

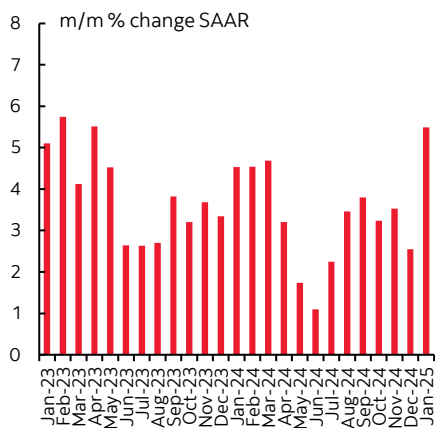
Contributors

Derek Holt

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

Chart 1

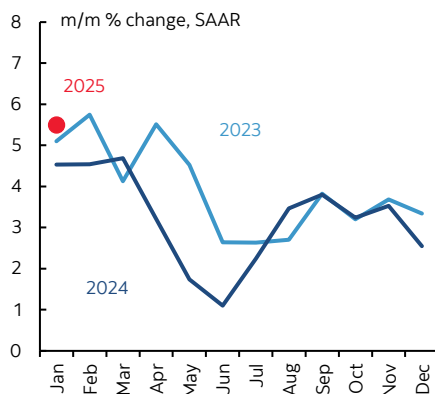
US Core CPI Inflation



Sources: Scotiabank Economics, BLS.

Chart 2

2025 Hotter Than 2024 & 2023 for US Core CPI



Sources: Scotiabank Economics, BLS.

Is US Monetary Policy Tight Enough?

- Core CPI was hotter than expected
- Be careful toward dismissing a ‘January effect’
- Core PCE is also likely to be too warm for the FOMC
- Excess demand, policy risks and warm trend inflation should drive a hawkish FOMC

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

Actual: 0.47 / 0.45
 Scotia: 0.2 / 0.3
 Consensus: 0.3 / 0.3
 Prior: 0.36 / 0.21

Is US monetary policy tight enough? Trump—who parlayed his father’s fortune into a bigger one in real estate—thinks rates should be lowered. And yet another hot core CPI report along a trend of such readings has markets pushing out the first fully priced cut to December and may even beg the opposite question. I’ll lend caution to ignoring the latest reading while inferring what it means for core PCE expectations and setting all of that in the context of a reminder of my longstanding views on inflation risks under Trump 2.0.

Not Just One Month

Core CPI landed at 0.446% which by the thinnest of whiskers rounds down to the 0.4% as reported on traders’ screens, or 5½% m/m at an annualized rate.

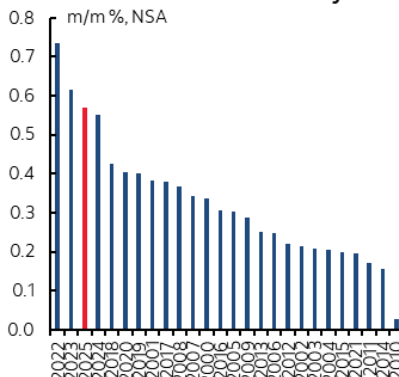
And it’s not just the first such reading, so fade any such temptation to discount the first report of the year. Core CPI inflation has been running hot for six consecutive months (chart 1). December was 2.5%, and each of August through November were running at between 3.2–3.8% m/m SAAR.

Details

There is no doubt that something funny is going on with the inflation readings to start the year. We see that in the tendency for seasonally adjusted core CPI to be hot at the start of each year (chart 2). In fact, the seven hottest January readings on record for the m/m change in seasonally unadjusted prices have been since 2018 (chart 3). Only 2021 was relatively soft. This January, 2025, is the third hottest one on record. That was tamped down somewhat by a slightly above-average January SA factor (chart 4).

Chart 3

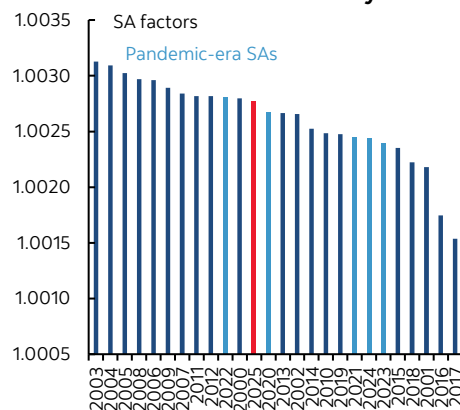
Comparing US Core CPI for All Months of January



Sources: Scotiabank Economics, BLS

Chart 4

Comparing US Core CPI SA Factors for All Months of January



Sources: Scotiabank Economics, BLS

Is the pattern for January m/m NSA readings cause to ignore? Some think so. Just remove it, walk on, and pretend like we didn't see it.

And yet two points counsel caution toward such a bias. One is that you could be guilty of cherry picking data if you discounted January's reading, but then don't discount readings the rest of the year when SA factors create persistent distortions in the post-pandemic period.

