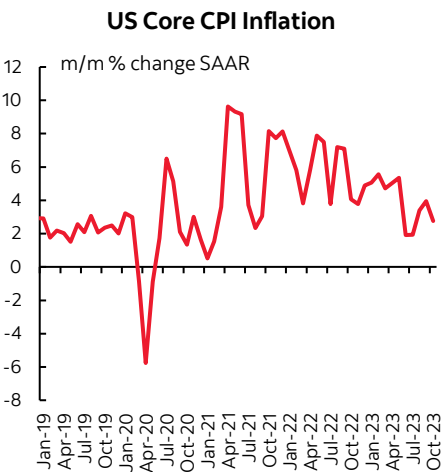


Contributors

Derek Holt

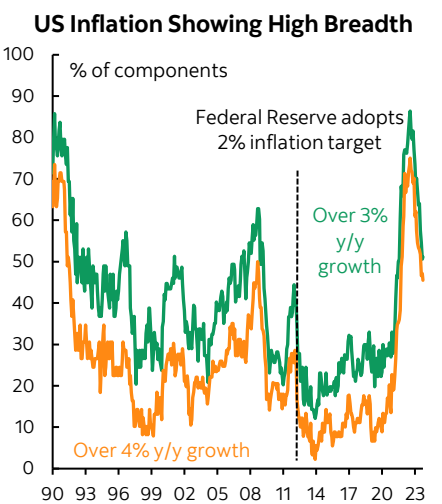
VP & Head of Capital Markets Economics
 Scotiabank Economics
 416.863.7707
derek.holt@scotiabank.com

Chart 1



Sources: Scotiabank Economics, BLS.

Chart 2



Sources: Scotiabank Economics, BLS.

It Will Take Much More Inflation Evidence to Impress the Fed Than Markets are Requiring

- Core CPI undershot expectations by a tick...
- ...and motivated a violent rally across the short-term rates complex...
- ...while pricing decent odds of a rate cut as soon as March & double the 2024 dots
- The FOMC is likely to set a higher bar for cutting than markets...
- ...as financial conditions are easing once again...
- ...and trend core CPI inflation is accelerating...
- ...and structural pressures remain notwithstanding short-term data noise

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

Actual: 0.0 / 0.2

Scotia: 0.1 / 0.3

Consensus: 0.1 / 0.3

Prior: 0.4 / 0.3

US CPI inflation landed weaker than expected as shown in the table. That drove a violent reaction toward lower yields across the US Treasury curve and the fuller short-term rates complex with spillover effects across global benchmarks.

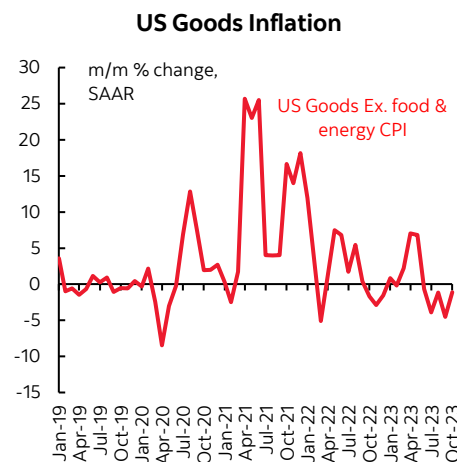
Markets are pricing no further hikes and a decent shot at a Fed rate cut by the March 20th FOMC date with most of a cut priced by the May 1st meeting. Over 100bps of cuts are priced by the end of next year into early 2025 which is double the 50bps guided in the September FOMC dot plot that also probably implied cutting late in the year.

THE FOMC WILL SET A HIGHER BAR FOR CUTS THAN MARKETS

My bias is that it will take a lot more than this report to motivate cuts that early especially after the Fed blew it on inflation's upswing and is worried about resurrecting upside pressures, but we'll see with more time and more data. I think it's important to counsel more caution than what is implied by the violent swings in both directions that we've been seeing in fixed income markets for some time now.

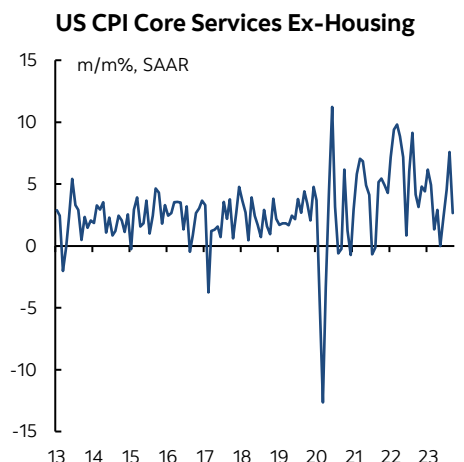
Why? For one thing, core CPI inflation is still running at 2.75% m/m SAAR with a three-month moving average of 3.36% m/m SAAR. The Committee will need a lot more evidence of sustainably cooler on-2% core PCE inflation (not CPI) for an extended period before cutting.

Chart 3



Sources: Scotiabank Economics, BLS.

