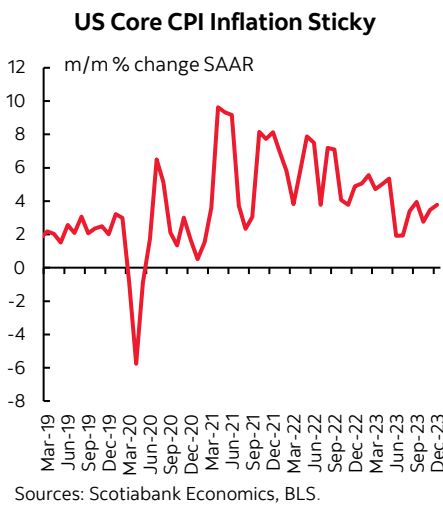


Contributors

Derek Holt

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

Chart 1



US Core Inflation Remains Hot, Key Will Be PCE

- Core CPI has settled into a pattern of overly hot readings
- Core services inflation remains hot, core goods disinflation waned
- Little but volatile market reaction
- Key is how this may translate into the Fed’s preferred inflation gauge

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

Actual: 0.3 / 0.3
 Scotia: 0.3 / 0.3
 Consensus: 0.2 / 0.3
 Prior: 0.1 / 0.3

US core CPI confirmed expectations that underlying inflationary pressures in the US economy remain too hot for the Fed’s liking which leans against market pricing for a cut as soon as the March meeting. The underlying details ([here](#)) reinforced this takeaway and I’ll point out what met expectations and where there were surprises. The USD is slightly firmer post-release. Yields were marginally affected albeit volatile thus far. Stocks are flat.

Core inflation (ex-food and energy) landed at 0.31% m/m SA with headline CPI up by 0.3% m/m SA. Both readings met my expectations while core met consensus, but headline was a tick firmer than consensus.

Headline and core CPI matched one another because gasoline and food did not offer material weighted contributions which was in line with what I had estimated. Food was up by just 0.2% m/m and so the 13.4% basket weight translated into no contribution. Gas was up by 0.2% m/m SA and so the 3.2% basket weight translated into zero weighted contribution as expected.

Have a look at the pattern of late when m/m core readings are annualized in chart 1. The latest December reading of 3.4% follows the 3.9% print in November. The 2.8% estimate for October was the lightest reading in the past five months as the prior two months settled in at 3.5% and 3.8%.

In other words, the trend continues to point to readings that are too hot for the Fed’s liking by way of the data dependency part of how they formulate policy. Expectations are the other part, but Chair Powell will remain skeptical toward what Fed models are predicting given the disastrous performance of inflation models throughout the pandemic and his comments on their track record. Powell will retain a show-me-the-proof bias and

Chart 2

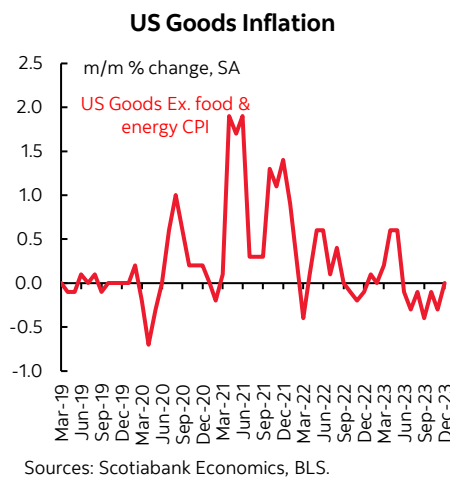
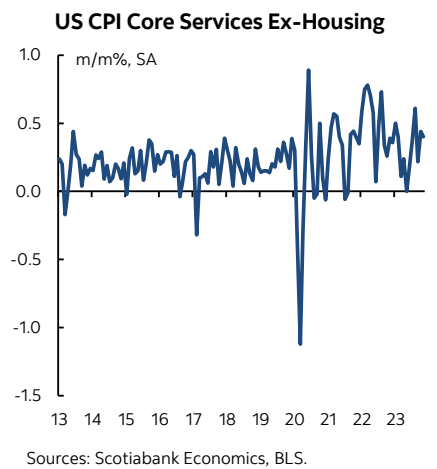


Chart 3



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until he gets convincing evidence that underlying inflation is settling in toward 2%. Until he sees such evidence that that it is staying there I just don't think he's going to seriously entertain cutting along the market's timeline.

Core goods CPI (ex-food and energy) was flat at 0% m/m SA which is the first non-negative reading in four months as shown in chart 2. I think core goods disinflation is waning but was a little surprised to see it in this report. This is part of what drove the firm overall core CPI reading. It's just one month, but the evidence tentatively leans toward viewing core goods disinflation as maturing. More data is clearly needed.