Second, there may be information revealed in a shift in pricing strategies as companies compress more of their full year price changes into decisions at the start of the year since 2018 versus prior years. That may be a meaningful shift in company pricing strategies that requires heavily smoothing the data and perhaps SA factors are not yet keeping up. You wouldn't want to conduct monetary policy by ignoring January if companies have fundamentally shifted their pricing strategies to compress full-year inflation risk at the start of brand new fiscal years.

Core PCE Expectations

CPI, however, is not the Fed's preferred inflation gauge. That's the price deflator for total consumer spending, or the PCE gauge and particularly core PCE that removes food and energy. Chart 5 shows an attempt at converting the different weights on CPI components that are used in PCE. It reveals that core PCE should be 0.18% lower than core CPI in m/m SA terms which translates into expectations for a 0.3% m/m core PCE reading at month-end. We need tomorrow's producer price index for other PCE components in order to firm up this estimate.

And yet, at 3.2% m/m SAAR, core PCE inflation would be too hot for the FOMC's liking should such conversion math hold. The highest prior reading was 3.3% m/m SAAR back in October which in turn was the warmest since March of last year.

What Drove It

Underlying details were broadly supportive of the warm headline. Core services inflation (ex-energy and housing services) was the hottest since last January at 0.76% m/m SA, or nearly 10% m/m SAAR (chart 6). Core goods inflation (ex-food and energy) was also warmer and the volatile trend is well off the bottom last summer (chart 7).

Charts 9–20 on the next page show components. Charts 21–22 break down the m/m unweighted changes within the basket and weighted contributions. Charts 23–24 do likewise for the y/y measures.

The table at the back of this publication provides further details, micro charts and other measures.

Inflationary Pressures Could Easily Persist

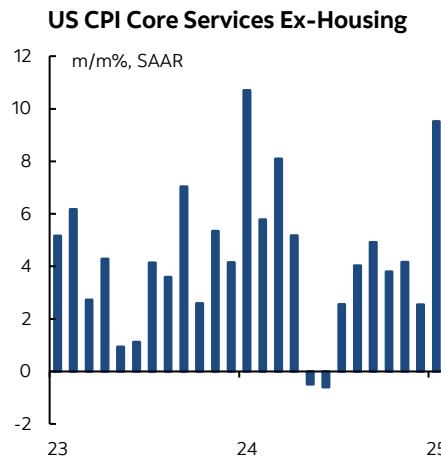
Everybody has a different measure of exactly how much excess demand exists in the US economy right now. One measure is shown in chart 8. They all show excess demand conditions that are pressuring capacity constraints in the US economy, but with varying estimates partly dependent upon estimates of potential growth, or the economy's noninflationary speed limit and starting point. A strongly performing US economy is driving inflation persistence. Adding fiscal stimulus—if achieved, which is a big 'if'—and some types of regulatory easing on the demand side would only add to this. Tariffs also face high pass through risks into consumer prices because of the absence of any mitigating slack in the overall economy. Toss in tighter immigration policy that crushes labour force growth and the negative effect of policy uncertainty on investment and all the stars are aligned for the FOMC to tread very carefully. Ergo, the discussion shouldn't be about cutting rates any time soon, while the combination of policy risks and the starting point may well suggest monetary policy isn't tight enough and/or that bond markets and the dollar have further work to do in sterilizing the outcomes.

Chart 5

US Core CPI & Core PCE Weights Comparison					
	Core CPI	CPI m/m % change	Core PCE	Diff in weight	Diff in m/m % change
Goods					
<i>Durable Goods</i>					
Motor Vehicles & Parts	9.07	0.8	4.30	-4.77	-0.04
Furnishings	4.22	-0.2	2.76	-1.46	0.00
Recreational Goods	2.31	0.3	3.79	1.48	0.00
<i>Nondurables</i>					
Clothing & Footwear	3.11	-1.4	2.94	-0.16	0.00
Services					
<i>Housing & Utilities</i>					
Rent	9.34	0.3	4.04	-5.30	-0.02
Homeowner Equivalent Rent	32.74	0.3	13.34	-19.40	-0.06
Water & Garbage Collection	1.35	0.7	0.78	-0.57	0.00
<i>Health Care</i>					
Transportation Services	8.40	0.0	18.84	10.44	0.00
Recreation Service	7.94	1.8	3.83	-4.11	-0.07
Recreation Service	4.34	1.4	4.40	0.06	0.00
Total:				-23.80	-0.18

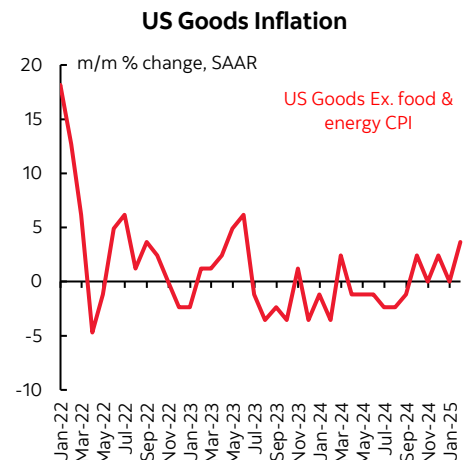
Sources: Scotiabank Economics, BLS, BEA

Chart 6



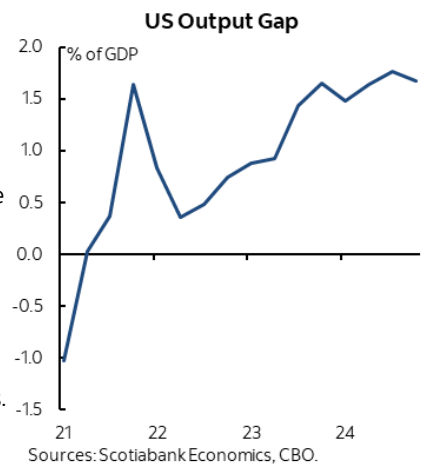
Sources: Scotiabank Economics, BLS.

