

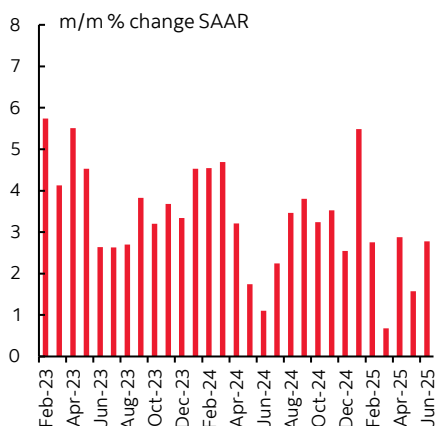
Contributors

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Chart 1

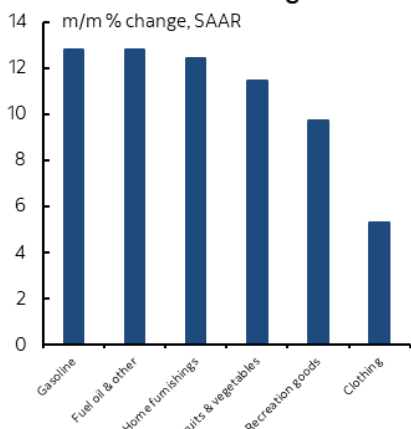
US Core CPI Inflation



Sources: Scotiabank Economics, BLS.

Chart 2

Tariff Pass Through?



Sources: Scotiabank Economics, BLS.

The Thin Edge of the Tariffs Wedge is Slowly Creeping Into US Inflation

- US core inflation accelerated, pumping the 3-mo MA above target
- Where evidence of tariff pass-through is creeping into the data
- Two strong caveats on data quality
- Markets scaled back FOMC cut pricing
- Scotia's forecast remains for the FOMC to be on hold this year

US CPI / core CPI, m/m % change, SA, June:

Actual: 0.29 / 0.23

Scotia: 0.2 / 0.3

Consensus: 0.3 / 0.3

Prior: 0.1 / 0.1

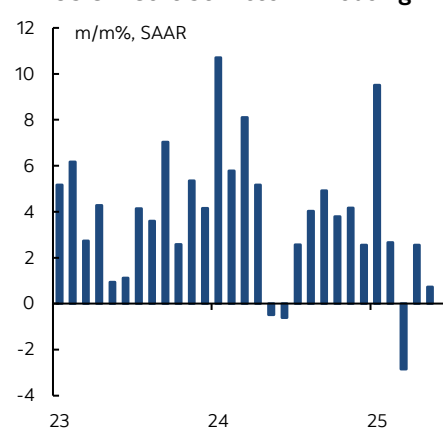
Core CPI inflation edged up a bit last month to 2.77% m/m at a seasonally adjusted and annualized rate (chart 1). The past three months have been 2.9%, 1.6% and 2.8% for a three-month moving average of 2.4%. The FOMC is likely to say that's hardly screaming out for rate cuts regardless of what the administration says. Furthermore, core inflation would have been higher yet if not for a cooked SA factor, while further evidence points to impaired data reliability due to BLS funding cuts.

This is also how markets generally reacted to the data. The US 2-year yield moved up by about 3–4bps post-data. Markets continue to price no move by the Fed on July 30th and edged September cut pricing a little lower to about 14bps and full-year cut pricing was ratcheted back by about 5bps to well under a half point of cumulative cuts priced by the end of 2025. Our forecast remains no cut this year.

Some of the hottest CPI categories were groceries, energy, clothing, recreation goods and home furnishings, each of which may have had tariff-driven factors behind them given significant import-propensities (chart 2). In seasonally adjusted terms, fruits and vegetables were up 11.5% m/m SAAR, home fuel prices were up by 12.8%, gasoline jumped 12.8%, clothing was up 5.3%, home furnishings jumped by 12.4% with significant breadth across sub-categories like furniture and appliances, and recreation goods were up 9.7% and also with high breadth.

Chart 3

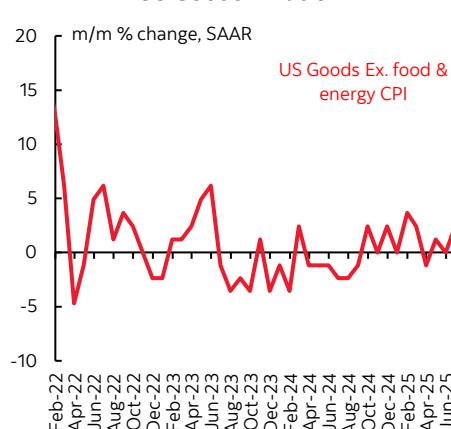
US CPI Core Services Ex-Housing



Sources: Scotiabank Economics, BLS.

Chart 4

US Goods Inflation



Sources: Scotiabank Economics, BLS.

Core services inflation which excludes energy and housing related components was subdued this time (chart 3).

This time, the gain was driven by an acceleration of core goods CPI to 2.4% m/m SAAR (chart 4).

Shelter costs were up by 2.1% m/m SAAR with rent up 2.75% and owners' equivalent rent up 3.7% alongside higher home heating costs. The perennial wish for cooling market rents to show up in key measures of rent in CPI remains largely elusive.

POOR QUALITY DATA AT THE WORST POSSIBLE MOMENT

US inflation data reliability is highly questionable at the worst possible moment in time. There are two reasons for this.

One is that one of the biggest seasonally unadjusted increases in core CPI compared to like months of June (chart 5) was tamped down by the seasonal adjustment factor that was applied to June core CPI which was the lowest on record compared to like months of June in history (chart 6). At any other June SA factor used in history, this June's core CPI reading would have been noticeably warmer (chart 7). The SA factor is calculated with a strong recency bias that is skewed to developments over the latest years. All of the pandemic-era SA factors have been the lowest on record. Having faith in these estimates requires having confidence that today's seasonality is fundamentally different than ever before and that the distortions introduced by the pandemic's rolling shocks and the timing of stimulus measures still apply in 2025.

