

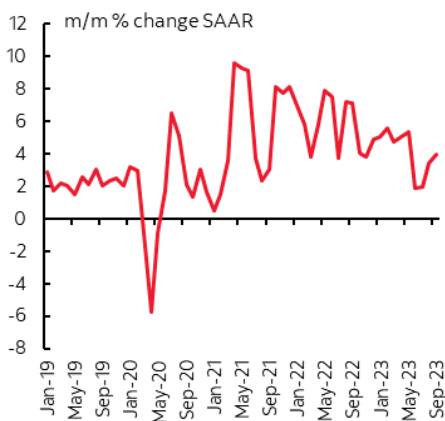
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Chart 1

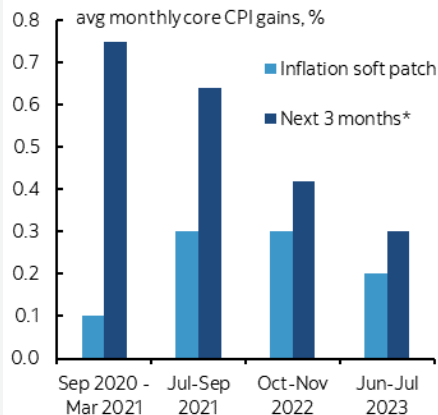
US Core CPI Inflation on the Rebound



Sources: Scotiabank Economics, BLS.

Chart 2

Is the Fourth Soft Patch Fading ?



* Except for Jun-Jul 2023. Last obs.: Sep-2023.
 Sources: Scotiabank Economics, BLS.

US Inflation—It Ain't Over Yet

- Core CPI inflation is rebounding from the soft patch
- Powell's favourite services measure is on fire again
- Details suggest broad underlying inflationary pressures
- Core CPI, nonfarm and GDP tracking...
- ...keep a Fed tightening bias very much intact

US CPI / core CPI, m/m % SA, September:

Actual: 0.4 / 0.3
 Scotia: 0.3 / 0.3
 Consensus: 0.3 / 0.3
 Prior: 0.6 / 0.3

The rebound in underlying inflationary pressures within the US economy is proving that the brief summertime soft patch was a fourth pandemic-era head fake. It's not that core inflation is running way off the charts again, but the brief undershooting period has given way to a renewed patch of overly hot readings.

Markets reacted by driving higher yields across the Treasury curve while retaining a mild bear flattener on the day. The two-year Treasury yield jumped by about 6bps and the 10s yield increased 8bps post data. The dollar firmed and equities lost earlier momentum.

Fed funds futures drove December contract pricing up by about 4bps to roughly 50–50 odds of a hike by then. I think pricing for November 1st should be higher than near-zero odds of a hike and will return to that later. BoC pricing also edged upward post-data.

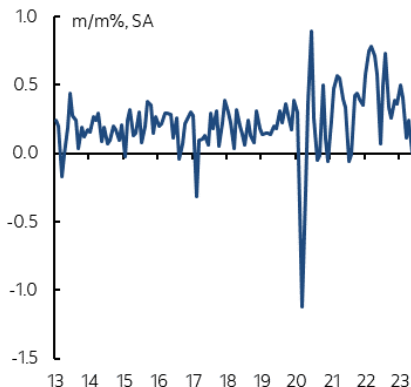
The 0.32% m/m SA rise in CPI excluding food and energy matched the median consensus estimate and mine and was a tick above the next most frequent estimate within consensus.

At an annualized rate, core inflation was 3.9% m/m SAAR in September. Given that the prior month was up 3.4% m/m SAAR, the brief summertime soft patch through a pair of 1.9% m/m SAAR readings in June and July looks to have been an aberration (chart 1). Core inflation is still running cooler than the ~5% m/m SAAR pace coming out of Winter into early Summer, but restoring the trajectory toward the upper 3s won't satisfy the FOMC that inflationary pressures are abating fast enough toward their 2% headline PCE target.

Chart 2 shows that the summertime soft patch is modestly giving way to renewed acceleration. The devil lies in the details.

Chart 3

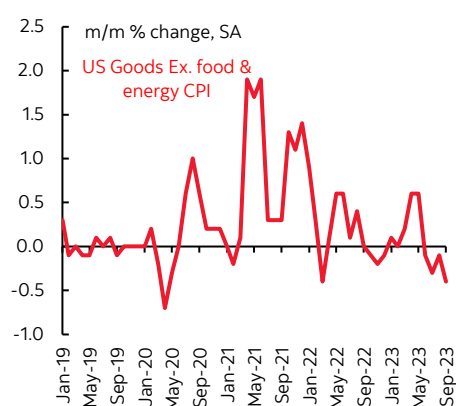
US CPI Core Services Ex-Housing



Sources: Scotiabank Economics, BLS.

Chart 4

US Goods Inflation



Sources: Scotiabank Economics, BLS.

DETAILS

Key is that core services inflation is accelerating again. It was up by 0.6% m/m SA CPI on a CPI core services ex-housing and ex-energy services basis. That is the hottest reading since a year ago and equates to 7.6% m/m SAAR (chart 3).