Chart 7



Sources: Scotiabank Economics, BLS.

Chart 8



Sources: Scotiabank Economics, CBO.

Chart 9

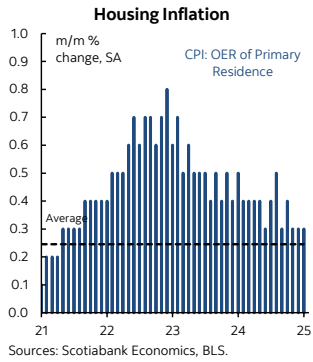


Chart 10

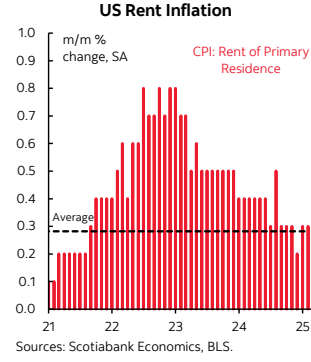


Chart 11

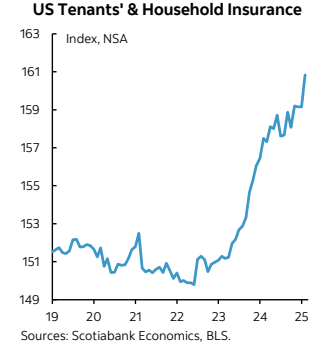


Chart 12

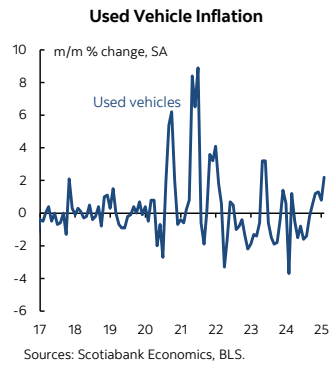


Chart 13

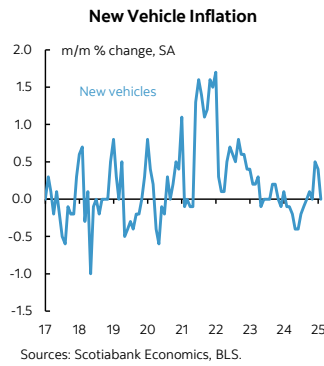


Chart 14

