Scotiabank

GLOBAL ECONOMICS

SCOTIA FLASH

September 11, 2026

Contributors

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Warm Core CPI, Tame Core PCE—What's the Fed to Do?

- **Core CPI was warmer than consensus, matching Scotia's estimate...**
- **...but CPI and PPI translate into tame core PCE for a third straight month**
- **Still, the Fed is likely to hike next week…**
- **...mainly because Warsh and the hawks boxed themselves in to markets**

US CPI / core CPI, m/m %, SA, August:
Actual: 0.4 / 0.3
Scotia: 0.4 / 0.3
Consensus: 0.4 / 0.2
Prior: 0.1 / 0.2

US CPI / core CPI, y/y %, August:
Actual: 3.4 / 2.4
Scotia: 3.4 / 2.5
Consensus: 3.4 / 2.4
Prior: 3.4 / 2.5

US CPI inflation landed on Scotia's house expectations in terms of headline inflation (0.4% m/m) and core CPI (0.3%). Core was above consensus at 0.29% m/m SA and 3.5% m/m SAAR (chart 1). I'll explain why it shouldn't matter to the Fed but probably will.

The Fed is likely to hike 25bps next week even though there remains a solid case for whiffing. Today's CPI numbers and yesterday's producer prices continue to point to tamer core PCE inflation over recent months after doing the proper conversions.

So why hike? The strongest argument is that Chair Warsh has probably boxed himself in with his high deference to markets. He is likely to take the roughly 21bps pricing and deliver on a 25bps hike and with enough support on the Committee. To do otherwise would curiously ease financial conditions and go against his hawkish-sounding narrative; if you don't hike when it's priced, then when? Yet I believe that hiking would be policy error.

Key is how these figures translate into what we used to understand as the Fed's preferred inflation metric: core PCE. Our math shows core PCE inflation likely to land at 0.2% m/m SA when we get the figures which unfortunately won't be until the end of the month.

That would mean core PCE inflation running at a 3moMA of 0.2% m/m SA (2.4% m/m SAAR) with gains of 0.15% m/m SA in June, 0.25% in July and 0.2% in August. It's cooling.

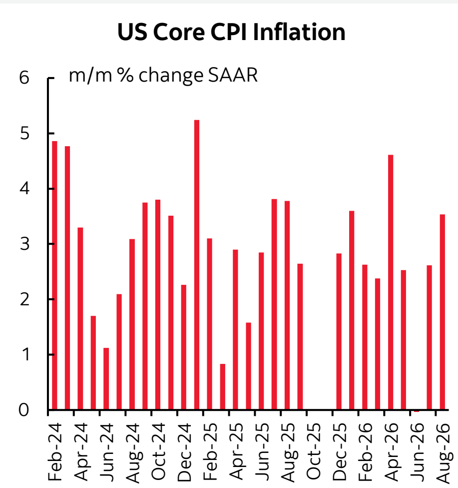
Chart 3 shows the math in converting from core CPI to core PCE that takes account of differing weights on key components. There is no single smoking gun that says core PCE will come in lower than core CPI as opposed to the additive effects across the categories, but about half of the -0.1% effect of translating weights comes from housing.

Chart 4 shows the effects of pertinent categories in producer prices and how they translate into core PCE by having no influence this time. Chart 5 combines the effects.

Charts 6–22 show trends in key parts of the CPI basket. Charts 23–26 break down August's numbers in y/y and m/m percentages, both unweighted and weighted contributions.

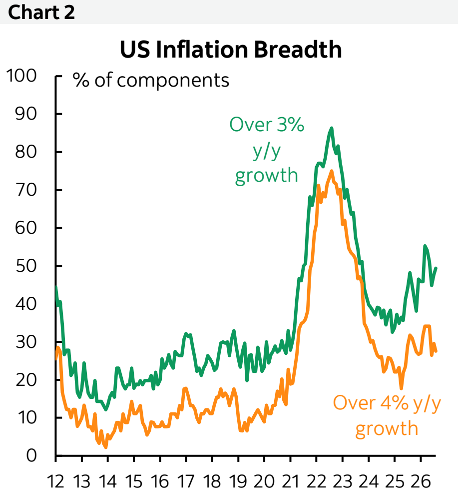
Also see my morning note for views on relative versus generalized inflation. Barring clandestine methods, there will be no reaction from the FOMC in blackout. As it hikes, the Fed will strongly risk becoming pre-midterm cannon fodder.

Chart 1



Sources: Scotiabank Economics, BLS.

Chart 2



Sources: Scotiabank Economics, BLS.

