

Contributors

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Chart 1

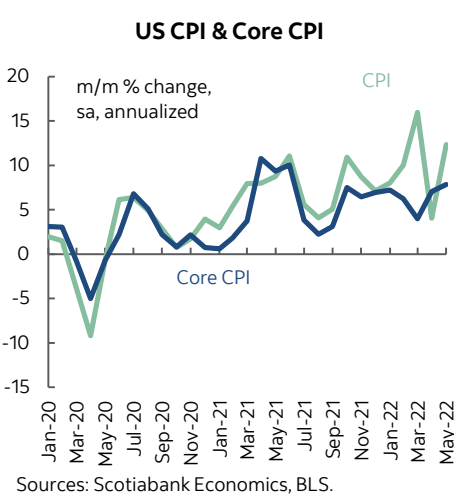
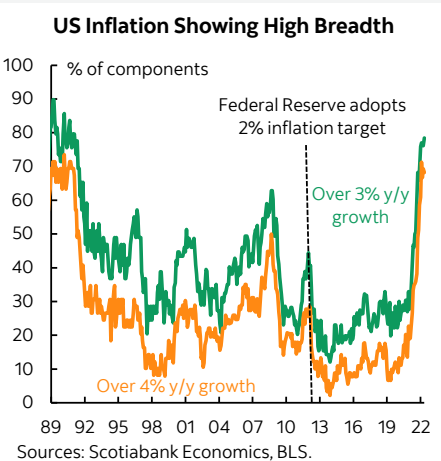


Chart 2



Another US Inflation Upside will Motivate the FOMC to Pick up the Pace

- Inflation exceeds consensus expectations...
- ...lighting up yields and the dollar while hitting equities
- Momentum and breadth of price pressures remain very high
- 1% Fed funds is grossly misaligned toward 8.6% inflation...
- ...which probably leans more toward a faster pace and bigger moves from July onward...
- ...as Fed guidance may have tied their hands into next week's meeting
- The case for 75+ from the BoC is July has also gone up

US CPI, m/m SA // y/y % change, May:

Actual: 1.0 / 8.6
 Scotia: 0.9 / 8.5
 Consensus: 0.7 / 8.3
 Prior: 0.3 / 8.3

US core CPI, m/m SA // y/y % change, May:

Actual: 0.6 / 6.0
 Scotia: 0.5 / 6.0
 Consensus: 0.5 / 5.9
 Prior: 0.6 / 6.2

The latest inflation reading lit up the bond market and with it the odds that the Fed accelerates the pace and size of rate hikes. A higher than consensus print drove the 2-year Treasury yield about 18 bps higher and the 10-year yield about 9bps higher in a bear flattener move. The dollar took flight and the S&P is down almost 3% on the day so far.

Fed funds futures are pricing a few basis points more than a half-point rate hike next week and material odds of a 75bps at the July meeting. The Fed has made it clear it will be considering a 50bps move next week and so given its emphasis upon avoiding surprises and holding hands along the way it may be highly reticent to deviate from this guidance. The costs to turning its meeting-by-meeting forward guidance into a dumpster fire may be deemed to be too high and they can use forward guidance to support market tightening that is greater than the immediate pace at which the target range is hiked. There may, however, a hawkish dissenter or more.

Instead, the committee could be kept onside with more hawkish plans after the June meeting. The bigger key may be signals toward a bigger move in July that could include a specific press conference reference next Wednesday to a 75+ move at the next meeting. Forecasts are submitted today ahead of the Tuesday–Wednesday FOMC meeting and individual participants can change their forecasts up to Tuesday night which means they will take into account today's inflation reading. I think there are very high odds of a 75bps move in July, higher odds they will signal a continuation of big moves into the September meeting and that our forecast for a terminal rate of 3% faces significant upside risk into year-end.

Headline CPI prices were up 1.0% m/m in seasonally adjusted terms which is quite a bit faster than consensus (0.7%) and close to my 0.9% estimate at the very top end of consensus. Core inflation ex-food-and-energy was up 0.6% m/m and a touch faster than consensus and my estimate that were both 0.5%, but the year-over-year rate of 6% was a tick higher than consensus and on my estimate.

June 10, 2022

Momentum remains very high with no signs that inflationary pressures are easing up which counsels hitting the policy rate harder. Annualized month-over-month core CPI inflation picked up to 7.8% from 7.0% the prior month for the hottest reading since June of last year. Chart 1 shows how sustained the price pressures have been using this measure which remains the preferred gauge for assessing inflationary pressures at the margin as opposed to year-over-year measures.