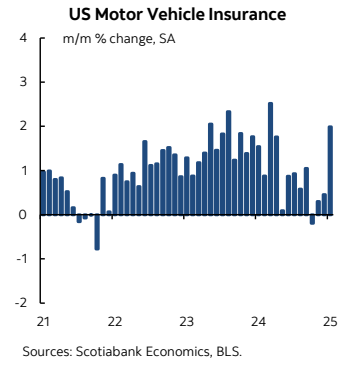


Chart 15

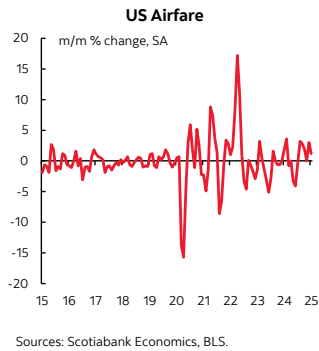


Chart 16

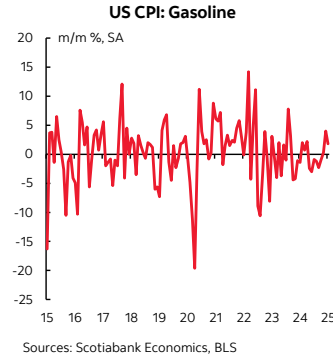


Chart 17

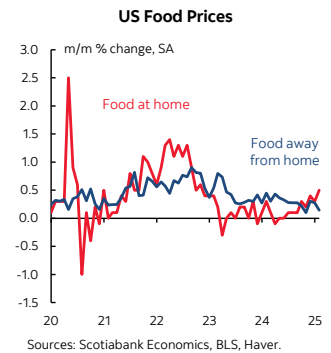


Chart 18

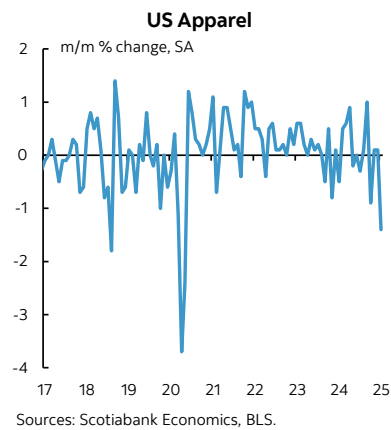


Chart 19

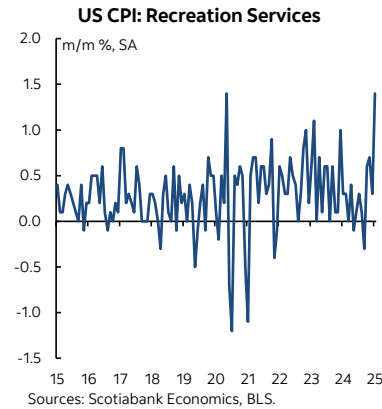


Chart 20

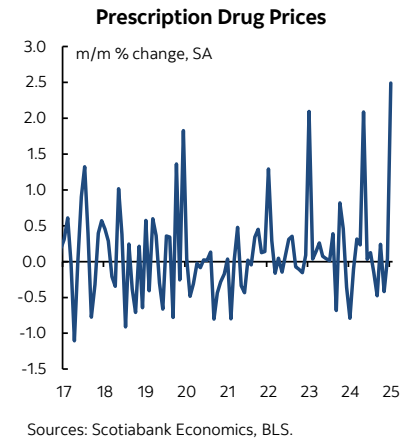
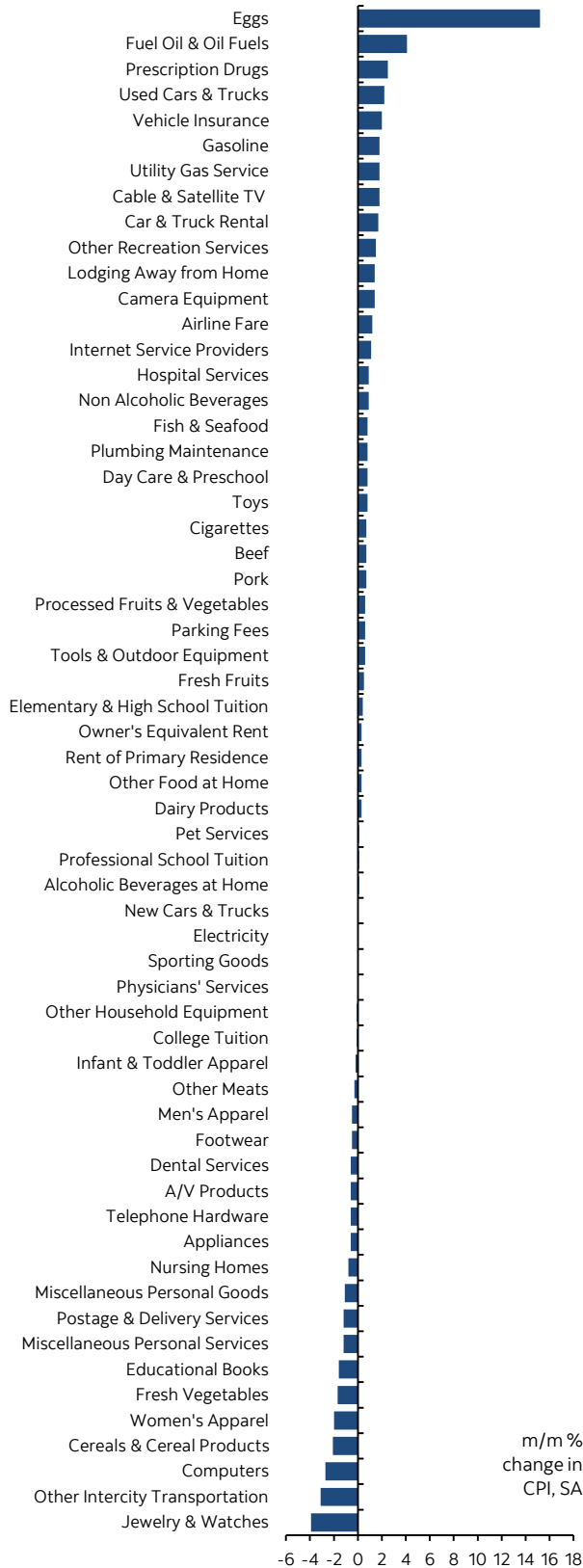


