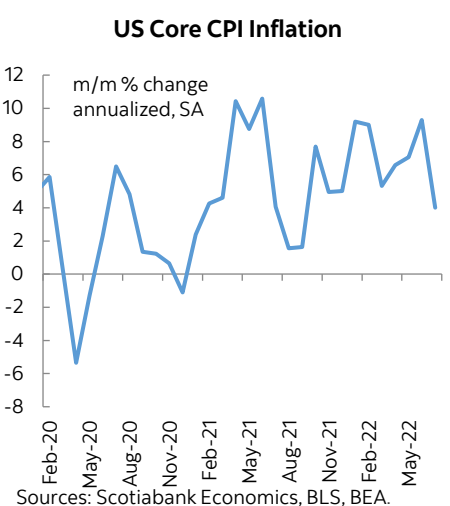
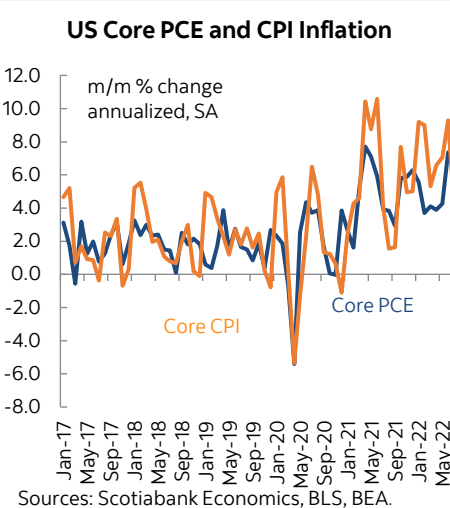


SCOTIA FLASH

August 10, 2022

Contributors
Derek Holt

VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

Chart 1

Chart 2


Did Markets Over-React to US CPI?

- **US CPI surprised lower for a change...**
- **...and markets may be prematurely judging Fed implications in August trading**

US CPI, m/m SA // y/y % change, July:

Actual: 0.0 / 8.5
 Scotia: 0.4 / 8.9
 Consensus: 0.2 / 8.7
 Prior: 1.3 / 9.1

US core CPI, m/m SA // y/y % change, July:

Actual: 0.3 / 5.9
 Scotia: 0.6 / 6.1
 Consensus: 0.5 / 6.1
 Prior: 0.7 / 5.9

US CPI inflation surprised lower for a change. That prompted out-sized movements in markets because a) the Fed has conditioned markets to attach excessive importance to every backward-looking data wiggle, b) markets have adapted to positioning toward persistent upside surprises and had to quickly cover, and c) it's August! Being August, this recap will be short.

US 2s rallied by about 17bps and 10s rallied by about 7bps in a bull steepener move. S&P 500 futures took off by about 1¼%. The dollar depreciated by about ¾% on a DXY basis.

In my view, it's premature to judge whether the Fed's next move in September will be a 50 or 75 point hike given that we'll get one more PCE reading which is the Fed's preferred measure, one more CPI print and another jobs report before then plus the fact that September often carries its own surprises along the way. At this point, I think a reasonable perspective would lean heavily against the view that one softish CPI print would dissuade the Fed's hawks. They may trade-off the one CPI downside surprise against the ongoing tightening in the US job market and concern that wage pressures present the risk of more persistent inflation. In any event, I continue to think we're dealing with longer wave forces and it's silly to think one inflation reading settles anything.

Core CPI was up by just 0.3% m/m which was softer than expected and ends or at least suspends a string of firmer readings that often surprised higher (chart 1). Headline CPI was weaker than expected partly because of core but also because gasoline prices fell by more than anticipated in seasonally adjusted terms (-7.7% m/m).

Among the uncertainties is whether core PCE will follow core CPI on August 26th given that the two readings have not been tracking each other very well for some time (chart 2).

High contact service prices played a role in explaining the softish core CPI reading. Airfare fell by 7.8% m/m, intercity transportation fell 0.3% m/m and lodging away from home fell 2.7% m/m.

New vehicle prices were up 0.6% m/m but used vehicles fell 0.4% for what is roughly a net wash in terms of overall vehicle prices.