High breadth was the added killer (chart 2). Very high breadth. 86% of the CPI basket is up by more than the Fed's 2% inflation target. 78% of the basket is up by more than 3% and 68% is up by more than 4% or double the Fed's target. It takes until we get to about 5.7% y/y for over half of the basket to be rising by less than this figure. All told, this is astronomical breadth.

Chart 3 shows the weighted contributions to the 1% m/m rise in total CPI by individual component. Gasoline prices were the highest contributor followed by the way the US captures housing inflation and then followed by airfare, used vehicles, home heating, rents, new vehicles and onward. These are major components of the household budget and they are all lit up. Chart 4 shows the changes in m/m prices by category without applying weights to the respective categories. Charts 5 and 6 do the same thing to the year-over-year rates by category.

Core goods price inflation is ebbing in year-over-year terms but the warnings about the need to discount this as pandemic effects dissipate in favour of expecting accelerating reopening effects on services are coming true (chart 7). Service price inflation continues to accelerate.

Food prices were up 1.2% m/m with food at home up 1.4% and away from home up 0.7% (chart 8). Energy prices were up 3.9% m/m led by gas at 4.1% that matched the estimate, but also piped gas prices were up 8% which was softer than market price increases. Housing inflation is shown in chart 9. I'm surprised that both new and used vehicle prices were up 1% m/m and 1.8% m/m respectively given other sources that were indicating they'd be little changed and cancel out, but the year-over-year rates have cooled (chart 10). Still, the weights imply little contribution from either.

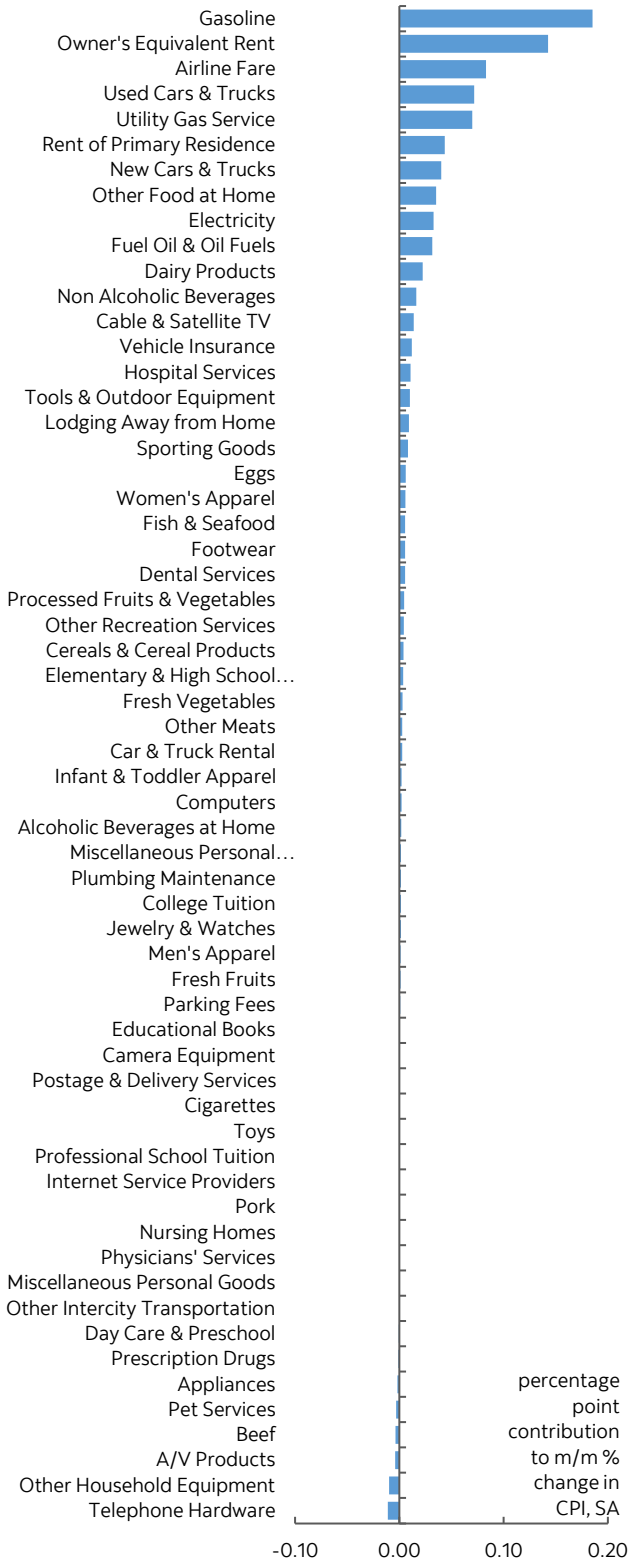
High contact prices gained again as expected. Airfare was up 12.6% m/m, vehicle rentals up 1.7% m/m since if you can't get one then rent one, lodging was up 0.9% and note previously mentioned take-out prices etc etc

Please also see the detailed table on the back page that breaks down all components of the basket with micro charts, weights, standard deviations and z-scores as a measure of how abnormal the price changes by category are relative to multi-year periods.

