

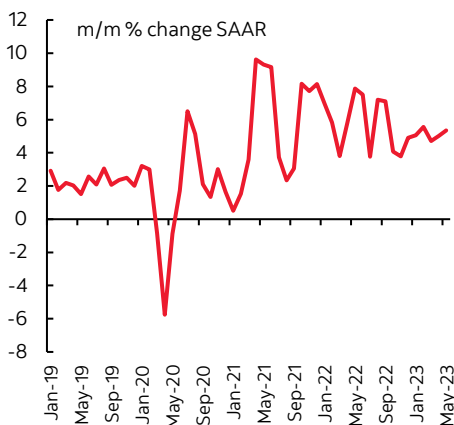
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Chart 1

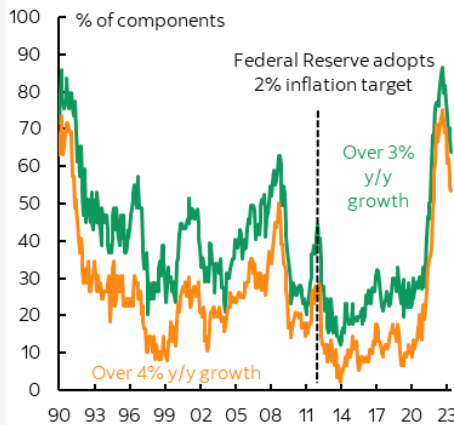
US Core CPI Inflation Still Hot



Sources: Scotiabank Economics, BLS.

Chart 2

US Inflation Still Showing High Breadth



Sources: Scotiabank Economics, BLS.

Think US Core CPI Was Cooler? Think Again

- Rates and the dollar shook off much of the initially dovish response...
- ...to another hot core inflation gauge

US CPI / core CPI, m/m SA, May:

Actual: 0.1 / 0.4
 Scotia: 0.3 / 0.4
 Consensus: 0.1 / 0.4
 Prior: 0.4 / 0.4

US CPI / core CPI, y/y, May:

Actual: 4.0 / 5.3
 Scotia: 4.3 / 5.3
 Consensus: 4.1 / 5.2
 Prior: 4.9 / 5.5

US core CPI put in another hot showing that remains unacceptably high and sticky in relation to the Federal Reserve’s goals. Core goods price inflation has definitely returned while core service price inflation remains sticky.

Markets reacted by initially putting a bid to the US front-end before reversing all of that move and then some, by driving an initially softer dollar on a DXY basis before reining in much of that, and by pushing the S&P500 up by another 1.6% which is holding. There is next to nothing priced for tomorrow’s FOMC decision hence the no-surprises Powell probably won’t surprise anyone, rightly or wrongly.

The fact that the initial reaction either reversed or was reined in across rates and the dollar may lean toward the argument that the initial reaction was a positioning issue with markets positioned for an even hotter number than the hot number that we got, or they were looking at year-over-year readings before more serious inflation watchers dug deeper, or they initially repeated the same thing they did after the prior reading by focusing upon what Powell unfortunately trained them to look at. Whatever the reason, this was a much hotter report than indicated by just a glance at the market reaction.

If the Fed pauses tomorrow, then it certainly won’t be because the latest CPI print was soft. Or that the US job market is cooling (it isn’t, reminder [here](#)). It would only be if the FOMC wishes to take a breather and test the theory that they’ve done enough by pushing into restrictive territory and now is the time to gamble on whether they have, which time and data will inform. If they’re right, wonderful. If not, then they may never contain inflationary pressures.

DETAILS

First off, don’t be fooled by the instant media headlines that inflation cooled which dominated the popular coverage. The year-over-year rate did indeed ebb by a tick more than expected to 4% y/y (4.1% consensus, 4.9% prior) with core CPI ebbing a bit less than expected to 5.3% y/y (5.2% consensus, 5.5% prior). Who cares. You see, there’s this thing called base effects and the whole narrative around why what happens in relation to last year’s price levels is moot.

Inflationary pressures at the margin did not ease and that’s what matters. Core CPI was up 0.4% m/m, matching expectations. At a month-over-month, seasonally adjusted and annualized rate, this equates to 5.4% which is faster than the prior month’s 5% clip, faster than the 4.7% gain in March and the hottest reading since the 5.6% increase in February. That’s not slowing, as chart 1 demonstrates. Core CPI has been up 0.4% m/m in five out of the past six months. The other month (February) was up 0.5%. These are not cool readings. They are not getting better. They indicate high persistence.