Chart 3

US Core CPI & Core PCE Weights Comparison					
	Core CPI	CPI m/m % change	Core PCE	Diff in weight	Diff in m/m % change
Goods					
Durable Goods					
Motor Vehicles & Parts	8.68	0.3	3.88	-4.80	-0.01
Furnishings	4.20	0.0	2.69	-1.51	0.00
Recreational Goods	2.44	0.0	3.80	1.37	0.00
Nondurables					
Clothing & Footwear	3.04	0.0	3.02	-0.02	0.00
Services					
Housing & Utilities					
Rent	9.78	0.2	4.07	-5.71	-0.01
Homeowner Equivalent Rent	32.76	0.2	13.23	-19.53	-0.04
Water & Garbage Collection	1.45	0.5	0.78	-0.67	0.00
Health Care	8.68	-0.2	19.32	10.64	-0.02
Transportation Services	7.98	0.5	3.91	-4.07	-0.02
Recreation Service	3.99	0.0	4.43	0.44	0.00
Total:	82.98		59.13	-23.85	**-0.11**

Sources: Scotiabank Economics, BLS, BEA

Chart 4

Category in PCE	Weight in Core PCE	PPI Components for PCE	m/m % change	Contribution to Core PCE (m/m % change)
Air transportation	1.2	Airline Passenger services	4.2	0.049
Portfolio management & investment advice services	2.1	Portfolio management	-1.6	-0.034
Outpatient Serv	9.1	Hospital outpatient care	0.4	0.036
- Physician Services	4.4	Physician care	0.1	0.004
- Home Health Care	1.1	Home health, hospice care	-0.4	-0.005
Hospital & Nursing Home Serv	10.2	Hospital inpatient care	0.5	0.051
- Nursing Homes	1.5	Nursing Home care	-0.2	-0.003
Total	**10.3**			**0.01**

Chart 5

August	CPI m/m % SA	CPI Weighting Impact on PCE due to weight diff.	PPI Components	Final PCE m/m % SA
Headline	0.40	-0.14	0.01	0.26
Core	0.29	-0.11	0.01	0.19

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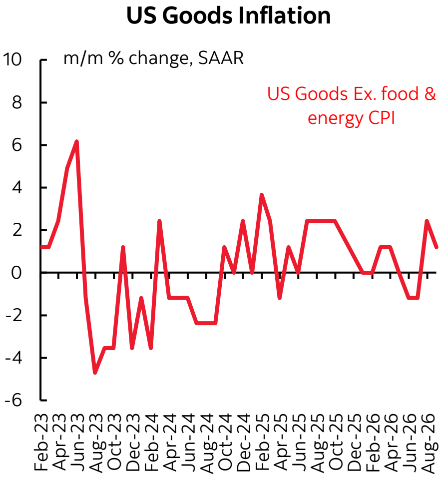
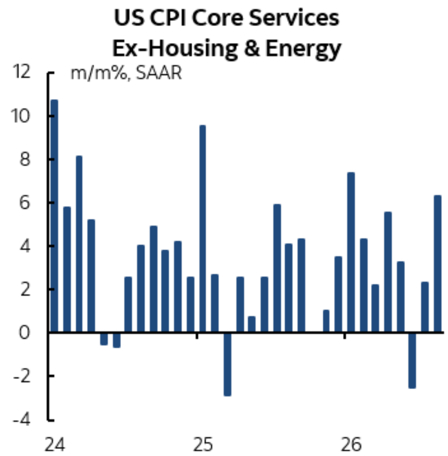
Chart 6



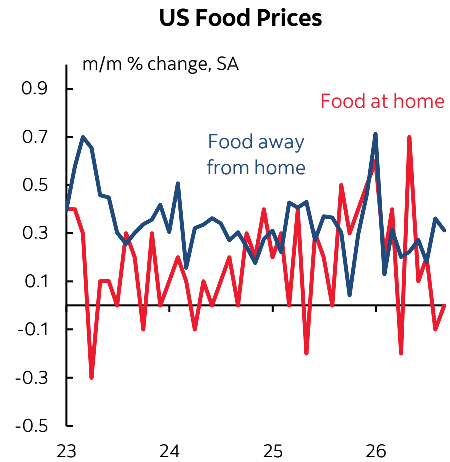
Sources: Scotiabank Economics, BLS.

Chart 7



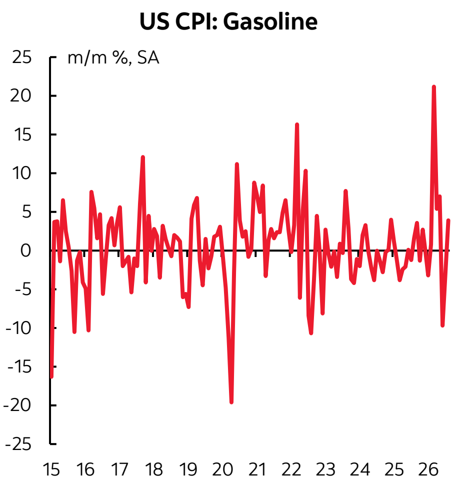
Sources: Scotiabank Economics, BLS.