Chart 21

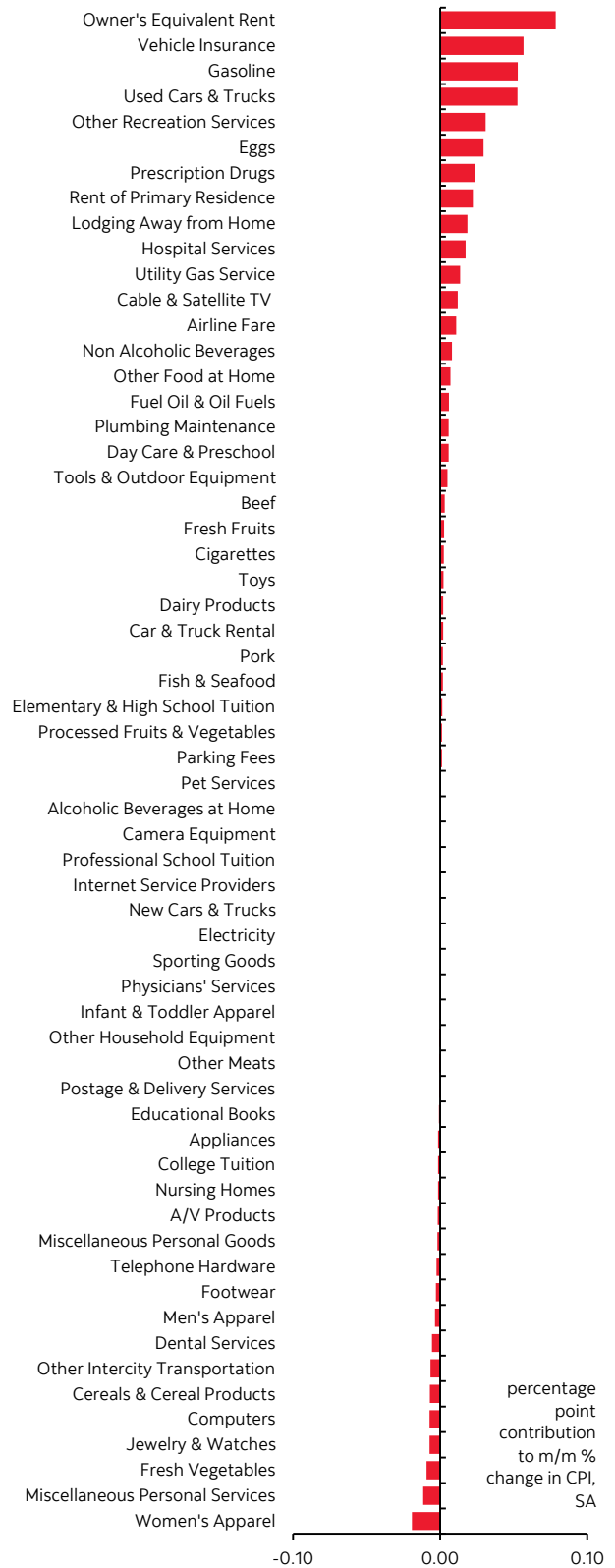
January Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 22

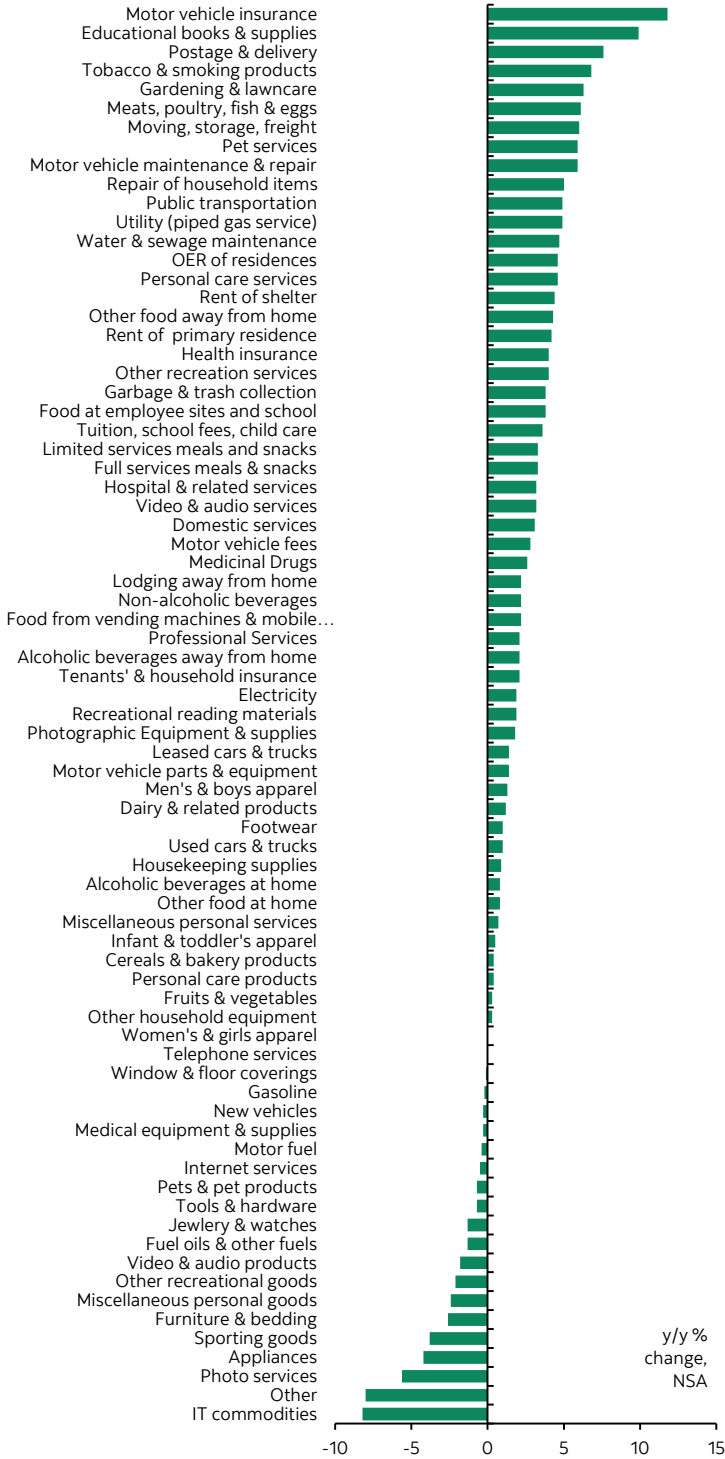
January Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 23

January 12-Month Changes in US Headline CPI Categories



Sources: Scotiabank Economics, BLS.