Further, the breadth is improving, but is still very high (chart 2).

For one thing, just when everyone was convinced that supply chains had improved on the goods side of the picture and that this would keep inflation pointed lower, goods price inflation has rebounded (chart 3). Core goods prices ex-food and energy were up by 0.6% m/m SA nonannualized for the second straight month. Even taking used vehicles out would have still left a rise of 0.5% m/m in core goods prices. Just when Powell trained everyone to obsess over core services, whammo, core goods inflation is definitely back.

Core services ex-housing CPI was up 0.24% m/m or 2.9% m/m SAAR (chart 4). That measure has cooled to still-above target rates, but there may be a substitution effect toward firmer goods prices. Recall that the prior soft core services CPI did not translate well into PCE core services.

Across the details, food was up 0.2% m/m. Grocery prices ("at home food") were up 0.1%. "Food away from home" which includes take-out, cafeterias etc, was up 0.5% m/m. Chart 5.

Energy prices fell 3.6% m/m SA and this was led by gasoline that was down 5.6% m/m SA as expected.

Clothing prices were up 0.3% m/m.

Used vehicle prices were up by +4.4% SA as expected (chart 6). New vehicles were little changed at -0.1% as largely expected and with zero weighted impact.

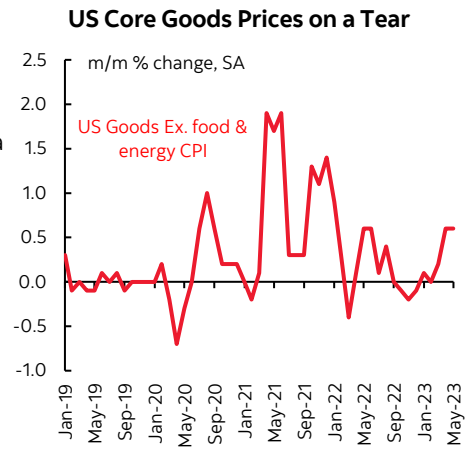
Owners' equivalent rent was up 0.5% m/m SA as the lagging downward effects of market rents are still ahead (chart 7).

On the travel and hospitality side, airfare fell by -3% m/m. Lodging was up 1.8% m/m. Intercity transportation was up 1.4%. Vehicle rental prices fell -3.3%. More details are in the appendix.

LAGGING EFFECTS?

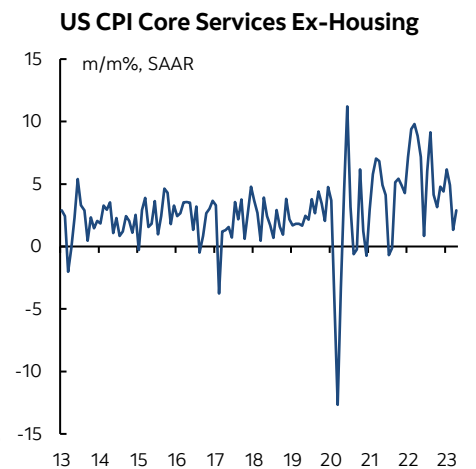
Is inflation—properly defined in m/m SAAR terms—assured of durably landing on target given lagged effects of policy rate moves to date? There are three uncertainties here. For one thing, the lags are longer than often portrayed by pointing to the start of administered policy rate hikes in March of last year because bond markets began tightening over 20 months ago and yet inflation and multiple growth signals including job markets remain highly resilient. It's also possible that R* is higher today, that today's inflation drivers are very different and persistent (ie: more structural) and that today's different growth drivers may be different (more resilience).

Chart 3



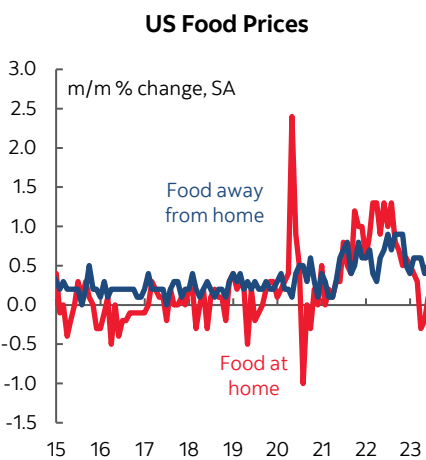
Sources: Scotiabank Economics, BLS.