Core services CPI ex-housing and ex-energy was up 0.4% m/m for the second consecutive month which was in the realm of what was expected. Given the pattern to date, this portrays the deceleration to 0.2% in October as the aberration (chart 3).

Across other details, housing was a significant contributor once more. Owners' equivalent rent was up 0.5% m/m which continues to be hot. Rent of primary residence was up another 0.4% m/m SA and is also hot.

New vehicle prices were up by 0.3% m/m SA which was in the ballpark of industry guidance, but I'm a bit surprised by used vehicles relative to industry guidance as they were up 0.5% m/m.

Please also see the accompanying components charts 4–11 on the next page.

Chart 12 shows a breakdown of the y/y CPI change by component and chart 13 does the same in terms of weighted contributions to the overall y/y change in headline CPI.

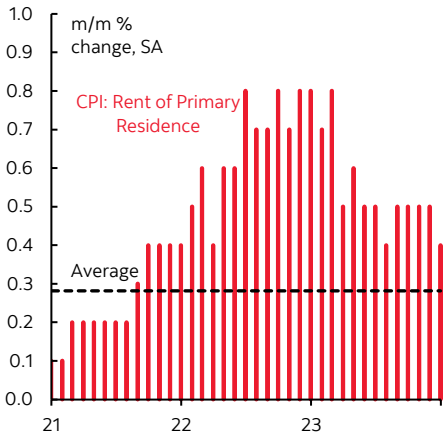
Chart 14 breaks down the CPI basket in m/m terms by component and chart 15 does the same thing in weighted terms.

The accompanying table at the back of this publication provides further details including micro-charts and z-score measures of deviations from trends.

As for next steps, the Fed's preferred measure of inflation is the price deflator for total consumption, or the PCE measures that arrive on January 26th. That is five days before the January FOMC. The core PCE measure has been undershooting core CPI with 0.1% m/m SA prints in October and November. The Cleveland Fed's 'nowcast' for core PCE suggests this could end with the December reading, although it can be off in either direction.

Chart 4

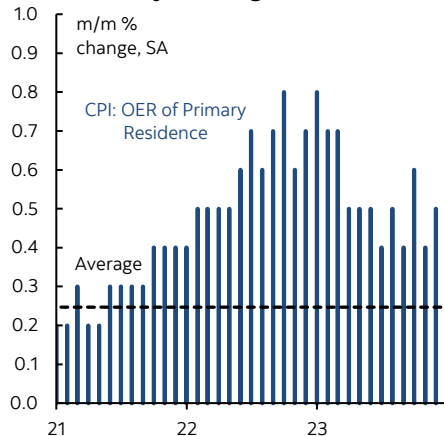
US Rent Inflation



Sources: Scotiabank Economics, BLS.

Chart 5

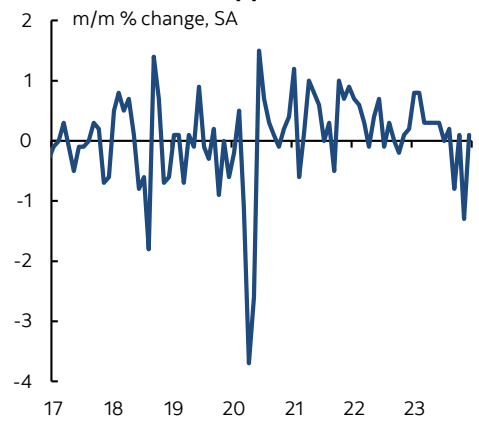
Sticky Housing Inflation



Sources: Scotiabank Economics, BLS.

Chart 6

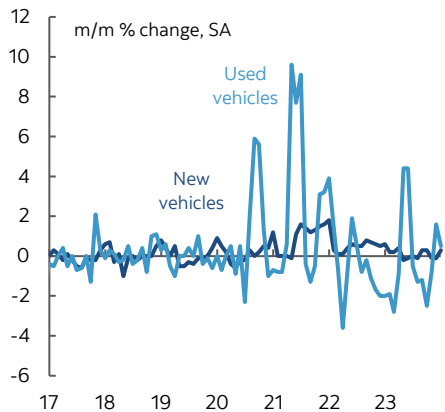
US Apparel



Sources: Scotiabank Economics, BLS.