Such a hot core services inflation reading matters because it goes back to the measure Powell said they would be watching very closely in terms of core PCE. The guidance from this measure in cpi suggests that underlying pressures on service sector pricing remain too warm for their liking after an earlier soft period.

Core goods CPI inflation, however, continues to ebb, albeit we'll need to closely monitor the holiday shopping season that's around the corner with US Thanksgiving, Black Friday and Cyber Monday all ahead next month (chart 4).

Housing accelerated pretty sharply. Housing's 44.5% weight saw it jump by 0.6% m/m SA, double the prior month. Shelter costs were up by 0.6%, also double the prior month. Owners' equivalent rent climbed by 0.6% m/m from 0.4% prior (chart 5) while rent of primary residence has rebounded over the past couple of months (chart 6).

Select other measures are shown in charts 7–11. Charts 12–13 break down the basket in m/m unweighted and weighted contribution terms. Charts 14–15 do likewise in y/y terms.

Used vehicles shaved about -0.1% m/m off of core CPI in weighted contribution terms. New vehicles contributed nothing in either direction.

Gas was an upside driver of headline inflation with a rise of 2.1% m/m SA and a 3.6% weight such that it added 0.1% m/m SA in weighted contribution terms.

Apparel prices were down by 0.8% m/m but this was insignificant in weighted terms.

Please also see the accompanying detailed table including micro charts and z-score measures of deviation from historical trends.

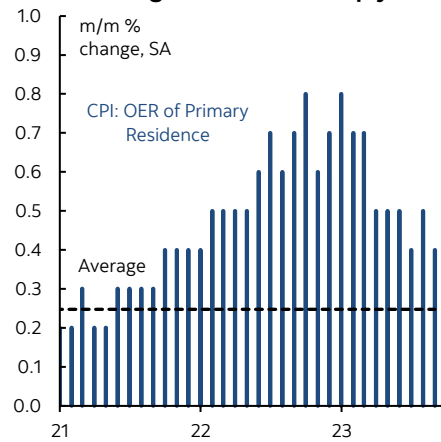
FOMC IMPLICATIONS

Overall, I think the FOMC would look at this and still conclude that underlying inflationary pressures remain too hot for their liking. Core CPI is bouncing back and more important is the evidence on underlying service prices. With readings and underlying details like these and after nonfarm payrolls surprised sharply higher alongside yet another quarter of strong GDP tracking, I would be tilting the balance toward a November 1st hike more favourably than what is still light market pricing.

We'll see what Fed speakers have to say about it later today with Logan (10amET), Bostic (1pmET) and Collins (4pmET) on tap. Chair Powell speaks before the Econ Club of NY next Thursday just before the FOMC goes into communications blackout next weekend.

Chart 5

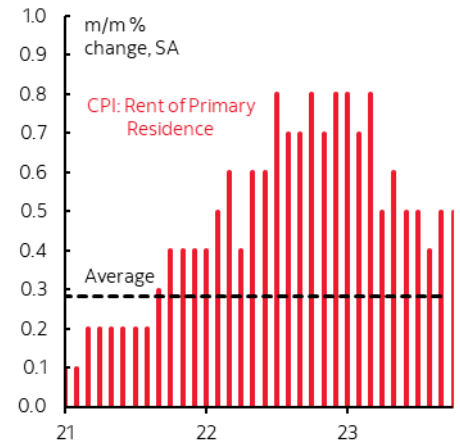
Housing Accelerated Sharply



Sources: Scotiabank Economics, BLS.

Chart 6

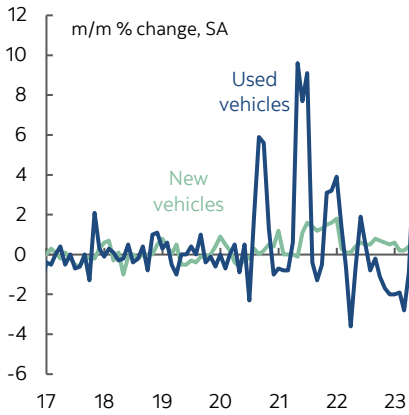
Sticky Rent Inflation



Sources: Scotiabank Economics, BLS.

Chart 7

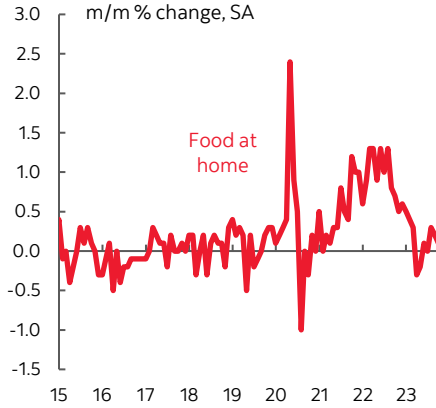
New vs Used Vehicle Inflation



Sources: Scotiabank Economics, BLS.