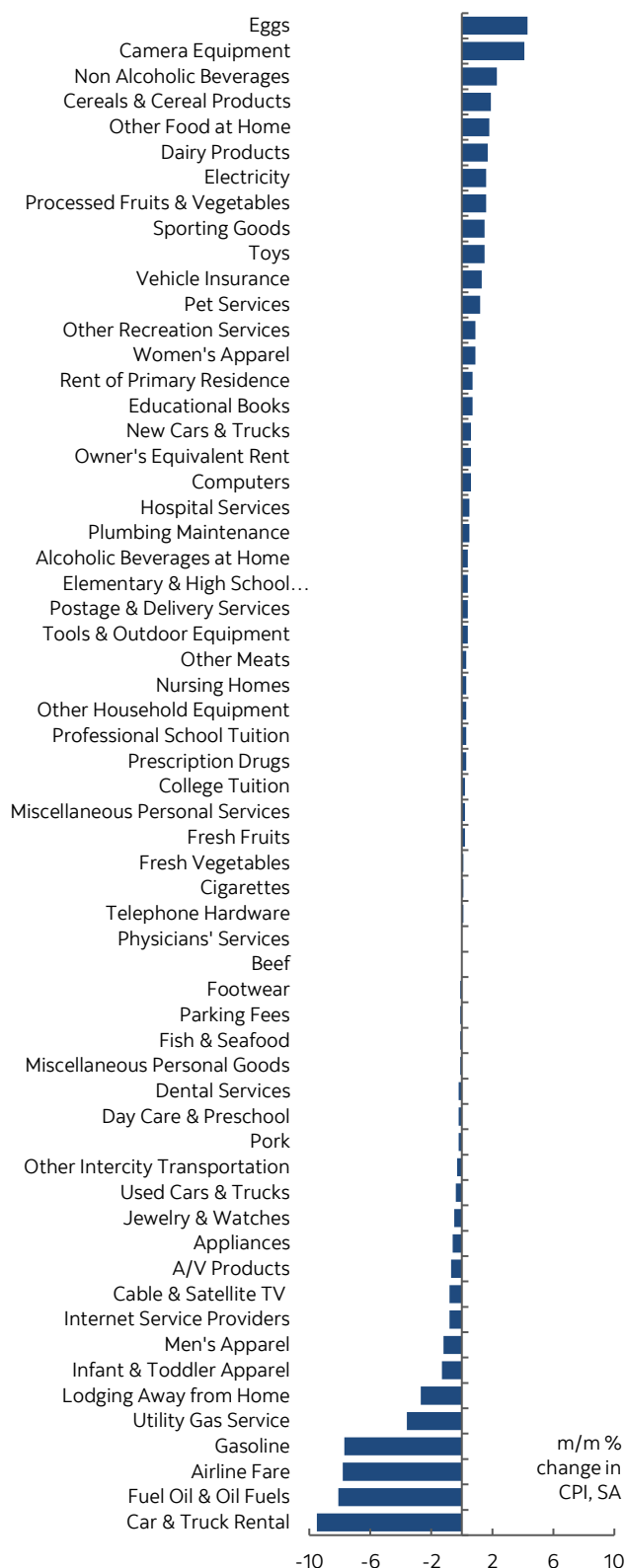
Owners' equivalent rent was up 0.6% m/m which remains in line with the trend. Rent remains hot at 0.7% m/m.

Charts 3–6 break out drivers and please see the more detailed accompanying table.