Chart 4



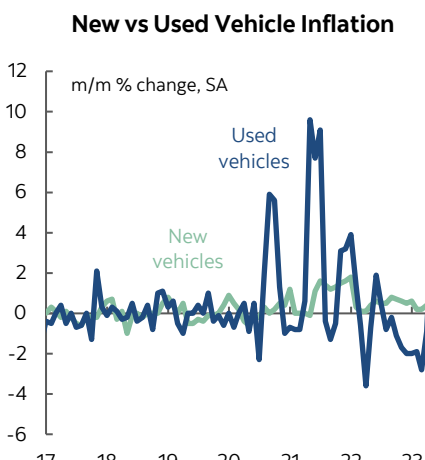
Sources: Scotiabank Economics, Bloomberg.

Chart 5



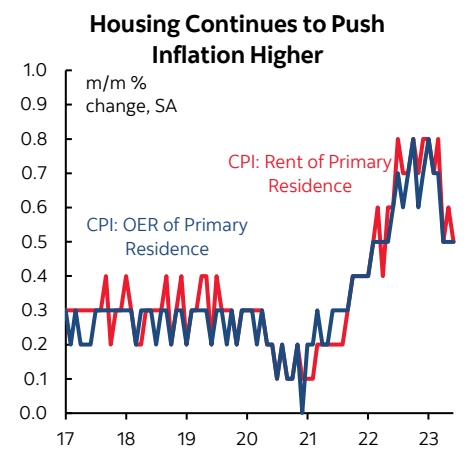
Sources: Scotiabank Economics, BLS.

Chart 6



Sources: Scotiabank Economics, BLS.

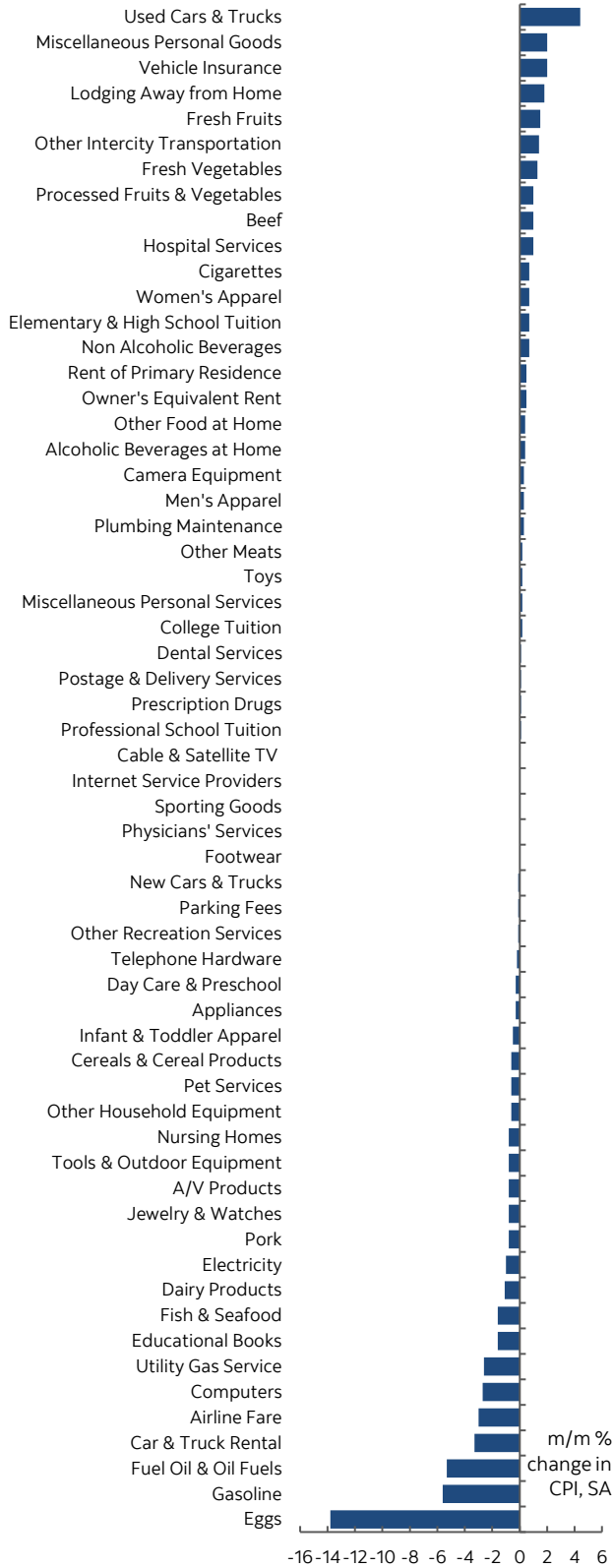
Chart 7



Sources: Scotiabank Economics, BLS.