Chart 4



Sources: Scotiabank Economics, BLS.

For another, notwithstanding short-term noise in the data, there remain strong reasons to believe that structural forces remain pointed above 2% inflation.

Further, it's possible that if this kind of market reaction persists, then we could go into the December FOMC with the Committee saying financial conditions have eased once again and inflation still isn't where they want it to be while retaining a hawkish bias. Since the S&P's low on October 27th it has risen by almost 10% and is approaching the highs set in July at a trailing P/E of 22 times and 1-year forward P/E of over 20. The US 10-year yield is about 55bps lower than the peak on October 19th and back toward late September levels. The 2-year is 36bps lower to about where it was in early September. The USD on a DXY basis is back to mid-September levels.

THE DETAILS

Core CPI landed at 0.23% m/m SA, or 2.75% m/m SAAR. That takes us back to the June/July period before the mild acceleration over August and September (chart 1). The three-month moving average of 3.36% m/m SAAR is the highest since June as this smoothed trend has moved higher.

The breadth of price hikes cooled but remains high (chart 2). Over 50% of the basket is rising by more than 3% and about half is up by more than 4% in y/y terms.

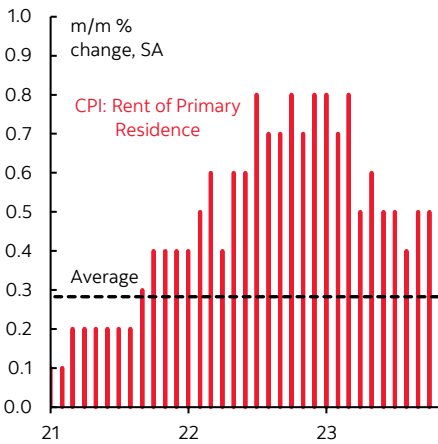
Both the goods and services sides of the picture contributed to the 0.2% m/m core CPI reading. Core goods prices (ie: commodities ex-food and energy) fell by -0.1% m/m SA (chart 3). Core services prices (ie: services ex-energy services and housing) were up by just 0.2% m/m SA which takes us back to the soft patch of readings we had over the April through July period before it accelerated in August and September (chart 4). You could say it's just one month of cooling, or you could say July and August were the aberration—you pick, while markets have clearly leaned toward the latter interpretation.

Charts 5–15 show depictions of select components of the basket with select comments as follows:

- Housing inflation is defying earlier expectations for waning market rents to take it down by now, but maybe that just requires further patience. For now, we're still left with very sticky owners' equivalent rent and rent of primary residence.
- Vehicle price inflation has ebbed in terms of new and used vehicles and particularly the latter.
- Auto insurance premiums nevertheless continue to soar.

Chart 5

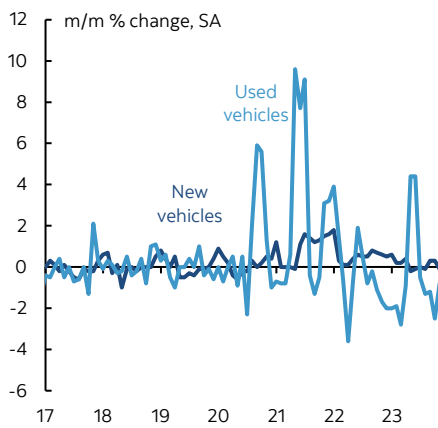
Sticky Rent Inflation



Sources: Scotiabank Economics, BLS.

Chart 7

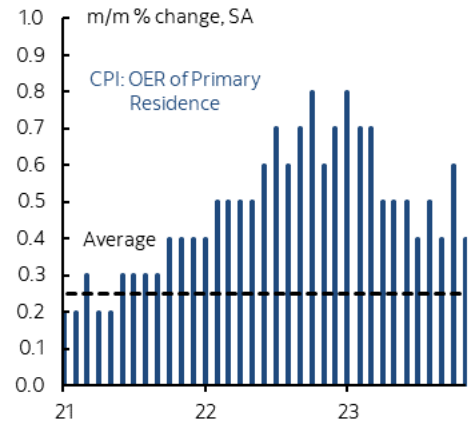
New vs Used Vehicle Inflation



Sources: Scotiabank Economics, BLS.

Chart 6

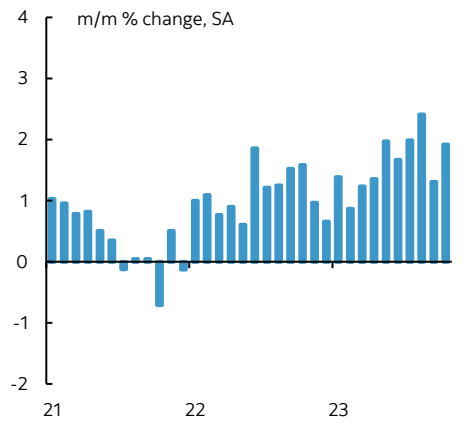
US Owners' Equivalent Rent Remains Sticky



Sources: Scotiabank Economics, BLS.

