

US CPI Was Stale On Arrival

- Rates rallied, USD depreciated...
- ...because traders got a little too punchy!
- Nevertheless, CPI was strong with high breadth
- The readings are probably stale...
- ...with key FOMC decisions likely pre-set...
- ...and as the pandemic turns

US CPI, m/m headline/core %, SA, November:

Actual: 0.8 / 0.5

Scotia: 0.5 / 0.4

Consensus: 0.7 / 0.5

Prior: 0.9 / 0.6

US CPI, y/y headline/core %, November:

Actual: 6.8 / 4.9

Scotia: 6.8 / 4.9

Consensus: 6.8 / 4.9

Prior: 6.2 / 4.6

Chalk up another hot month for US inflation, but it was stale on arrival anyway. The Fed's expected decisions out of next week's meeting are largely made, and the renewed turn in pandemic cases with more to come casts fresh risk into nearer term inflation readings. CPI performed broadly in line with the evolution of pandemic cases last month (chart 1), but a renewed rise in cases may dampen future gains in some of the more pandemic-sensitive categories.

Nevertheless, inflation estimates—especially core — were in the ballpark of consensus estimates across economists, but a touch softer than swap market measures of expectations. Because traders got a little too punchy into the print, we're seeing some of them cover and hence rates are rallying and the dollar is depreciating a bit on the back of the numbers. That's a market issue around traders' pricing rather than a substantive matter relating to what actually happened to inflation.

So on we go with a look at what drove a reported disturbance at Paul Volcker's grave site at 8:30amET (kidding, sort of...). Headline inflation climbed by 6.8% y/y for the hottest reading since 1982 and in line with expectations. Core inflation at 4.9% y/y was also in line with our expectations and the hottest reading since 1991. Core PCE is likely to continue to lag behind somewhat when we get that at month-end (chart 2).

Headline inflation was up 0.8% m/m and hotter than the 0.5% m/m rise in CPI ex-food-and-energy. At annualized rates, we're still seeing very strong gains which continues to reinforce how inflation is not just a year-ago base effect issue and has not been throughout the year (chart 3).

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Chart 1

US CPI & New COVID-19 Cases

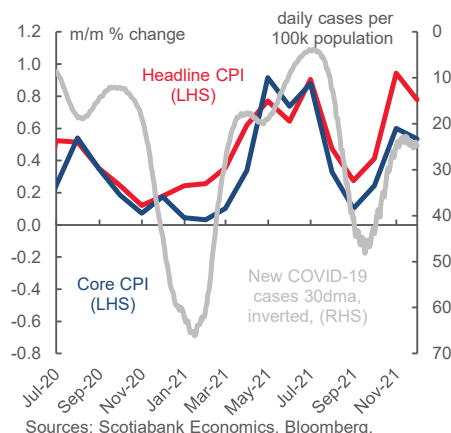


Chart 2

US Core PCE & CPI



Chart 3

US CPI & Core CPI

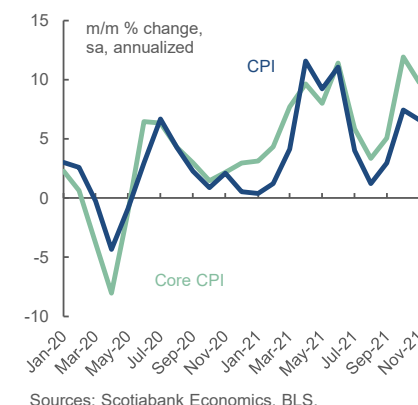


Chart 4 shows that most of the pick-up last month was in the core goods category that continues to have the hottest price pressures.

In terms of drivers, see chart 5 that breaks down the m/m changes across basket components and chart 6 that does the same thing in terms of weighted contributions to the m/m price changes. Charts 7 and 8 do likewise to the year-over-year CPI changes.

Please also see charts 9–17 on the following page that breaks out trends across individual components.

The headline m/m seasonally adjusted gain in CPI was partly because gasoline prices were up 6.1% m/m in seasonally adjusted terms which is a bit hotter than what I had been tracking. Overall energy prices were up 3.5% m/m with fuel oil (+3.5% m/m) reinforcing gasoline gains. Energy services were up 0.3% m/m as electricity was up 0.3% and gas utilities were up 0.6%.

Headline CPI was also driven by food prices that climbed by 0.7% m/m and continue to register very strong gains through most of the year back to April. This was driven by both groceries—approximated via the ‘food at home’ category—that were up 0.8% m/m, but also by take-out and other categories reflected in ‘food away from home’ that saw a 0.6% m/m rise. The latter is one of the most sensitive CPI components to the pandemic.