August 10, 2022

Chart 3

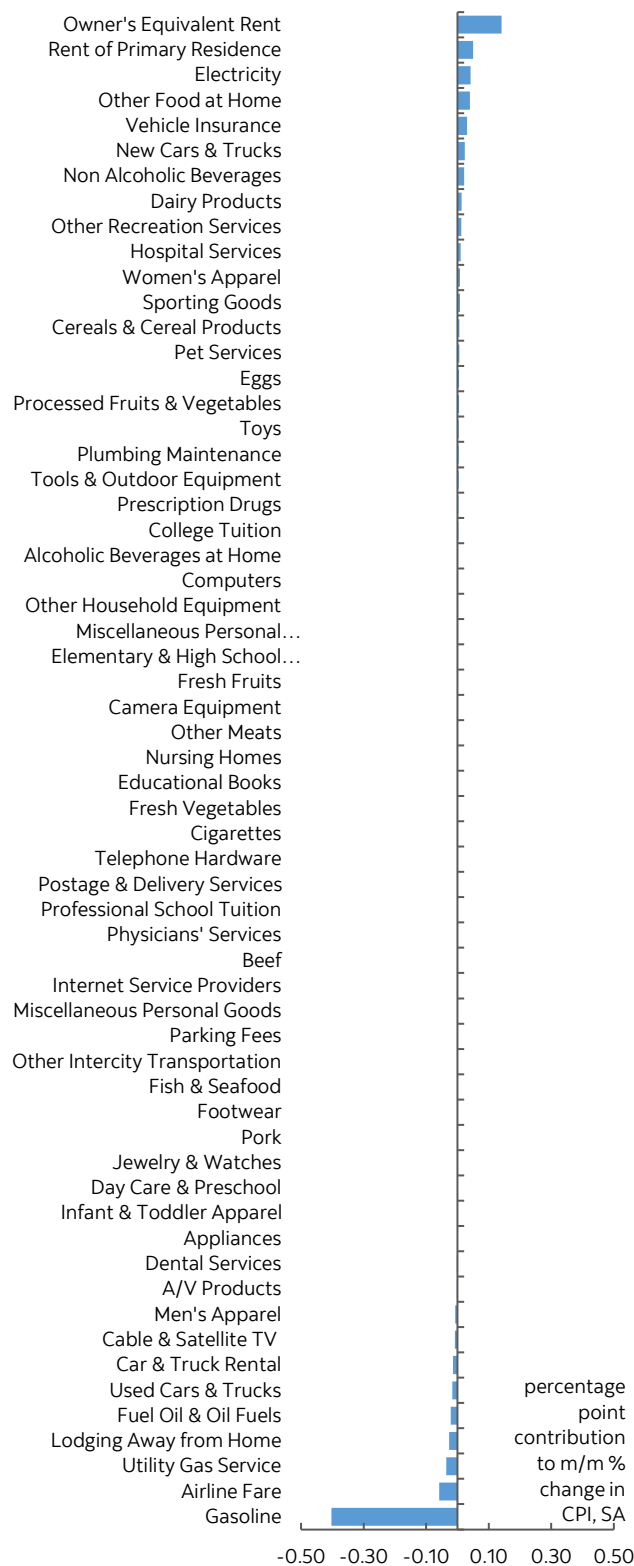
July Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 4

July Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 5

July 12-Month Changes in US Headline CPI Categories

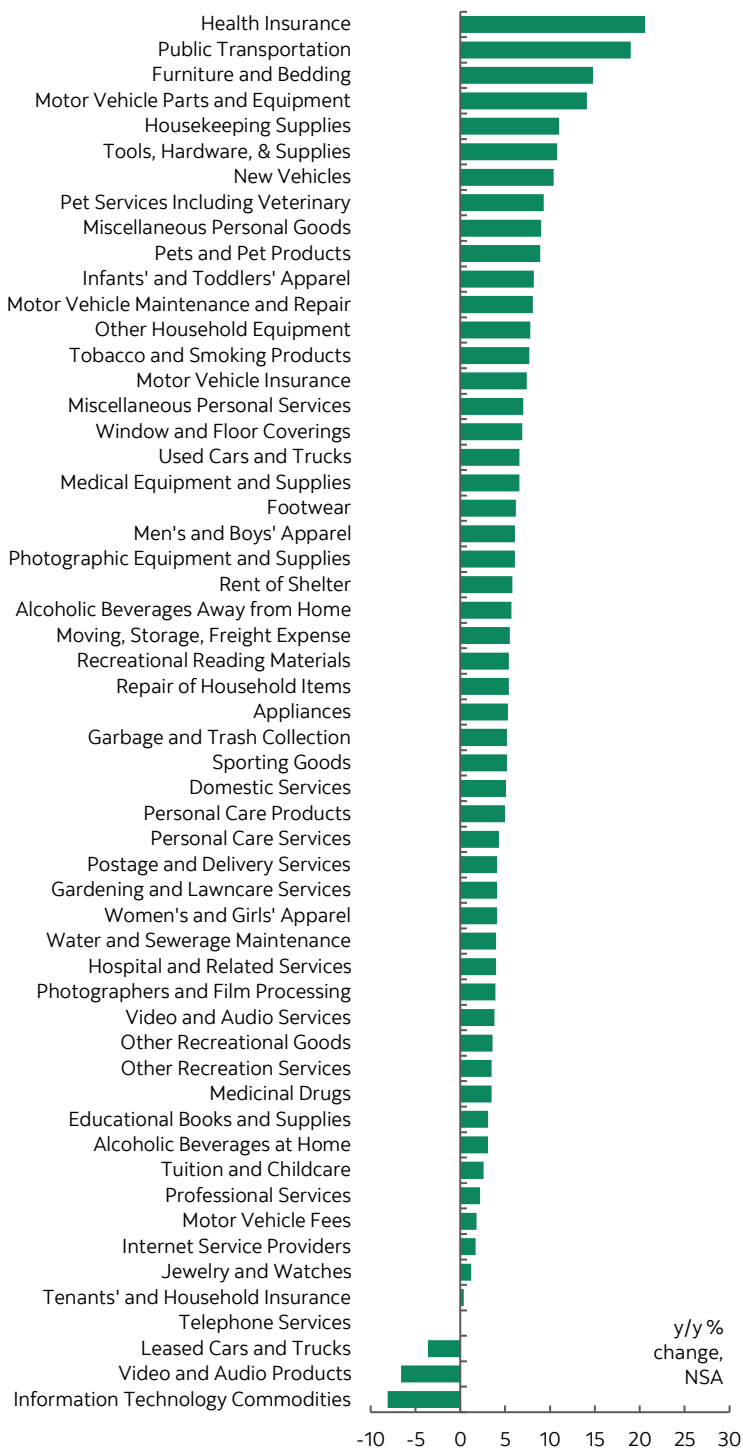





















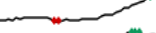
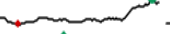

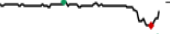





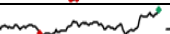
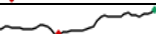














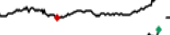
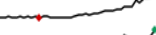


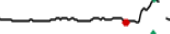
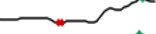










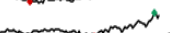



Chart 6



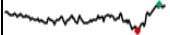

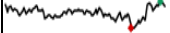

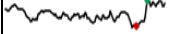








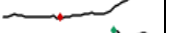






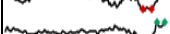
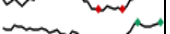
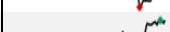
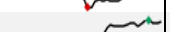







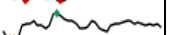

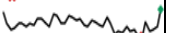


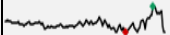







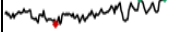








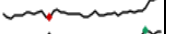


July Weighted Contributions to the 12-Month Change in US Headline CPI









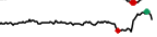

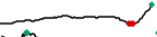
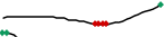








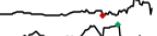















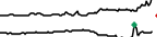
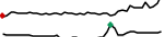

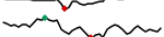








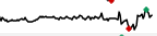




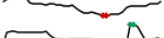






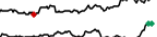
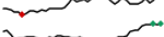