Chart 8

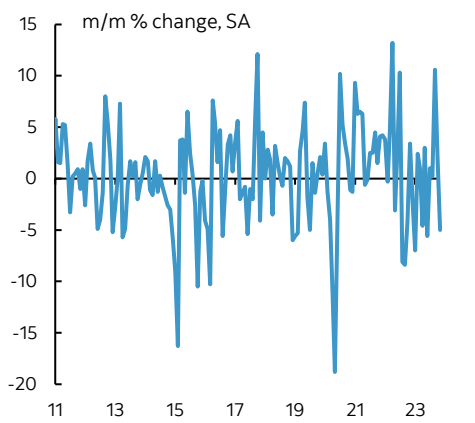
US Motor Vehicle Insurance On Run!



Sources: Scotiabank Economics, BLS.

Chart 9

US Gasoline



Sources: Scotiabank Economics, BLS.

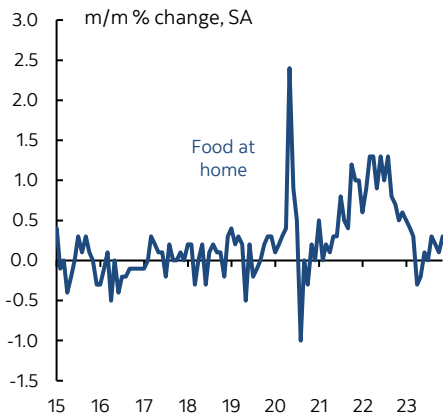
- Gasoline was a downside driver that explained much of the weaker headline CPI than core CPI reading. If the second half of November performs in similar fashion to the first half, then expect gasoline to be a downside driver of headline inflation in the next reading as well.
- Food-at-home (ie: mostly groceries) and food-away-from-home (ie: mostly dine-in, take-out, cafeterias etc) are off their peaks but still posting material gains.

Charts 16–17 show the fuller break down of the CPI basket in y/y terms both in unweighted and weighted contribution depictions. Charts 18–19 do likewise for the m/m break down. More detail is [here](#).

Also please see the accompanying table that provides more detail by components including micro-charts and z-score measures of deviations from historical trends.

Chart 10

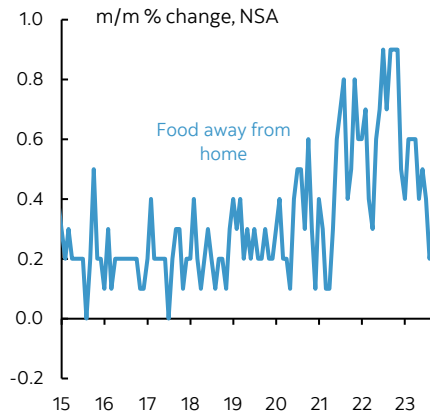
US Food Prices



Sources: Scotiabank Economics, BLS.

Chart 11

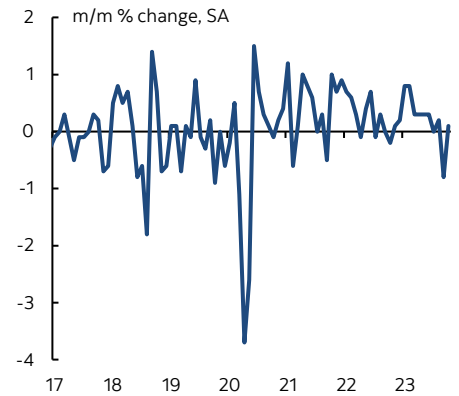
US Food Prices



Sources: Scotiabank Economics, BLS.

Chart 12

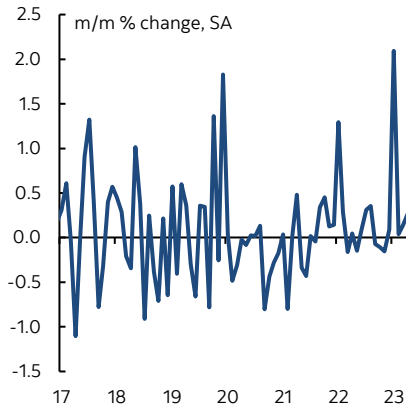
US Apparel



Sources: Scotiabank Economics, BLS.

Chart 13

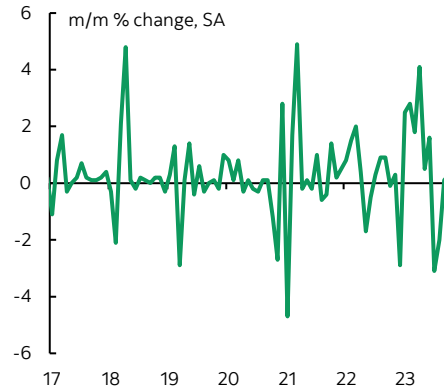
Prescription Drug Prices



Sources: Scotiabank Economics, BLS.