Chart 7

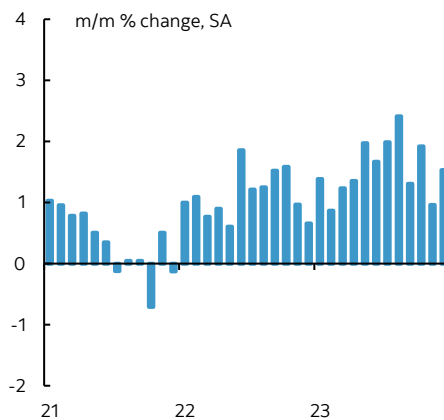
New vs Used Vehicle Inflation



Sources: Scotiabank Economics, BLS.

Chart 8

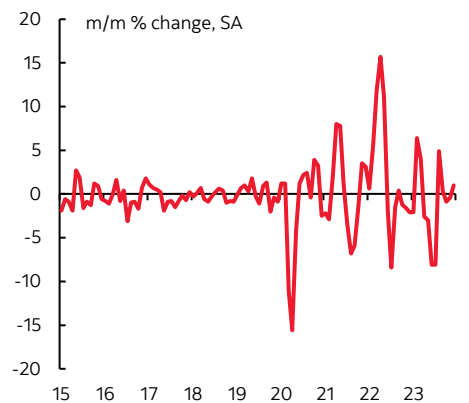
US Motor Vehicle Insurance On Run!



Sources: Scotiabank Economics, BLS.

Chart 9

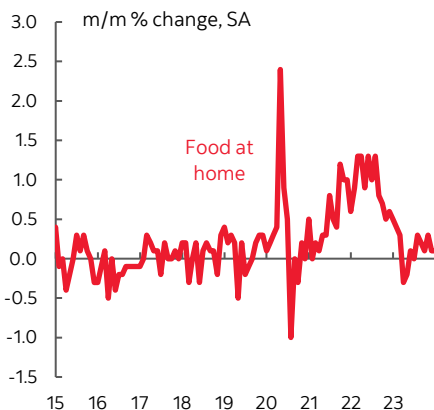
US Airfare



Sources: Scotiabank Economics, BLS.

Chart 10

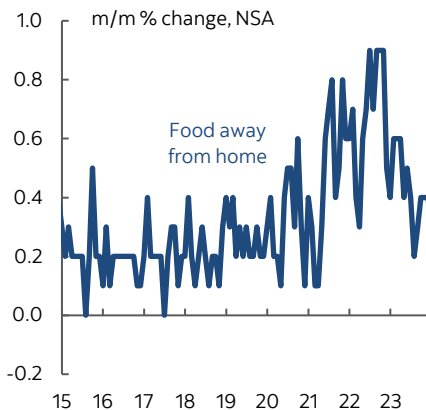
US Food Prices



Sources: Scotiabank Economics, BLS.

Chart 11

US Food Prices



Sources: Scotiabank Economics, BLS.