There was also fairly high breadth within the core CPI changes. Used vehicle prices were up 2.5% m/m SA. New vehicle prices were up another 1.1% m/m.

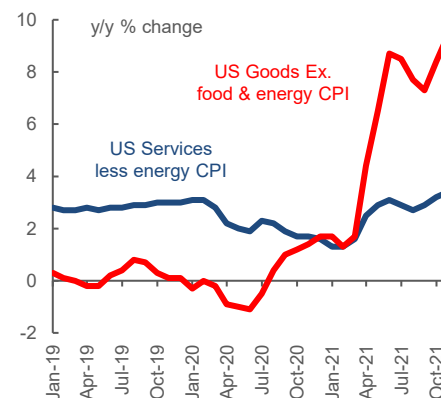
Shelter’s 32% weight in CPI remains hot at 0.5% m/m due to rent being up 0.5% and with hotels/lodging up 2.9%. Owners equivalent rent (OER) was up another 0.4%.

Airfare prices were up 4.7% m/m which is likely a return to something more normal by way of a Thanksgiving effect but carries a very minor weighted influence.

For more detail, see the US CPI dashboard on the last page of this report that breaks down components with micro-graphs and Z-scores that help to inform the extent to which CPI component changes are out of the norms.

Chart 4

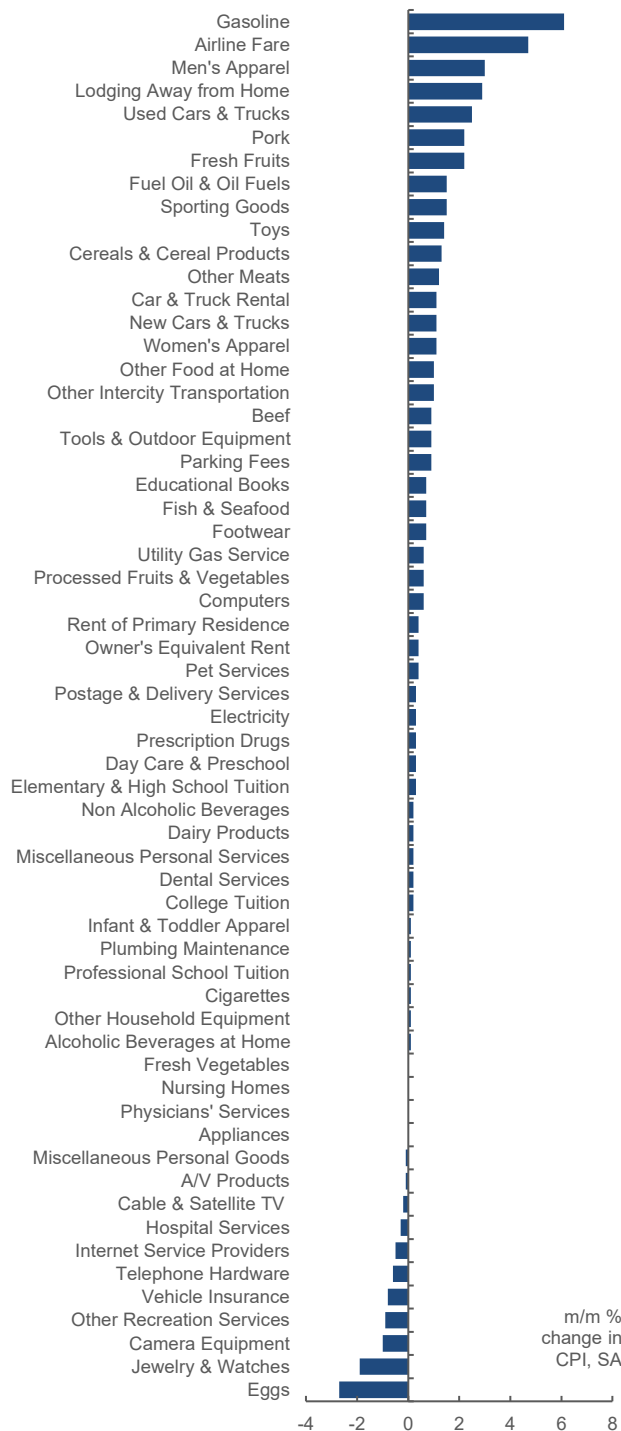
US Goods vs. Services Inflation



Sources: Scotiabank Economics, BLS.

