0.13	0.05	4.9	6.4	0.7	3.6	5.8	1.0
Other food & non-alcoholic beverages	10.4			0.6	0.8	2.95	0.31	0.02	1.0	1.5	6.1	1.3	1.7	5.3
Food, restaurants	6.8			0.6		5.61	0.38	0.04	3.0	0.7	5.7	2.6	0.7	5.7
Table service restaurants	6.3			0.7		3.29	0.21	0.02	2.9	0.6	6.3	2.6	0.6	5.8
Fast food & take-out	7.3			0.4		1.57	0.11	0.01	3.2	1.2	3.4	2.6	1.2	4.0
Cafeterias & other restaurants	6.8			0.6		0.76	0.05	0.00	3.0	0.6	6.1	2.6	0.7	5.9
Shelter	4.7			0.4	0.4	28.34	1.32	0.12	1.8	0.6	4.9	1.7	0.8	3.7
Rented accommodation	5.7			0.2	0.2	7.03	0.40	0.01	1.3	0.8	5.4	1.3	0.6	7.4
Rent	5.7			0.2		6.79	0.38	0.01	1.3	0.8	5.3	1.3	0.6	7.2
Tenants' insurance premiums	0.2			-0.9		0.15	0.00	0.00	1.1	1.6	-0.6	0.3	1.6	-0.1
Tenants' maintenance & repairs	6.7			-0.3		0.09	0.01	0.00	2.2	1.0	4.3	2.6	2.2	1.9
Owned accommodation	5.5			0.7		17.96	0.98	0.12	2.3	0.4	7.4	1.7	0.8	4.5
Mortgage interest cost	29.9			1.8	1.7	3.80	1.14	0.07	2.1	3.6	7.7	-0.1	3.6	8.4
Homeowners' replacement cost	-0.1			0.0	0.0	5.47	-0.01	0.00	1.9	1.7	-1.2	2.1	1.5	-1.5
Property tax & other charges	3.6			0.0	0.2	2.51	0.09	0.00	2.4	0.6	2.1	2.8	0.7	1.2
Homeowners' home & mortgage insurance	5.9			0.2	0.2	1.31	0.08	0.00	5.2	2.3	0.3	4.5	2.6	0.5
Homeowners' maintenance & repairs	8.2			1.3	1.3	1.93	0.16	0.02	2.0	1.1	5.6	2.0	1.4	4.3
Other owned accommodation expenses	-3.2			0.8	0.1	2.93	-0.09	0.02	2.0	1.2	-4.3	2.4	2.0	-2.9
Water, fuel, & elec.	-1.2			-0.5		3.35	-0.04	-0.02	0.8	2.1	-0.9	2.5	3.4	-1.1
Electricity	5.5			1.1	1.1	1.67	0.09	0.02	1.2	4.4	1.0	2.5	3.8	0.8
Water	3.8			0.0	0.2	0.73	0.03	0.00	3.7	0.9	0.1	4.9	1.4	-0.8
Natural gas	-3.5			-1.8	-1.8	0.74	-0.03	-0.01	-1.3	9.0	-0.2	0.4	10.6	-0.4
Fuel oil & other fuels	-36.9			-10.1	-10.1	0.21	-0.08	-0.02	-0.1	15.5	-2.4	5.1	14.2	-3.0
Household operations, furniture & equipment	1.1			-0.5	-0.2	14.36	0.16	-0.08	1.2	1.0	0.0	1.4	0.9	-0.3
Household ops.	1.7			-0.3		9.48	0.16	-0.03	1.3	1.1	0.3	2.1	1.3	-0.3
Communications	-3.5			-3.2	-3.2	2.71	-0.09	-0.09	0.0	2.8	-1.2	1.5	2.9	-1.8
Child care & housekeeping services	-11.5			0.4	-0.1	0.71	-0.08	0.00	3.4	1.4	-10.8	3.3	1.3	-11.2
Household cleaning products	9.1			1.2	0.7	0.42	0.04	0.00	1.3	1.9	4.1	0.8	1.9	4.2
Paper, plastic, aluminum foil	11.2			-1.8	-1.4	0.51	0.06	-0.01	2.2	2.2	4.0	2.0	2.0	4.6
Other household goods & services	4.8			1.1	0.4	5.13	0.25	0.06	1.8	0.5	6.3	2.4	1.1	2.2
Household furnishings & equip.	0.1			-0.9		4.88	0.00	-0.04	0.8	1.7	-0.4	0.1	1.6	0.0
Furniture & textiles	-1.8			-0.8		2.12	-0.04	-0.02	0.4	2.1	-1.1	-0.3	2.1	-0.7
Household equipment	0.7			-1.2	-0.2	2.25	0.02	-0.03	0.9	1.7	-0.1	0.0	1.8	0.4
Services related to furnishings & equipment	8.8			0.0	0.6	0.38	0.03	0.00	2.4	1.8	3.5	2.7	2.9	2.1
Clothing & footwear	0.7			0.4	-0.3	4.7	0.03	0.02	0.6	1.2	0.1	0.3	1.4	0.3
Clothing	0.7			0.8	0.0	3.05	0.02	0.03	0.5	1.6	0.1	-0.3	2.1	0.5
Footwear	1.0			1.1	-0.1	0.64	0.01	0.01	0.4	1.2	0.6	0.1	1.4	0.7
Clothing accessories	-0.8			-2.1		0.83	-0.01	-0.02	1.0	1.8	-1.0	2.3	2.6	-1.2
Clothing material	4.2			0.6		0.22	0.01	0.00	2.2	0.7	2.9	2.7	1.2	1.3