Chart 8



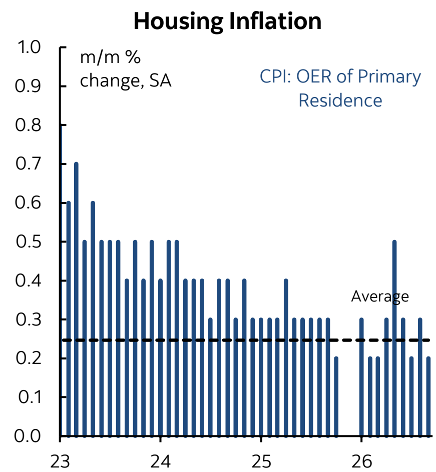
Sources: Scotiabank Economics, BLS, Haver.

Chart 9



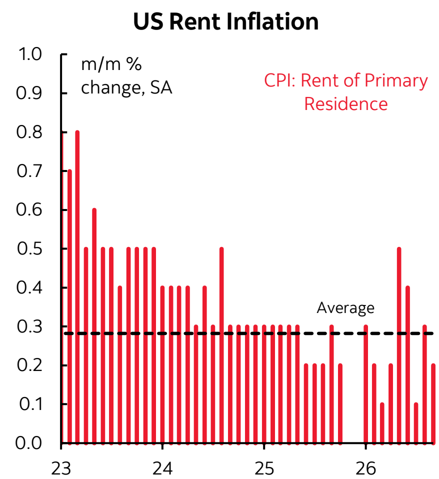
Sources: Scotiabank Economics, BLS

Chart 10



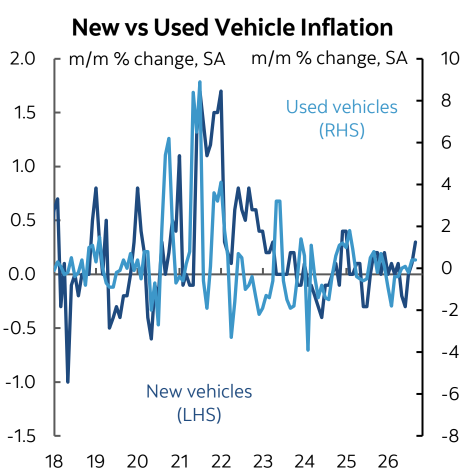
Sources: Scotiabank Economics, BLS.

Chart 11



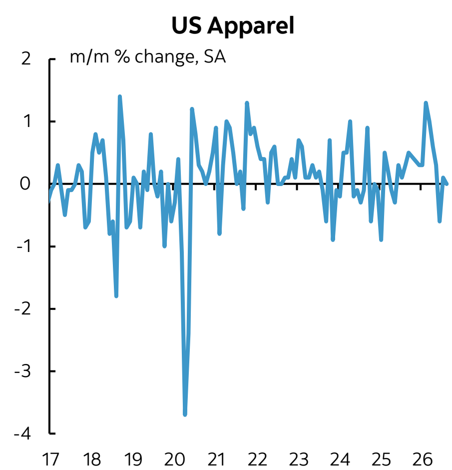
Sources: Scotiabank Economics, BLS.

Chart 12



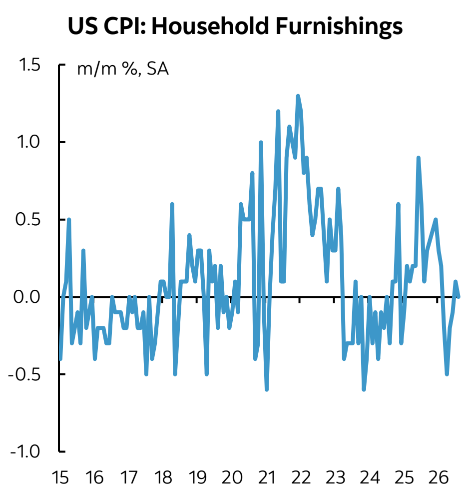
Sources: Scotiabank Economics, BLS.

Chart 13



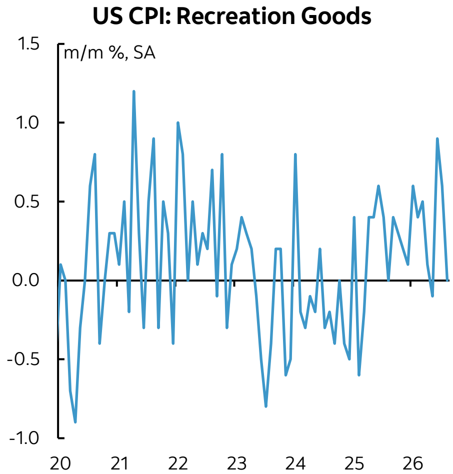
Sources: Scotiabank Economics, BLS.