Chart 24

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



Source: Scotiabank Economics, BLS.

February 12, 2025

Jan 2025					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	2.5			0.4	13.69	0.34	0.05	1.3	0.8	1.6	1.7	1.1	0.7
Food, home	1.9			0.5	8.04	0.16	0.04	0.2	1.1	1.5	1.2	1.9	0.4
Cereals & bakery products	0.4			-0.4	1.11	0.00	0.00	0.4	0.9	0.0	0.9	1.7	-0.3
Meats, poultry, fish & eggs	6.1			1.9	1.62	0.10	0.03	-0.2	3.2	2.0	2.1	3.9	1.0
Dairy & related products	1.2			0.3	0.74	0.01	0.00	-0.6	1.6	1.1	1.1	3.1	0.0
Fruits & vegetables	0.3			-0.5	1.34	0.00	-0.01	0.4	1.7	-0.1	1.0	2.0	-0.3
Non-alcoholic beverages	2.2			0.9	0.90	0.02	0.01	0.6	1.0	1.5	0.5	1.6	1.1
Other food at home	0.8			0.3	2.34	0.02	0.01	0.5	0.6	0.5	1.0	1.6	-0.1
Food, away	3.4			0.2	5.65	0.18	0.01	2.7	0.3	2.4	2.5	0.5	1.8
Full services meals & snacks	3.3			0.1	2.43	0.08	0.00	2.6	0.4	1.9	2.4	0.5	1.8
Limited services meals and snacks	3.3			0.3	2.85	0.08	0.01	2.8	0.3	1.5	2.5	0.7	1.2
Food at employee sites and school	3.8			-0.1	0.07	0.00	0.00	2.8	2.4	0.4	2.8	1.9	0.5
Food from vending machines & mobile vendors	2.2			1.1	0.06	0.00	0.00	3.1	1.0	-0.9	2.5	1.3	-0.3
Other food away from home	4.3			0.1	0.24	0.01	0.00	2.5	1.3	1.4	2.3	1.0	2.0
Energy	1.0			1.1	6.22	0.07	0.07	-1.9	10.0	0.3	1.6	9.6	-0.1
Energy comm.	-0.5			1.9	3.12	-0.02	0.06	-2.8	17.0	0.1	3.0	17.1	-0.2
Fuel oils & other fuels	-1.3			4.1	0.14	0.00	0.01	-2.3	15.8	0.1	2.7	14.4	-0.3
Motor fuel	-0.4			1.8	2.98	-0.01	0.05	-2.8	17.1	0.1	3.0	17.3	-0.2
<u>Gasoline</u>	<u>-0.2</u>			<u>1.8</u>	<u>2.90</u>	<u>-0.01</u>	<u>0.05</u>	<u>-2.8</u>	<u>17.1</u>	<u>0.2</u>	<u>3.0</u>	<u>17.4</u>	<u>-0.2</u>
<u>Other</u>	<u>-8.0</u>			<u>2.1</u>	<u>0.08</u>	<u>-0.01</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>-0.3</u>	<u>3.6</u>	<u>17.9</u>	<u>-0.6</u>
Energy serv.	2.5			0.3	3.09	0.08	0.01	0.0	2.4	1.0	0.5	2.7	0.7
Electricity	1.9			0.0	2.34	0.05	0.00	0.5	1.5	0.9	1.0	1.7	0.5
Utility (piped gas service)	4.9			1.8	0.75	0.03	0.01	-1.4	7.5	0.8	-0.9	7.3	0.8
All items less food and energy	3.3			0.4	80.09	2.63	0.32	2.0	0.2	5.6	1.8	0.4	3.6
Commodities less food and energy	-0.1			0.3	19.39	-0.02	0.06	-0.3	0.4	0.6	0.2	0.9	-0.3
Household furnishings	-0.9			-0.2	4.40	-0.03	-0.01	-0.8	1.2	-0.1	-0.9	1.2	0.0
Window & floor coverings	-0.1			1.8	0.24	0.00	0.00	-2.3	1.7	1.3	-2.8	1.8	1.5
Furniture & bedding	-2.6			0.2	0.79	-0.03	0.00	-0.3	1.7	-1.3	-0.9	2.1	-0.8
Appliances	-4.2			-0.6	0.21	-0.01	0.00	-1.2	3.1	-1.0	-1.6	3.0	-0.9
Other household equipment	0.3			1.2	0.49	0.00	0.01	-3.5	1.8	2.1	-3.7	1.5	2.7
Tools & hardware	-0.7			0.6	0.84	0.00	0.01	-0.1	1.0	-0.6	-0.3	1.2	-0.3
Housekeeping supplies	0.9			0.1	0.81	0.01	0.00	0.3	1.2	0.5	0.4	1.3	0.4