August 10, 2022

Jul 2022				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	10.9			1.1	13.42	1.46	0.15	1.3	0.8	12.6	1.7	1.1	8.1
Food, home	13.1			1.3	8.32	1.09	0.11	0.2	1.1	11.4	1.2	1.9	6.4
Cereals & bakery products	15.0			1.8	1.06	0.16	0.02	0.4	0.9	16.6	0.9	1.7	8.3
Meats, poultry, fish & eggs	10.9			0.5	1.91	0.21	0.01	-0.2	3.2	3.4	2.1	3.9	2.2
Dairy & related products	14.9			1.7	0.79	0.12	0.01	-0.6	1.6	9.7	1.1	3.1	4.4
Fruits & vegetables	9.3			0.5	1.43	0.13	0.01	0.4	1.7	5.2	1.0	2.0	4.1
Non-alcoholic bevarages	13.8			2.3	0.95	0.13	0.02	0.6	1.0	12.7	0.5	1.6	8.4
Other food at home	15.8			1.8	2.20	0.35	0.04	0.5	0.6	23.8	1.0	1.6	9.4
Food, away	7.6			0.7	5.10	0.39	0.04	2.7	0.3	16.5	2.5	0.5	9.8
Full services meals & snacks	8.9			0.6	2.39	0.21	0.01	2.6	0.4	17.1	2.4	0.5	13.0
Limited services meals and snacks	7.2			0.8	2.47	0.18	0.02	2.8	0.3	13.6	2.5	0.7	6.7
Food at employee sites and school	-13.9			0.9	0.03	0.00	0.00	2.8	2.4	-6.8	2.8	1.9	-8.7
Food from vending machines & mobile vendors	7.3			0.1	0.04	0.00	0.00	3.1	1.0	4.3	2.5	1.3	3.7
Other food away from home	6.7			0.8	0.17	0.01	0.00	2.5	1.3	3.2	2.3	1.0	4.4
Energy	32.9			-4.6	8.67	2.85	-0.40	-1.9	10.0	3.5	1.6	9.6	3.3
Energy comm.	44.9			-7.6	5.19	2.33	-0.39	-2.8	17.0	2.8	3.0	17.1	2.5
Fuel oils & other fuels	54.6			-8.1	0.27	0.15	-0.02	-2.3	15.8	3.6	2.7	14.4	3.6
Motor fuel	44.5			-7.6	4.93	2.19	-0.37	-2.8	17.1	2.8	3.0	17.3	2.4
Gasoline	44.0			-7.7	4.82	2.12	-0.37	-2.8	17.1	2.7	3.0	17.4	2.4
Other	68.5			-2.4	0.11	0.07	0.00	-2.3	19.5	3.6	3.6	17.9	3.6
Energy serv.	18.8			0.1	3.47	0.65	0.00	0.0	2.4	7.7	0.5	2.7	6.9
Electricity	15.2			1.6	2.54	0.39	0.04	0.5	1.5	10.0	1.0	1.7	8.5
Utility (piped gas service)	30.5			-3.6	0.93	0.28	-0.03	-1.4	7.5	4.2	-0.9	7.3	4.3
All items less food and energy	5.9			0.3	77.91	4.60	0.23	2.0	0.2	17.3	1.8	0.4	10.0
Commodities less food and energy	7.0			0.2	21.25	1.49	0.04	-0.3	0.4	18.8	0.2	0.9	7.7
Household furnishings	10.8			0.6	3.80	0.41	0.02	-0.8	1.2	9.7	-0.9	1.2	9.8
Window & floor coverings	6.9			-0.2	0.29	0.02	0.00	-2.3	1.7	5.4	-2.8	1.8	5.5
Furniture & bedding	14.8			0.9	0.97	0.14	0.01	-0.3	1.7	8.8	-0.9	2.1	7.6
Appliances	5.3			-0.6	0.25	0.01	0.00	-1.2	3.1	2.1	-1.6	3.0	2.3
Other household equipment	7.8			-0.5	0.56	0.04	0.00	-3.5	1.8	6.1	-3.7	1.5	7.7
Tools & hardware	10.8			0.4	0.93	0.10	0.00	-0.1	1.0	10.5	-0.3	1.2	9.1
Housekeeping supplies	11.0			1.3	0.93	0.10	0.01	0.3	1.2	9.0	0.4	1.3	8.1