As a final observation, given the higher odds that the Fed will pick up the size of hikes likely in July with June risk, this makes it significantly more likely that the Bank of Canada will hike by a bigger amount than 50bps at its July meeting and probably 75bps. Both central banks are absurdly behind where they should be. Similar domino effects are occurring across gilts and EGBs as a faster pace of Fed tightening is implying spillover effects into other central bank decisions.

Chart 3

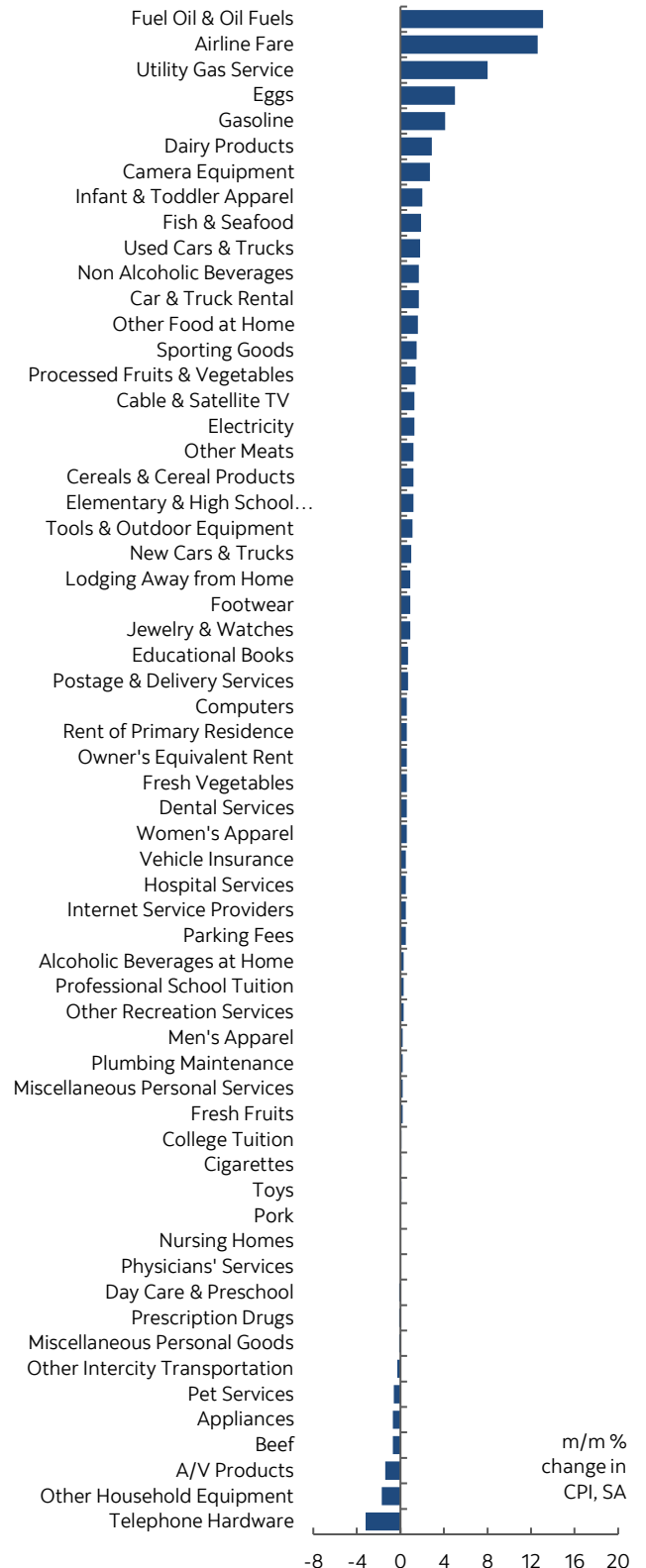
May Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 4

May Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 5

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

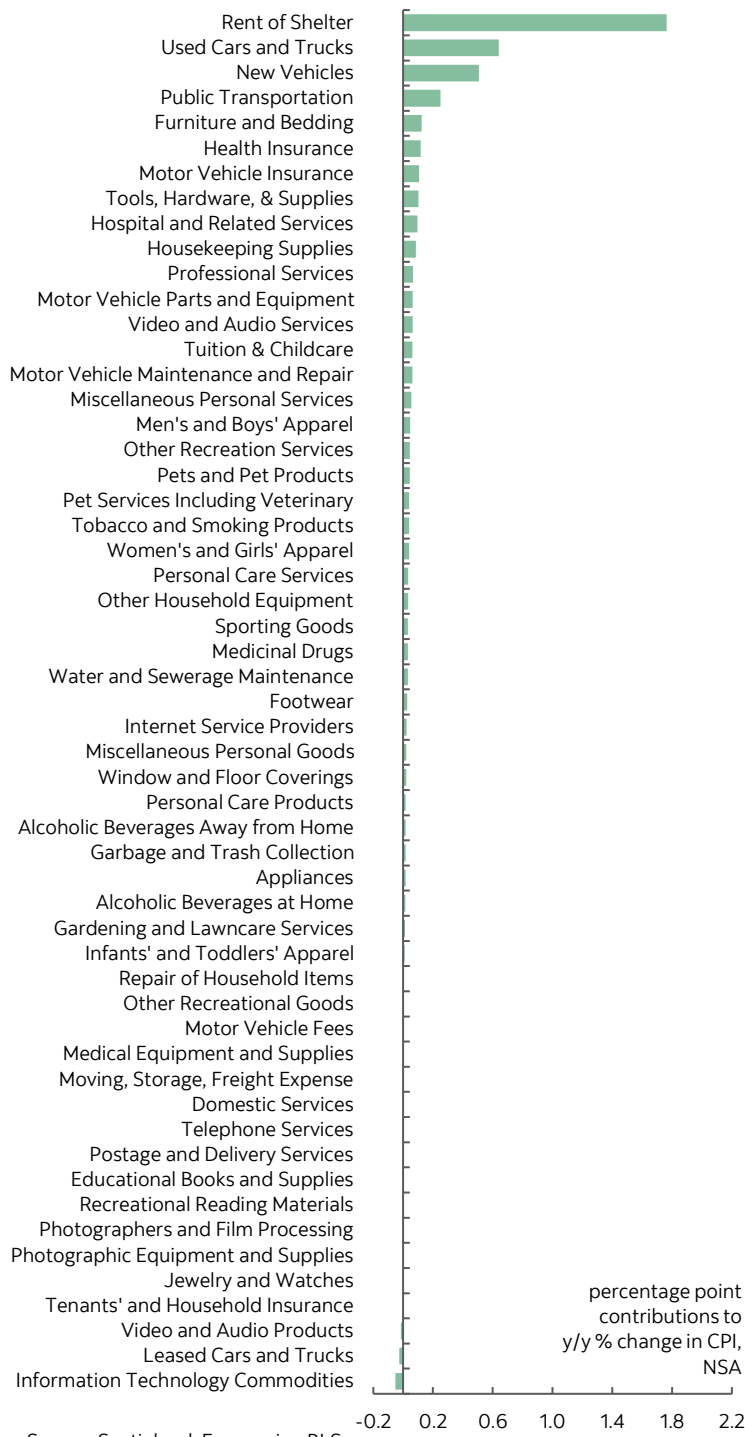


Chart 6

May 12-Month Changes in US Headline CPI Categories

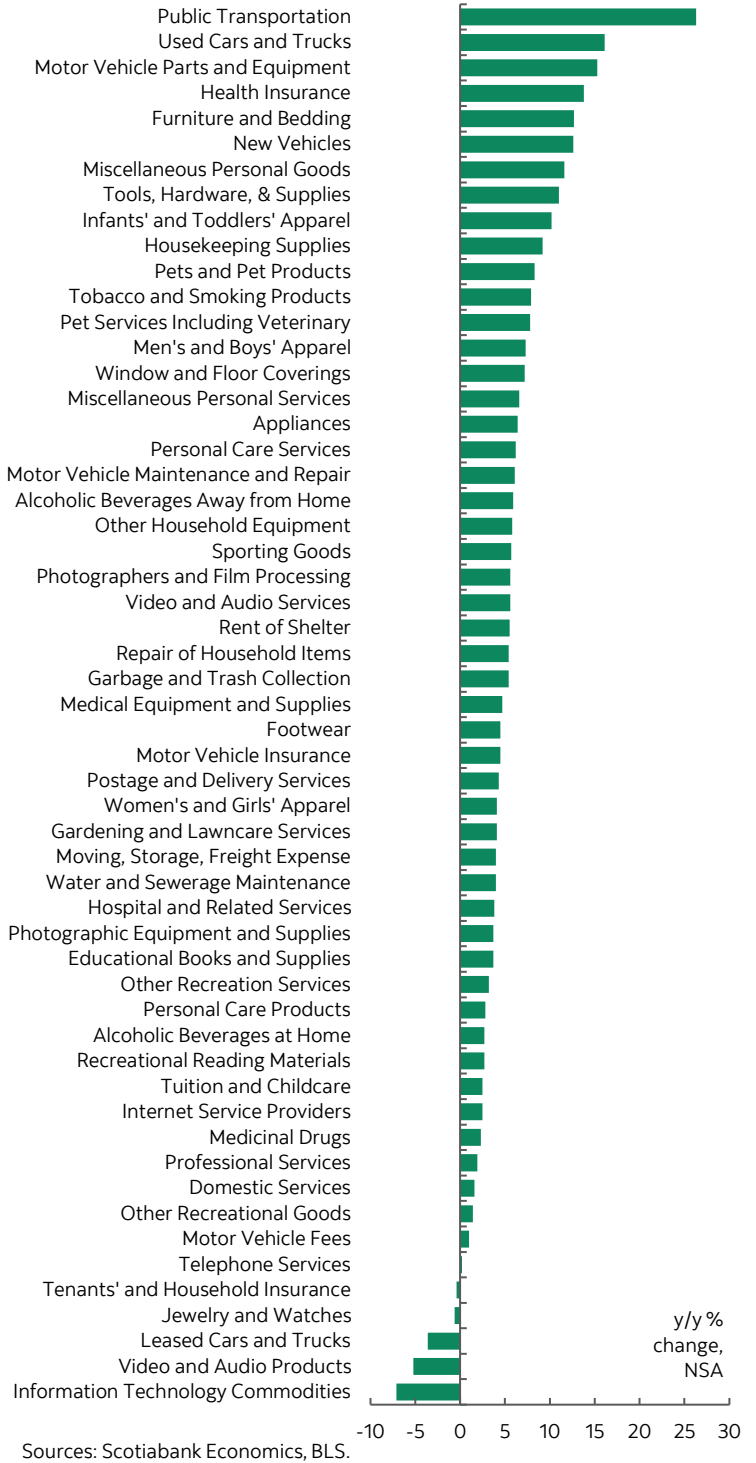


Chart 7

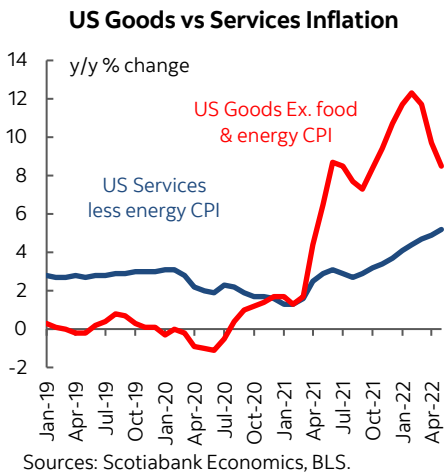


Chart 8

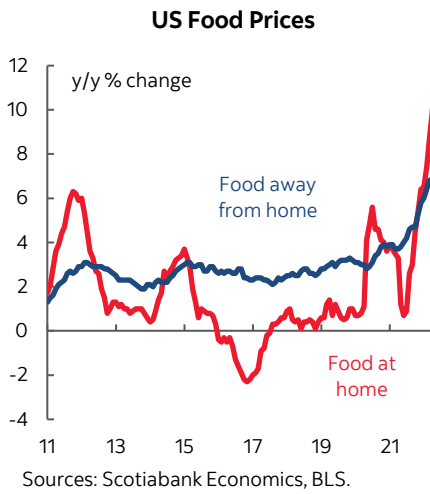


Chart 9

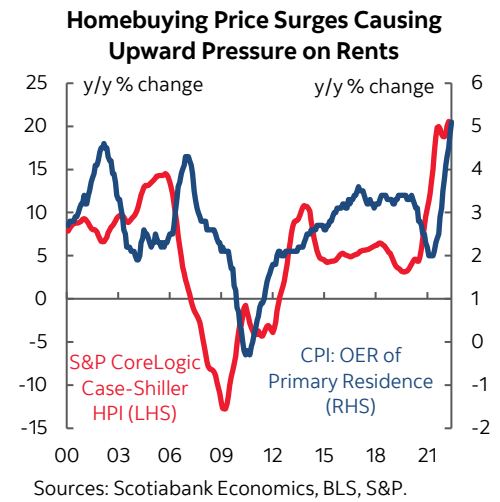


Chart 10

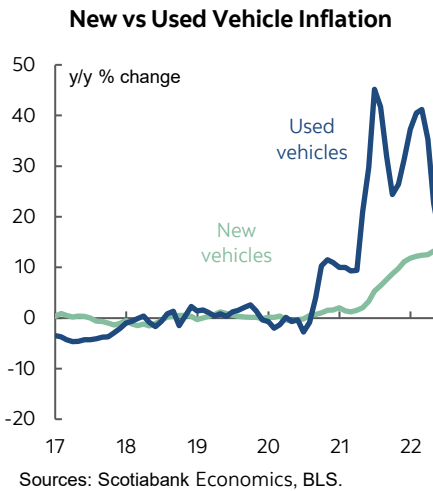


Chart 11

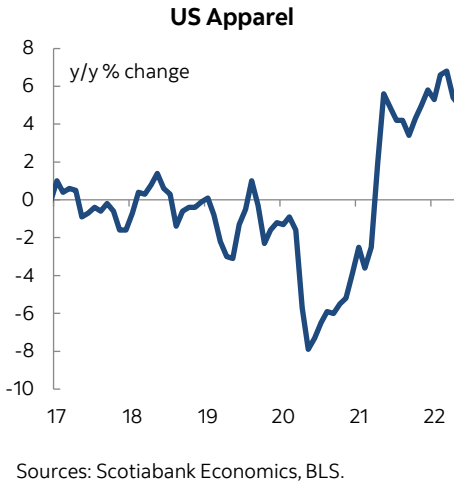


Chart 12



June 10, 2022

May 2022				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	10.1			1.2	13.36	1.35	0.16	1.3	0.8	11.6	1.7	1.1	7.4
Food, home	11.9			1.4	8.25	0.98	0.12	0.2	1.1	10.3	1.2	1.9	5.8
Cereals & bakery products	11.6			1.5	1.05	0.12	0.02	0.4	0.9	12.8	0.9	1.7	6.3
Meats, poultry, fish & eggs	14.2			1.1	1.88	0.27	0.02	-0.2	3.2	4.5	2.1	3.9	3.1
Dairy & related products	11.8			2.9	0.76	0.09	0.02	-0.6	1.6	7.7	1.1	3.1	3.4
Fruits & vegetables	8.2			0.6	1.43	0.12	0.01	0.4	1.7	4.5	1.0	2.0	3.5