Chart 12

December 12-Month Changes in US Headline CPI Categories



Chart 13

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

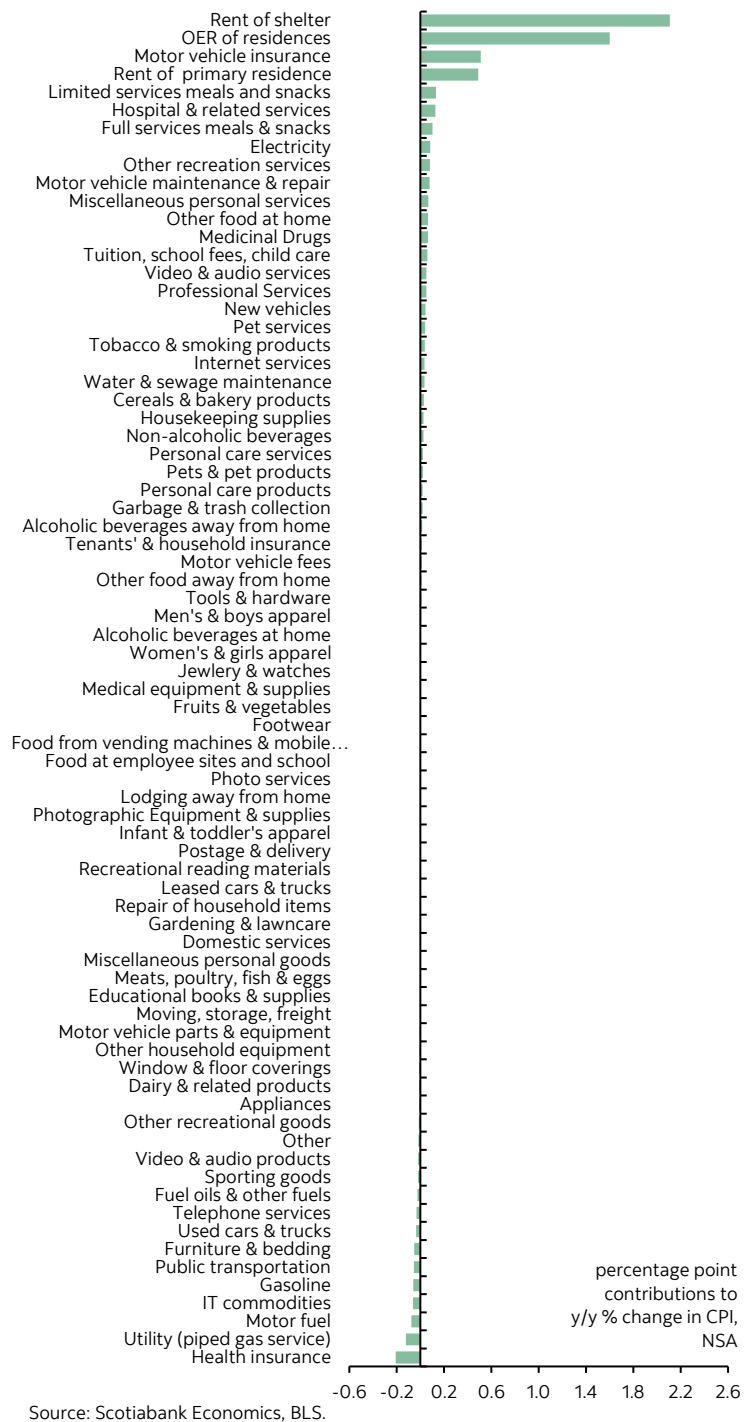
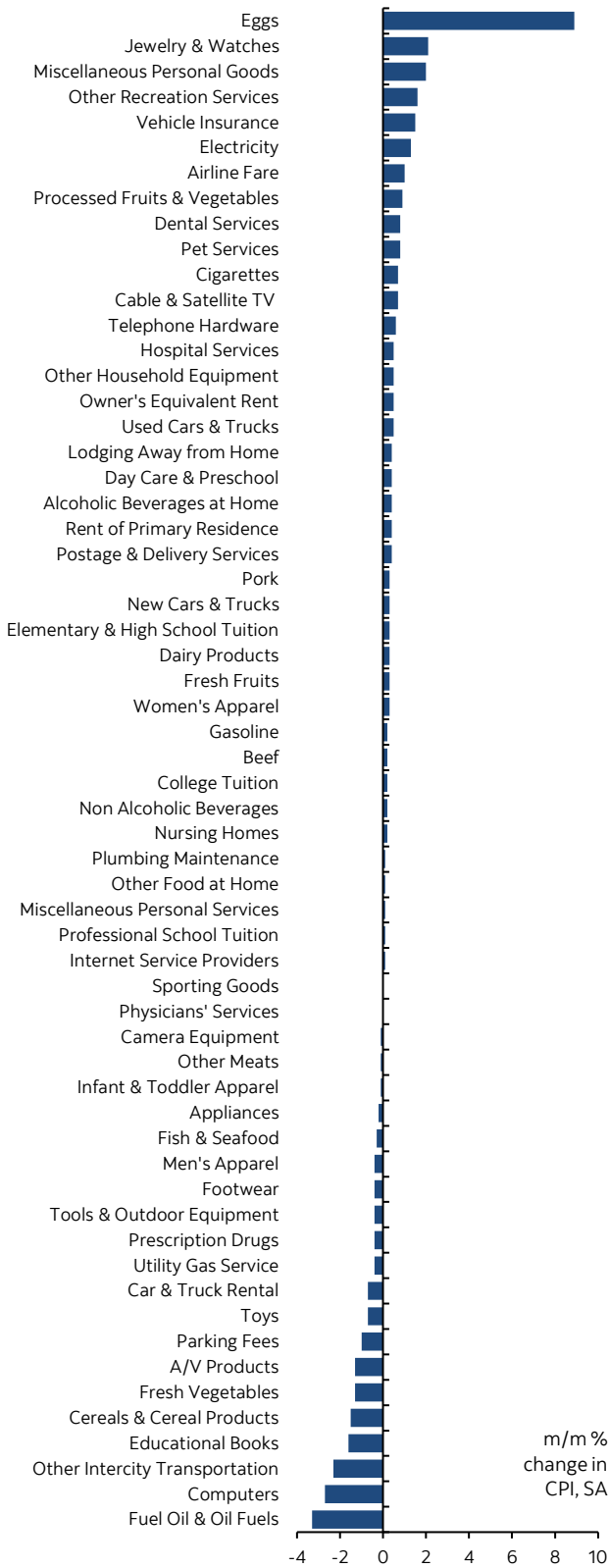