August 10, 2022

Jul 2022				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
Apparel	5.1			-0.1	2.46	0.13	0.00	-0.5	1.0	5.7	0.3	1.7	2.7
Men's & boys apparel	6.1			-1.2	0.63	0.04	-0.01	-0.3	1.5	4.2	0.5	2.3	2.5
Women's & girls apparel	4.1			0.9	0.96	0.04	0.01	-1.3	1.9	2.9	-0.1	2.5	1.7
Footwear	6.2			-0.1	0.60	0.04	0.00	0.2	1.3	4.5	0.8	1.7	3.3
Infant & toddler's apparel	8.2			-1.3	0.12	0.01	0.00	0.4	3.8	2.1	0.5	3.6	2.2
Jewelry & watches	1.2			-0.5	0.16	0.00	0.00	1.0	3.4	0.1	1.5	3.8	-0.1
Trans. less fuel	8.8			0.1	8.52	0.75	0.01	-0.3	0.9	10.3	0.4	1.5	5.6
New vehicles	10.4			0.6	4.03	0.42	0.02	0.1	0.7	15.7	0.8	1.2	7.8
Used cars & trucks	6.6			-0.4	3.98	0.26	-0.02	-1.3	2.1	3.8	1.1	4.8	1.1
Motor vehicle parts & equipment	14.1			0.4	0.43	0.06	0.00	0.2	1.1	13.1	0.9	2.2	6.1
Medical comm.	3.7			0.6	1.48	0.05	0.01	2.1	1.7	0.9	2.3	1.5	1.0
Medicinal Drugs	3.5			0.6	1.38	0.05	0.01	2.2	1.8	0.7	2.3	1.6	0.8
Medical equipment & supplies	6.6			0.8	0.10	0.01	0.00	0.4	1.2	5.0	0.3	1.2	5.3
Recreation comm.	4.1			0.2	1.88	0.08	0.00	-2.6	1.1	6.3	-2.3	0.9	7.1
Video & audio products	-6.6			-0.7	0.28	-0.02	0.00	-10.1	2.4	1.5	-9.2	2.2	1.2
Pets & pet products	8.9			0.6	0.55	0.05	0.00	0.4	1.5	5.8	0.5	1.5	5.8
Sporting goods	5.2			-0.2	0.55	0.03	0.00	-0.7	1.5	3.8	-0.6	1.2	4.8
Photographic Equipment & supplies	6.1			4.1	0.02	0.00	0.00	-1.7	4.6	1.7	-3.0	4.0	2.3
Recreational reading materials	5.4			-1.0	0.10	0.01	0.00	1.6	1.9	2.1	1.5	1.8	2.2
Other recreational goods	3.6			1.2	0.38	0.01	0.00	-6.5	1.3	7.6	-5.2	1.7	5.0
Educ. & communication comm.	-7.0			-0.8	0.77	-0.05	-0.01	-3.7	1.0	-3.2	-3.5	0.9	-3.9
Educational books & supplies	3.1			0.0	0.09	0.00	0.00	2.2	3.0	0.3	3.6	2.7	-0.2
IT commodities	-8.1			-0.9	0.69	-0.06	-0.01	-6.1	1.9	-1.1	-6.8	1.8	-0.7
Alcohol	4.2			0.5	0.87	0.04	0.00	1.3	0.3	8.5	1.4	0.4	7.7
Alcoholic beverages at home	3.1			0.4	0.58	0.02	0.00	0.8	0.6	3.8	0.8	0.5	4.4
Alcoholic beverages away from home	5.7			0.3	0.29	0.02	0.00	1.9	0.5	8.2	2.2	0.7	5.3
Other goods	6.7			0.3	1.34	0.09	0.00	1.4	0.9	6.2	1.4	0.7	7.4
Tobacco & smoking products	7.7			0.3	0.51	0.04	0.00	4.3	1.5	2.2	4.4	3.8	0.9
Personal care products	5.0			1.0	0.64	0.03	0.01	-0.3	0.6	9.1	-0.1	0.8	6.2
Miscellaneous personal goods	9.0			-1.8	0.19	0.02	0.00	-2.4	3.1	3.7	-1.7	2.4	4.5