Non-alcoholic beverages	12.0			1.7	0.94	0.11	0.02	0.6	1.0	10.9	0.5	1.6	7.3
Other food at home	12.6			1.6	2.19	0.28	0.04	0.5	0.6	18.8	1.0	1.6	7.4
Food, away	7.4			0.7	5.12	0.38	0.04	2.7	0.3	15.8	2.5	0.5	9.4
Full services meals & snacks	9.0			0.8	2.38	0.21	0.02	2.6	0.4	17.4	2.4	0.5	13.2
Limited services meals and snacks	7.3			0.7	2.49	0.18	0.02	2.8	0.3	13.9	2.5	0.7	6.8
Food at employee sites and school	-30.5			0.4	0.04	-0.01	0.00	2.8	2.4	-13.6	2.8	1.9	-17.4
Food from vending machines & mobile vendors	8.0			2.0	0.04	0.00	0.00	3.1	1.0	5.0	2.5	1.3	4.2
Other food away from home	5.0			0.5	0.17	0.01	0.00	2.5	1.3	1.9	2.3	1.0	2.7
Energy	34.6			3.9	8.30	2.87	0.32	-1.9	10.0	3.7	1.6	9.6	3.4
Energy comm.	50.3			4.5	4.93	2.48	0.22	-2.8	17.0	3.1	3.0	17.1	2.8
Fuel oils & other fuels	75.9			13.1	0.24	0.18	0.03	-2.3	15.8	5.0	2.7	14.4	5.1
Motor fuel	49.1			4.1	4.69	2.30	0.19	-2.8	17.1	3.0	3.0	17.3	2.7
<u>Gasoline</u>	<u>48.7</u>			<u>4.1</u>	<u>4.59</u>	<u>2.24</u>	<u>0.19</u>	<u>-2.8</u>	<u>17.1</u>	<u>3.0</u>	<u>3.0</u>	<u>17.4</u>	<u>2.6</u>