Secondly, the share of the CPI basket estimated by proxy methods instead of hard data increased again. After two months in which that share was at 30%—double the prior record in the depths of the pandemic when agents couldn't be sent into the field to collect prices—it now stands at 35% (chart 8). The BLS emphasizes the role played by the Trump administration's budget cuts for such under-sampling and hence the reliance upon proxy methods like substituting prices for goods using comparable goods, and prices for goods from other markets when in-market prices cannot be sampled. Proving that this distorts CPI is impossible, but it would stand to reason that one should be extremely guarded toward the quality of the data when so much of the basket is being inferred and will never be revised since the data has fundamentally gone awol.

Simply put, it is wrong to blindly ignore serious question marks surrounding the quality of US inflation data at the worst possible moment.

DETAILS

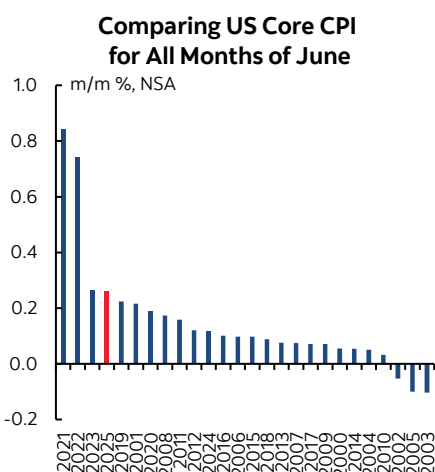
Charts 9–22 break down individual components of the basket to show trends.

Charts 23–24 ranked the y/y % price changes across CPI components in raw terms and weighted contributions to CPI respectively.

Charts 25–26 do likewise for m/m price changes.

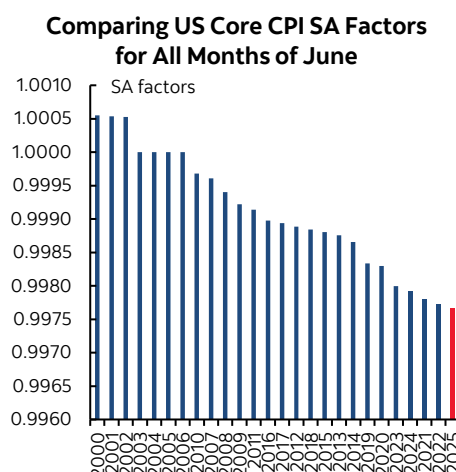
Please also see the accompanying table with further details, micro-charts and measures of deviations from historical tendencies.

Chart 5



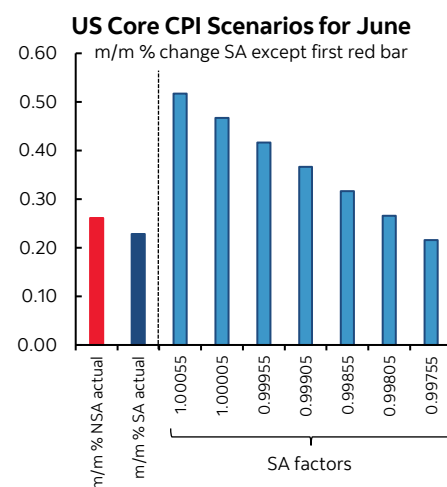
Sources: Scotiabank Economics, BLS

Chart 6



Sources: Scotiabank Economics, BLS

Chart 7



Sources: Scotiabank Economics.