May 2023					Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic			
CA INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend	Pandemic trend (Jan 2019–Present)	m/m % change, NSA	m/m % change, SA**	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Transportation	-2.4			-0.2	-1.1	16.4	-0.39	-0.04	1.7	3.1	-1.3	2.3	3.0	-1.6
Private trans.	-2.5			-0.2		15.2	-0.38	-0.03	1.3	3.2	-1.2	2.2	3.2	-1.5
Purchase, lease, rental of passenger vehicles	3.2			-0.1		5.98	0.19	0.00	2.3	1.5	0.6	1.9	1.6	0.8
<u>Purchase & lease of passenger vehicles</u>	<u>3.2</u>			<u>-0.1</u>		<u>5.95</u>	<u>0.19</u>	<u>0.00</u>	<u>2.3</u>	<u>1.5</u>	<u>0.6</u>	<u>1.9</u>	<u>1.6</u>	<u>0.8</u>
<u>Rental of passenger vehicles</u>	<u>2.0</u>			<u>0.0</u>	<u>2.5</u>	<u>0.04</u>	<u>0.00</u>	<u>0.00</u>	<u>1.4</u>	<u>5.2</u>	<u>0.1</u>	<u>1.2</u>	<u>4.1</u>	<u>0.2</u>
Operation of passenger vehicles	-6.3			-0.2		9.25	-0.58	-0.02	0.7	5.7	-1.2	2.4	5.4	-1.6
<u>Gasoline</u>	<u>-18.3</u>			<u>-0.8</u>	<u>-3.8</u>	<u>3.89</u>	<u>-0.71</u>	<u>-0.03</u>	<u>-0.6</u>	<u>13.5</u>	<u>-1.3</u>	<u>3.0</u>	<u>12.2</u>	<u>-1.8</u>
Passenger vehicle parts, maintenance & repairs	7.3			0.0	0.4	2.66	0.19	0.00	1.9	0.3	15.6	1.6	0.8	7.3
<u>Other passenger vehicle expenses</u>	<u>2.5</u>			<u>0.4</u>	<u>0.4</u>	<u>2.70</u>	<u>0.07</u>	<u>0.01</u>	<u>2.4</u>	<u>2.2</u>	<u>0.0</u>	<u>2.6</u>	<u>2.0</u>	<u>0.0</u>
Public trans.	-0.3			-1.2		1.21	0.00	-0.01	4.8	3.9	-1.3	3.4	3.7	-1.0
Local & commuter transportation	4.3			0.0	0.2	0.35	0.02	0.00	1.5	0.5	5.7	2.2	1.2	1.8
<u>City bus & subway</u>	<u>1.0</u>			<u>0.0</u>		<u>0.23</u>	<u>0.00</u>	<u>0.00</u>	<u>2.1</u>	<u>0.7</u>	<u>-1.5</u>	<u>2.8</u>	<u>1.4</u>	<u>-1.2</u>
<u>Taxi & other commuter service</u>	<u>9.3</u>			<u>0.0</u>		<u>0.12</u>	<u>0.01</u>	<u>0.00</u>	<u>0.1</u>	<u>0.8</u>	<u>11.3</u>	<u>0.9</u>	<u>1.2</u>	<u>6.9</u>
Inter-city transportation	-3.5			-1.8	0.8	0.72	-0.03	-0.01	6.2	5.7	-1.7	3.9	5.8	-1.3
<u>Air transportation</u>	<u>-5.2</u>			<u>-2.1</u>		<u>0.62</u>	<u>-0.03</u>	<u>-0.01</u>	<u>6.5</u>	<u>6.2</u>	<u>-1.9</u>	<u>4.0</u>	<u>6.4</u>	<u>-1.4</u>
<u>Rail, highway bus, other</u>	<u>4.6</u>			<u>0.1</u>		<u>0.10</u>	<u>0.00</u>	<u>0.00</u>	<u>2.7</u>	<u>1.8</u>	<u>1.1</u>	<u>2.0</u>	<u>4.2</u>	<u>0.6</u>