Chart 14

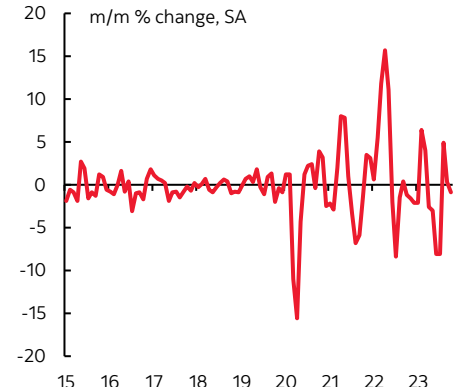
US Financial Services



Sources: Scotiabank Economics, BLS.

Chart 15

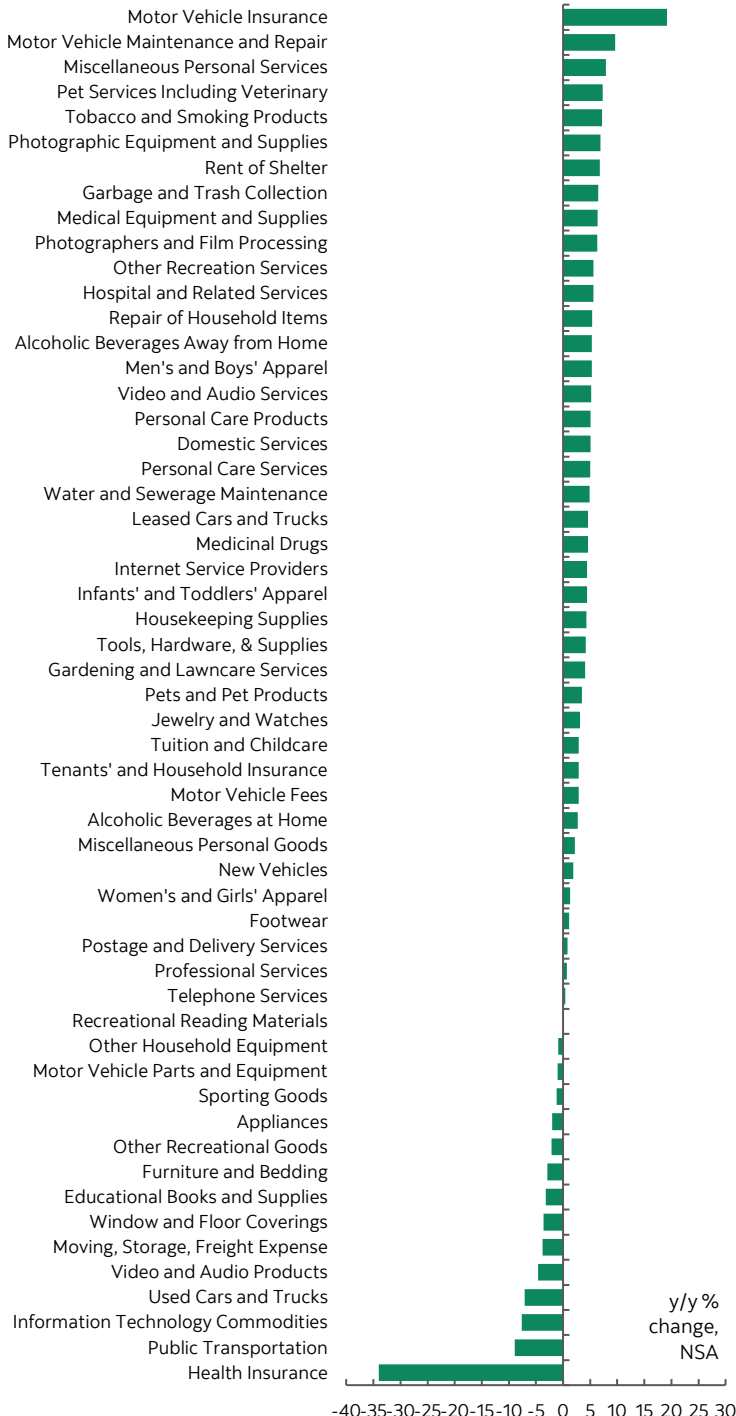
US Airfare



Sources: Scotiabank Economics, BLS.