Chart 8

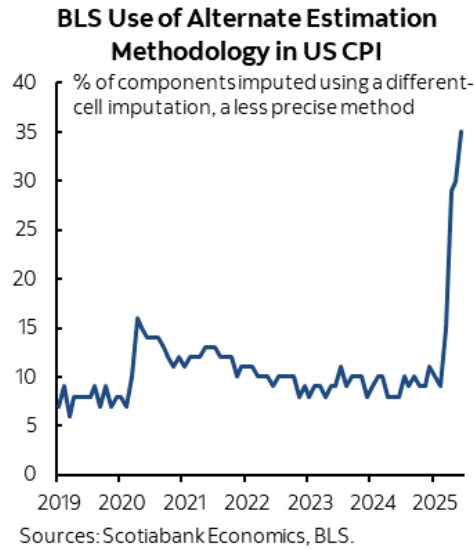


Chart 9

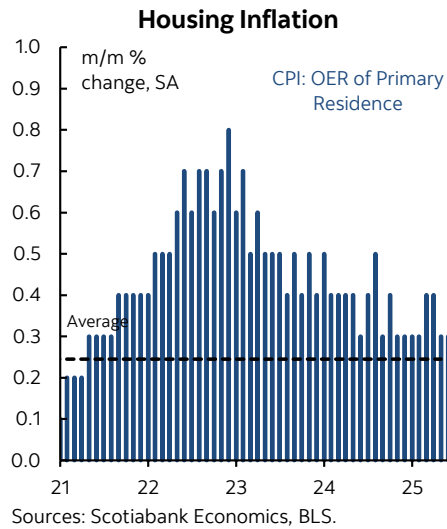


Chart 10

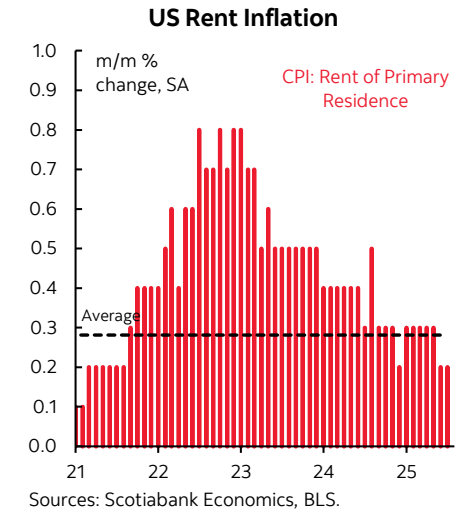


Chart 11

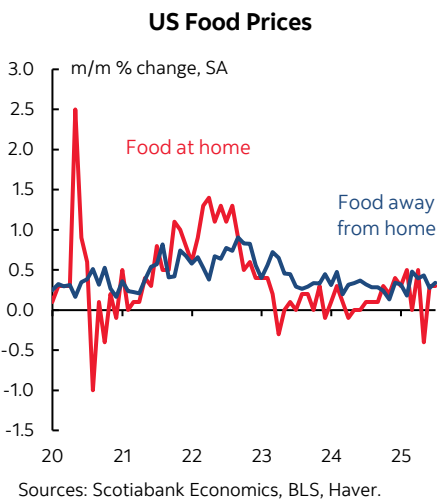


Chart 12

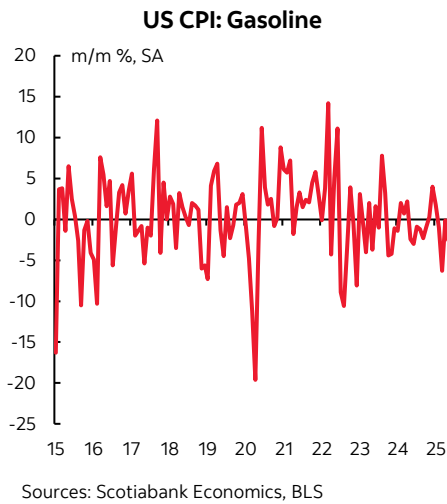


Chart 13

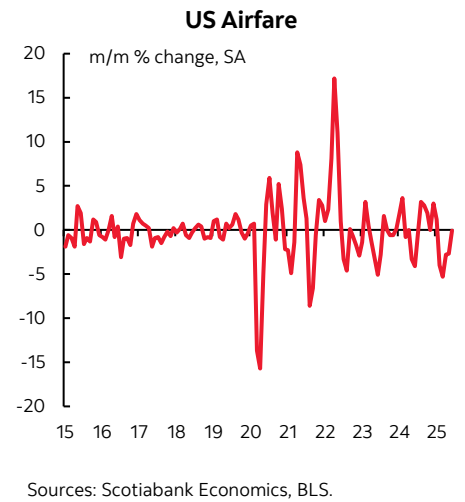


Chart 14

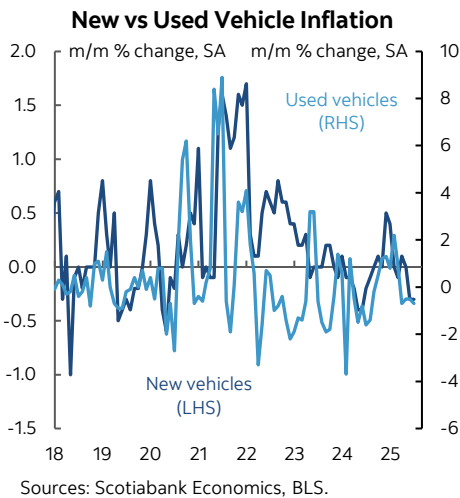


Chart 15

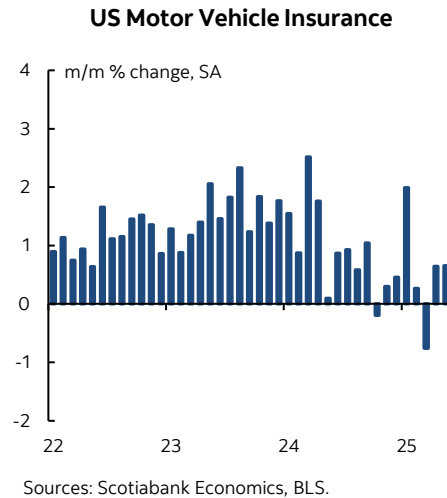


Chart 16

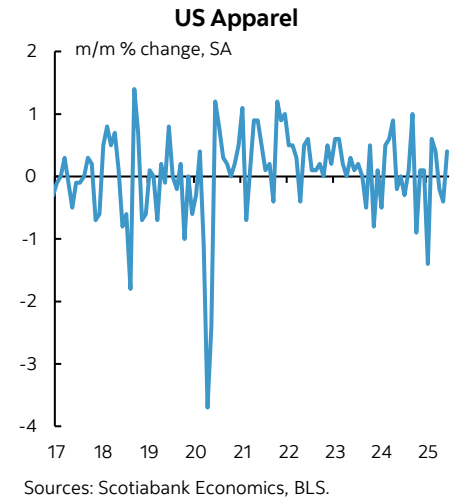


Chart 17