Chart 8

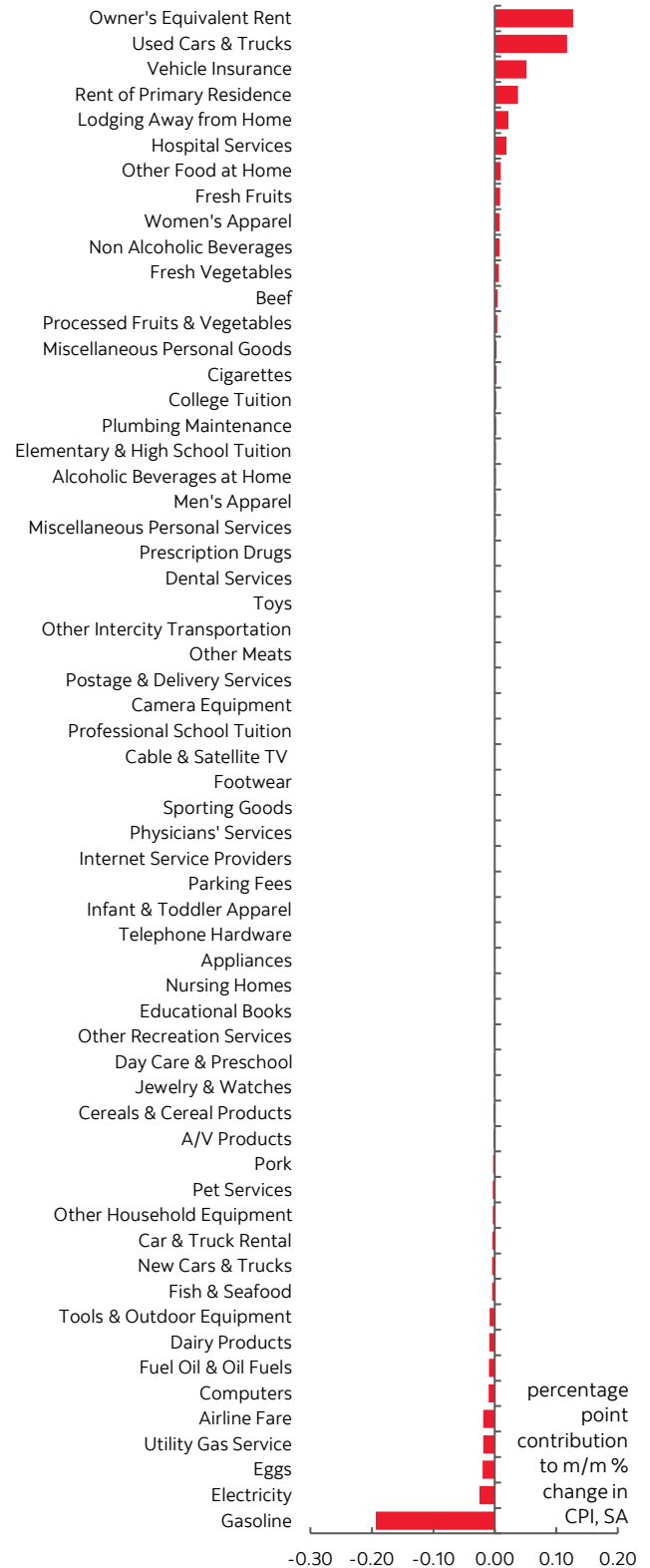
May Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 9

May Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 10

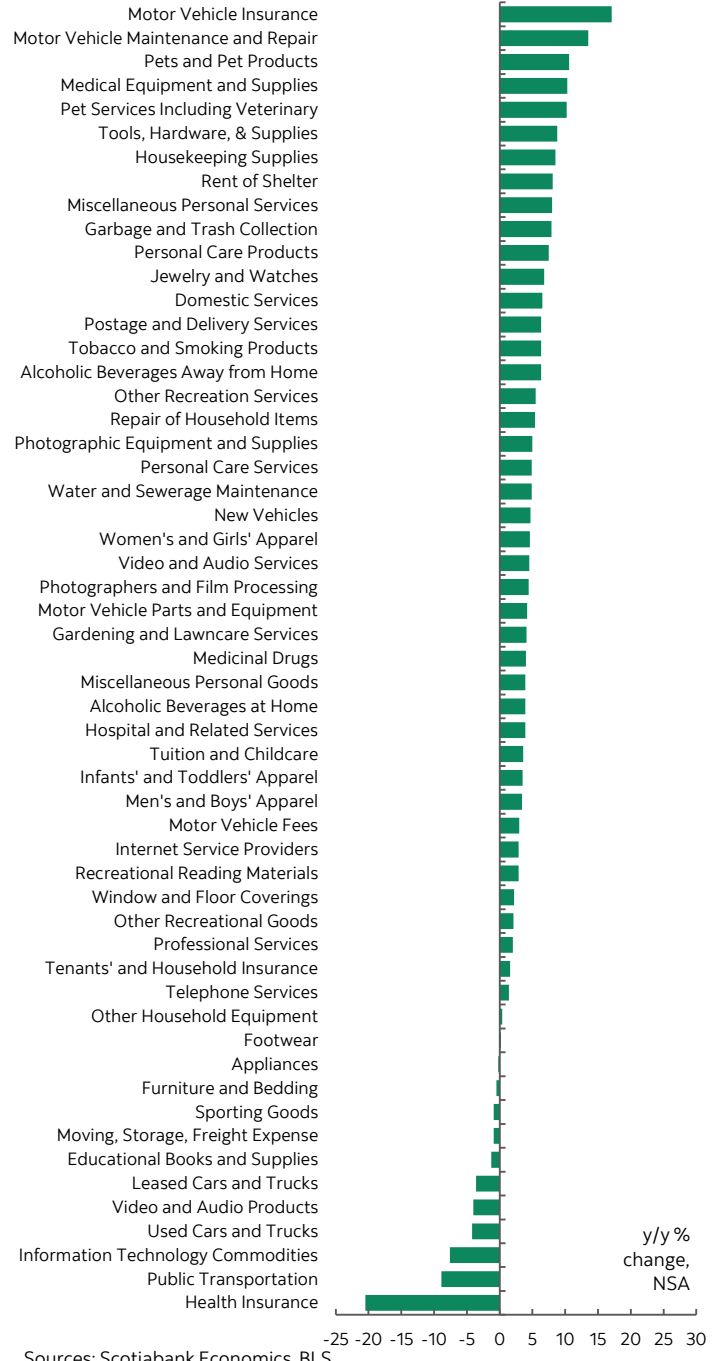
May Weighted Contributions to the 12-Month Change in US Headline CPI



Source: Scotiabank Economics, BLS.

Chart 11

May 12-Month Changes in US Headline CPI Categories



Sources: Scotiabank Economics, BLS.