Chart 8

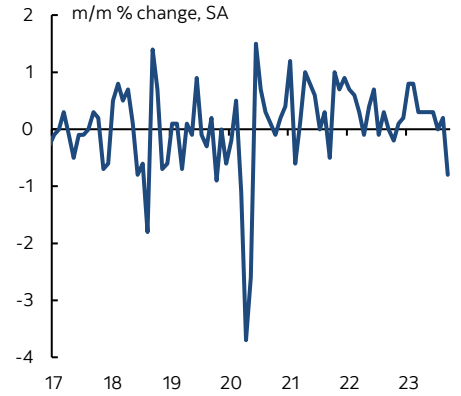
US Food Prices



Sources: Scotiabank Economics, BLS.

Chart 9

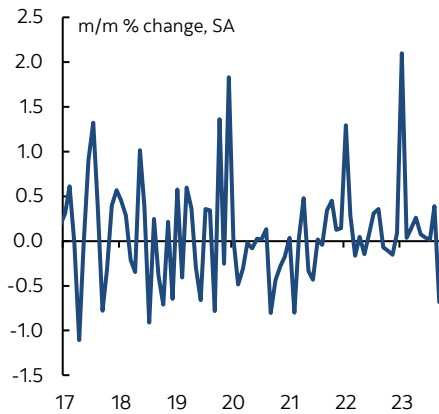
US Apparel



Sources: Scotiabank Economics, BLS.

Chart 10

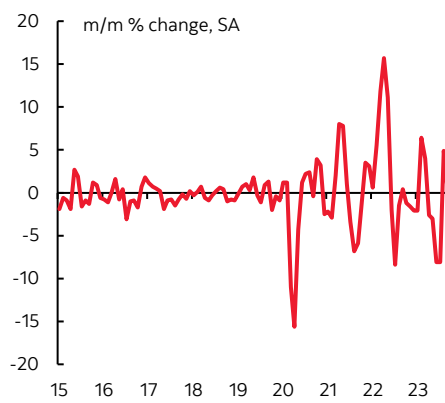
Prescription Drug Prices



Sources: Scotiabank Economics, BLS.

Chart 11

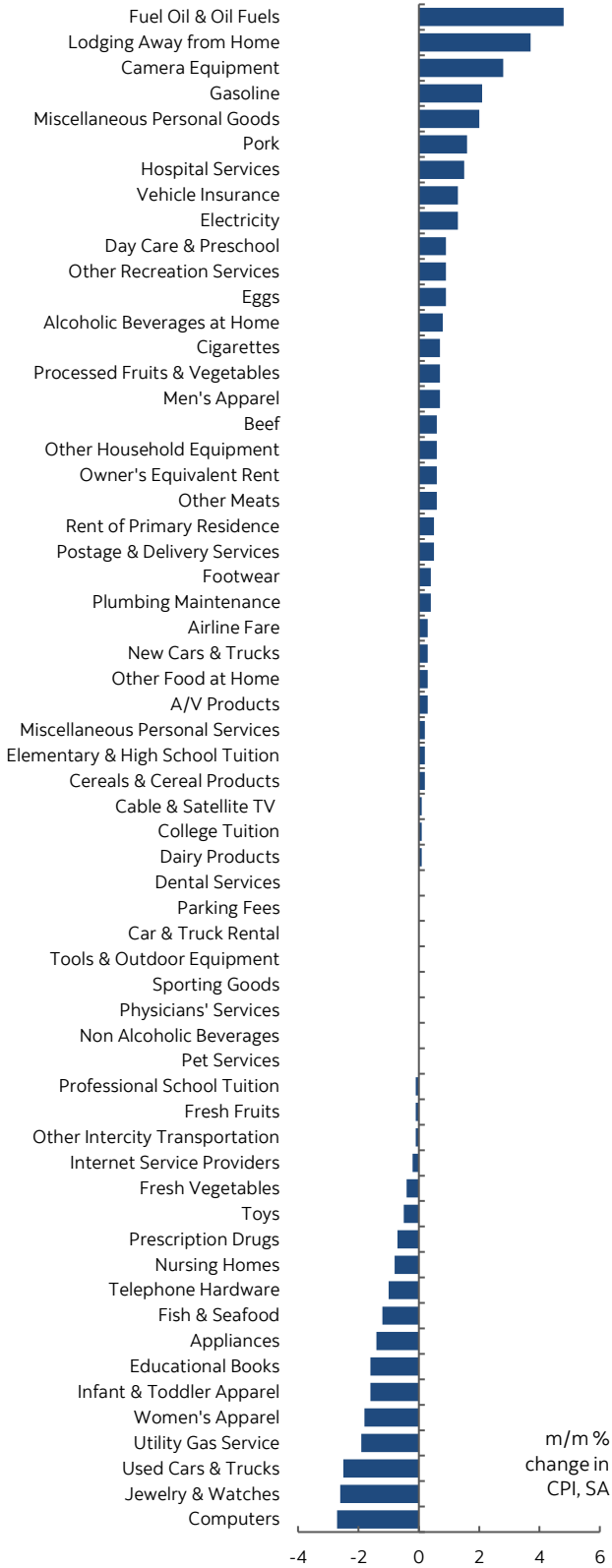
US Airfare



Sources: Scotiabank Economics, BLS.