Chart 5

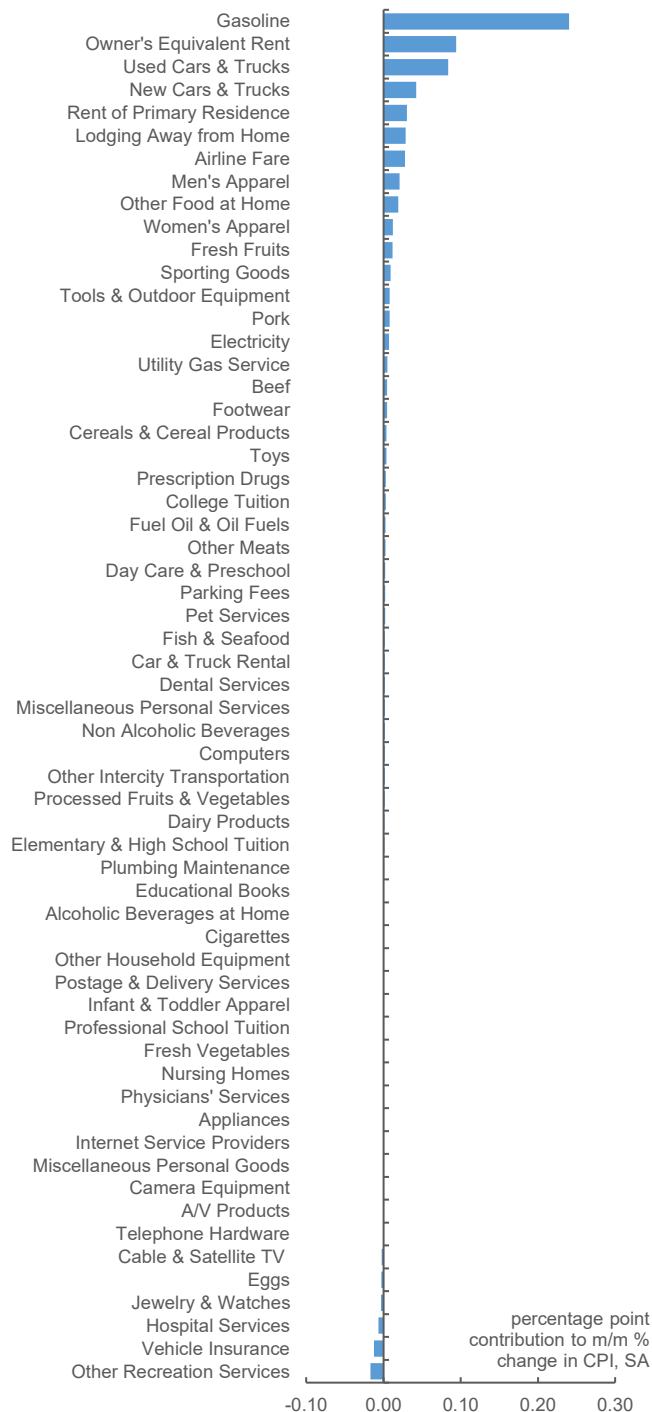
November Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 6