Chart 16

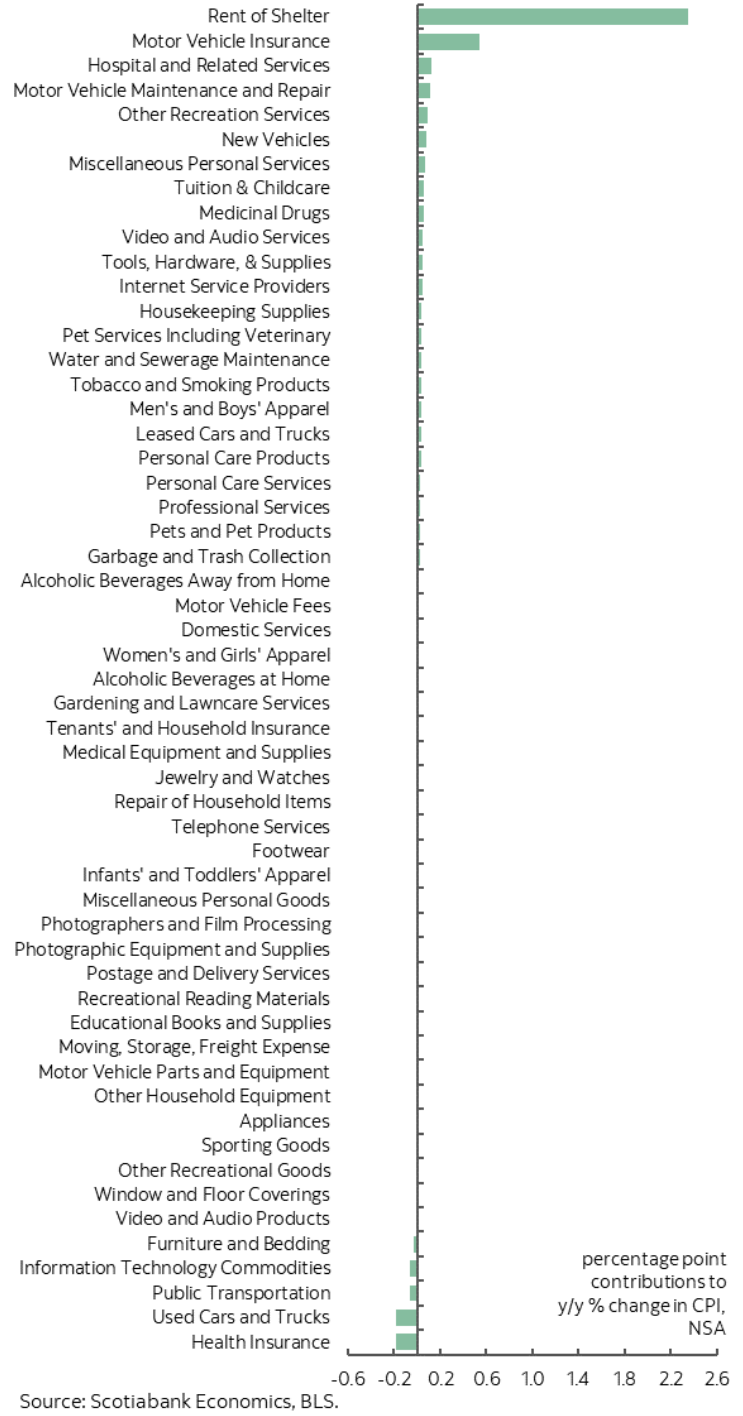
October 12-Month Changes in US Headline CPI Categories



Sources: Scotiabank Economics, BLS.

Chart 17

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



Source: Scotiabank Economics, BLS.

Chart 18

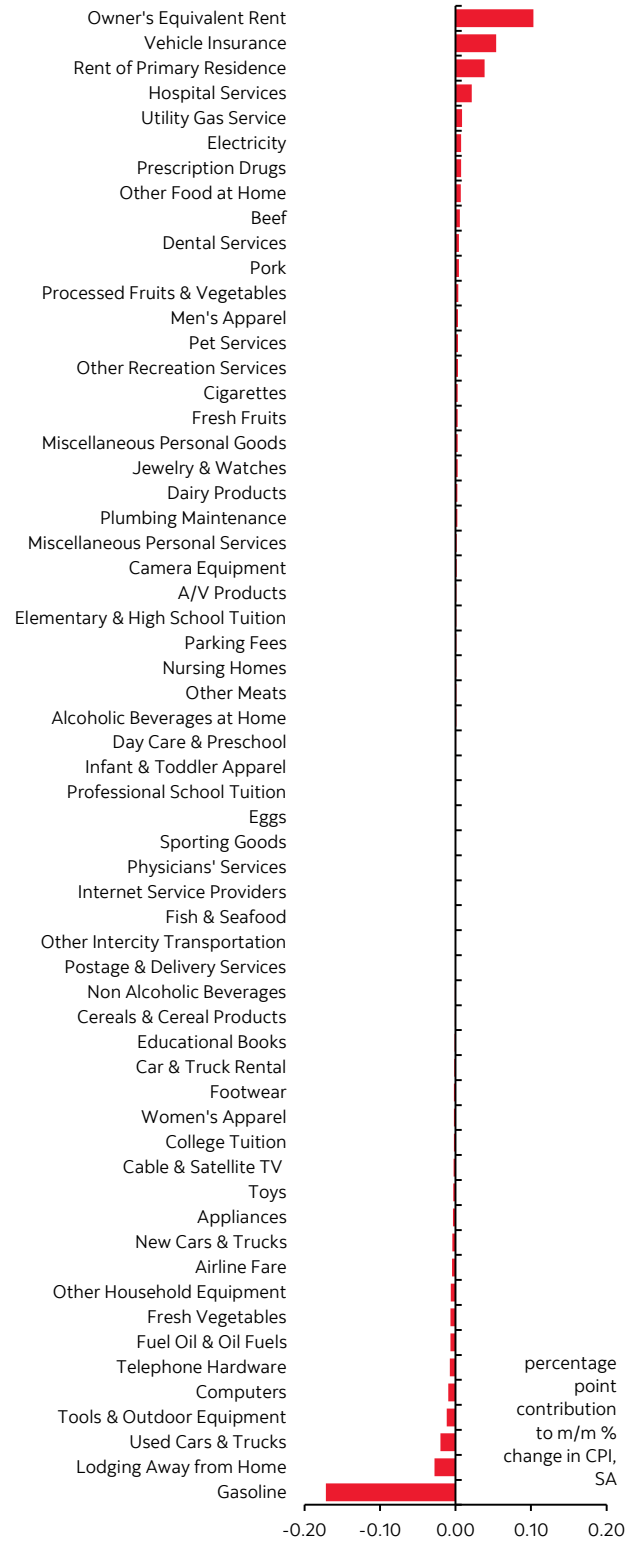
October Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 19

October Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

November 14, 2023

Oct 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	3.3			0.3	13.37	0.44	0.04	1.3	0.8	2.7	1.7	1.1	1.4
Food, home	2.1			0.3	8.55	0.18	0.03	0.2	1.1	1.7	1.2	1.9	0.5
Cereals & bakery products	4.2			0.2	1.16	0.05	0.00	0.4	0.9	4.3	0.9	1.7	1.9
Meats, poultry, fish & eggs	0.4			0.7	1.78	0.01	0.01	-0.2	3.2	0.2	2.1	3.9	-0.4
Dairy & related products	-0.4			0.3	0.78	0.00	0.00	-0.6	1.6	0.1	1.1	3.1	-0.5
Fruits & vegetables	1.1			0.0	1.47	0.02	0.00	0.4	1.7	0.4	1.0	2.0	0.1
Non-alcoholic beverages	3.3			-0.1	1.03	0.03	0.00	0.6	1.0	2.6	0.5	1.6	1.8
Other food at home	3.6			0.3	2.34	0.08	0.01	0.5	0.6	4.8	1.0	1.6	1.7
Food, away	5.4			0.4	4.82	0.26	0.02	2.7	0.3	9.1	2.5	0.5	5.6
Full services meals & snacks	4.3			0.3	2.30	0.10	0.01	2.6	0.4	4.7	2.4	0.5	3.8
Limited services meals and snacks	6.2			0.5	2.25	0.14	0.01	2.8	0.3	10.5	2.5	0.7	5.2
Food at employee sites and school	5.4			0.2	0.08	0.00	0.00	2.8	2.4	1.1	2.8	1.9	1.3
Food from vending machines & mobile vendors	14.9			2.7	0.03	0.00	0.00	3.1	1.0	11.9	2.5	1.3	9.5
Other food away from home	7.3			-0.9	0.17	0.01	0.00	2.5	1.3	3.6	2.3	1.0	5.0
Energy	-4.5			-2.5	7.19	-0.32	-0.18	-1.9	10.0	-0.3	1.6	9.6	-0.6
Energy comm.	-6.2			-4.9	3.92	-0.24	-0.19	-2.8	17.0	-0.2	3.0	17.1	-0.5
Fuel oils & other fuels	-17.1			-3.4	0.19	-0.03	-0.01	-2.3	15.8	-0.9	2.7	14.4	-1.4
Motor fuel	-5.6			-4.9	3.72	-0.21	-0.18	-2.8	17.1	-0.2	3.0	17.3	-0.5
<u>Gasoline</u>	<u>-5.3</u>			<u>-5</u>	<u>3.63</u>	<u>-0.19</u>	<u>-0.18</u>	<u>-2.8</u>	<u>17.1</u>	<u>-0.1</u>	<u>3.0</u>	<u>17.4</u>	<u>-0.5</u>
<u>Other</u>	<u>-11.8</u>			<u>-1.1</u>	<u>0.09</u>	<u>-0.01</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>-0.5</u>	<u>3.6</u>	<u>17.9</u>	<u>-0.9</u>
Energy serv.	-2.3			0.5	3.27	-0.08	0.02	0.0	2.4	-1.0	0.5	2.7	-1.1
Electricity	2.4			0.3	2.56	0.06	0.01	0.5	1.5	1.3	1.0	1.7	0.8
Utility (piped gas service)	-15.8			1.2	0.71	-0.11	0.01	-1.4	7.5	-1.9	-0.9	7.3	-2.0
All items less food and energy	4.0			0.2	79.44	3.18	0.16	2.0	0.2	8.8	1.8	0.4	5.3
Commodities less food and energy	0.1			-0.1	20.95	0.02	-0.02	-0.3	0.4	1.1	0.2	0.9	-0.1
Household furnishings	0.7			-0.2	3.77	0.03	-0.01	-0.8	1.2	1.3	-0.9	1.2	1.3
Window & floor coverings	-3.6			-1.8	0.31	-0.01	-0.01	-2.3	1.7	-0.7	-2.8	1.8	-0.4
Furniture & bedding	-2.9			1.4	1.11	-0.03	0.02	-0.3	1.7	-1.5	-0.9	2.1	-1.0
Appliances	-2.0			-1.2	0.28	-0.01	0.00	-1.2	3.1	-0.3	-1.6	3.0	-0.1
Other household equipment	-0.9			-0.5	0.57	-0.01	0.00	-3.5	1.8	1.4	-3.7	1.5	1.9
Tools & hardware	4.2			-1.1	1.06	0.04	-0.01	-0.1	1.0	4.1	-0.3	1.2	3.7
Housekeeping supplies	4.3			0.3	0.96	0.04	0.00	0.3	1.2	3.4	0.4	1.3	3.0