US CPI: Recreation Services

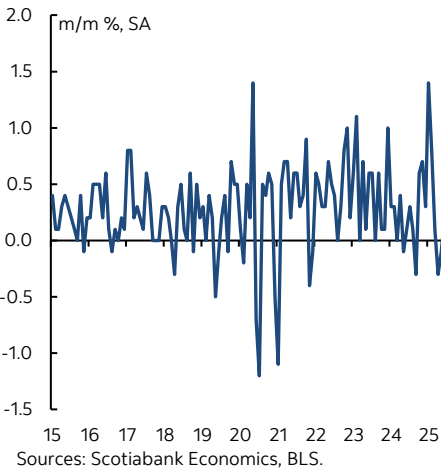


Chart 18
US CPI: Recreation Goods

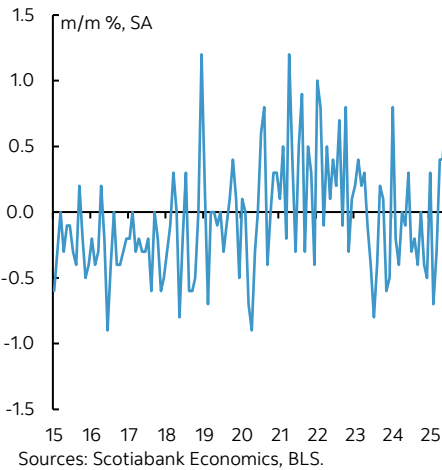


Chart 19
US CPI: Household Furnishings

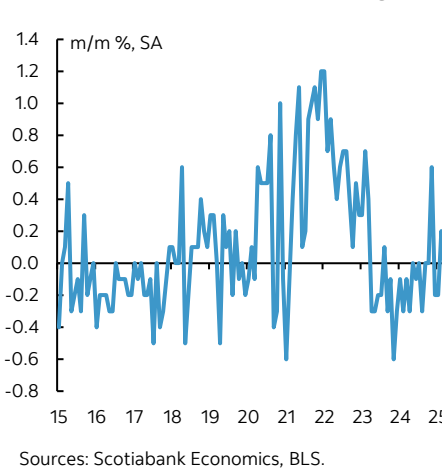


Chart 20
US Financial Services

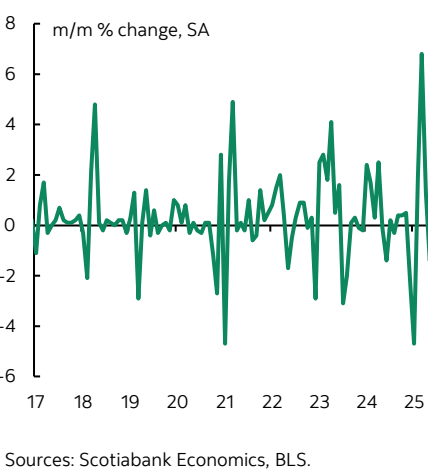


Chart 21
Prescription Drug Prices

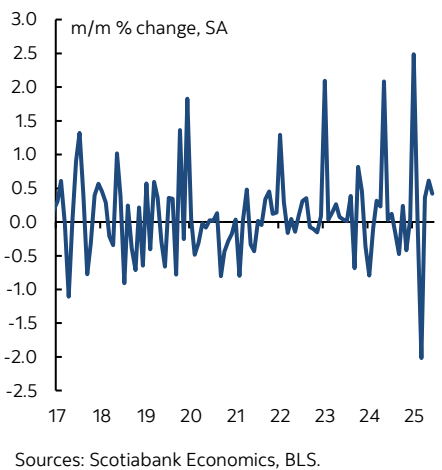


Chart 22
US Hospital Services

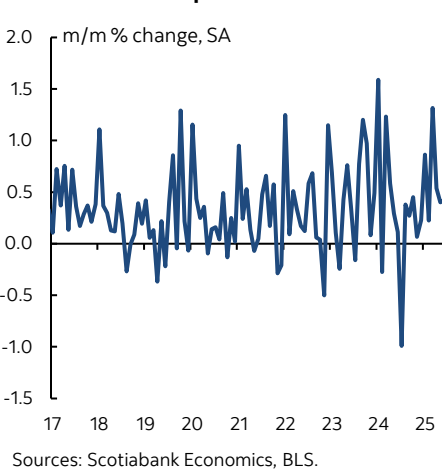
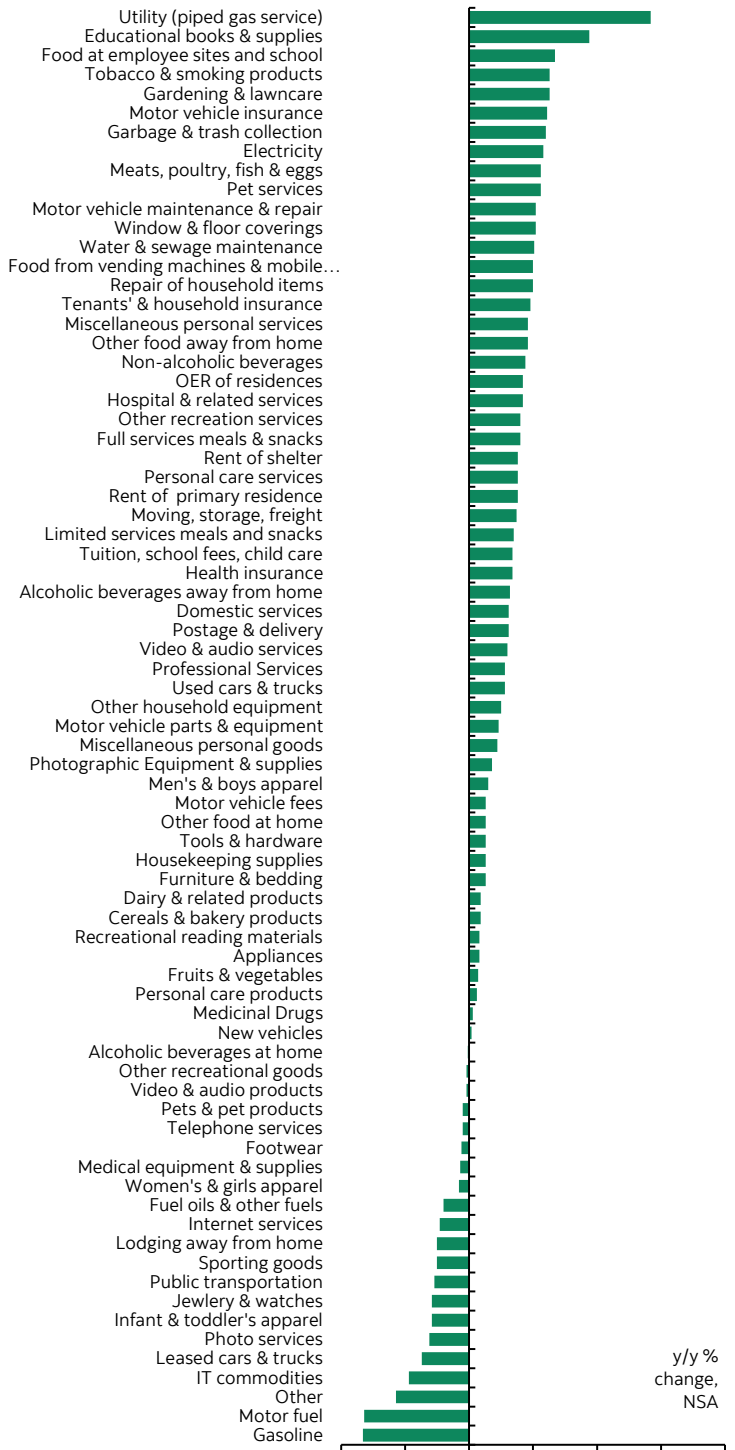