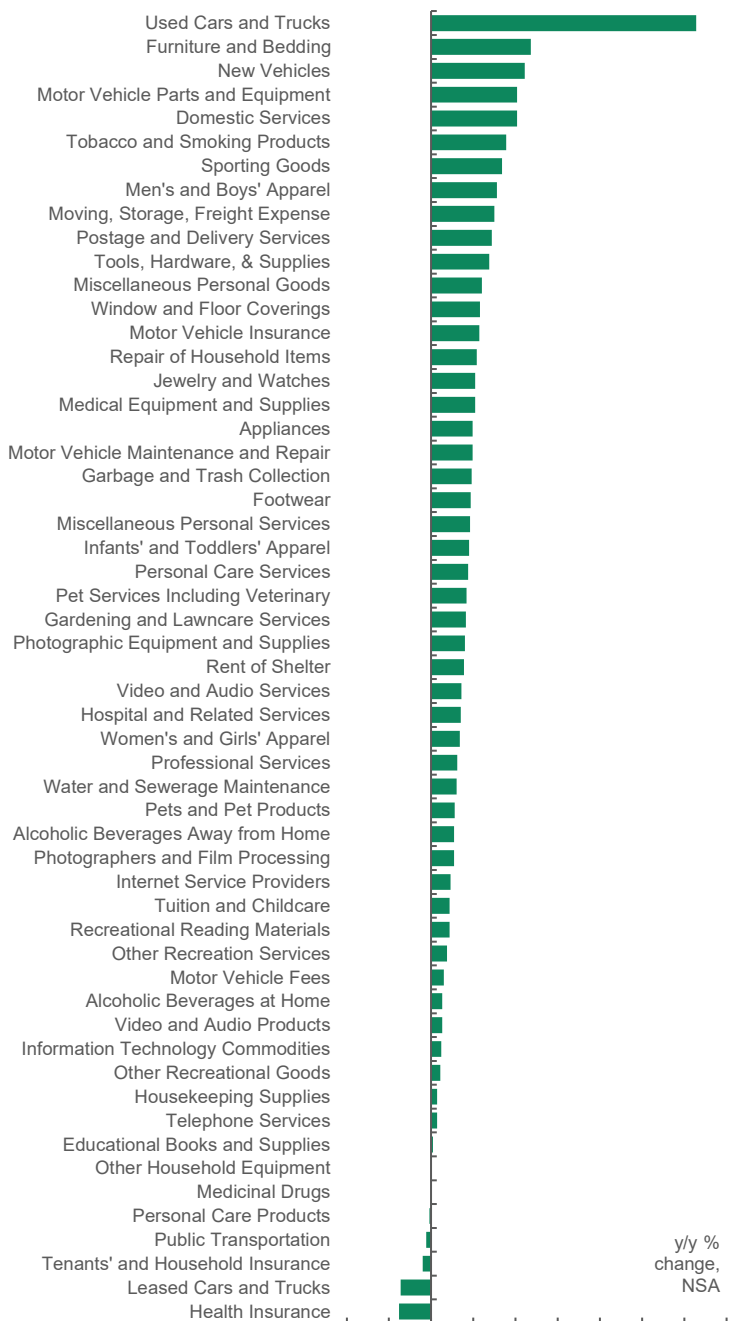
November Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS

Chart 7

November 12-Month Changes in US Headline CPI Categories



Sources: Scotiabank Economics, BLS.

Chart 8

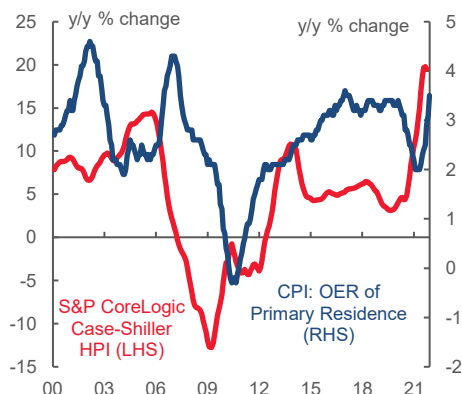
November Weighted Contributions to the 12-Month Change in US Headline CPI



Source: Scotiabank Economics, BLS.

Chart 9

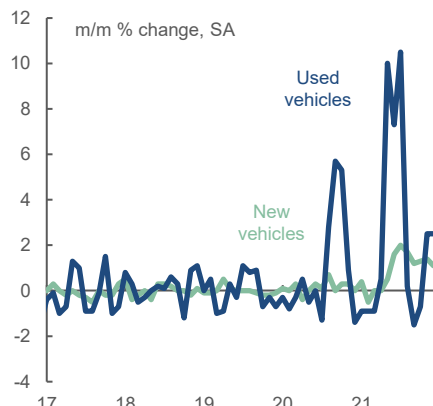
Homebuying Price Surges Causing Upward Pressure on Rents



Sources: Scotiabank Economics, BLS, S&P.

Chart 10

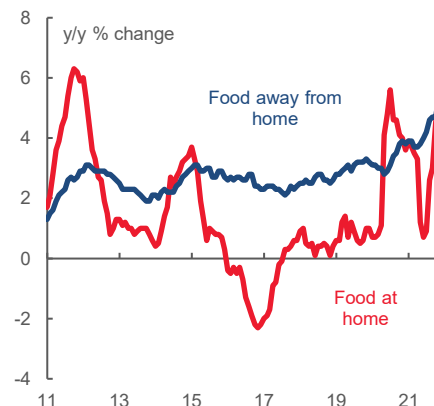
New vs Used Vehicle Inflation



Sources: Scotiabank Economics, Bloomberg.

Chart 11

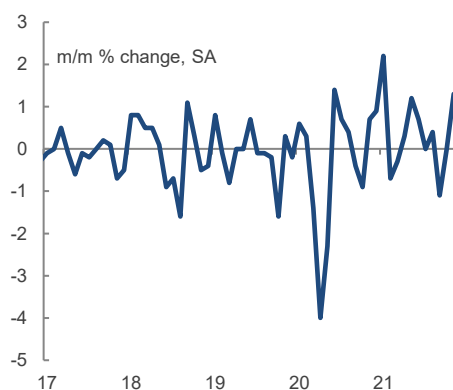
US Food Prices



Sources: Scotiabank Economics, BLS.