November 14, 2023

Oct 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	2.6			0.1	2.56	0.07	0.00	-0.5	1.0	3.2	0.3	1.7	1.3
Men's & boys apparel	5.3			0.5	0.67	0.04	0.00	-0.3	1.5	3.7	0.5	2.3	2.1
Women's & girls apparel	1.3			-0.2	1.05	0.01	0.00	-1.3	1.9	1.4	-0.1	2.5	0.6
Footwear	1.1			-0.4	0.51	0.01	0.00	0.2	1.3	0.7	0.8	1.7	0.2
Infant & toddler's apparel	4.4			0.4	0.10	0.00	0.00	0.4	3.8	1.1	0.5	3.6	1.1
Jewelry & watches	3.1			1.2	0.23	0.01	0.00	1.0	3.4	0.6	1.5	3.8	0.4
Trans. less fuel	-2.1			-0.4	7.50	-0.16	-0.03	-0.3	0.9	-2.0	0.4	1.5	-1.7
New vehicles	1.9			-0.1	4.24	0.08	0.00	0.1	0.7	2.8	0.8	1.2	0.9
Used cars & trucks	-7.1			-0.8	2.56	-0.18	-0.02	-1.3	2.1	-2.8	1.1	4.8	-1.7
Motor vehicle parts & equipment	-1.0			-0.3	0.47	0.00	0.00	0.2	1.1	-1.2	0.9	2.2	-0.9
Medical comm.	4.7			0.4	1.46	0.07	0.01	2.1	1.7	1.5	2.3	1.5	1.7
Medicinal Drugs	4.6			0.6	1.34	0.06	0.01	2.2	1.8	1.4	2.3	1.6	1.5
Medical equipment & supplies	6.4			-1.7	0.12	0.01	0.00	0.4	1.2	4.8	0.3	1.2	5.1
Recreation comm.	-0.4			0.1	2.21	-0.01	0.00	-2.6	1.1	2.1	-2.3	0.9	2.1
Video & audio products	-4.6			0.5	0.27	-0.01	0.00	-10.1	2.4	2.3	-9.2	2.2	2.1
Pets & pet products	3.5			0.0	0.66	0.02	0.00	0.4	1.5	2.1	0.5	1.5	2.1
Sporting goods	-1.2			0.4	0.73	-0.01	0.00	-0.7	1.5	-0.3	-0.6	1.2	-0.5
Photographic Equipment & supplies	6.9			6.8	0.02	0.00	0.00	-1.7	4.6	1.9	-3.0	4.0	2.5
Recreational reading materials	0.2			0.7	0.11	0.00	0.00	1.6	1.9	-0.7	1.5	1.8	-0.7
Other recreational goods	-2.1			-0.8	0.42	-0.01	0.00	-6.5	1.3	3.3	-5.2	1.7	1.8
Educ. & communication comm.	-7.1			-1.3	0.87	-0.06	-0.01	-3.7	1.0	-3.3	-3.5	0.9	-4.0
Educational books & supplies	-3.2			-0.6	0.09	0.00	0.00	2.2	3.0	-1.8	3.6	2.7	-2.5
IT commodities	-7.6			-1.4	0.78	-0.06	-0.01	-6.1	1.9	-0.8	-6.8	1.8	-0.5
Alcohol	3.7			0.2	0.83	0.03	0.00	1.3	0.3	7.1	1.4	0.4	6.4
Alcoholic beverages at home	2.7			0.2	0.50	0.01	0.00	0.8	0.6	3.1	0.8	0.5	3.6
Alcoholic beverages away from home	5.3			0.2	0.33	0.02	0.00	1.9	0.5	7.4	2.2	0.7	4.7
Other goods	5.6			1.1	1.25	0.07	0.01	1.4	0.9	5.0	1.4	0.7	5.9
Tobacco & smoking products	7.2			1.9	0.50	0.04	0.01	4.3	1.5	1.9	4.4	3.8	0.7
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	2.2			1.2	0.14	0.00	0.00	-2.4	3.1	1.5	-1.7	2.4	1.6