Chart 14



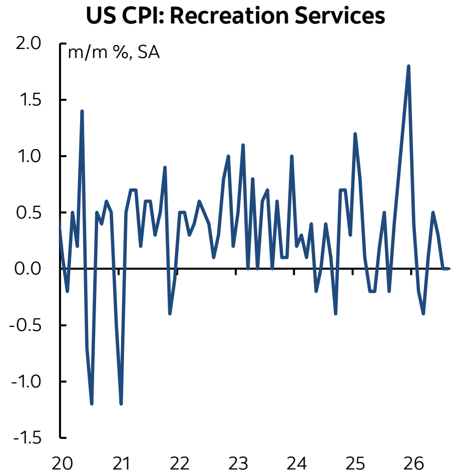
Sources: Scotiabank Economics, BLS.

Chart 15



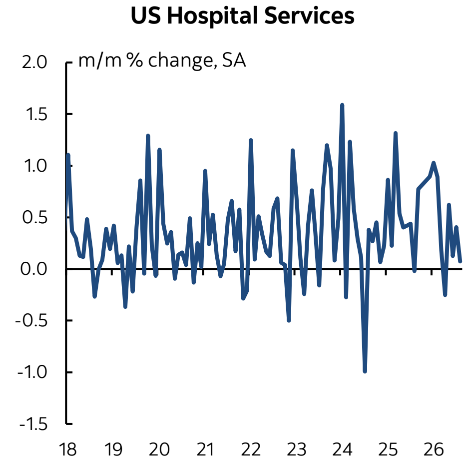
Sources: Scotiabank Economics, BLS.

Chart 16



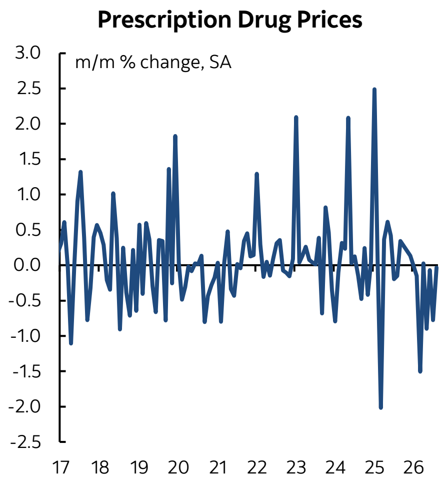
Sources: Scotiabank Economics, BLS.

Chart 17



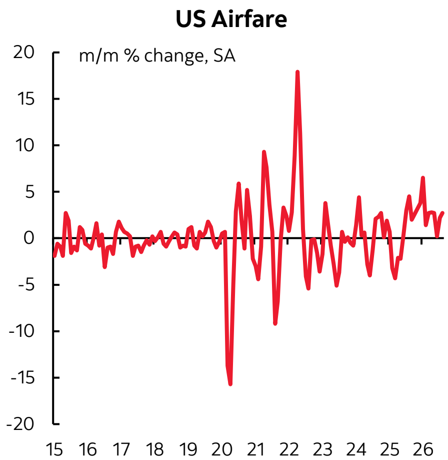
Sources: Scotiabank Economics, BLS.

Chart 18



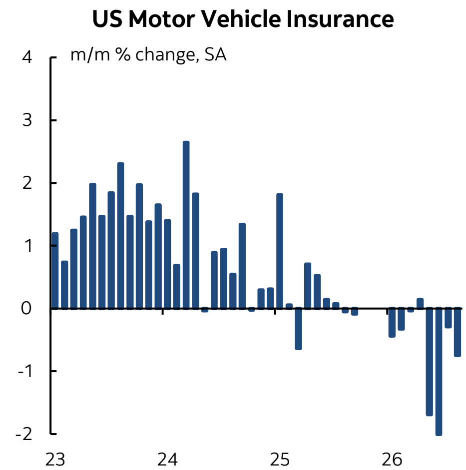
Sources: Scotiabank Economics, BLS.

Chart 19



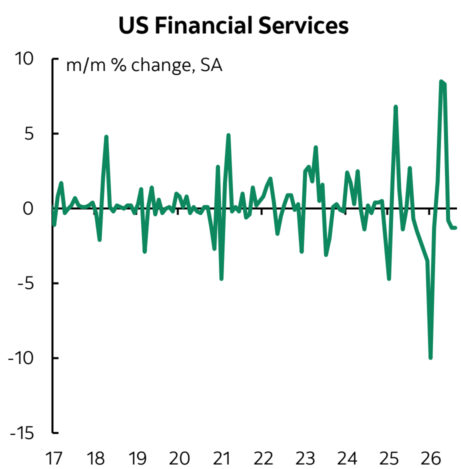
Sources: Scotiabank Economics, BLS.