Chart 12

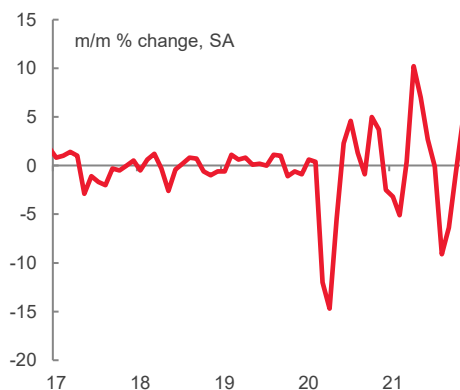
US Apparel



Sources: Scotiabank Economics, BLS.

Chart 13

US Airfare



Sources: Scotiabank Economics, BLS.

Chart 14

Prescription Drug Prices



Sources: Scotiabank Economics, BLS.

Chart 15

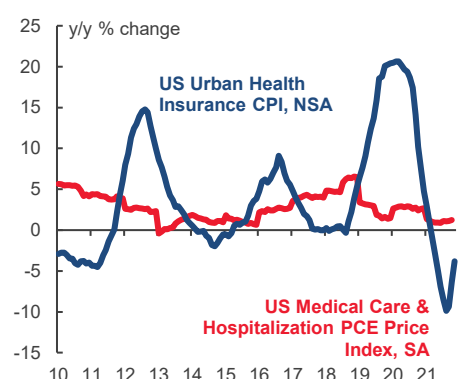
US Financial Services



Sources: Scotiabank Economics, BLS.

Chart 16

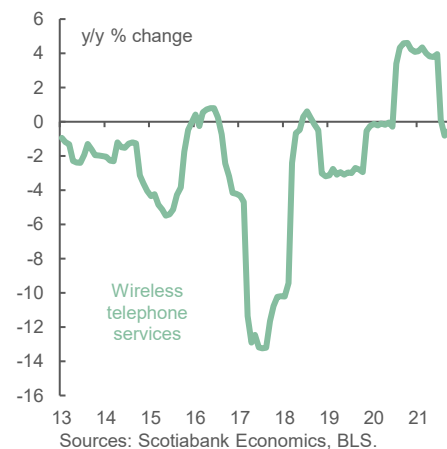
US Medical Care Insurance Inflation






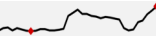









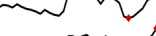

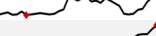


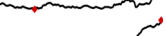


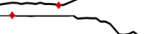



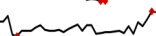
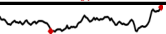




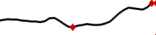











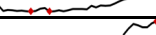




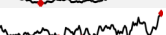


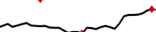








Sources: Scotiabank Economics, US BLS, US Bureau of Economic Analysis.



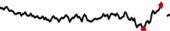

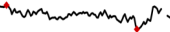

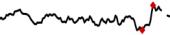







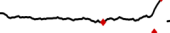







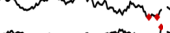

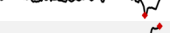






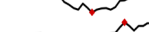


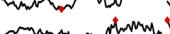













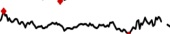







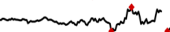
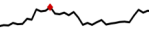
Chart 17















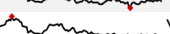

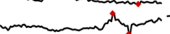

















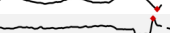









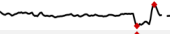




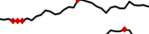








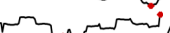




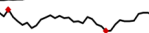






US Cell Phone Service Inflation



Sources: Scotiabank Economics, BLS.