Chart 23

June 12-Month Changes in
US Headline CPI Categories



Sources: Scotiabank Economics, BLS.

Chart 24

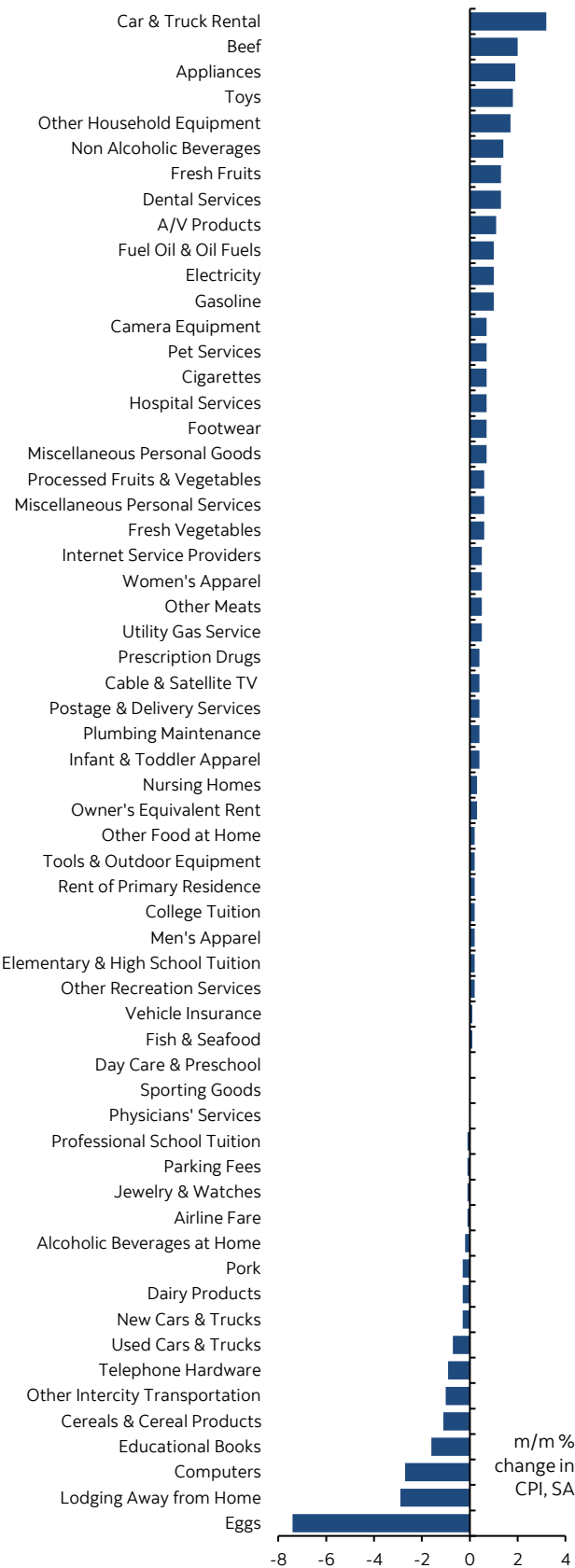
June Weighted Contributions to
the 12-Month Change in US Headline CPI



Source: Scotiabank Economics, BLS.