<u>Other</u>	<u>73.4</u>			<u>7.6</u>	<u>0.09</u>	<u>0.07</u>	<u>0.01</u>	<u>-2.3</u>	<u>19.5</u>	<u>3.9</u>	<u>3.6</u>	<u>17.9</u>	<u>3.9</u>
Energy serv.	16.2			3.0	3.37	0.55	0.10	0.0	2.4	6.6	0.5	2.7	5.9
Electricity	12.0			1.3	2.51	0.30	0.03	0.5	1.5	7.8	1.0	1.7	6.6
Utility (piped gas service)	30.2			8.0	0.86	0.26	0.07	-1.4	7.5	4.2	-0.9	7.3	4.2
All items less food and energy	6.0			0.6	78.34	4.70	0.47	2.0	0.2	17.8	1.8	0.4	10.2
Commodities less food and energy	8.5			0.7	21.51	1.83	0.15	-0.3	0.4	22.7	0.2	0.9	9.4
Household furnishings	9.7			0.1	3.74	0.36	0.00	-0.8	1.2	8.8	-0.9	1.2	8.9
Window & floor coverings	7.2			-0.4	0.30	0.02	0.00	-2.3	1.7	5.5	-2.8	1.8	5.6
Furniture & bedding	12.7			-0.2	0.97	0.12	0.00	-0.3	1.7	7.5	-0.9	2.1	6.6
Appliances	6.4			-0.7	0.26	0.02	0.00	-1.2	3.1	2.4	-1.6	3.0	2.6
Other household equipment	5.8			-2.0	0.59	0.03	-0.01	-3.5	1.8	5.0	-3.7	1.5	6.4
Tools & hardware	11.0			1.1	0.93	0.10	0.01	-0.1	1.0	10.7	-0.3	1.2	9.3
Housekeeping supplies	9.2			1.0	0.93	0.09	0.01	0.3	1.2	7.5	0.4	1.3	6.7