Nov 2021				Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic			
US INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend	Pandemic trend (Jan 2019–Present)	m/m % change	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Food	6.1			0.7	13.98	0.85	0.10	1.3	0.8	6.3	1.7	1.1	3.8
Food, home	6.4			0.8	7.72	0.49	0.06	0.2	1.1	5.5	1.2	1.9	2.8
Cereals & bakery products	4.6			0.8	0.98	0.05	0.01	0.4	0.9	4.8	0.9	1.7	2.2
Meats, poultry, fish & eggs	12.8			0.9	1.83	0.23	0.02	-0.2	3.2	4.0	2.1	3.9	2.7
Dairy & related products	1.6			0.2	0.75	0.01	0.00	-0.6	1.6	1.4	1.1	3.1	0.2
Fruits & vegetables	4.0			1.0	1.31	0.05	0.01	0.4	1.7	2.1	1.0	2.0	1.5
Non-alcoholic bevarages	5.3			0.2	0.92	0.05	0.00	0.6	1.0	4.5	0.5	1.6	3.0
Other food at home	5.7			1.0	1.93	0.11	0.02	0.5	0.6	8.1	1.0	1.6	3.0
Food, away	5.8			0.6	6.26	0.36	0.04	2.7	0.3	10.4	2.5	0.5	6.4
Full services meals & snacks	6.0			0.4	3.15	0.19	0.01	2.6	0.4	9.3	2.4	0.5	7.2
Limited services meals and snacks	7.9			1.0	2.79	0.22	0.03	2.8	0.3	15.8	2.5	0.7	7.6
Food at employee sites and school	-44.9			-5.5	0.07	-0.03	0.00	2.8	2.4	-19.5	2.8	1.9	-24.9
Food from vending machines & mobile vendors	6.4			0.2	0.08	0.01	0.00	3.1	1.0	3.3	2.5	1.3	3.0
Other food away from home	4.4			0.0	0.17	0.01	0.00	2.5	1.3	1.4	2.3	1.0	2.1
Energy	33.3			3.5	7.32	2.44	0.26	-1.9	10.0	3.5	1.6	9.6	3.3
Energy comm.	57.5			5.9	4.08	2.35	0.24	-2.8	17.0	3.5	3.0	17.1	3.2
Fuel oils & other fuels	48.3			1.5	0.17	0.08	0.00	-2.3	15.8	3.2	2.7	14.4	3.2
Motor fuel	58.0			6.1	3.91	2.27	0.24	-2.8	17.1	3.6	3.0	17.3	3.2
Gasoline	58.1			6.1	3.83	2.23	0.23	-2.8	17.1	3.6	3.0	17.4	3.2
Other	53.1			4	0.08	0.04	0.00	-2.3	19.5	2.8	3.6	17.9	2.8
Energy serv.	10.7			0.3	3.24	0.35	0.01	0.0	2.4	4.4	0.5	2.7	3.8
Electricity	6.5			0.3	2.47	0.16	0.01	0.5	1.5	4.1	1.0	1.7	3.3
Utility (piped gas service)	25.1			0.6	0.77	0.19	0.00	-1.4	7.5	3.5	-0.9	7.3	3.5
All items less food and energy	4.9			0.5	78.70	3.86	0.39	2.0	0.2	12.8	1.8	0.4	7.5
Commodities less food and energy	9.4			0.9	20.69	1.94	0.19	-0.3	0.4	25.0	0.2	0.9	10.4
Household furnishings	6.0			0.7	3.33	0.20	0.02	-0.8	1.2	5.7	-0.9	1.2	5.8
Window & floor coverings	5.8			-1.9	0.29	0.02	-0.01	-2.3	1.7	4.7	-2.8	1.8	4.8
Furniture & bedding	11.8			0.6	0.99	0.12	0.01	-0.3	1.7	7.0	-0.9	2.1	6.1
Appliances	4.9			0.0	0.22	0.01	0.00	-1.2	3.1	2.0	-1.6	3.0	2.1
Other household equipment	4.0			0.7	0.52	0.02	0.00	-3.5	1.8	4.1	-3.7	1.5	5.2
Tools & hardware	6.9			0.9	0.87	0.06	0.01	-0.1	1.0	6.7	-0.3	1.2	5.9
Housekeeping supplies	0.7			0.2	0.88	0.01	0.00	0.3	1.2	0.4	0.4	1.3	0.2