Chart 20



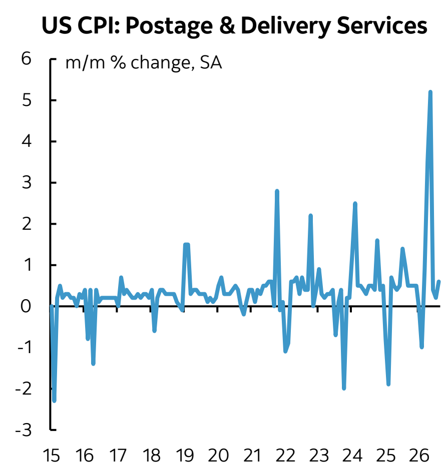
Sources: Scotiabank Economics, BLS.

Chart 21



Sources: Scotiabank Economics, BLS.

Chart 22



Sources: Scotiabank Economics, BLS.

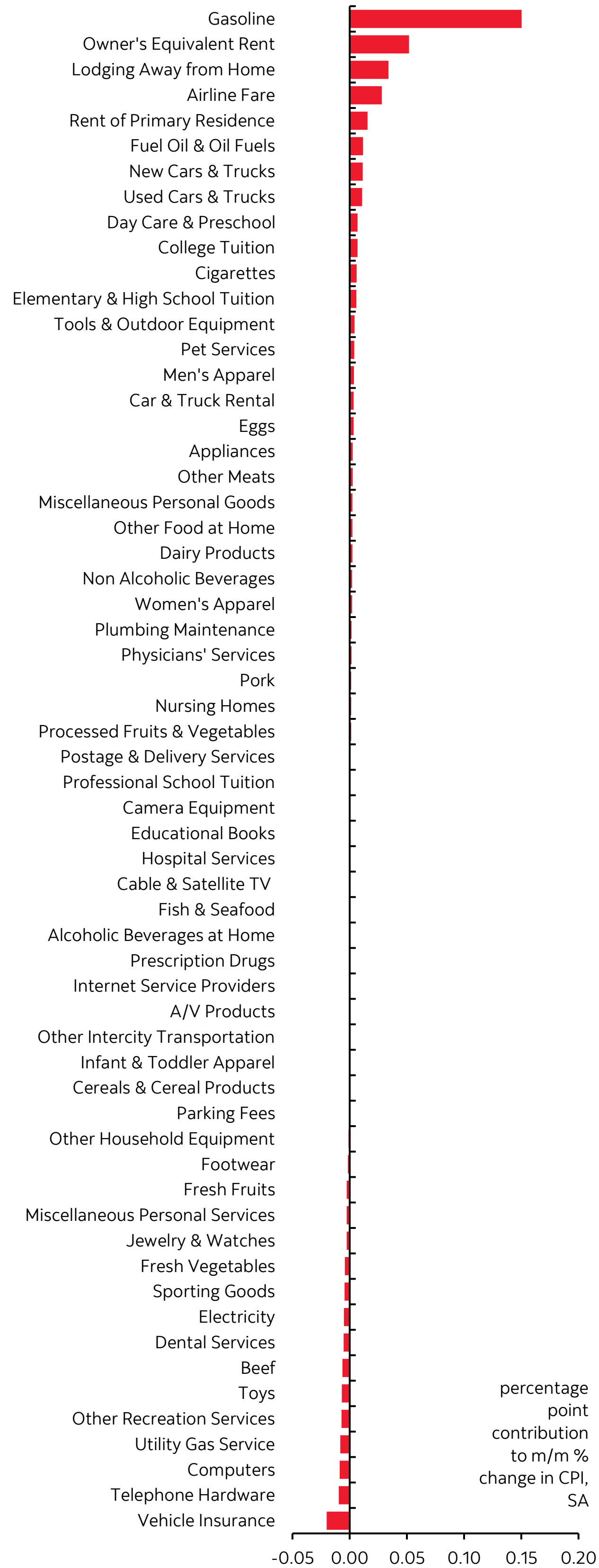
Chart 23

August Changes in US Headline CPI Categories

Sources: Scotiabank Economics, US BLS.

Chart 24

August Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 25

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

Source: Scotiabank Economics, BLS.

Chart 26

August 12-Month Changes in US Headline CPI Categories

Sources: Scotiabank Economics, BLS.