Chart 25

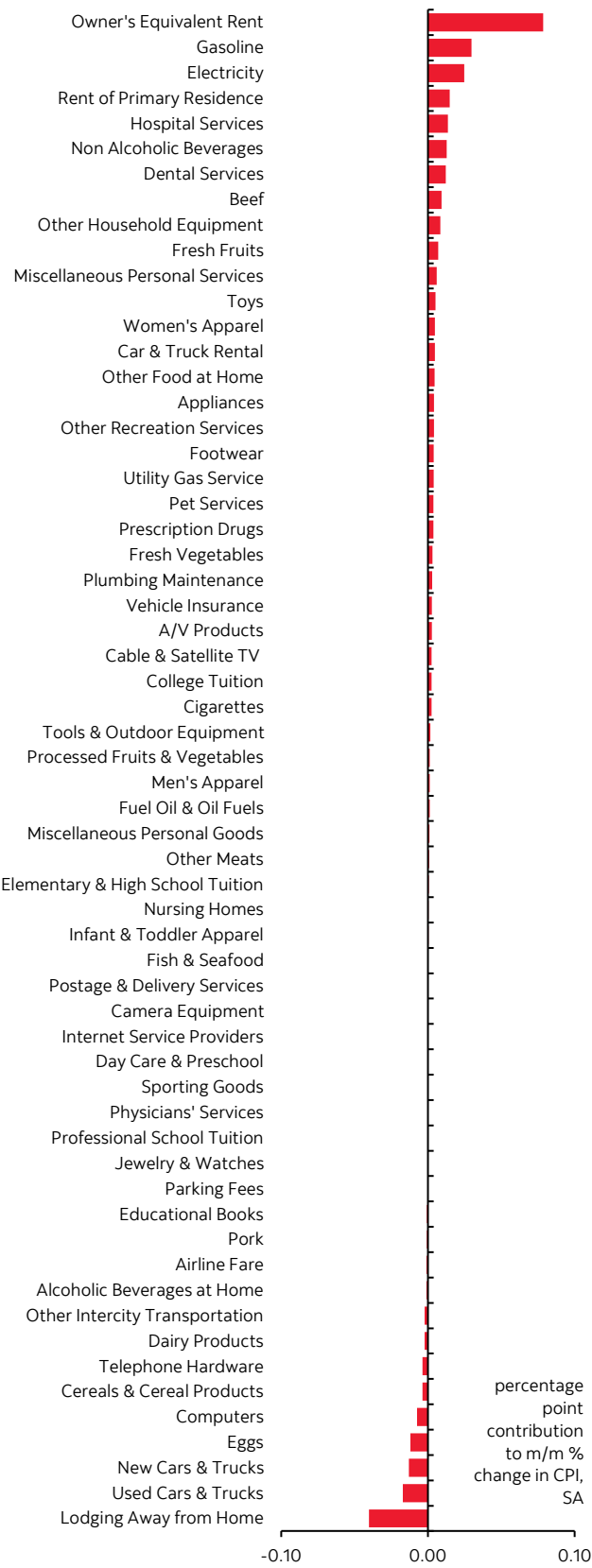
June Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

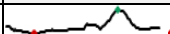



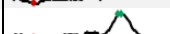















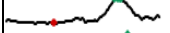



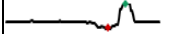




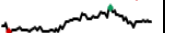


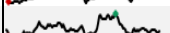

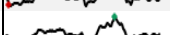

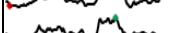

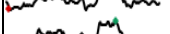







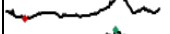

















Chart 26

June Weighted Contributions to Monthly Change in US Headline CPI

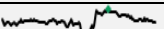



























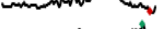





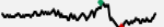





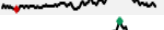

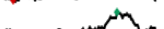



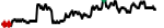

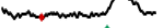





Sources: Scotiabank Economics, US BLS.









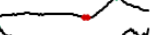








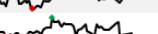
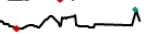













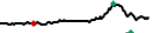


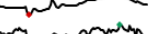






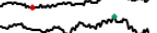




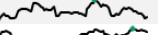



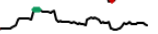

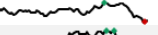




July 15, 2025

Jun 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	3.0			0.3	13.64	0.40	0.04	1.3	0.8	2.3	1.7	1.1	1.1
Food, home	2.4			0.3	8.00	0.19	0.02	0.2	1.1	1.9	1.2	1.9	0.7
Cereals & bakery products	0.9			-0.2	1.10	0.01	0.00	0.4	0.9	0.6	0.9	1.7	0.0
Meats, poultry, fish & eggs	5.6			-0.1	1.64	0.10	0.00	-0.2	3.2	1.8	2.1	3.9	0.9
Dairy & related products	0.9			-0.3	0.73	0.01	0.00	-0.6	1.6	0.9	1.1	3.1	-0.1
Fruits & vegetables	0.7			0.9	1.30	0.01	0.01	0.4	1.7	0.1	1.0	2.0	-0.1
Non-alcoholic beverages	4.4			1.4	0.90	0.04	0.01	0.6	1.0	3.7	0.5	1.6	2.5
Other food at home	1.3			0.2	2.33	0.03	0.00	0.5	0.6	1.3	1.0	1.6	0.2
Food, away	3.8			0.4	5.64	0.20	0.02	2.7	0.3	3.7	2.5	0.5	2.6
Full services meals & snacks	4.0			0.5	2.44	0.10	0.01	2.6	0.4	3.8	2.4	0.5	3.2
Limited services meals and snacks	3.5			0.2	2.84	0.09	0.01	2.8	0.3	2.1	2.5	0.7	1.4
Food at employee sites and school	6.7			2.7	0.07	0.01	0.00	2.8	2.4	1.6	2.8	1.9	2.0
Food from vending machines & mobile vendors	5.0			0.0	0.06	0.00	0.00	3.1	1.0	1.9	2.5	1.3	1.9
Other food away from home	4.6			0.5	0.24	0.01	0.00	2.5	1.3	1.6	2.3	1.0	2.3
Energy	-0.8			0.9	6.38	-0.06	0.06	-1.9	10.0	0.1	1.6	9.6	-0.2
Energy comm.	-7.9			1.0	3.19	-0.30	0.03	-2.8	17.0	-0.3	3.0	17.1	-0.6
Fuel oils & other fuels	-2.0			1.0	0.13	0.00	0.00	-2.3	15.8	0.0	2.7	14.4	-0.3
Motor fuel	-8.2			1.0	3.06	-0.30	0.03	-2.8	17.1	-0.3	3.0	17.3	-0.6
<u>Gasoline</u>	<u>-8.3</u>			<u>1</u>	<u>2.98</u>	<u>-0.29</u>	<u>0.03</u>	<u>-2.8</u>	<u>17.1</u>	<u>-0.3</u>	<u>3.0</u>	<u>17.4</u>	<u>-0.6</u>
<u>Other</u>	<u>-5.7</u>			<u>0.7</u>	<u>0.08</u>	<u>-0.01</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>-0.2</u>	<u>3.6</u>	<u>17.9</u>	<u>-0.5</u>
Energy serv.	7.5			0.9	3.19	0.24	0.03	0.0	2.4	3.0	0.5	2.7	2.6
Electricity	5.8			1.0	2.41	0.14	0.02	0.5	1.5	3.6	1.0	1.7	2.9
Utility (piped gas service)	14.2			0.5	0.78	0.09	0.00	-1.4	7.5	2.1	-0.9	7.3	2.1
All items less food and energy	2.9			0.2	79.98	2.31	0.16	2.0	0.2	3.9	1.8	0.4	2.6
Commodities less food and energy	0.7			0.2	19.30	0.13	0.04	-0.3	0.4	2.6	0.2	0.9	0.6
Household furnishings	1.7			1.0	4.36	0.06	0.04	-0.8	1.2	2.1	-0.9	1.2	2.2
Window & floor coverings	5.2			4.2	0.24	0.01	0.01	-2.3	1.7	4.4	-2.8	1.8	4.5
Furniture & bedding	1.3			0.4	0.78	0.01	0.00	-0.3	1.7	0.9	-0.9	2.1	1.1
Appliances	0.8			1.9	0.22	0.00	0.00	-1.2	3.1	0.6	-1.6	3.0	0.8
Other household equipment	2.5			1.6	0.49	0.01	0.01	-3.5	1.8	3.3	-3.7	1.5	4.2
Tools & hardware	1.3			0.2	0.84	0.01	0.00	-0.1	1.0	1.3	-0.3	1.2	1.3
Housekeeping supplies	1.3			0.8	0.79	0.01	0.01	0.3	1.2	0.9	0.4	1.3	0.7