June 13, 2023

May 2023				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	6.7			0.2	13.44	0.90	0.03	1.3	0.8	7.1	1.7	1.1	4.4
Food, home	5.8			0.1	8.63	0.50	0.01	0.2	1.1	4.9	1.2	1.9	2.5
Cereals & bakery products	10.7			0.0	1.17	0.12	0.00	0.4	0.9	11.7	0.9	1.7	5.8
Meats, poultry, fish & eggs	0.3			-1.2	1.80	0.01	-0.02	-0.2	3.2	0.2	2.1	3.9	-0.5
Dairy & related products	4.6			-1.1	0.80	0.04	-0.01	-0.6	1.6	3.2	1.1	3.1	1.1
Fruits & vegetables	2.7			1.3	1.47	0.04	0.02	0.4	1.7	1.3	1.0	2.0	0.8
Non-alcoholic beverages	8.7			0.7	1.04	0.09	0.01	0.6	1.0	7.8	0.5	1.6	5.2
Other food at home	9.2			0.4	2.35	0.22	0.01	0.5	0.6	13.5	1.0	1.6	5.2
Food, away	8.3			0.5	4.80	0.40	0.02	2.7	0.3	18.9	2.5	0.5	11.1
Full services meals & snacks	6.8			0.4	2.30	0.16	0.01	2.6	0.4	11.4	2.4	0.5	8.8
Limited services meals and snacks	8.0			0.5	2.24	0.18	0.01	2.8	0.3	16.1	2.5	0.7	7.8
Food at employee sites and school	130.6			0.3	0.07	0.10	0.00	2.8	2.4	52.2	2.8	1.9	66.6
Food from vending machines & mobile vendors	15.3			2.5	0.03	0.00	0.00	3.1	1.0	12.3	2.5	1.3	9.8
Other food away from home	7.1			0.1	0.17	0.01	0.00	2.5	1.3	3.5	2.3	1.0	4.8
Energy	-11.7			-3.6	6.98	-0.82	-0.25	-1.9	10.0	-1.0	1.6	9.6	-1.4
Energy comm.	-20.4			-5.6	3.73	-0.76	-0.21	-2.8	17.0	-1.0	3.0	17.1	-1.4
Fuel oils & other fuels	-28.6			-5.3	0.19	-0.05	-0.01	-2.3	15.8	-1.7	2.7	14.4	-2.2
Motor fuel	-20.0			-5.6	3.55	-0.71	-0.20	-2.8	17.1	-1.0	3.0	17.3	-1.3
<u>Gasoline</u>	<u>-19.7</u>			<u>-5.6</u>	<u>3.46</u>	<u>-0.68</u>	<u>-0.19</u>	<u>-2.8</u>	<u>17.1</u>	<u>-1.0</u>	<u>3.0</u>	<u>17.4</u>	<u>-1.3</u>
<u>Other</u>	<u>-26.2</u>			<u>-3.3</u>	<u>0.09</u>	<u>-0.02</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>-1.2</u>	<u>3.6</u>	<u>17.9</u>	<u>-1.7</u>
Energy serv.	1.6			-1.4	3.25	0.05	-0.05	0.0	2.4	0.6	0.5	2.7	0.4
Electricity	5.9			-1.0	2.51	0.15	-0.03	0.5	1.5	3.7	1.0	1.7	2.9
Utility (piped gas service)	-11.0			-2.6	0.74	-0.08	-0.02	-1.4	7.5	-1.3	-0.9	7.3	-1.4
All items less food and energy	5.3			0.4	79.59	4.22	0.32	2.0	0.2	14.6	1.8	0.4	8.5
Commodities less food and energy	2.0			0.6	21.35	0.43	0.13	-0.3	0.4	6.0	0.2	0.9	2.1
Household furnishings	4.1			-0.4	3.75	0.15	-0.01	-0.8	1.2	4.1	-0.9	1.2	4.2
Window & floor coverings	2.2			-0.4	0.31	0.01	0.00	-2.3	1.7	2.6	-2.8	1.8	2.8
Furniture & bedding	-0.5			-0.7	1.16	-0.01	-0.01	-0.3	1.7	-0.1	-0.9	2.1	0.2
Appliances	-0.2			-0.3	0.29	0.00	0.00	-1.2	3.1	0.3	-1.6	3.0	0.4
Other household equipment	0.4			-1.1	0.58	0.00	-0.01	-3.5	1.8	2.1	-3.7	1.5	2.8
Tools & hardware	8.8			-0.8	1.08	0.10	-0.01	-0.1	1.0	8.6	-0.3	1.2	7.5
Housekeeping supplies	8.5			-0.1	0.98	0.08	0.00	0.3	1.2	6.9	0.4	1.3	6.2