Chart 14

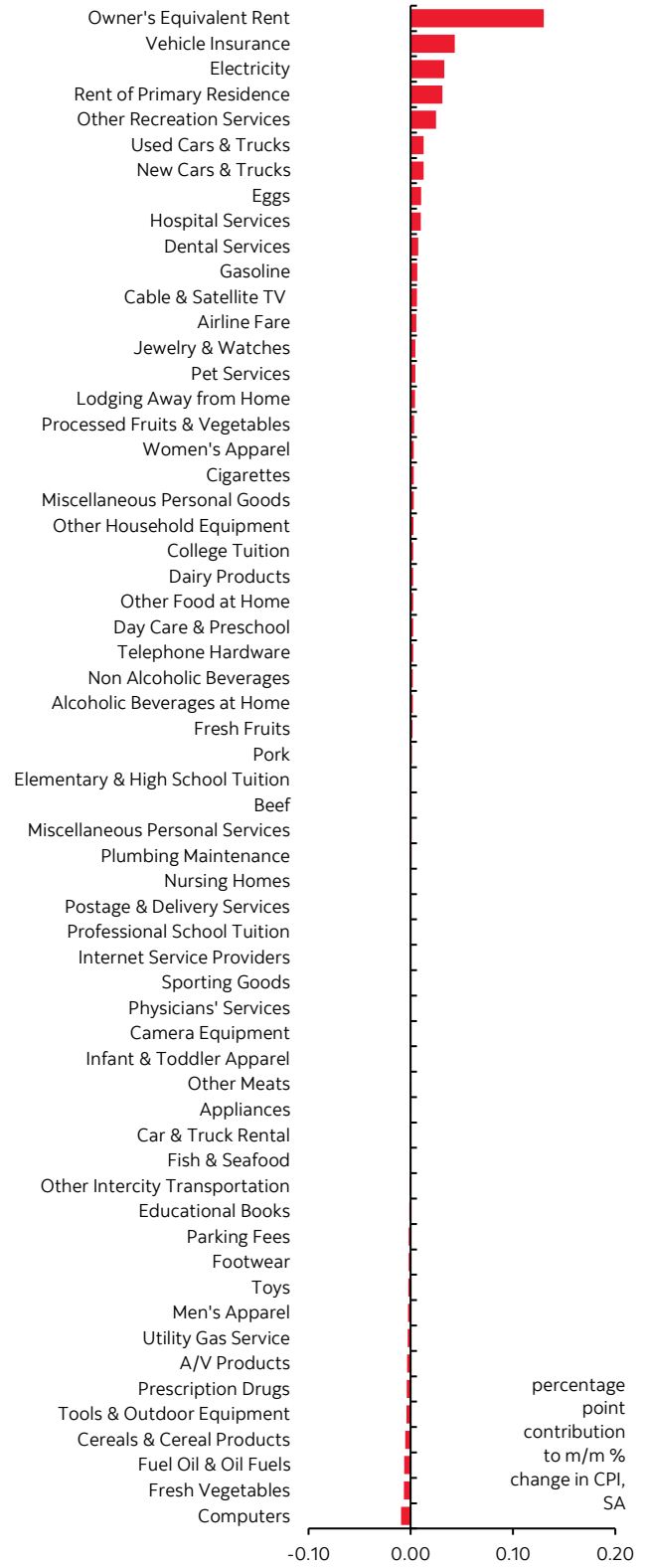
December Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 15

December Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

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Dec 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	2.7			0.2	13.42	0.37	0.03	1.3	0.8	1.9	1.7	1.1	0.9
Food, home	1.3			0.1	8.58	0.11	0.01	0.2	1.1	1.0	1.2	1.9	0.1
Cereals & bakery products	2.6			-0.3	1.16	0.03	0.00	0.4	0.9	2.5	0.9	1.7	1.0
Meats, poultry, fish & eggs	-0.1			0.5	1.79	0.00	0.01	-0.2	3.2	0.0	2.1	3.9	-0.6
Dairy & related products	-1.3			0.3	0.78	-0.01	0.00	-0.6	1.6	-0.4	1.1	3.1	-0.8
Fruits & vegetables	0.3			-0.1	1.47	0.00	0.00	0.4	1.7	-0.1	1.0	2.0	-0.3
Non-alcoholic beverages	2.6			0.2	1.03	0.03	0.00	0.6	1.0	1.9	0.5	1.6	1.3
Other food at home	2.8			0.1	2.34	0.07	0.00	0.5	0.6	3.6	1.0	1.6	1.1
Food, away	5.2			0.3	4.84	0.25	0.01	2.7	0.3	8.4	2.5	0.5	5.2
Full services meals & snacks	4.5			0.3	2.31	0.10	0.01	2.6	0.4	5.2	2.4	0.5	4.2
Limited services meals and snacks	5.9			0.4	2.26	0.13	0.01	2.8	0.3	9.6	2.5	0.7	4.8
Food at employee sites and school	3.3			-0.1	0.08	0.00	0.00	2.8	2.4	0.2	2.8	1.9	0.2
Food from vending machines & mobile vendors	13.1			0.1	0.03	0.00	0.00	3.1	1.0	10.1	2.5	1.3	8.1
Other food away from home	6.6			0.0	0.17	0.01	0.00	2.5	1.3	3.1	2.3	1.0	4.3
Energy	-2.0			0.4	6.96	-0.14	0.03	-1.9	10.0	0.0	1.6	9.6	-0.4
Energy comm.	-2.9			-0.1	3.72	-0.10	0.00	-2.8	17.0	0.0	3.0	17.1	-0.3
Fuel oils & other fuels	-11.8			-3.3	0.19	-0.03	-0.01	-2.3	15.8	-0.6	2.7	14.4	-1.0
Motor fuel	-2.3			0.1	3.53	-0.08	0.00	-2.8	17.1	0.0	3.0	17.3	-0.3
<u>Gasoline</u>	<u>-1.9</u>			<u>0.2</u>	<u>3.44</u>	<u>-0.06</u>	<u>0.01</u>	<u>-2.8</u>	<u>17.1</u>	<u>0.1</u>	<u>3.0</u>	<u>17.4</u>	<u>-0.3</u>
<u>Other</u>	<u>-15.2</u>			<u>-6.1</u>	<u>0.09</u>	<u>-0.02</u>	<u>-0.01</u>	<u>-2.3</u>	<u>19.5</u>	<u>-0.7</u>	<u>3.6</u>	<u>17.9</u>	<u>-1.1</u>
Energy serv.	-1.1			0.9	3.24	-0.04	0.03	0.0	2.4	-0.5	0.5	2.7	-0.6
Electricity	3.3			1.3	2.52	0.08	0.03	0.5	1.5	1.9	1.0	1.7	1.4
Utility (piped gas service)	-13.8			-0.4	0.72	-0.12	0.00	-1.4	7.5	-1.6	-0.9	7.3	-1.8
All items less food and energy	3.9			0.3	79.62	3.10	0.24	2.0	0.2	8.3	1.8	0.4	5.1
Commodities less food and energy	0.2			0.0	20.91	0.04	0.00	-0.3	0.4	1.4	0.2	0.9	0.0
Household furnishings	-0.9			-0.4	3.77	-0.04	-0.02	-0.8	1.2	-0.1	-0.9	1.2	0.0
Window & floor coverings	-3.1			1.8	0.30	-0.01	0.01	-2.3	1.7	-0.4	-2.8	1.8	-0.2
Furniture & bedding	-4.3			-1.2	1.12	-0.05	-0.01	-0.3	1.7	-2.3	-0.9	2.1	-1.6
Appliances	-4.0			-0.2	0.27	-0.01	0.00	-1.2	3.1	-0.9	-1.6	3.0	-0.8
Other household equipment	-1.1			-0.2	0.56	-0.01	0.00	-3.5	1.8	1.3	-3.7	1.5	1.7
Tools & hardware	0.9			-0.4	1.05	0.01	0.00	-0.1	1.0	0.9	-0.3	1.2	1.0
Housekeeping supplies	2.8			0.0	0.96	0.03	0.00	0.3	1.2	2.1	0.4	1.3	1.8

