

US Core CPI Edges Higher

U.S. CPI (m/m%; y/y%), November:

Actual: 0.0 / 2.2

Scotia: -0.1 / 2.1

Consensus: 0.0 / 2.2

Prior: 0.3 / 2.5 (Unrevised)

U.S. Core CPI (m/m%; y/y%), November:

Actual: 0.2 / 2.2

Scotia: 0.2 / 2.2

Consensus: 0.2 / 2.2

Prior: 0.2 / 2.1 (Unrevised)

- On the back of the latest evidence of inflationary pressures in the US economy, I don't accept that the Fed is about to turn more dovish next week. Wage growth is at its highest since 2009. Now core CPI inflation moved off the October bottom by rising to 2.2% y/y and it remains above target, although the preferred core PCE measure is not—yet. The key is therefore how this translates into core PCE inflation that won't arrive until December 21st and hence two days after the Fed. Correlations (see chart) and the drivers suggest higher core CPI may translate through to higher core PCE from the 1.8% y/y reading in October but this is not assured. I would expect the FOMC to generalize by suggesting that inflation remains near its 2% goals.
- As expected, gasoline prices fell sharply (-4.2% m/m) and decelerated to just +5% y/y which played a major role in the headline deceleration
- Note the acceleration in medical care components that CPI under samples relative to PCE with the latter also including medical spending by governments and employers on behalf of consumers. Prescription drugs were up 0.5% m/m, med care commodities increased 0.4% m/m, medical equipment and supplies were up 0.5% m/m, and nonprescription drugs climbed by 0.4%. These categories either reverse prior month weakness or add to prior month strength.
- In seasonally adjusted month-ago core CPI terms, inflationary pressure has been steady of late at 0.2% m/m for the past two months which is up from half that over the prior two months and restores the pattern to what existing prior to the softening.
- Friday's retail sales will be the next—and only—major release ahead of next Wednesday's FOMC decisions. This will be coupled with geopolitical developments over coming days.

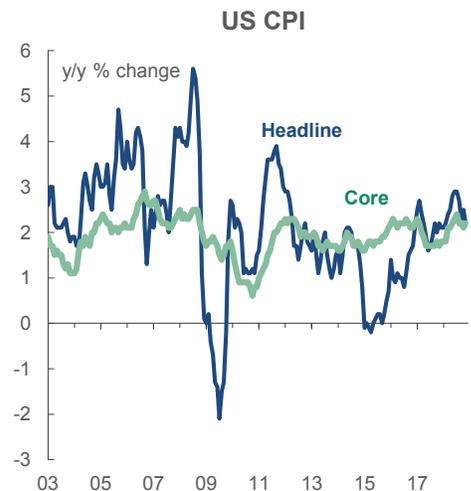
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Sources: Scotiabank Economics, BLS.

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