August 10, 2022

Jul 2022				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	5.5			0.4	56.66	3.12	0.23	2.8	0.2	11.5	2.4	0.6	4.9
Shelter	5.7			0.5	32.29	1.84	0.16	3.3	0.2	14.3	2.5	1.2	2.8
Rent of shelter	5.8			0.5	31.92	1.85	0.16	3.3	0.2	13.5	2.5	1.2	2.8
<u>Rent of primary residence</u>	<u>6.3</u>			<u>0.7</u>	<u>7.24</u>	<u>0.46</u>	<u>0.05</u>	<u>3.7</u>	<u>0.1</u>	<u>19.5</u>	<u>2.9</u>	<u>1.1</u>	<u>3.1</u>
<u>Lodging away from home</u>	<u>1.0</u>			<u>-2.7</u>	<u>1.03</u>	<u>0.01</u>	<u>-0.03</u>	<u>2.3</u>	<u>2.0</u>	<u>-0.6</u>	<u>2.2</u>	<u>2.2</u>	<u>-0.5</u>
<u>OER of residences</u>	<u>5.8</u>			<u>0.6</u>	<u>23.66</u>	<u>1.37</u>	<u>0.14</u>	<u>3.2</u>	<u>0.2</u>	<u>12.7</u>	<u>2.4</u>	<u>1.1</u>	<u>3.2</u>
Tenants' & household insurance	0.4			0.1	0.36	0.00	0.00	1.4	1.2	-0.8	2.3	1.5	-1.2
Water, sewer, trash collection	4.4			0.4	1.08	0.05	0.00	3.6	0.6	1.4	4.3	1.0	0.1
Water & sewage maintenance	4.0			0.5	0.78	0.03	0.00	4.0	0.8	0.1	4.8	1.4	-0.6
Garbage & trash collection	5.2			0.1	0.30	0.02	0.00	2.5	1.5	1.8	2.5	1.1	2.5
Household ops.	6.5			0.1	0.82	0.05	0.00	3.8	1.3	2.2	2.6	1.6	2.4
Domestic services	5.1			0.6	0.24	0.01	0.00	2.0	1.1	2.9	1.6	1.0	3.4
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	5.5			1.5	0.10	0.01	0.00	5.6	3.9	0.0	3.3	3.9	0.6
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.	5.1			0.4	6.82	0.35	0.03	2.9	1.0	2.3	3.0	0.8	2.5
Professional Services	2.2			0.0	3.45	0.08	0.00	1.5	0.9	0.7	1.8	0.8	0.5
Hospital & related services	4.0			0.5	2.51	0.10	0.01	3.8	1.1	0.2	4.5	1.3	-0.4
Health insurance	20.6			2.2	0.86	0.18	0.02	5.0	5.8	2.7	3.6	6.0	2.8
Transportation serv.	9.2			-0.5	5.86	0.54	-0.03	2.6	1.1	6.0	2.6	1.0	6.8
Leased cars & trucks	-3.6			0.6	0.76	-0.03	0.00	0.5	3.0	-1.4	-1.6	3.2	-0.6
Motor vehicle maintenance & repair	8.1			1.1	1.02	0.08	0.01	2.2	0.7	8.5	2.0	0.6	10.6
Motor vehicle insurance	7.4			1.3	2.38	0.18	0.03	5.5	2.6	0.7	4.8	2.0	1.3
Motor vehicle fees	1.8			0.7	0.50	0.01	0.00	1.8	0.7	0.0	2.2	1.9	-0.2
Public transportation	19.0			-6.1	1.05	0.20	-0.06	-1.2	1.5	13.4	1.0	3.6	5.0
Recreation serv.	4.5			0.4	3.13	0.14	0.01	2.6	0.7	2.9	2.3	0.7	2.9
Video & audio services	3.8			-0.6	1.16	0.04	-0.01	2.7	1.4	0.8	2.6	1.3	0.9
Pet services	9.3			1.2	0.51	0.05	0.01	3.1	0.8	8.1	3.3	0.9	6.5
Photo services	3.9			-0.7	0.03	0.00	0.00	-0.2	2.0	2.0	0.8	1.8	1.7
Other recreation services	3.5			0.9	1.43	0.05	0.01	2.4	0.6	1.9	1.7	1.1	1.7
Educ. & communication serv.	1.5			-0.1	5.31	0.08	-0.01	0.4	1.3	0.8	1.1	1.3	0.3
Tuition, school fees, child care	2.6			0.1	2.48	0.06	0.00	2.8	0.6	-0.3	3.3	0.8	-1.0
Postage & delivery	4.1			0.4	0.08	0.00	0.00	2.3	2.0	0.9	3.3	2.0	0.4
Telephone services	0.0			0.0	1.81	0.00	0.00	-2.4	3.0	0.8	-1.3	2.4	0.5
Internet services	1.7			-0.8	0.93	0.02	-0.01	-0.2	1.5	1.3	0.1	1.3	1.2
Other personal serv.	5.9			0.4	1.36	0.08	0.01	2.7	0.7	4.8	2.4	0.6	5.5
Personal care services	4.3			0.2	0.54	0.02	0.00	2.3	0.7	2.9	1.8	0.8	3.0
Miscellaneous personal services	7.0			0.5	0.82	0.06	0.00	2.9	0.9	4.4	2.7	0.7	5.9