November 14, 2023

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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			0.3	58.49	3.22	0.18	2.8	0.2	11.5	2.4	0.6	4.9
Shelter	6.7			0.3	34.86	2.34	0.10	3.3	0.2	20.3	2.5	1.2	3.6
Rent of shelter	6.8			0.3	34.49	2.35	0.10	3.3	0.2	19.0	2.5	1.2	3.6
<i>Rent of primary residence</i>	<i>7.2</i>			<i>0.5</i>	<i>7.61</i>	<i>0.55</i>	<i>0.04</i>	<i>3.7</i>	<i>0.1</i>	<i>26.3</i>	<i>2.9</i>	<i>1.1</i>	<i>3.9</i>
<i>Lodging away from home</i>	<i>1.2</i>			<i>-2.5</i>	<i>1.18</i>	<i>0.01</i>	<i>-0.03</i>	<i>2.3</i>	<i>2.0</i>	<i>-0.5</i>	<i>2.2</i>	<i>2.2</i>	<i>-0.4</i>
<i>OER of residences</i>	<i>6.8</i>			<i>0.4</i>	<i>25.70</i>	<i>1.75</i>	<i>0.10</i>	<i>3.2</i>	<i>0.2</i>	<i>17.6</i>	<i>2.4</i>	<i>1.1</i>	<i>4.1</i>
Tenants' & household insurance	2.9			0.4	0.37	0.01	0.00	1.4	1.2	1.3	2.3	1.5	0.4
Water, sewer, trash collection	5.3			0.3	1.07	0.06	0.00	3.6	0.6	2.9	4.3	1.0	1.0
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	6.5			0.1	0.31	0.02	0.00	2.5	1.5	2.7	2.5	1.1	3.7
Household ops.	6.7			-1.1	0.90	0.06	-0.01	3.8	1.3	2.3	2.6	1.6	2.5
Domestic services	5.1			-1.3	0.27	0.01	0.00	2.0	1.1	2.9	1.6	1.0	3.4
Gardening & lawncare	4.1			-0.1	0.33	0.01	0.00	4.3	2.7	-0.1	2.8	2.6	0.5
Moving, storage, freight	-3.8			-3.1	0.10	0.00	0.00	5.6	3.9	-2.4	3.3	3.9	-1.8
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.	-2.0			0.3	6.32	-0.13	0.02	2.9	1.0	-5.0	3.0	0.8	-6.1
Professional Services	0.7			-0.3	3.52	0.02	-0.01	1.5	0.9	-0.9	1.8	0.8	-1.4
Hospital & related services	5.6			1.0	2.28	0.13	0.02	3.8	1.1	1.6	4.5	1.3	0.8
Health insurance	-34.0			1.1	0.53	-0.18	0.01	5.0	5.8	-6.7	3.6	6.0	-6.2
Transportation serv.	9.2			0.8	5.97	0.55	0.05	2.6	1.1	6.0	2.6	1.0	6.8
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	9.6			0.2	1.14	0.11	0.00	2.2	0.7	10.6	2.0	0.6	13.2
Motor vehicle insurance	19.2			1.9	2.77	0.53	0.05	5.5	2.6	5.2	4.8	2.0	7.0
Motor vehicle fees	2.9			0.7	0.49	0.01	0.00	1.8	0.7	1.6	2.2	1.9	0.4
Public transportation	-8.9			0.0	0.71	-0.06	0.00	-1.2	1.5	-5.1	1.0	3.6	-2.8
Recreation serv.	5.7			0.1	3.12	0.18	0.00	2.6	0.7	4.7	2.3	0.7	4.5
Video & audio services	5.2			-0.3	1.00	0.05	0.00	2.7	1.4	1.7	2.6	1.3	1.9
Pet services	7.3			0.6	0.55	0.04	0.00	3.1	0.8	5.5	3.3	0.9	4.4
Photo services	6.3			0.0	0.04	0.00	0.00	-0.2	2.0	3.3	0.8	1.8	3.0
Other recreation services	5.6			0.2	1.53	0.09	0.00	2.4	0.6	5.3	1.7	1.1	3.7
Educ. & communication serv.	2.3			0.0	4.79	0.11	0.00	0.4	1.3	1.4	1.1	1.3	1.0
Tuition, school fees, child care	2.9			0.0	2.16	0.06	0.00	2.8	0.6	0.2	3.3	0.8	-0.6
Postage & delivery	0.8			-0.9	0.07	0.00	0.00	2.3	2.0	-0.7	3.3	2.0	-1.3
Telephone services	0.4			0.1	1.59	0.01	0.00	-2.4	3.0	0.9	-1.3	2.4	0.7
Internet services	4.4			-0.1	0.97	0.04	0.00	-0.2	1.5	3.0	0.1	1.3	3.2
Other personal serv.	6.7			0.3	1.46	0.10	0.00	2.7	0.7	5.9	2.4	0.6	6.8
Personal care services	5.0			0.4	0.60	0.03	0.00	2.3	0.7	3.9	1.8	0.8	3.9
Miscellaneous personal services	7.9			0.1	0.86	0.07	0.00	2.9	0.9	5.4	2.7	0.7	7.1

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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