June 13, 2023

May 2023				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	3.5			0.3	2.57	0.09	0.01	-0.5	1.0	4.1	0.3	1.7	1.8
Men's & boys apparel	3.4			0.3	0.67	0.02	0.00	-0.3	1.5	2.4	0.5	2.3	1.3
Women's & girls apparel	4.6			0.7	1.05	0.05	0.01	-1.3	1.9	3.2	-0.1	2.5	1.9
Footwear	0.2			0.0	0.51	0.00	0.00	0.2	1.3	0.0	0.8	1.7	-0.3
Infant & toddler's apparel	3.5			-0.5	0.10	0.00	0.00	0.4	3.8	0.8	0.5	3.6	0.8
Jewelry & watches	6.8			-0.8	0.23	0.02	0.00	1.0	3.4	1.7	1.5	3.8	1.4
Trans. less fuel	0.1			1.5	7.68	0.01	0.12	-0.3	0.9	0.5	0.4	1.5	-0.2
New vehicles	4.7			-0.1	4.28	0.20	0.00	0.1	0.7	7.0	0.8	1.2	3.2
Used cars & trucks	-4.2			4.4	2.67	-0.11	0.12	-1.3	2.1	-1.4	1.1	4.8	-1.1
Motor vehicle parts & equipment	4.2			0.0	0.48	0.02	0.00	0.2	1.1	3.8	0.9	2.2	1.5
Medical comm.	4.4			0.6	1.46	0.06	0.01	2.1	1.7	1.3	2.3	1.5	1.5
Medicinal Drugs	4.0			0.5	1.34	0.05	0.01	2.2	1.8	1.0	2.3	1.6	1.1
Medical equipment & supplies	10.3			2.3	0.11	0.01	0.00	0.4	1.2	8.0	0.3	1.2	8.4
Recreation comm.	2.7			0.0	2.27	0.06	0.00	-2.6	1.1	5.0	-2.3	0.9	5.5
Video & audio products	-4.0			-0.8	0.28	-0.01	0.00	-10.1	2.4	2.5	-9.2	2.2	2.4
Pets & pet products	10.6			1.0	0.68	0.07	0.01	0.4	1.5	6.9	0.5	1.5	6.9
Sporting goods	-0.9			-1.1	0.75	-0.01	-0.01	-0.7	1.5	-0.1	-0.6	1.2	-0.2
Photographic Equipment & supplies	5.0			0.3	0.02	0.00	0.00	-1.7	4.6	1.5	-3.0	4.0	2.0
Recreational reading materials	2.9			1.4	0.11	0.00	0.00	1.6	1.9	0.7	1.5	1.8	0.8
Other recreational goods	2.1			0.2	0.44	0.01	0.00	-6.5	1.3	6.4	-5.2	1.7	4.2
Educ. & communication comm.	-6.9			-0.2	0.90	-0.06	0.00	-3.7	1.0	-3.1	-3.5	0.9	-3.8
Educational books & supplies	-1.3			0.5	0.09	0.00	0.00	2.2	3.0	-1.2	3.6	2.7	-1.8
IT commodities	-7.6			-0.3	0.80	-0.06	0.00	-6.1	1.9	-0.8	-6.8	1.8	-0.5
Alcohol	4.8			0.5	0.84	0.04	0.00	1.3	0.3	10.3	1.4	0.4	9.4
Alcoholic beverages at home	3.9			0.4	0.51	0.02	0.00	0.8	0.6	5.1	0.8	0.5	5.9
Alcoholic beverages away from home	6.3			0.7	0.33	0.02	0.00	1.9	0.5	9.5	2.2	0.7	6.2
Other goods	6.6			0.6	1.24	0.08	0.01	1.4	0.9	6.1	1.4	0.7	7.3
Tobacco & smoking products	6.3			0.6	0.50	0.03	0.00	4.3	1.5	1.3	4.4	3.8	0.5
Personal care products	7.5			1.0	0.60	0.04	0.01	-0.3	0.6	13.4	-0.1	0.8	9.2
Miscellaneous personal goods	3.9			-1.1	0.15	0.01	0.00	-2.4	3.1	2.0	-1.7	2.4	2.3