Chart 12

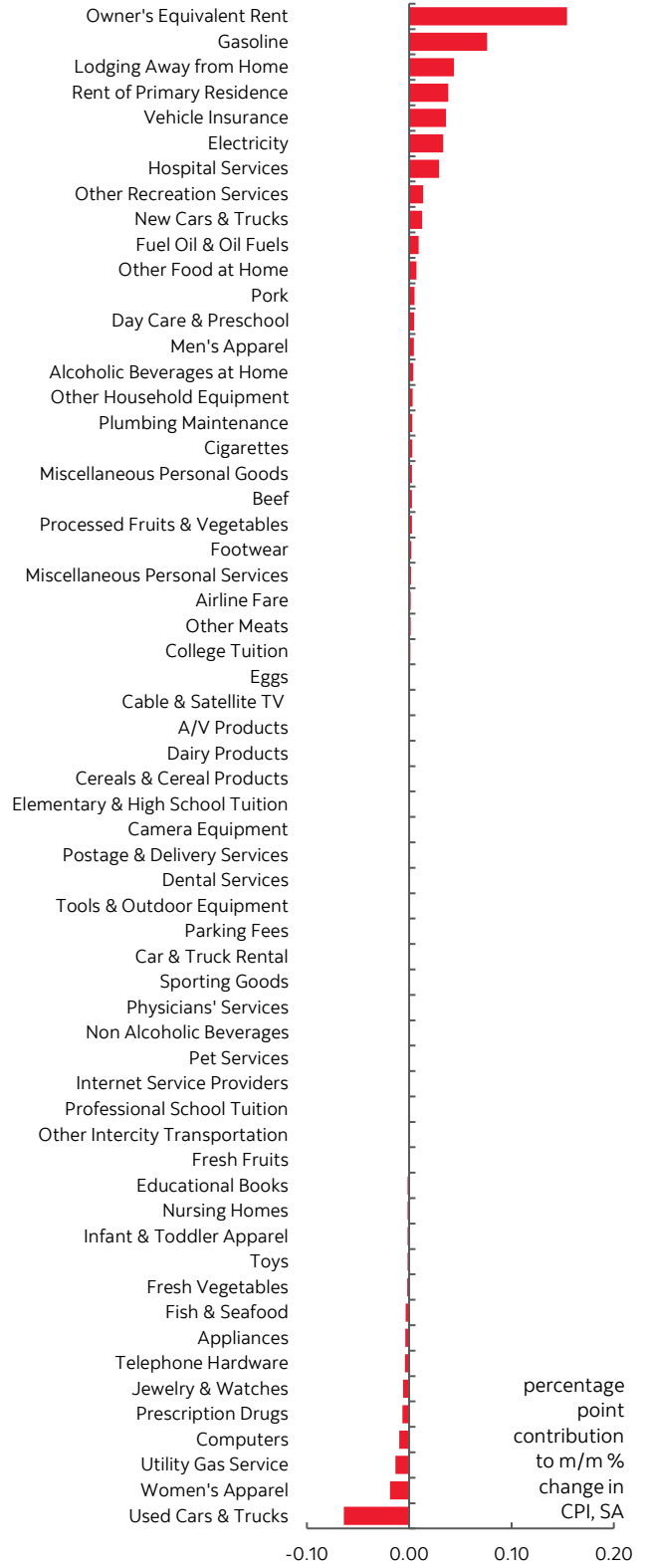
September Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 13

September Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 14

September 12-Month Changes in US Headline CPI Categories

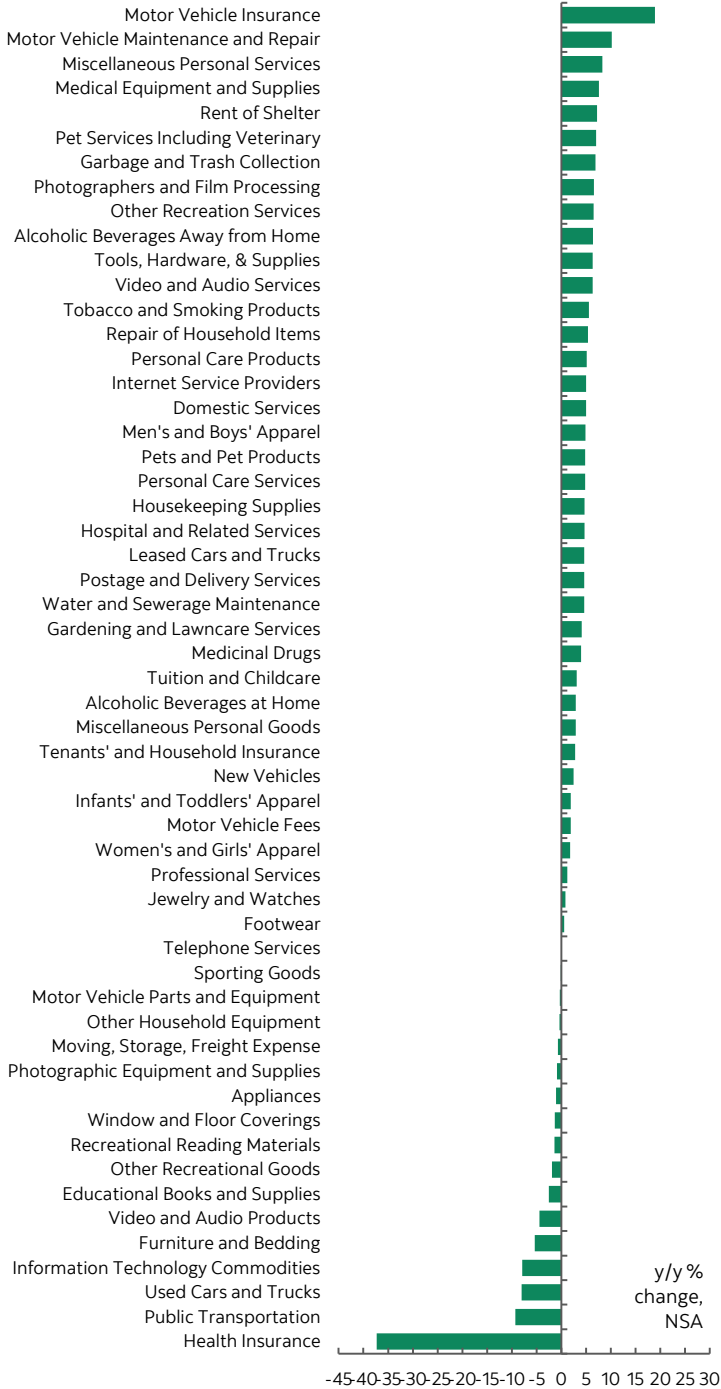
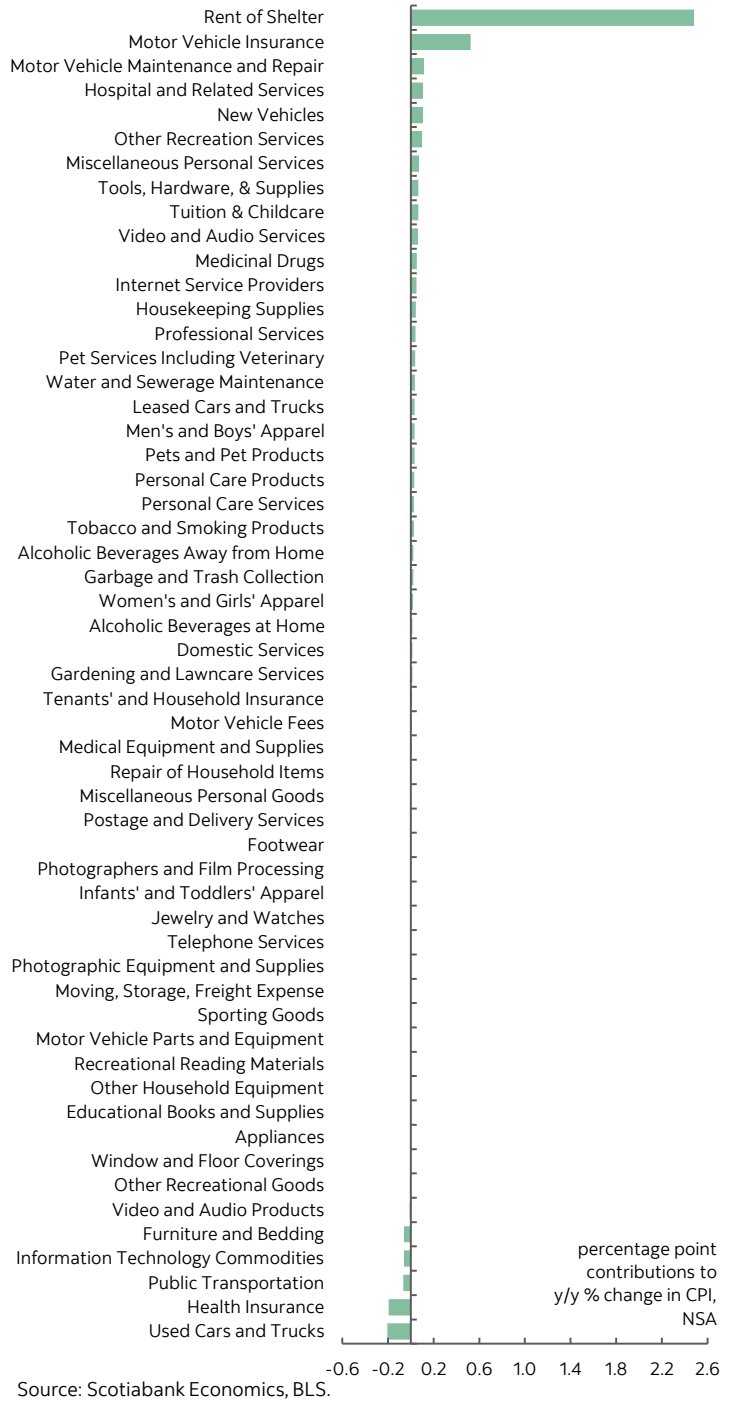