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Apparel	1.0			0.1	2.55	0.02	0.00	-0.5	1.0	1.6	0.3	1.7	0.4
Men's & boys apparel	1.3			-0.4	0.67	0.01	0.00	-0.3	1.5	1.1	0.5	2.3	0.4
Women's & girls apparel	0.6			0.3	1.05	0.01	0.00	-1.3	1.9	1.0	-0.1	2.5	0.3
Footwear	0.7			-0.4	0.51	0.00	0.00	0.2	1.3	0.4	0.8	1.7	0.0
Infant & toddler's apparel	1.2			-0.1	0.10	0.00	0.00	0.4	3.8	0.2	0.5	3.6	0.2
Jewelry & watches	2.2			2.1	0.22	0.00	0.00	1.0	3.4	0.4	1.5	3.8	0.2
Trans. less fuel	0.0			0.3	7.46	0.00	0.02	-0.3	0.9	0.3	0.4	1.5	-0.3
New vehicles	1.0			0.3	4.23	0.04	0.01	0.1	0.7	1.4	0.8	1.2	0.2
Used cars & trucks	-1.3			0.5	2.52	-0.03	0.01	-1.3	2.1	0.0	1.1	4.8	-0.5
Motor vehicle parts & equipment	-1.2			0.3	0.47	-0.01	0.00	0.2	1.1	-1.4	0.9	2.2	-1.0
Medical comm.	4.7			-0.1	1.47	0.07	0.00	2.1	1.7	1.5	2.3	1.5	1.7
Medicinal Drugs	4.8			-0.2	1.35	0.06	0.00	2.2	1.8	1.5	2.3	1.6	1.6
Medical equipment & supplies	4.1			1.2	0.11	0.00	0.00	0.4	1.2	3.0	0.3	1.2	3.2
Recreation comm.	-1.2			-0.5	2.22	-0.03	-0.01	-2.6	1.1	1.3	-2.3	0.9	1.2
Video & audio products	-6.5			-1.3	0.27	-0.02	0.00	-10.1	2.4	1.5	-9.2	2.2	1.2
Pets & pet products	3.1			0.5	0.66	0.02	0.00	0.4	1.5	1.8	0.5	1.5	1.8
Sporting goods	-2.5			-1.2	0.73	-0.02	-0.01	-0.7	1.5	-1.2	-0.6	1.2	-1.5
Photographic Equipment & supplies	6.4			-0.1	0.02	0.00	0.00	-1.7	4.6	1.8	-3.0	4.0	2.3
Recreational reading materials	0.4			-0.4	0.11	0.00	0.00	1.6	1.9	-0.6	1.5	1.8	-0.6
Other recreational goods	-2.8			-0.5	0.42	-0.01	0.00	-6.5	1.3	2.8	-5.2	1.7	1.4
Educ. & communication comm.	-7.2			-0.2	0.86	-0.07	0.00	-3.7	1.0	-3.4	-3.5	0.9	-4.1
Educational books & supplies	-3.6			1.5	0.09	0.00	0.00	2.2	3.0	-2.0	3.6	2.7	-2.6
IT commodities	-7.6			-0.4	0.77	-0.06	0.00	-6.1	1.9	-0.8	-6.8	1.8	-0.5
Alcohol	2.5			0.3	0.84	0.02	0.00	1.3	0.3	3.6	1.4	0.4	3.1
Alcoholic beverages at home	1.2			0.4	0.50	0.01	0.00	0.8	0.6	0.6	0.8	0.5	0.8
Alcoholic beverages away from home	4.6			0.2	0.33	0.02	0.00	1.9	0.5	5.9	2.2	0.7	3.6
Other goods	4.6			-0.6	1.26	0.06	-0.01	1.4	0.9	3.8	1.4	0.7	4.5
Tobacco & smoking products	7.8			-0.1	0.51	0.04	0.00	4.3	1.5	2.3	4.4	3.8	0.9
Personal care products	3.3			-1.1	0.61	0.02	-0.01	-0.3	0.6	6.2	-0.1	0.8	4.1
Miscellaneous personal goods	-0.9			-0.4	0.14	0.00	0.00	-2.4	3.1	0.5	-1.7	2.4	0.3