February 12, 2025

Jan 2025				Weighted Contributions (ppts)*			5-Year Pre-Pandemic			10-Year Pre-Pandemic			
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Apparel	0.4			-1.4	2.48	0.01	-0.03	-0.5	1.0	1.0	0.3	1.7	0.0
Men's & boys apparel	1.3			-0.5	0.65	0.01	0.00	-0.3	1.5	1.1	0.5	2.3	0.4
Women's & girls apparel	0.0			-2.0	0.97	0.00	-0.02	-1.3	1.9	0.7	-0.1	2.5	0.0
Footwear	1.0			-0.5	0.58	0.01	0.00	0.2	1.3	0.6	0.8	1.7	0.1
Infant & toddler's apparel	0.5			-0.2	0.10	0.00	0.00	0.4	3.8	0.0	0.5	3.6	0.0
Jewelry & watches	-1.3			-3.9	0.18	0.00	-0.01	1.0	3.4	-0.7	1.5	3.8	-0.7
Trans. less fuel	0.2			0.8	7.28	0.01	0.06	-0.3	0.9	0.6	0.4	1.5	-0.1
New vehicles	-0.3			0.0	4.39	-0.01	0.00	0.1	0.7	-0.6	0.8	1.2	-0.9
Used cars & trucks	1.0			2.2	2.39	0.02	0.05	-1.3	2.1	1.1	1.1	4.8	0.0
Motor vehicle parts & equipment	1.4			0.8	0.36	0.01	0.00	0.2	1.1	1.1	0.9	2.2	0.2
Medical comm.	2.3			1.2	1.53	0.03	0.02	2.1	1.7	0.1	2.3	1.5	0.0
Medicinal Drugs	2.6			1.4	1.35	0.04	0.02	2.2	1.8	0.2	2.3	1.6	0.2
Medical equipment & supplies	-0.3			-0.6	0.18	0.00	0.00	0.4	1.2	-0.5	0.3	1.2	-0.6
Recreation comm.	-1.9			0.3	1.85	-0.04	0.01	-2.6	1.1	0.7	-2.3	0.9	0.5
Video & audio products	-1.8			-0.6	0.25	-0.01	0.00	-10.1	2.4	3.5	-9.2	2.2	3.3
Pets & pet products	-0.7			0.3	0.63	0.00	0.00	0.4	1.5	-0.8	0.5	1.5	-0.8
Sporting goods	-3.8			0.2	0.48	-0.03	0.00	-0.7	1.5	-2.0	-0.6	1.2	-2.6
Photographic Equipment & supplies	1.8			1.4	0.02	0.00	0.00	-1.7	4.6	0.8	-3.0	4.0	1.2
Recreational reading materials	1.9			2.1	0.10	0.00	0.00	1.6	1.9	0.2	1.5	1.8	0.2
Other recreational goods	-2.1			0.5	0.37	-0.01	0.00	-6.5	1.3	3.3	-5.2	1.7	1.8
Educ. & communication comm.	-6.6			0.1	0.75	-0.06	0.00	-3.7	1.0	-2.8	-3.5	0.9	-3.4
Educational books & supplies	9.9			0.9	0.04	0.01	0.00	2.2	3.0	2.6	3.6	2.7	2.3
IT commodities	-8.2			0.0	0.71	-0.06	0.00	-6.1	1.9	-1.1	-6.8	1.8	-0.8
Alcohol	1.4			0.3	0.84	0.01	0.00	1.3	0.3	0.4	1.4	0.4	0.1
Alcoholic beverages at home	0.8			0.1	0.45	0.00	0.00	0.8	0.6	-0.1	0.8	0.5	0.0
Alcoholic beverages away from home	2.1			0.3	0.39	0.01	0.00	1.9	0.5	0.5	2.2	0.7	-0.2
Other goods	2.6			0.2	1.29	0.04	0.00	1.4	0.9	1.4	1.4	0.7	1.7
Tobacco & smoking products	6.8			0.4	0.48	0.04	0.00	4.3	1.5	1.6	4.4	3.8	0.6
Personal care products	0.4			0.4	0.65	0.00	0.00	-0.3	0.6	1.3	-0.1	0.8	0.6
Miscellaneous personal goods	-2.4			1.0	0.16	0.00	0.00	-2.4	3.1	0.0	-1.7	2.4	-0.3

