

US Core PCE Might Not Follow Core CPI Lower

- Core CPI decelerated by a tick...
- ...due to both apparel and housing drivers
- Medical care prices jumped...
- ...and PCE puts a higher weight on that component
- Markets shook it off...
- ...ahead of Powell's testimony

US CPI, headline/core, m/m % change, SA, October:

Actual: 0.4 / 0.2

Scotia: 0.1 / 0.2

Consensus: 0.3 / 0.2

Prior: 0.0 / 0.1

US CPI, headline/core, y/y % change, October:

Actual: 1.8 / 2.3

Scotia: 1.6 / 2.4

Consensus: 1.7 / 2.4

Prior: 1.7 / 2.4

A deceleration in apparel and housing costs drove a slight deceleration in core CPI to 2.3%. The deceleration may not flow through to core PCE. Markets largely shook off the readings ahead of Fed Chair Powell's testimony (statement 9:30amET, testimony 11amET), impeachment proceedings in the House (10amET) and uncertainty around a potential USTR report on auto tariffs.

In month-ago terms, headline CPI increased by 0.4% m/m for the strongest monthly rise since March. Core CPI that excludes food and energy, however, increased by a milder 0.2% m/m. Energy prices jumped 2.7% m/m and food prices were little changed (+0.2%).

Across other underlying CPI components, the deceleration in core CPI was driven by two factors. One was the 3.05% weight attached to a 1.8% m/m drop in apparel prices that also fell by 2.3% y/y. This impact on the year-ago core CPI rate was equaled by the 42.3% weight on the one-tick deceleration in housing costs that increased by 0.2% m/m (0.3% prior) and 2.9% y/y (3.0% prior).

Medical care costs climbed by 1% m/m and they get an 8.74% weight in CPI for about a 0.1% upward contribution to CPI. CPI puts a lower weight on medical care costs than PCE because CPI only takes into account direct spending by consumers. PCE also takes into account indirect spending by employers and governments.

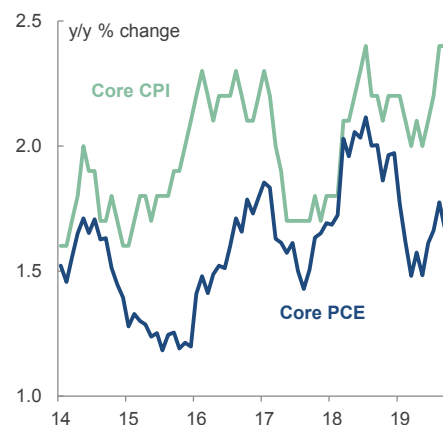
If prices for indirect spending on medical care rose at a similar rate to what CPI indicates, then core PCE might not follow core CPI to the downside. The correlations over time are highly imperfect in any event due to a variety of methodological differences.

See chart 1 for core CPI versus core PCE. Also see the next page for charts showing weighted contributions to the change in CPI by component a) in m/m terms and b) in y/y terms.

CONTACTS

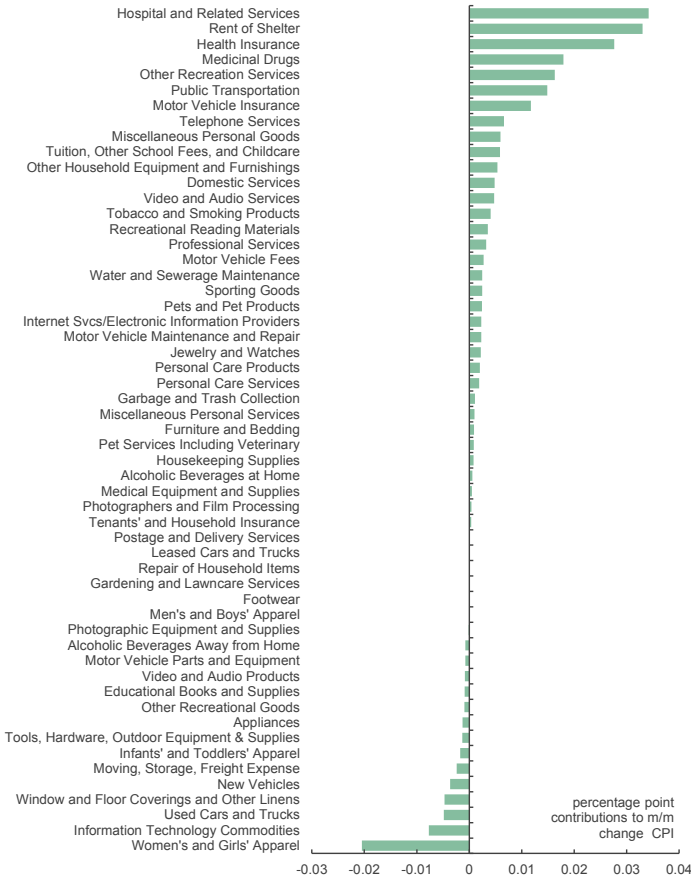
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Core PCE Inflation Remains Low



Sources: Scotiabank Economics, BLS, BEA.

October Weighted Contributions to Headline CPI



Sources: Scotiabank Economics, BLS.

October Weighted Contributions to Headline CPI



Source: Scotiabank Economics, BLS.

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