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Aug 2026					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**			**0.1**	**13.540**	**0.37**	**0.01**	**1.3**	**0.8**	**1.9**	**1.7**	**1.1**	**0.9**
Food, home	**2.2**			**0.0**	**8.232**	**0.18**	**0.00**	**0.2**	**1.1**	**1.8**	**1.2**	**1.9**	**0.5**
Cereals & bakery products	2.6			0.0	1.026	0.03	0.00	0.4	0.9	2.5	0.9	1.7	1.0
Meats, poultry, fish & eggs	1.1			0.1	1.958	0.02	0.00	-0.2	3.2	0.4	2.1	3.9	-0.3
Dairy & related products	-0.3			0.3	0.742	0.00	0.00	-0.6	1.6	0.2	1.1	3.1	-0.4
Fruits & vegetables	3.2			-0.4	1.282	0.04	-0.01	0.4	1.7	1.6	1.0	2.0	1.1
Non-alcoholic beverages	3.7			0.2	0.988	0.03	0.00	0.6	1.0	3.0	0.5	1.6	2.0
Other food at home	2.4			0.1	2.237	0.06	0.00	0.5	0.6	3.0	1.0	1.6	0.9
Food, away	**3.4**			**0.3**	**5.307**	**0.19**	**0.02**	**2.7**	**0.3**	**2.4**	**2.5**	**0.5**	**1.8**
Full services meals & snacks	3.5			0.4	2.352	0.09	0.01	2.6	0.4	2.5	2.4	0.5	2.2
Limited services meals and snacks	3.2			0.0	2.654	0.09	0.00	2.8	0.3	1.2	2.5	0.7	1.0
Food at employee sites and school	3.0			0.6	0.064	0.00	0.00	2.8	2.4	0.1	2.8	1.9	0.1
Food from vending machines & mobile vendors	3.8			1.2	0.053	0.00	0.00	3.1	1.0	0.7	2.5	1.3	1.0
Other food away from home	4.4			0.9	0.184	0.01	0.00	2.5	1.3	1.4	2.3	1.0	2.1
Energy	**16.3**			**2.1**	**7.347**	**1.04**	**0.15**	**-1.9**	**10.0**	**1.8**	**1.6**	**9.6**	**1.5**
Energy comm.	**28.0**			**4.2**	**4.044**	**0.89**	**0.17**	**-2.8**	**17.0**	**1.8**	**3.0**	**17.1**	**1.5**
Fuel oils & other fuels	30.2			6.8	0.162	0.04	0.01	-2.3	15.8	2.1	2.7	14.4	1.9
Motor fuel	27.9			4.1	3.882	0.85	0.16	-2.8	17.1	1.8	3.0	17.3	1.4
Gasoline	*27.4*			*3.9*	*3.770*	*0.81*	*0.15*	*-2.8*	*17.1*	*1.8*	*3.0*	*17.4*	*1.4*
Other	*44.0*			*9.6*	*0.112*	*0.04*	*0.01*	*-2.3*	*19.5*	*2.4*	*3.6*	*17.9*	*2.3*
Energy serv.	**4.0**			**-0.4**	**3.303**	**0.13**	**-0.01**	**0.0**	**2.4**	**1.6**	**0.5**	**2.7**	**1.3**
Electricity	3.8			-0.2	2.551	0.09	-0.01	0.5	1.5	2.2	1.0	1.7	1.7
Utility (piped gas service)	4.4			-1.1	0.752	0.03	-0.01	-1.4	7.5	0.8	-0.9	7.3	0.7
All items less food and energy	**2.4**			**0.3**	**79.114**	**1.92**	**0.24**	**2.0**	**0.2**	**1.6**	**1.8**	**0.4**	**1.4**
Commodities less food and energy	**0.7**			**0.1**	**18.842**	**0.14**	**0.02**	**-0.3**	**0.4**	**2.6**	**0.2**	**0.9**	**0.6**
Household furnishings	**0.6**			**0.0**	**3.419**	**0.02**	**0.00**	**-0.8**	**1.2**	**1.2**	**-0.9**	**1.2**	**1.3**
Window & floor coverings	*2.0*			*0.7*	*0.231*	*0.00*	*0.00*	*-2.3*	*1.7*	*2.5*	*-2.8*	*1.8*	*2.7*
Furniture & bedding	*-0.8*			*-0.9*	*0.855*	*-0.01*	*-0.01*	*-0.3*	*1.7*	*-0.3*	*-0.9*	*2.1*	*0.1*
Appliances	*0.1*			*1.3*	*0.197*	*0.00*	*0.00*	*-1.2*	*3.1*	*0.4*	*-1.6*	*3.0*	*0.5*
Other household equipment	*-0.5*			*-0.2*	*0.536*	*0.00*	*0.00*	*-3.5*	*1.8*	*1.6*	*-3.7*	*1.5*	*2.1*
Tools & hardware	*1.4*			*0.6*	*0.670*	*0.01*	*0.00*	*-0.1*	*1.0*	*1.4*	*-0.3*	*1.2*	*1.4*
Housekeeping supplies	*2.1*			*0.0*	*0.832*	*0.02*	*0.00*	*0.3*	*1.2*	*1.5*	*0.4*	*1.3*	*1.3*