February 12, 2025

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Services less energy services	4.3			0.5	60.71	2.62	0.30	2.8	0.2	6.4	2.4	0.6	3.0
Shelter	4.4			0.4	35.48	1.59	0.14	3.3	0.2	6.6	2.5	1.2	1.7
Rent of shelter	4.4			0.4	35.07	1.58	0.14	3.3	0.2	5.9	2.5	1.2	1.6
<i>Rent of primary residence</i>	<i>4.2</i>			<i>0.3</i>	<i>7.50</i>	<i>0.32</i>	<i>0.02</i>	<i>3.7</i>	<i>0.1</i>	<i>3.8</i>	<i>2.9</i>	<i>1.1</i>	<i>1.2</i>
<i>Lodging away from home</i>	<i>2.2</i>			<i>1.4</i>	<i>1.29</i>	<i>0.03</i>	<i>0.02</i>	<i>2.3</i>	<i>2.0</i>	<i>0.0</i>	<i>2.2</i>	<i>2.2</i>	<i>0.0</i>
<i>OER of residences</i>	<i>4.6</i>			<i>0.3</i>	<i>26.28</i>	<i>1.23</i>	<i>0.08</i>	<i>3.2</i>	<i>0.2</i>	<i>6.8</i>	<i>2.4</i>	<i>1.1</i>	<i>2.0</i>
Tenants' & household insurance	2.1			1.1	0.41	0.01	0.00	1.4	1.2	0.6	2.3	1.5	-0.1
Water, sewer, trash collection	4.4			0.7	1.08	0.05	0.01	3.6	0.6	1.4	4.3	1.0	0.1
Water & sewage maintenance	4.7			0.8	0.74	0.04	0.01	4.0	0.8	0.9	4.8	1.4	-0.1
Garbage & trash collection	3.8			0.3	0.34	0.01	0.00	2.5	1.5	0.9	2.5	1.1	1.2
Household ops.	5.7			-0.3	1.01	0.00	0.00	3.8	1.3	1.5	2.6	1.6	1.9
Domestic services	3.1			0.7	0.31	0.00	0.00	2.0	1.1	1.1	1.6	1.0	1.4
Gardening & lawn care	6.3			-0.8	0.34	0.00	0.00	4.3	2.7	0.7	2.8	2.6	1.3
Moving, storage, freight	6.0			-0.4	0.13	0.01	0.00	5.6	3.9	0.1	3.3	3.9	0.7
Repair of household items	5.0			1.7	0.14	0.00	0.00	4.8	2.1	0.1	4.2	2.0	0.4
Medical serv.	2.7			0.0	6.75	0.18	0.00	2.9	1.0	-0.2	3.0	0.8	-0.4
Professional Services	2.1			-0.2	3.70	0.08	-0.01	1.5	0.9	0.6	1.8	0.8	0.3
Hospital & related services	3.2			0.9	2.25	0.07	0.02	3.8	1.1	-0.6	4.5	1.3	-1.0
Health insurance	4.0			0.7	0.79	0.02	0.01	5.0	5.8	-0.2	3.6	6.0	0.1
Transportation serv.	8.0			1.8	6.31	0.50	0.11	2.6	1.1	4.9	2.6	1.0	5.6
Leased cars & trucks	1.4			-0.2	0.51	0.00	0.00	0.5	3.0	0.3	-1.6	3.2	0.9
Motor vehicle maintenance & repair	5.9			0.5	1.02	0.07	0.01	2.2	0.7	5.3	2.0	0.6	6.8
Motor vehicle insurance	11.8			2.0	2.80	0.33	0.06	5.5	2.6	2.4	4.8	2.0	3.4
Motor vehicle fees	2.8			2.6	0.50	0.02	0.01	1.8	0.7	1.4	2.2	1.9	0.3
Public transportation	4.9			0.7	1.47	0.05	0.01	-1.2	1.5	4.1	1.0	3.6	1.1
Recreation serv.	3.8			1.4	3.45	0.12	0.05	2.6	0.7	1.8	2.3	0.7	2.0
Video & audio services	3.2			2.0	0.81	0.03	0.02	2.7	1.4	0.3	2.6	1.3	0.4
Pet services	5.9			0.1	0.53	0.03	0.00	3.1	0.8	3.7	3.3	0.9	2.9
Photo services	-5.6			1.0	0.06	0.00	0.00	-0.2	2.0	-2.7	0.8	1.8	-3.5
Other recreation services	4.0			1.5	2.05	0.07	0.03	2.4	0.6	2.7	1.7	1.1	2.1
Educ. & communication serv.	1.7			0.3	4.98	0.09	0.01	0.4	1.3	1.0	1.1	1.3	0.5
Tuition, school fees, child care	3.6			0.2	2.54	0.09	0.01	2.8	0.6	1.4	3.3	0.8	0.3
Postage & delivery	7.6			-1.2	0.05	0.01	0.00	2.3	2.0	2.7	3.3	2.0	2.2
Telephone services	0.0			0.2	1.45	0.00	0.00	-2.4	3.0	0.8	-1.3	2.4	0.5
Internet services	-0.5			1.1	0.93	0.00	0.01	-0.2	1.5	-0.2	0.1	1.3	-0.4
Other personal serv.	2.3			-0.5	1.64	0.04	-0.01	2.7	0.7	-0.5	2.4	0.6	-0.1
Personal care services	4.6			0.5	0.66	0.03	0.00	2.3	0.7	3.3	1.8	0.8	3.4
Miscellaneous personal services	0.7			-1.2	0.98	0.01	-0.01	2.9	0.9	-2.3	2.7	0.7	-2.7

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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