Nov 2021					Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic		
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Apparel	5.0			1.3	2.73	0.14	0.04	-0.5	1.0	5.6	0.3	1.7	2.7
Men's & boys apparel	7.8			3.0	0.69	0.05	0.02	-0.3	1.5	5.3	0.5	2.3	3.2
Women's & girls apparel	3.4			1.1	1.09	0.04	0.01	-1.3	1.9	2.6	-0.1	2.5	1.4
Footwear	4.7			0.7	0.65	0.03	0.00	0.2	1.3	3.4	0.8	1.7	2.4
Infant & toddler's apparel	4.5			0.1	0.13	0.01	0.00	0.4	3.8	1.1	0.5	3.6	1.1
Jewelry & watches	5.2			-1.9	0.17	0.01	0.00	1.0	3.4	1.2	1.5	3.8	1.0
Trans. less fuel	19.2			1.7	6.48	1.24	0.11	-0.3	0.9	22.0	0.4	1.5	12.6
New vehicles	11.1			1.1	3.83	0.43	0.04	0.1	0.7	16.7	0.8	1.2	8.4
Used cars & trucks	31.4			2.5	3.29	1.03	0.08	-1.3	2.1	15.7	1.1	4.8	6.3
Motor vehicle parts & equipment	10.2			1.1	0.40	0.04	0.00	0.2	1.1	9.5	0.9	2.2	4.3
Medical comm.	0.2			0.1	1.50	0.00	0.00	2.1	1.7	-1.1	2.3	1.5	-1.4
Medicinal Drugs	0.0			0.2	1.62	0.00	0.00	2.2	1.8	-1.2	2.3	1.6	-1.4
Medical equipment & supplies	5.2			-0.4	0.07	0.00	0.00	0.4	1.2	3.9	0.3	1.2	4.1
Recreation comm.	3.9			0.3	1.76	0.07	0.01	-2.6	1.1	6.1	-2.3	0.9	6.8
Video & audio products	1.3			-0.1	0.21	0.00	0.00	-10.1	2.4	4.7	-9.2	2.2	4.7
Pets & pet products	2.8			0.1	0.61	0.02	0.00	0.4	1.5	1.6	0.5	1.5	1.6
Sporting goods	8.4			0.3	0.61	0.05	0.00	-0.7	1.5	5.9	-0.6	1.2	7.4
Photographic Equipment & supplies	4.0			-1.0	0.03	0.00	0.00	-1.7	4.6	1.2	-3.0	4.0	1.7
Recreational reading materials	2.2			0.5	0.12	0.00	0.00	1.6	1.9	0.3	1.5	1.8	0.4
Other recreational goods	1.1			1.1	0.34	0.00	0.00	-6.5	1.3	5.7	-5.2	1.7	3.6
Educ. & communication comm.	0.9			-1.0	0.50	0.00	-0.01	-3.7	1.0	4.6	-3.5	0.9	4.8
Educational books & supplies	0.2			-0.4	0.10	0.00	0.00	2.2	3.0	-0.7	3.6	2.7	-1.3
IT commodities	1.2			-1.2	0.38	0.00	0.00	-6.1	1.9	3.8	-6.8	1.8	4.4
Alcohol	1.9			0.0	1.01	0.02	0.00	1.3	0.3	1.9	1.4	0.4	1.5
Alcoholic beverages at home	1.3			0.1	0.56	0.01	0.00	0.8	0.6	0.8	0.8	0.5	1.0
Alcoholic beverages away from home	2.7			0.1	0.45	0.01	0.00	1.9	0.5	1.8	2.2	0.7	0.7
Other goods	4.3			0.3	1.55	0.07	0.00	1.4	0.9	3.4	1.4	0.7	4.1
Tobacco & smoking products	8.9			0.9	0.61	0.05	0.01	4.3	1.5	3.0	4.4	3.8	1.2
Personal care products	-0.2			-0.4	0.65	0.00	0.00	-0.3	0.6	0.2	-0.1	0.8	-0.1
Miscellaneous personal goods	6.0			1.1	0.19	0.01	0.00	-2.4	3.1	2.7	-1.7	2.4	3.2