Chart 15

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



October 12, 2023

Sep 2023				Weighted Contributions (pts)*			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	3.7			0.2	13.38	0.50	0.03	1.3	0.8	3.2	1.7	1.1	1.7
Food, home	2.4			0.1	8.57	0.21	0.01	0.2	1.1	1.9	1.2	1.9	0.7
Cereals & bakery products	4.8			-0.4	1.16	0.06	0.00	0.4	0.9	5.0	0.9	1.7	2.3
Meats, poultry, fish & eggs	0.2			0.5	1.78	0.00	0.01	-0.2	3.2	0.1	2.1	3.9	-0.5
Dairy & related products	-0.2			0.1	0.78	0.00	0.00	-0.6	1.6	0.2	1.1	3.1	-0.4
Fruits & vegetables	0.8			0.0	1.47	0.01	0.00	0.4	1.7	0.2	1.0	2.0	-0.1
Non-alcoholic beverages	4.0			0.0	1.04	0.04	0.00	0.6	1.0	3.3	0.5	1.6	2.2
Other food at home	4.2			0.3	2.34	0.10	0.01	0.5	0.6	5.8	1.0	1.6	2.0
Food, away	6.0			0.4	4.81	0.29	0.02	2.7	0.3	11.1	2.5	0.5	6.7
Full services meals & snacks	5.1			0.4	2.30	0.12	0.01	2.6	0.4	6.8	2.4	0.5	5.4
Limited services meals and snacks	6.4			0.4	2.24	0.14	0.01	2.8	0.3	11.1	2.5	0.7	5.5
Food at employee sites and school	9.1			0.3	0.08	0.01	0.00	2.8	2.4	2.6	2.8	1.9	3.3
Food from vending machines & mobile vendors	16.0			0.4	0.03	0.00	0.00	3.1	1.0	13.0	2.5	1.3	10.4
Other food away from home	8.6			1.2	0.17	0.01	0.00	2.5	1.3	4.6	2.3	1.0	6.3
Energy	-0.5			1.5	7.16	-0.04	0.11	-1.9	10.0	0.1	1.6	9.6	-0.2
Energy comm.	2.2			2.3	3.89	0.09	0.09	-2.8	17.0	0.3	3.0	17.1	0.0
Fuel oils & other fuels	-5.6			4.8	0.18	-0.01	0.01	-2.3	15.8	-0.2	2.7	14.4	-0.6
Motor fuel	2.7			2.2	3.71	0.10	0.08	-2.8	17.1	0.3	3.0	17.3	0.0
<u>Gasoline</u>	<u>3.0</u>			<u>2.1</u>	<u>3.62</u>	<u>0.11</u>	<u>0.08</u>	<u>-2.8</u>	<u>17.1</u>	<u>0.3</u>	<u>3.0</u>	<u>17.4</u>	<u>0.0</u>
<u>Other</u>	<u>-8.1</u>			<u>6.4</u>	<u>0.09</u>	<u>-0.01</u>	<u>0.01</u>	<u>-2.3</u>	<u>19.5</u>	<u>-0.3</u>	<u>3.6</u>	<u>17.9</u>	<u>-0.7</u>
Energy serv.	-3.3			0.6	3.27	-0.11	0.02	0.0	2.4	-1.4	0.5	2.7	-1.4
Electricity	2.6			1.3	2.55	0.07	0.03	0.5	1.5	1.4	1.0	1.7	0.9
Utility (piped gas service)	-19.9			-1.9	0.72	-0.14	-0.01	-1.4	7.5	-2.4	-0.9	7.3	-2.6
All items less food and energy	4.1			0.3	79.46	3.26	0.24	2.0	0.2	9.2	1.8	0.4	5.6
Commodities less food and energy	0.0			-0.4	21.12	0.00	-0.08	-0.3	0.4	0.8	0.2	0.9	-0.2
Household furnishings	0.9			-0.3	3.73	0.03	-0.01	-0.8	1.2	1.4	-0.9	1.2	1.5
Window & floor coverings	-1.3			0.0	0.31	0.00	0.00	-2.3	1.7	0.6	-2.8	1.8	0.9
Furniture & bedding	-5.4			-1.2	1.12	-0.06	-0.01	-0.3	1.7	-3.0	-0.9	2.1	-2.2
Appliances	-1.1			-1.4	0.28	0.00	0.00	-1.2	3.1	0.0	-1.6	3.0	0.1
Other household equipment	-0.4			1.0	0.56	0.00	0.01	-3.5	1.8	1.7	-3.7	1.5	2.2
Tools & hardware	6.3			0.0	1.06	0.07	0.00	-0.1	1.0	6.2	-0.3	1.2	5.4
Housekeeping supplies	4.7			0.4	0.96	0.05	0.00	0.3	1.2	3.7	0.4	1.3	3.3