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Aug 2026					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	**3.6**			**0.0**	**2.406**	**0.09**	**0.00**	**-0.5**	**1.0**	**4.2**	**0.3**	**1.7**	**1.9**
Men's & boys apparel	3.7			0.6	0.598	0.02	0.00	-0.3	1.5	2.6	0.5	2.3	1.4
Women's & girls apparel	3.5			0.2	0.941	0.03	0.00	-1.3	1.9	2.6	-0.1	2.5	1.4
Footwear	3.6			-0.3	0.590	0.02	0.00	0.2	1.3	2.5	0.8	1.7	1.7
Infant & toddler's apparel	-3.4			-0.7	0.096	0.00	0.00	0.4	3.8	-1.0	0.5	3.6	-1.1
Jewlery & watches	8.2			-1.6	0.181	0.02	0.00	1.0	3.4	2.1	1.5	3.8	1.8
Trans. less fuel	**-0.4**			**0.3**	**6.868**	**-0.03**	**0.02**	**-0.3**	**0.9**	**-0.1**	**0.4**	**1.5**	**-0.6**
New vehicles	0.6			0.3	3.756	0.03	0.01	0.1	0.7	0.8	0.8	1.2	-0.2
Used cars & trucks	-2.3			0.4	2.698	-0.06	0.01	-1.3	2.1	-0.5	1.1	4.8	-0.7
Motor vehicle parts & equipment	0.9			0.0	0.340	0.00	0.00	0.2	1.1	0.6	0.9	2.2	0.0
Medical comm.	**-2.7**			**-0.2**	**1.403**	**-0.04**	**0.00**	**2.1**	**1.7**	**-2.9**	**2.3**	**1.5**	**-3.4**
Medicinal Drugs	-2.7			-0.4	1.275	-0.04	-0.01	2.2	1.8	-2.8	2.3	1.6	-3.2
Medical equipment & supplies	-2.3			1.0	0.128	0.00	0.00	0.4	1.2	-2.1	0.3	1.2	-2.2
Recreation comm.	**3.1**			**0.0**	**1.927**	**0.06**	**0.00**	**-2.6**	**1.1**	**5.4**	**-2.3**	**0.9**	**6.0**
Video & audio products	1.9			-0.1	0.263	0.00	0.00	-10.1	2.4	5.0	-9.2	2.2	5.0
Pets & pet products	1.9			-0.2	0.604	0.01	0.00	0.4	1.5	1.0	0.5	1.5	1.0
Sporting goods	5.3			1.0	0.531	0.02	0.01	-0.7	1.5	3.9	-0.6	1.2	4.9
Photographic Equipment & supplies	-0.6			1.2	0.025	0.00	0.00	-1.7	4.6	0.2	-3.0	4.0	0.6
Recreational reading materials	4.2			2.9	0.113	0.00	0.00	1.6	1.9	1.4	1.5	1.8	1.5
Other recreational goods	2.5			-1.8	0.392	0.01	-0.01	-6.5	1.3	6.7	-5.2	1.7	4.4
Educ. & communication comm.	**-4.1**			**0.1**	**0.788**	**-0.03**	**0.00**	**-3.7**	**1.0**	**-0.4**	**-3.5**	**0.9**	**-0.7**
Educational books & supplies	1.1			-0.7	0.038	0.00	0.00	2.2	3.0	-0.4	3.6	2.7	-0.9
IT commodities	-4.3			0.1	0.750	-0.03	0.00	-6.1	1.9	0.9	-6.8	1.8	1.4
Alcohol	**1.6**			**0.1**	**0.825**	**0.01**	**0.00**	**1.3**	**0.3**	**1.0**	**1.4**	**0.4**	**0.7**
Alcoholic beverages at home	0.2			0.0	0.386	0.00	0.00	0.8	0.6	-1.1	0.8	0.5	-1.1
Alcoholic beverages away from home	3.0			0.1	0.439	0.01	0.00	1.9	0.5	2.4	2.2	0.7	1.2
Other goods	**4.2**			**0.5**	**1.301**	**0.05**	**0.01**	**1.4**	**0.9**	**3.3**	**1.4**	**0.7**	**3.9**
Tobacco & smoking products	6.3			0.6	0.448	0.03	0.00	4.3	1.5	1.3	4.4	3.8	0.5
Personal care products	2.9			0.2	0.673	0.02	0.00	-0.3	0.6	5.5	-0.1	0.8	3.6
Miscellaneous personal goods	3.6			-0.6	0.181	0.01	0.00	-2.4	3.1	2.0	-1.7	2.4	2.2