Health & personal care	6.4			0.2	0.5	5.03	0.3	0.01	1.4	0.4	12.6	1.3	0.9	6.0
Health care	5.4			0.0		2.46	0.1	0.00	1.3	0.6	7.0	1.1	0.8	5.3
Health care goods	5.0			0.0	0.0	1.44	0.1	0.00	0.5	0.7	6.3	-0.1	1.1	4.6
Health care services	6.0			0.0	0.6	1.02	0.1	0.00	2.5	0.6	6.3	2.9	0.8	3.9
Personal Care	7.4			0.3		2.58	0.2	0.01	1.5	0.5	11.0	1.5	1.2	5.1
Personal care supplies & equipment	8.5			0.1	0.6	1.81	0.2	0.00	0.4	0.9	8.6	0.5	1.6	4.9
Personal care services	4.4			1.2	0.7	0.76	0.0	0.01	2.9	0.7	2.1	2.7	1.4	1.2
Recreation, education & reading	3.1			1.9	0.6	9.92	0.3	0.19	1.7	0.8	1.9	1.3	0.9	2.2
Recreation	2.7			2.27		8.29	0.23	0.19	1.4	1.0	1.3	0.6	1.2	1.7
Recreational equipment & services, excl. vehicles	-0.2			-0.2	-0.4	2.16	0.0	0.00	-0.8	1.6	0.4	-2.2	2.0	1.0
Purchase & operation of recreational vehicles	0.8			2.0	2.0	1.64	0.0	0.03	2.6	1.8	-1.0	1.9	2.0	-0.6
Home entertainment equipment	-3.4			-0.2	0.0	0.69	0.0	0.00	-3.8	2.0	0.2	-4.9	2.2	0.7
Travel services	11.1			7.2	-0.4	1.94	0.2	0.14	0.8	2.9	3.5	0.4	2.8	3.8
Other cultural & rec. services	4.1			1.2	0.4	1.87	0.1	0.02	3.5	1.1	0.6	3.4	1.4	0.5
Educ. & reading	4.2			0.11		1.63	0.07	0.00	2.5	1.4	1.2	3.0	1.1	1.1
Education	2.8			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	13.0			0.4	0.4	0.25	0.0	0.00	3.8	2.8	3.3	3.2	2.9	3.3
Alcoholic beverages, tobacco & rec. cannabis	5.5			0.5	0.4	4.53	0.2	0.02	3.2	1.2	2.0	2.7	1.3	2.1
Alcoholic beverages	5.5			0.21		2.94	0.16	0.01	1.7	0.5	7.3	1.4	0.7	5.6
Alc. beverages served in licensed establishments	4.9			1.1	0.9	0.86	0.0	0.01	1.8	0.6	5.0	2.0	0.7	4.2
Alc. beverages purchased from stores	5.6			-0.1	0.1	2.08	0.1	0.00	1.7	0.7	6.0	1.1	1.1	4.3
Tobacco products	9.0			1.30		1.23	0.11	0.02	5.6	2.1	1.6	4.8	2.8	1.5
Cigarettes	8.9			1.4		1.12	0.1	0.02	5.6	2.1	1.6	4.8	2.8	1.5
Other tobacco products & supplies	9.4			0.6		0.11	0.0	0.00	5.6	2.0	1.9	4.9	2.6	1.7
Rec. cannabis	-3.1			0.00		0.50	-0.02	0.00						

*Number may not add due to rounding

** Only available for components that are tracked on a seasonally adjusted basis.

Sources: Scotiabank Economics, Statistics Canada.

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