October 12, 2023

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Apparel	2.3			-0.8	2.53	0.06	-0.02	-0.5	1.0	2.9	0.3	1.7	1.1
Men's & boys apparel	4.9			0.7	0.66	0.03	0.00	-0.3	1.5	3.4	0.5	2.3	1.9
Women's & girls apparel	1.8			-1.8	1.03	0.02	-0.02	-1.3	1.9	1.7	-0.1	2.5	0.8
Footwear	0.6			0.4	0.50	0.00	0.00	0.2	1.3	0.3	0.8	1.7	-0.1
Infant & toddler's apparel	1.9			-1.6	0.10	0.00	0.00	0.4	3.8	0.4	0.5	3.6	0.4
Jewelry & watches	0.8			-2.6	0.23	0.00	-0.01	1.0	3.4	-0.1	1.5	3.8	-0.2
Trans. less fuel	-2.3			-0.9	7.68	-0.18	-0.07	-0.3	0.9	-2.3	0.4	1.5	-1.8
New vehicles	2.5			0.3	4.25	0.11	0.01	0.1	0.7	3.7	0.8	1.2	1.4
Used cars & trucks	-8.0			-2.5	2.72	-0.22	-0.07	-1.3	2.1	-3.2	1.1	4.8	-1.9
Motor vehicle parts & equipment	-0.3			-1.5	0.48	0.00	-0.01	0.2	1.1	-0.5	0.9	2.2	-0.6
Medical comm.	4.2			-0.3	1.47	0.06	0.00	2.1	1.7	1.2	2.3	1.5	1.3
Medicinal Drugs	4.0			-0.4	1.35	0.05	-0.01	2.2	1.8	1.0	2.3	1.6	1.1
Medical equipment & supplies	7.6			0.5	0.12	0.01	0.00	0.4	1.2	5.8	0.3	1.2	6.1
Recreation comm.	0.2			0.3	2.21	0.00	0.01	-2.6	1.1	2.6	-2.3	0.9	2.8
Video & audio products	-4.4			0.3	0.27	-0.01	0.00	-10.1	2.4	2.4	-9.2	2.2	2.2
Pets & pet products	4.8			0.6	0.66	0.03	0.00	0.4	1.5	3.0	0.5	1.5	3.0
Sporting goods	-0.1			0.0	0.73	0.00	0.00	-0.7	1.5	0.4	-0.6	1.2	0.4
Photographic Equipment & supplies	-0.9			2.8	0.02	0.00	0.00	-1.7	4.6	0.2	-3.0	4.0	0.5
Recreational reading materials	-1.4			1.5	0.11	0.00	0.00	1.6	1.9	-1.6	1.5	1.8	-1.7
Other recreational goods	-1.9			-0.2	0.42	-0.01	0.00	-6.5	1.3	3.5	-5.2	1.7	1.9
Educ. & communication comm.	-7.3			0.3	0.87	-0.06	0.00	-3.7	1.0	-3.5	-3.5	0.9	-4.2
Educational books & supplies	-2.5			0.6	0.09	0.00	0.00	2.2	3.0	-1.6	3.6	2.7	-2.2
IT commodities	-7.9			0.3	0.78	-0.06	0.00	-6.1	1.9	-1.0	-6.8	1.8	-0.6
Alcohol	4.2			0.8	0.83	0.03	0.01	1.3	0.3	8.5	1.4	0.4	7.7
Alcoholic beverages at home	2.9			0.8	0.50	0.01	0.00	0.8	0.6	3.4	0.8	0.5	4.0
Alcoholic beverages away from home	6.4			0.9	0.33	0.02	0.00	1.9	0.5	9.7	2.2	0.7	6.3
Other goods	5.1			0.5	1.24	0.06	0.01	1.4	0.9	4.4	1.4	0.7	5.2
Tobacco & smoking products	5.6			0.2	0.50	0.03	0.00	4.3	1.5	0.8	4.4	3.8	0.3
Personal care products	5.1			0.4	0.60	0.03	0.00	-0.3	0.6	9.3	-0.1	0.8	6.3
Miscellaneous personal goods	2.9			1.7	0.14	0.00	0.00	-2.4	3.1	1.7	-1.7	2.4	1.9