January 11, 2024

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Services less energy services	5.3			0.4	58.70	3.08	0.23	2.8	0.2	10.7	2.4	0.6	4.6
Shelter	6.2			0.5	34.97	2.13	0.17	3.3	0.2	17.3	2.5	1.2	3.2
Rent of shelter	6.2			0.4	34.60	2.11	0.14	3.3	0.2	15.7	2.5	1.2	3.1
<i>Rent of primary residence</i>	<i>6.5</i>			<i>0.4</i>	<i>7.66</i>	<i>0.49</i>	<i>0.03</i>	<i>3.7</i>	<i>0.1</i>	<i>21.0</i>	<i>2.9</i>	<i>1.1</i>	<i>3.2</i>
<i>Lodging away from home</i>	<i>0.2</i>			<i>0.4</i>	<i>1.11</i>	<i>0.00</i>	<i>0.00</i>	<i>2.3</i>	<i>2.0</i>	<i>-1.0</i>	<i>2.2</i>	<i>2.2</i>	<i>-0.9</i>
<i>OER of residences</i>	<i>6.3</i>			<i>0.5</i>	<i>25.83</i>	<i>1.60</i>	<i>0.13</i>	<i>3.2</i>	<i>0.2</i>	<i>15.2</i>	<i>2.4</i>	<i>1.1</i>	<i>3.6</i>
Tenants' & household insurance	3.6			0.3	0.37	0.01	0.00	1.4	1.2	1.9	2.3	1.5	0.9
Water, sewer, trash collection	5.2			0.1	1.07	0.05	0.00	3.6	0.6	2.8	4.3	1.0	0.9
Water & sewage maintenance	4.7			0.1	0.76	0.04	0.00	4.0	0.8	0.9	4.8	1.4	-0.1
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	0.00	-0.01	3.8	1.3	2.3	2.6	1.6	2.5
Domestic services	5.1			-1.3	0.27	0.00	0.00	2.0	1.1	2.9	1.6	1.0	3.4
Gardening & lawn care	4.1			0.9	0.33	0.00	0.00	4.3	2.7	-0.1	2.8	2.6	0.5
Moving, storage, freight	-3.4			-2.0	0.10	0.00	0.00	5.6	3.9	-2.3	3.3	3.9	-1.7
Repair of household items	5.4			1.7	0.12	0.00	0.00	4.8	2.1	0.3	4.2	2.0	0.6
Medical serv.	-0.5			0.7	6.34	-0.03	0.04	2.9	1.0	-3.5	3.0	0.8	-4.3
Professional Services	1.4			0.3	3.51	0.05	0.01	1.5	0.9	-0.1	1.8	0.8	-0.5
Hospital & related services	5.6			0.5	2.30	0.13	0.01	3.8	1.1	1.6	4.5	1.3	0.8
Health insurance	-27.1			1.1	0.53	-0.21	0.01	5.0	5.8	-5.6	3.6	6.0	-5.1
Transportation serv.	9.7			0.1	6.05	0.56	0.01	2.6	1.1	6.4	2.6	1.0	7.3
Leased cars & trucks	4.6			-0.2	0.74	0.00	0.00	0.5	3.0	1.3	-1.6	3.2	1.9
Motor vehicle maintenance & repair	7.1			-0.3	1.14	0.08	0.00	2.2	0.7	7.0	2.0	0.6	8.9
Motor vehicle insurance	20.3			1.5	2.84	0.51	0.04	5.5	2.6	5.7	4.8	2.0	7.6
Motor vehicle fees	2.7			0.6	0.49	0.01	0.00	1.8	0.7	1.3	2.2	1.9	0.3
Public transportation	-6.9			0.7	0.73	-0.05	0.01	-1.2	1.5	-3.7	1.0	3.6	-2.2
Recreation serv.	5.6			1.1	3.12	0.17	0.03	2.6	0.7	4.6	2.3	0.7	4.4
Video & audio services	5.3			0.7	0.99	0.05	0.01	2.7	1.4	1.8	2.6	1.3	2.0
Pet services	7.6			0.8	0.55	0.04	0.00	3.1	0.8	5.9	3.3	0.9	4.7
Photo services	6.2			0.1	0.04	0.00	0.00	-0.2	2.0	3.2	0.8	1.8	2.9
Other recreation services	5.2			1.6	1.53	0.08	0.02	2.4	0.6	4.7	1.7	1.1	3.3
Educ. & communication serv.	1.3			0.2	4.80	0.06	0.01	0.4	1.3	0.7	1.1	1.3	0.2
Tuition, school fees, child care	2.7			0.2	2.16	0.06	0.00	2.8	0.6	-0.2	3.3	0.8	-0.8
Postage & delivery	0.7			0.4	0.07	0.00	0.00	2.3	2.0	-0.8	3.3	2.0	-1.3
Telephone services	-1.9			0.1	1.60	-0.03	0.00	-2.4	3.0	0.2	-1.3	2.4	-0.2
Internet services	3.7			0.1	0.97	0.04	0.00	-0.2	1.5	2.6	0.1	1.3	2.7
Other personal serv.	6.4			0.1	1.47	0.09	0.00	2.7	0.7	5.5	2.4	0.6	6.3
Personal care services	3.7			0.1	0.61	0.02	0.00	2.3	0.7	2.0	1.8	0.8	2.3
Miscellaneous personal services	8.3			0.1	0.86	0.07	0.00	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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