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

This report has been prepared by Scotiabank Economics as a resource for the clients of Scotiabank. Opinions, estimates and projections contained herein are our own as of the date hereof and are subject to change without notice. The information and opinions contained herein have been compiled or arrived at from sources believed reliable but no representation or warranty, express or implied, is made as to their accuracy or completeness. Neither Scotiabank nor any of its officers, directors, partners, employees or affiliates accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents.

These reports are provided to you for informational purposes only. This report is not, and is not constructed as, an offer to sell or solicitation of any offer to buy any financial instrument, nor shall this report be construed as an opinion as to whether you should enter into any swap or trading strategy involving a swap or any other transaction. The information contained in this report is not intended to be, and does not constitute, a recommendation of a swap or trading strategy involving a swap within the meaning of U.S. Commodity Futures Trading Commission Regulation 23.434 and Appendix A thereto. This material is not intended to be individually tailored to your needs or characteristics and should not be viewed as a “call to action” or suggestion that you enter into a swap or trading strategy involving a swap or any other transaction. Scotiabank may engage in transactions in a manner inconsistent with the views discussed this report and may have positions, or be in the process of acquiring or disposing of positions, referred to in this report.

Scotiabank, its affiliates and any of their respective officers, directors and employees may from time to time take positions in currencies, act as managers, co-managers or underwriters of a public offering or act as principals or agents, deal in, own or act as market makers or advisors, brokers or commercial and/or investment bankers in relation to securities or related derivatives. As a result of these actions, Scotiabank may receive remuneration. All Scotiabank products and services are subject to the terms of applicable agreements and local regulations. Officers, directors and employees of Scotiabank and its affiliates may serve as directors of corporations.

Any securities discussed in this report may not be suitable for all investors. Scotiabank recommends that investors independently evaluate any issuer and security discussed in this report, and consult with any advisors they deem necessary prior to making any investment.

This report and all information, opinions and conclusions contained in it are protected by copyright. This information may not be reproduced without the prior express written consent of Scotiabank.

™ Trademark of The Bank of Nova Scotia. Used under license, where applicable.

Scotiabank, together with “Global Banking and Markets”, is a marketing name for the global corporate and investment banking and capital markets businesses of The Bank of Nova Scotia and certain of its affiliates in the countries where they operate, including: Scotiabank Europe plc; Scotiabank (Ireland) Designated Activity Company; Scotiabank Inverlat S.A., Institución de Banca Múltiple, Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, Scotia Inverlat Derivados S.A. de C.V. – all members of the Scotiabank group and authorized users of the Scotiabank mark. The Bank of Nova Scotia is incorporated in Canada with limited liability and is authorised and regulated by the Office of the Superintendent of Financial Institutions Canada. The Bank of Nova Scotia is authorized by the UK Prudential Regulation Authority and is subject to regulation by the UK Financial Conduct Authority and limited regulation by the UK Prudential Regulation Authority. Details about the extent of The Bank of Nova Scotia's regulation by the UK Prudential Regulation Authority are available from us on request. Scotiabank Europe plc is authorized by the UK Prudential Regulation Authority and regulated by the UK Financial Conduct Authority and the UK Prudential Regulation Authority.

Scotiabank Inverlat, S.A., Scotia Inverlat Casa de Bolsa, S.A. de C.V., Grupo Financiero Scotiabank Inverlat, and Scotia Inverlat Derivados, S.A. de C.V., are each authorized and regulated by the Mexican financial authorities.

Not all products and services are offered in all jurisdictions. Services described are available in jurisdictions where permitted by law.