June 10, 2022

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Apparel	5.0			0.7	2.54	0.13	0.02	-0.5	1.0	5.6	0.3	1.7	2.7
Men's & boys apparel	7.3			0.2	0.64	0.05	0.00	-0.3	1.5	5.0	0.5	2.3	3.0
Women's & girls apparel	4.1			0.6	1.00	0.04	0.01	-1.3	1.9	2.9	-0.1	2.5	1.7
Footwear	4.5			0.9	0.61	0.03	0.01	0.2	1.3	3.2	0.8	1.7	2.2
Infant & toddler's apparel	10.2			2.0	0.12	0.01	0.00	0.4	3.8	2.6	0.5	3.6	2.7
Jewelry & watches	-0.6			0.9	0.16	0.00	0.00	1.0	3.4	-0.5	1.5	3.8	-0.6
Trans. less fuel	14.1			1.4	8.56	1.21	0.12	-0.3	0.9	16.3	0.4	1.5	9.2
New vehicles	12.6			1.0	4.01	0.51	0.04	0.1	0.7	19.0	0.8	1.2	9.6
Used cars & trucks	16.1			1.8	4.04	0.65	0.07	-1.3	2.1	8.4	1.1	4.8	3.1
Motor vehicle parts & equipment	15.3			1.5	0.42	0.06	0.01	0.2	1.1	14.3	0.9	2.2	6.7
Medical comm.	2.4			0.3	1.50	0.04	0.00	2.1	1.7	0.2	2.3	1.5	0.1
Medicinal Drugs	2.3			0.1	1.40	0.03	0.00	2.2	1.8	0.1	2.3	1.6	0.0
Medical equipment & supplies	4.7			2.0	0.10	0.00	0.00	0.4	1.2	3.5	0.3	1.2	3.7
Recreation comm.	3.8			0.1	1.90	0.07	0.00	-2.6	1.1	6.0	-2.3	0.9	6.7
Video & audio products	-5.2			-1.4	0.29	-0.02	0.00	-10.1	2.4	2.0	-9.2	2.2	1.8
Pets & pet products	8.3			1.0	0.55	0.05	0.01	0.4	1.5	5.4	0.5	1.5	5.4
Sporting goods	5.7			-0.2	0.56	0.03	0.00	-0.7	1.5	4.2	-0.6	1.2	5.2
Photographic Equipment & supplies	3.7			2.7	0.02	0.00	0.00	-1.7	4.6	1.2	-3.0	4.0	1.7
Recreational reading materials	2.7			0.0	0.10	0.00	0.00	1.6	1.9	0.6	1.5	1.8	0.7
Other recreational goods	1.4			0.2	0.38	0.01	0.00	-6.5	1.3	5.9	-5.2	1.7	3.8
Educ. & communication comm.	-6.0			-1.7	0.82	-0.05	-0.01	-3.7	1.0	-2.2	-3.5	0.9	-2.8
Educational books & supplies	3.7			2.2	0.09	0.00	0.00	2.2	3.0	0.5	3.6	2.7	0.0
IT commodities	-7.1			-2.2	0.73	-0.05	-0.02	-6.1	1.9	-0.5	-6.8	1.8	-0.2
Alcohol	4.0			0.5	0.88	0.04	0.00	1.3	0.3	7.9	1.4	0.4	7.2
Alcoholic beverages at home	2.7			0.3	0.59	0.02	0.00	0.8	0.6	3.1	0.8	0.5	3.6
Alcoholic beverages away from home	5.9			0.8	0.29	0.02	0.00	1.9	0.5	8.6	2.2	0.7	5.6
Other goods	6.2			0.8	1.35	0.08	0.01	1.4	0.9	5.7	1.4	0.7	6.7
Tobacco & smoking products	7.9			0.9	0.52	0.04	0.00	4.3	1.5	2.4	4.4	3.8	0.9
Personal care products	2.8			0.3	0.64	0.02	0.00	-0.3	0.6	5.4	-0.1	0.8	3.5
Miscellaneous personal goods	11.6			2.4	0.19	0.02	0.00	-2.4	3.1	4.5	-1.7	2.4	5.5