October 12, 2023

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Services less energy services	5.7			0.6	58.34	3.33	0.35	2.8	0.2	12.4	2.4	0.6	5.2
Shelter	7.2			0.6	34.75	2.50	0.21	3.3	0.2	23.3	2.5	1.2	4.1
Rent of shelter	7.2			0.6	34.38	2.48	0.21	3.3	0.2	21.1	2.5	1.2	4.0
<i>Rent of primary residence</i>	<i>7.4</i>			<i>0.5</i>	<i>7.59</i>	<i>0.56</i>	<i>0.04</i>	<i>3.7</i>	<i>0.1</i>	<i>27.8</i>	<i>2.9</i>	<i>1.1</i>	<i>4.1</i>
<i>Lodging away from home</i>	<i>7.3</i>			<i>3.7</i>	<i>1.18</i>	<i>0.09</i>	<i>0.04</i>	<i>2.3</i>	<i>2.0</i>	<i>2.5</i>	<i>2.2</i>	<i>2.2</i>	<i>2.3</i>
<i>OER of residences</i>	<i>7.1</i>			<i>0.6</i>	<i>25.61</i>	<i>1.82</i>	<i>0.15</i>	<i>3.2</i>	<i>0.2</i>	<i>19.1</i>	<i>2.4</i>	<i>1.1</i>	<i>4.4</i>
Tenants' & household insurance	2.8			0.9	0.37	0.01	0.00	1.4	1.2	1.2	2.3	1.5	0.3
Water, sewer, trash collection	5.2			0.2	1.07	0.06	0.00	3.6	0.6	2.8	4.3	1.0	0.9
Water & sewage maintenance	4.6			0.4	0.76	0.04	0.00	4.0	0.8	0.8	4.8	1.4	-0.2
Garbage & trash collection	6.9			-0.1	0.31	0.02	0.00	2.5	1.5	3.0	2.5	1.1	4.1
Household ops.	4.8			-1.1	0.88	0.04	-0.01	3.8	1.3	0.8	2.6	1.6	1.3
Domestic services	5.0			-1.3	0.27	0.01	0.00	2.0	1.1	2.8	1.6	1.0	3.3
Gardening & lawn care	4.1			5.0	0.32	0.01	0.02	4.3	2.7	-0.1	2.8	2.6	0.5
Moving, storage, freight	-0.7			-0.2	0.10	0.00	0.00	5.6	3.9	-1.6	3.3	3.9	-1.0
Repair of household items	5.4			1.7	0.12	0.01	0.00	4.8	2.1	0.3	4.2	2.0	0.6
Medical serv.	-2.6			0.3	6.33	-0.16	0.02	2.9	1.0	-5.6	3.0	0.8	-6.8
Professional Services	1.2			0.0	3.53	0.04	0.00	1.5	0.9	-0.3	1.8	0.8	-0.8
Hospital & related services	4.7			1.2	2.26	0.11	0.03	3.8	1.1	0.8	4.5	1.3	0.1
Health insurance	-37.3			-3.5	0.55	-0.20	-0.02	5.0	5.8	-7.3	3.6	6.0	-6.8
Transportation serv.	9.1			0.7	5.95	0.54	0.04	2.6	1.1	5.9	2.6	1.0	6.7
Leased cars & trucks	4.6			-0.2	0.74	0.03	0.00	0.5	3.0	1.3	-1.6	3.2	1.9
Motor vehicle maintenance & repair	10.2			0.2	1.14	0.12	0.00	2.2	0.7	11.5	2.0	0.6	14.3
Motor vehicle insurance	18.9			1.3	2.74	0.52	0.04	5.5	2.6	5.1	4.8	2.0	6.9
Motor vehicle fees	1.9			0.0	0.49	0.01	0.00	1.8	0.7	0.1	2.2	1.9	-0.1
Public transportation	-9.3			0.5	0.71	-0.07	0.00	-1.2	1.5	-5.3	1.0	3.6	-2.9
Recreation serv.	6.4			0.5	3.11	0.20	0.02	2.6	0.7	5.8	2.3	0.7	5.5
Video & audio services	6.3			0.2	1.00	0.06	0.00	2.7	1.4	2.5	2.6	1.3	2.7
Pet services	7.0			0.0	0.55	0.04	0.00	3.1	0.8	5.1	3.3	0.9	4.0
Photo services	6.6			2.0	0.04	0.00	0.00	-0.2	2.0	3.4	0.8	1.8	3.1
Other recreation services	6.5			0.9	1.52	0.10	0.01	2.4	0.6	6.8	1.7	1.1	4.5
Educ. & communication serv.	2.5			0.1	4.79	0.12	0.00	0.4	1.3	1.6	1.1	1.3	1.1
Tuition, school fees, child care	3.1			0.3	2.14	0.07	0.01	2.8	0.6	0.5	3.3	0.8	-0.3
Postage & delivery	4.6			0.5	0.07	0.00	0.00	2.3	2.0	1.2	3.3	2.0	0.7
Telephone services	0.1			-0.1	1.60	0.00	0.00	-2.4	3.0	0.8	-1.3	2.4	0.6
Internet services	5.0			-0.2	0.97	0.05	0.00	-0.2	1.5	3.4	0.1	1.3	3.7
Other personal serv.	6.8			0.6	1.46	0.10	0.01	2.7	0.7	6.1	2.4	0.6	7.0
Personal care services	4.8			0.0	0.60	0.03	0.00	2.3	0.7	3.6	1.8	0.8	3.6
Miscellaneous personal services	8.3			1.1	0.85	0.07	0.01	2.9	0.9	5.8	2.7	0.7	7.6

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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