September 11, 2026

Aug 2026														
					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	**3.0**			**0.3**	**60.272**	**1.82**	**0.18**	**2.8**	**0.2**	**0.7**	**2.4**	**0.6**	**0.9**	
Shelter	**3.0**			**0.3**	**35.343**	**1.06**	**0.11**	**3.3**	**0.2**	**-1.7**	**2.5**	**1.2**	**0.5**	
Rent of shelter	3.0			0.3	35.055	1.05	0.11	3.3	0.2	-1.7	2.5	1.2	0.4	
Rent of primary residence	2.7			0.2	7.735	0.20	0.02	3.7	0.1	-7.5	2.9	1.1	-0.2	
Lodging away from home	3.2			2.4	1.402	0.04	0.03	2.3	2.0	0.5	2.2	2.2	0.5	
OER of residences	3.1			0.2	25.918	0.81	0.05	3.2	0.2	-0.6	2.4	1.1	0.6	
Tenants' & household insurance	4.1			0.0	0.288	0.02	0.00	1.4	1.2	2.3	2.3	1.5	1.2	
Water, sewer, trash collection	**4.8**			**0.5**	**1.145**	**0.05**	**0.01**	**3.6**	**0.6**	**2.1**	**4.3**	**1.0**	**0.5**	
Water & sewage maintenance	4.9			0.2	0.785	0.04	0.00	4.0	0.8	1.1	4.8	1.4	0.0	
Garbage & trash collection	4.4			1.0	0.361	0.02	0.00	2.5	1.5	1.3	2.5	1.1	1.8	
Household ops.	**5.7**			**-0.3**	**0.881**	**0.00**	**0.00**	**3.8**	**1.3**	**1.5**	**2.6**	**1.6**	**1.9**	
Domestic services	3.1			0.7	0.277	0.00	0.00	2.0	1.1	1.1	1.6	1.0	1.4	
Gardening & lawncare	12.3			0.0	0.373	0.00	0.00	4.3	2.7	3.0	2.8	2.6	3.6	
Moving, storage, freight	-4.6			-3.1	0.078	-0.01	0.00	5.6	3.9	-2.6	3.3	3.9	-2.0	
Repair of household items	5.0			1.7	0.097	0.00	0.00	4.8	2.1	0.1	4.2	2.0	0.4	
Medical serv.	**2.5**			**-0.2**	**6.864**	**0.17**	**-0.01**	**2.9**	**1.0**	**-0.4**	**3.0**	**0.8**	**-0.7**	
Professional Services	3.2			-0.2	3.422	0.12	-0.01	1.5	0.9	1.8	1.8	0.8	1.7	
Hospital & related services	5.5			0.1	2.618	0.13	0.00	3.8	1.1	1.5	4.5	1.3	0.7	
Health insurance	-8.5			-0.5	0.824	-0.07	0.00	5.0	5.8	-2.3	3.6	6.0	-2.0	
Transportation serv.	**2.4**			**0.5**	**6.310**	**0.15**	**0.03**	**2.6**	**1.1**	**-0.2**	**2.6**	**1.0**	**-0.2**	
Leased cars & trucks	-1.0			-0.1	0.384	0.00	0.00	0.5	3.0	-0.5	-1.6	3.2	0.2	
Motor vehicle maintenance & repair	5.2			1.1	1.055	0.05	0.01	2.2	0.7	4.3	2.0	0.6	5.6	
Motor vehicle insurance	-5.1			-0.8	2.563	-0.14	-0.02	5.5	2.6	-4.1	4.8	2.0	-4.9	
Motor vehicle fees	1.9			-0.7	0.505	0.01	0.00	1.8	0.7	0.1	2.2	1.9	-0.1	
Public transportation	15.4			2.3	1.640	0.21	0.04	-1.2	1.5	11.0	1.0	3.6	4.0	
Recreation serv.	**2.4**			**0.0**	**3.154**	**0.08**	**0.00**	**2.6**	**0.7**	**-0.3**	**2.3**	**0.7**	**0.1**	
Video & audio services	4.5			0.2	0.782	0.04	0.00	2.7	1.4	1.2	2.6	1.3	1.4	
Pet services	4.8			0.7	0.542	0.03	0.00	3.1	0.8	2.3	3.3	0.9	1.7	
Photo services	3.8			2.0	0.036	0.00	0.00	-0.2	2.0	2.0	0.8	1.8	1.6	
Other recreation services	0.8			-0.4	1.793	0.02	-0.01	2.4	0.6	-2.6	1.7	1.1	-0.9	
Educ. & communication serv.	**3.1**			**1.8**	**4.928**	**0.15**	**0.09**	**0.4**	**1.3**	**2.0**	**1.1**	**1.3**	**1.6**	
Tuition, school fees, child care	3.4			0.8	2.515	0.09	0.02	2.8	0.6	1.1	3.3	0.8	0.1	
Postage & delivery	12.8			0.6	0.067	0.01	0.00	2.3	2.0	5.4	3.3	2.0	4.9	
Telephone services	3.3			5.4	1.421	0.05	0.08	-2.4	3.0	1.9	-1.3	2.4	1.9	
Internet services	1.5			-0.7	0.915	0.01	-0.01	-0.2	1.5	1.1	0.1	1.3	1.1	
Other personal serv.	**4.3**			**0.0**	**1.606**	**0.07**	**0.00**	**2.7**	**0.7**	**2.4**	**2.4**	**0.6**	**3.0**	
Personal care services	4.2			0.4	0.668	0.03	0.00	2.3	0.7	2.7	1.8	0.8	2.9	
Miscellaneous personal services	4.4			-0.3	0.938	0.04	0.00	2.9	0.9	1.6	2.7	0.7	2.3	

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.