Nov 2021					Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic		
US INFLATION COMPONENT BREAKDOWN	y/y % change	10-year trend	Pandemic trend (Jan 2019–Present)	m/m % change	Weights (%)	y/y	m/m	2015–2019 avg. y/y	Std. Dev.	Z-Score	2011–2019 avg. y/y	Std. Dev.	Z-Score
Services less energy services	3.4			0.4	58.02	1.97	0.23	2.8	0.2	2.5	2.4	0.6	1.6
Shelter	3.8			0.5	32.58	1.24	0.16	3.3	0.2	3.0	2.5	1.2	1.1
Rent of shelter	3.9			0.5	32.23	1.26	0.16	3.3	0.2	3.2	2.5	1.2	1.2
<u>Rent of primary residence</u>	<u>3.0</u>			<u>0.4</u>	<u>7.61</u>	<u>0.23</u>	<u>0.03</u>	<u>3.7</u>	<u>0.1</u>	<u>-5.2</u>	<u>2.9</u>	<u>1.1</u>	<u>0.1</u>
<u>Lodging away from home</u>	<u>22.2</u>			<u>2.9</u>	<u>1.02</u>	<u>0.23</u>	<u>0.03</u>	<u>2.3</u>	<u>2.0</u>	<u>9.9</u>	<u>2.2</u>	<u>2.2</u>	<u>9.1</u>
<u>QER of residences</u>	<u>3.5</u>			<u>0.4</u>	<u>23.59</u>	<u>0.83</u>	<u>0.09</u>	<u>3.2</u>	<u>0.2</u>	<u>1.3</u>	<u>2.4</u>	<u>1.1</u>	<u>1.0</u>
Tenants' & household insurance	-1.0			-0.3	0.35	0.00	0.00	1.4	1.2	-2.0	2.3	1.5	-2.1
Water, sewer, trash collection	3.5			0.0	1.08	0.04	0.00	3.6	0.6	-0.2	4.3	1.0	-0.8
Water & sewage maintenance	3.0			0.1	0.79	0.02	0.00	4.0	0.8	-1.1	4.8	1.4	-1.3
Garbage & trash collection	4.8			-0.2	0.29	0.01	0.00	2.5	1.5	1.6	2.5	1.1	2.1
Household ops.	8.4			1.1	0.89	0.08	0.01	3.8	1.3	3.7	2.6	1.6	3.6
Domestic services	10.2			1.5	0.30	0.03	0.00	2.0	1.1	7.7	1.6	1.0	8.3
Gardening & lawn care	4.1			0.2	0.30	0.01	0.00	4.3	2.7	-0.1	2.8	2.6	0.5
Moving, storage, freight	7.5			-0.2	0.10	0.01	0.00	5.6	3.9	0.5	3.3	3.9	1.1
Repair of household items	5.4			0.1	0.12	0.01	0.00	4.8	2.1	0.3	4.2	2.0	0.6
Medical serv.	2.1			0.3	7.02	0.15	0.02	2.9	1.0	-0.8	3.0	0.8	-1.1
Professional Services	3.1			0.3	3.58	0.11	0.01	1.5	0.9	1.7	1.8	0.8	1.6
Hospital & related services	3.5			-0.2	2.37	0.08	0.00	3.8	1.1	-0.3	4.5	1.3	-0.8
Health insurance	-3.8			1.7	1.08	-0.04	0.02	5.0	5.8	-1.5	3.6	6.0	-1.2
Transportation serv.	3.9			0.7	5.02	0.20	0.04	2.6	1.1	1.1	2.6	1.0	1.3
Leased cars & trucks	-3.6			-3.6	0.64	-0.02	-0.02	0.5	3.0	-1.4	-1.6	3.2	-0.6
Motor vehicle maintenance & repair	4.9			0.0	1.08	0.05	0.00	2.2	0.7	3.9	2.0	0.6	5.1
Motor vehicle insurance	5.7			-0.8	1.58	0.09	-0.01	5.5	2.6	0.1	4.8	2.0	0.4
Motor vehicle fees	1.5			0.3	0.55	0.01	0.00	1.8	0.7	-0.4	2.2	1.9	-0.4
Public transportation	-0.6			3.0	1.04	-0.01	0.03	-1.2	1.5	0.4	1.0	3.6	-0.4
Recreation serv.	2.8			-0.5	3.84	0.11	-0.02	2.6	0.7	0.3	2.3	0.7	0.6
Video & audio services	3.6			-0.3	1.59	0.06	0.00	2.7	1.4	0.6	2.6	1.3	0.7
Pet services	4.2			0.4	0.55	0.02	0.00	3.1	0.8	1.5	3.3	0.9	1.0
Photo services	2.7			2.5	0.04	0.00	0.00	-0.2	2.0	1.4	0.8	1.8	1.0
Other recreation services	1.9			-0.9	1.87	0.04	-0.02	2.4	0.6	-0.8	1.7	1.1	0.2
Educ. & communication serv.	1.7			0.0	6.01	0.10	0.00	0.4	1.3	1.0	1.1	1.3	0.5
Tuition, school fees, child care	2.2			0.2	2.83	0.06	0.01	2.8	0.6	-1.1	3.3	0.8	-1.5
Postage & delivery	7.2			0.3	0.11	0.01	0.00	2.3	2.0	2.5	3.3	2.0	2.0
Telephone services	0.7			0.0	2.27	0.02	0.00	-2.4	3.0	1.0	-1.3	2.4	0.8
Internet services	2.3			-0.5	0.87	0.02	0.00	-0.2	1.5	1.7	0.1	1.3	1.7
Other personal serv.	4.5			0.1	1.64	0.07	0.00	2.7	0.7	2.7	2.4	0.6	3.3
Personal care services	4.4			0.2	0.68	0.03	0.00	2.3	0.7	3.0	1.8	0.8	3.2
Miscellaneous personal services	4.6			0.0	0.96	0.04	0.00	2.9	0.9	1.9	2.7	0.7	2.6

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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