July 15, 2025

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Apparel	-0.5			0.4	2.51	-0.01	0.01	-0.5	1.0	0.0	0.3	1.7	-0.5
Men's & boys apparel	1.5			0.2	0.67	0.01	0.00	-0.3	1.5	1.2	0.5	2.3	0.5
Women's & girls apparel	-0.8			0.5	0.99	-0.01	0.00	-1.3	1.9	0.3	-0.1	2.5	-0.3
Footwear	-0.6			0.7	0.57	0.00	0.00	0.2	1.3	-0.6	0.8	1.7	-0.8
Infant & toddler's apparel	-2.9			0.4	0.10	0.00	0.00	0.4	3.8	-0.9	0.5	3.6	-0.9
Jewelry & watches	-2.9			-0.1	0.18	-0.01	0.00	1.0	3.4	-1.2	1.5	3.8	-1.2
Trans. less fuel	1.2			-0.4	7.23	0.07	-0.03	-0.3	0.9	1.7	0.4	1.5	0.5
New vehicles	0.2			-0.3	4.34	0.01	-0.01	0.1	0.7	0.2	0.8	1.2	-0.5
Used cars & trucks	2.8			-0.7	2.40	0.05	-0.02	-1.3	2.1	2.0	1.1	4.8	0.4
Motor vehicle parts & equipment	2.3			0.6	0.36	0.01	0.00	0.2	1.1	2.0	0.9	2.2	0.6
Medical comm.	0.2			0.1	1.52	0.00	0.00	2.1	1.7	-1.1	2.3	1.5	-1.4
Medicinal Drugs	0.3			0.1	1.34	0.00	0.00	2.2	1.8	-1.1	2.3	1.6	-1.3
Medical equipment & supplies	-0.7			0.5	0.18	0.00	0.00	0.4	1.2	-0.8	0.3	1.2	-0.9
Recreation comm.	-0.8			0.8	1.82	-0.02	0.01	-2.6	1.1	1.7	-2.3	0.9	1.7
Video & audio products	-0.2			1.1	0.25	0.00	0.00	-10.1	2.4	4.1	-9.2	2.2	4.1
Pets & pet products	-0.5			0.2	0.63	0.00	0.00	0.4	1.5	-0.6	0.5	1.5	-0.6
Sporting goods	-2.5			1.4	0.46	-0.02	0.01	-0.7	1.5	-1.2	-0.6	1.2	-1.5
Photographic Equipment & supplies	1.8			0.7	0.02	0.00	0.00	-1.7	4.6	0.8	-3.0	4.0	1.2
Recreational reading materials	0.8			-1.0	0.10	0.00	0.00	1.6	1.9	-0.4	1.5	1.8	-0.4
Other recreational goods	-0.2			1.3	0.37	0.00	0.00	-6.5	1.3	4.7	-5.2	1.7	2.9
Educ. & communication comm.	-3.3			0.0	0.74	-0.03	0.00	-3.7	1.0	0.4	-3.5	0.9	0.2
Educational books & supplies	9.4			-0.4	0.04	0.01	0.00	2.2	3.0	2.4	3.6	2.7	2.1
IT commodities	-4.7			0.0	0.70	-0.04	0.00	-6.1	1.9	0.7	-6.8	1.8	1.1
Alcohol	1.4			0.1	0.83	0.01	0.00	1.3	0.3	0.4	1.4	0.4	0.1
Alcoholic beverages at home	-0.1			-0.2	0.44	0.00	0.00	0.8	0.6	-1.6	0.8	0.5	-1.6
Alcoholic beverages away from home	3.2			0.4	0.39	0.01	0.00	1.9	0.5	2.9	2.2	0.7	1.5
Other goods	3.0			0.3	1.29	0.04	0.00	1.4	0.9	1.9	1.4	0.7	2.2
Tobacco & smoking products	6.3			0.5	0.49	0.03	0.00	4.3	1.5	1.3	4.4	3.8	0.5
Personal care products	0.6			0.1	0.65	0.00	0.00	-0.3	0.6	1.6	-0.1	0.8	0.9
Miscellaneous personal goods	2.2			-0.2	0.16	0.00	0.00	-2.4	3.1	1.5	-1.7	2.4	1.6