June 13, 2023

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Services less energy services	6.6			0.4	58.24	3.84	0.23	2.8	0.2	16.3	2.4	0.6	6.7
Shelter	8.0			0.6	34.56	2.77	0.21	3.3	0.2	28.0	2.5	1.2	4.7
Rent of shelter	8.1			0.5	34.20	2.77	0.17	3.3	0.2	26.0	2.5	1.2	4.7
<i>Rent of primary residence</i>	<u>8.7</u>			<u>0.5</u>	<u>7.54</u>	<u>0.66</u>	<u>0.04</u>	<u>3.7</u>	<u>0.1</u>	<u>37.5</u>	<u>2.9</u>	<u>1.1</u>	<u>5.2</u>
<i>Lodging away from home</i>	<u>3.4</u>			<u>1.8</u>	<u>1.22</u>	<u>0.04</u>	<u>0.02</u>	<u>2.3</u>	<u>2.0</u>	<u>0.6</u>	<u>2.2</u>	<u>2.2</u>	<u>0.6</u>
<i>OER of residences</i>	<u>8.0</u>			<u>0.5</u>	<u>25.43</u>	<u>2.03</u>	<u>0.13</u>	<u>3.2</u>	<u>0.2</u>	<u>23.6</u>	<u>2.4</u>	<u>1.1</u>	<u>5.2</u>
Tenants' & household insurance	1.6			0.1	0.37	0.01	0.00	1.4	1.2	0.2	2.3	1.5	-0.4
Water, sewer, trash collection	5.7			0.6	1.06	0.06	0.01	3.6	0.6	3.6	4.3	1.0	1.4
Water & sewage maintenance	4.9			0.3	0.76	0.04	0.00	4.0	0.8	1.1	4.8	1.4	0.0
Garbage & trash collection	7.9			1.3	0.30	0.02	0.00	2.5	1.5	3.7	2.5	1.1	5.0
Household ops.	4.6			-1.2	0.82	0.04	-0.01	3.8	1.3	0.7	2.6	1.6	1.2
Domestic services	6.5			-2.0	0.27	0.02	-0.01	2.0	1.1	4.2	1.6	1.0	4.7
Gardening & lawncare	4.1			0.2	0.32	0.01	0.00	4.3	2.7	-0.1	2.8	2.6	0.5
Moving, storage, freight	-0.9			1.8	0.10	0.00	0.00	5.6	3.9	-1.7	3.3	3.9	-1.1
Repair of household items	5.4			0.1	0.11	0.01	0.00	4.8	2.1	0.3	4.2	2.0	0.6
Medical serv.	-0.1			-0.1	6.42	-0.01	-0.01	2.9	1.0	-3.1	3.0	0.8	-3.8
Professional Services	2.0			0.0	3.54	0.07	0.00	1.5	0.9	0.5	1.8	0.8	0.2
Hospital & related services	3.9			0.8	2.25	0.09	0.02	3.8	1.1	0.1	4.5	1.3	-0.5
Health insurance	-20.5			-3.7	0.64	-0.13	-0.02	5.0	5.8	-4.4	3.6	6.0	-4.0
Transportation serv.	10.2			0.8	5.88	0.60	0.05	2.6	1.1	6.9	2.6	1.0	7.8
Leased cars & trucks	-3.6			-1.6	0.73	-0.03	-0.01	0.5	3.0	-1.4	-1.6	3.2	-0.6
Motor vehicle maintenance & repair	13.5			0.6	1.11	0.15	0.01	2.2	0.7	16.2	2.0	0.6	20.0
Motor vehicle insurance	17.1			2.0	2.59	0.44	0.05	5.5	2.6	4.4	4.8	2.0	6.0
Motor vehicle fees	3.0			0.0	0.49	0.01	0.00	1.8	0.7	1.7	2.2	1.9	0.4
Public transportation	-8.9			0.9	0.82	-0.07	0.01	-1.2	1.5	-5.1	1.0	3.6	-2.8
Recreation serv.	5.8			-0.1	3.12	0.18	0.00	2.6	0.7	4.9	2.3	0.7	4.7
Video & audio services	4.5			0.1	1.00	0.05	0.00	2.7	1.4	1.2	2.6	1.3	1.4
Pet services	10.2			-0.6	0.56	0.06	0.00	3.1	0.8	9.2	3.3	0.9	7.5
Photo services	4.4			0.3	0.04	0.00	0.00	-0.2	2.0	2.3	0.8	1.8	1.9
Other recreation services	5.5			-0.1	1.52	0.08	0.00	2.4	0.6	5.2	1.7	1.1	3.6
Educ. & communication serv.	2.8			-0.2	4.84	0.14	-0.01	0.4	1.3	1.8	1.1	1.3	1.4
Tuition, school fees, child care	3.6			0.1	2.14	0.08	0.00	2.8	0.6	1.4	3.3	0.8	0.3
Postage & delivery	6.3			0.1	0.07	0.00	0.00	2.3	2.0	2.0	3.3	2.0	1.5
Telephone services	1.4			-0.5	1.65	0.02	-0.01	-2.4	3.0	1.3	-1.3	2.4	1.1
Internet services	2.9			0.0	0.97	0.03	0.00	-0.2	1.5	2.1	0.1	1.3	2.1
Other personal serv.	6.7			0.5	1.46	0.10	0.01	2.7	0.7	5.9	2.4	0.6	6.8
Personal care services	4.9			0.2	0.60	0.03	0.00	2.3	0.7	3.7	1.8	0.8	3.8
Miscellaneous personal services	8.0			0.7	0.85	0.07	0.01	2.9	0.9	5.5	2.7	0.7	7.2

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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