July 15, 2025

Jun 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
Services less energy services	3.6			0.3	60.67	2.20	0.18	2.8	0.2	3.3	2.4	0.6	1.9
Shelter	3.8			0.2	35.47	1.38	0.07	3.3	0.2	3.0	2.5	1.2	1.1
Rent of shelter	3.8			0.2	35.06	1.36	0.07	3.3	0.2	2.6	2.5	1.2	1.1
<i>Rent of primary residence</i>	<i>3.8</i>			<i>0.2</i>	<i>7.46</i>	<i>0.29</i>	<i>0.01</i>	<i>3.7</i>	<i>0.1</i>	<i>0.8</i>	<i>2.9</i>	<i>1.1</i>	<i>0.8</i>
<i>Lodging away from home</i>	<i>-2.5</i>			<i>-2.9</i>	<i>1.42</i>	<i>-0.04</i>	<i>-0.04</i>	<i>2.3</i>	<i>2.0</i>	<i>-2.4</i>	<i>2.2</i>	<i>2.2</i>	<i>-2.1</i>
<i>OER of residences</i>	<i>4.2</i>			<i>0.3</i>	<i>26.18</i>	<i>1.12</i>	<i>0.08</i>	<i>3.2</i>	<i>0.2</i>	<i>4.8</i>	<i>2.4</i>	<i>1.1</i>	<i>1.7</i>
Tenants' & household insurance	4.8			1.1	0.41	0.02	0.00	1.4	1.2	2.8	2.3	1.5	1.6
Water, sewer, trash collection	5.4			0.4	1.09	0.06	0.00	3.6	0.6	3.1	4.3	1.0	1.1
Water & sewage maintenance	5.1			0.4	0.74	0.04	0.00	4.0	0.8	1.4	4.8	1.4	0.2
Garbage & trash collection	6.0			0.3	0.35	0.02	0.00	2.5	1.5	2.4	2.5	1.1	3.2
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	3.7			1.5	0.13	0.01	0.00	5.6	3.9	-0.5	3.3	3.9	0.1
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.	3.4			0.6	6.74	0.22	0.04	2.9	1.0	0.5	3.0	0.8	0.4
Professional Services	2.8			0.5	3.66	0.10	0.02	1.5	0.9	1.4	1.8	0.8	1.2
Hospital & related services	4.2			0.4	2.29	0.10	0.01	3.8	1.1	0.3	4.5	1.3	-0.3
Health insurance	3.4			0.6	0.79	0.02	0.00	5.0	5.8	-0.3	3.6	6.0	0.0
Transportation serv.	3.4			0.2	6.30	0.22	0.01	2.6	1.1	0.7	2.6	1.0	0.8
Leased cars & trucks	-3.7			-0.3	0.51	0.00	0.00	0.5	3.0	-1.4	-1.6	3.2	-0.7
Motor vehicle maintenance & repair	5.2			0.2	1.02	0.06	0.00	2.2	0.7	4.3	2.0	0.6	5.6
Motor vehicle insurance	6.1			0.1	2.83	0.18	0.00	5.5	2.6	0.2	4.8	2.0	0.6
Motor vehicle fees	1.3			-0.6	0.50	0.01	0.00	1.8	0.7	-0.7	2.2	1.9	-0.5
Public transportation	-2.7			0.4	1.43	-0.03	0.01	-1.2	1.5	-1.0	1.0	3.6	-1.0
Recreation serv.	3.8			0.2	3.46	0.12	0.01	2.6	0.7	1.8	2.3	0.7	2.0
Video & audio services	3.0			0.2	0.82	0.03	0.00	2.7	1.4	0.2	2.6	1.3	0.3
Pet services	5.6			0.7	0.54	0.02	0.00	3.1	0.8	3.3	3.3	0.9	2.5
Photo services	-3.1			-2.6	0.06	0.00	0.00	-0.2	2.0	-1.5	0.8	1.8	-2.1
Other recreation services	4.0			0.2	2.05	0.07	0.00	2.4	0.6	2.7	1.7	1.1	2.1
Educ. & communication serv.	1.1			0.1	4.91	0.05	0.00	0.4	1.3	0.5	1.1	1.3	0.0
Tuition, school fees, child care	3.4			0.2	2.51	0.08	0.01	2.8	0.6	1.1	3.3	0.8	0.1
Postage & delivery	3.1			0.4	0.05	0.00	0.00	2.3	2.0	0.4	3.3	2.0	-0.1
Telephone services	-0.5			-0.3	1.43	-0.01	0.00	-2.4	3.0	0.6	-1.3	2.4	0.3
Internet services	-2.3			0.5	0.92	-0.02	0.00	-0.2	1.5	-1.4	0.1	1.3	-1.8
Other personal serv.	4.3			0.6	1.65	0.07	0.01	2.7	0.7	2.4	2.4	0.6	3.0
Personal care services	3.8			0.6	0.66	0.02	0.00	2.3	0.7	2.1	1.8	0.8	2.4
Miscellaneous personal services	4.6			0.6	0.99	0.04	0.01	2.9	0.9	1.9	2.7	0.7	2.6

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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