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Services less energy services	5.2			0.6	56.83	2.96	0.34	2.8	0.2	10.2	2.4	0.6	4.4
Shelter	5.5			0.6	32.45	1.78	0.19	3.3	0.2	13.2	2.5	1.2	2.6
Rent of shelter	5.5			0.6	32.08	1.76	0.19	3.3	0.2	11.9	2.5	1.2	2.5
<i>Rent of primary residence</i>	<i>5.2</i>			<i>0.6</i>	<i>7.28</i>	<i>0.38</i>	<i>0.04</i>	<i>3.7</i>	<i>0.1</i>	<i>11.3</i>	<i>2.9</i>	<i>1.1</i>	<i>2.1</i>
<i>Lodging away from home</i>	<i>19.3</i>			<i>0.9</i>	<i>0.99</i>	<i>0.19</i>	<i>0.01</i>	<i>2.3</i>	<i>2.0</i>	<i>8.4</i>	<i>2.2</i>	<i>2.2</i>	<i>7.8</i>
<i>OER of residences</i>	<i>5.1</i>			<i>0.6</i>	<i>23.82</i>	<i>1.21</i>	<i>0.14</i>	<i>3.2</i>	<i>0.2</i>	<i>9.2</i>	<i>2.4</i>	<i>1.1</i>	<i>2.5</i>
Tenants' & household insurance	-0.4			-0.1	0.37	0.00	0.00	1.4	1.2	-1.5	2.3	1.5	-1.7
Water, sewer, trash collection	4.4			0.3	1.10	0.05	0.00	3.6	0.6	1.4	4.3	1.0	0.1
Water & sewage maintenance	4.0			0.2	0.79	0.03	0.00	4.0	0.8	0.1	4.8	1.4	-0.6
Garbage & trash collection	5.4			0.4	0.31	0.02	0.00	2.5	1.5	2.0	2.5	1.1	2.7
Household ops.	5.3			2.1	0.82	0.04	0.02	3.8	1.3	1.2	2.6	1.6	1.6
Domestic services	1.6			0.8	0.24	0.00	0.00	2.0	1.1	-0.4	1.6	1.0	0.0
Gardening & lawn care	4.1			0.2	0.30	0.01	0.00	4.3	2.7	-0.1	2.8	2.6	0.5
Moving, storage, freight	4.0			2.4	0.10	0.00	0.00	5.6	3.9	-0.4	3.3	3.9	0.2
Repair of household items	5.4			0.1	0.12	0.01	0.00	4.8	2.1	0.3	4.2	2.0	0.6
Medical serv.	4.0			0.4	6.88	0.28	0.03	2.9	1.0	1.1	3.0	0.8	1.2
Professional Services	1.9			0.1	3.51	0.07	0.00	1.5	0.9	0.4	1.8	0.8	0.1
Hospital & related services	3.8			0.4	2.54	0.10	0.01	3.8	1.1	0.0	4.5	1.3	-0.6
Health insurance	13.8			2.0	0.84	0.12	0.02	5.0	5.8	1.5	3.6	6.0	1.7
Transportation serv.	7.9			1.3	5.67	0.45	0.07	2.6	1.1	4.8	2.6	1.0	5.5
Leased cars & trucks	-3.6			-3.6	0.63	-0.02	-0.02	0.5	3.0	-1.4	-1.6	3.2	-0.6
Motor vehicle maintenance & repair	6.1			0.5	1.02	0.06	0.01	2.2	0.7	5.6	2.0	0.6	7.1
Motor vehicle insurance	4.5			0.5	2.40	0.11	0.01	5.5	2.6	-0.4	4.8	2.0	-0.2
Motor vehicle fees	1.0			0.1	0.51	0.01	0.00	1.8	0.7	-1.1	2.2	1.9	-0.6
Public transportation	26.3			8.6	0.84	0.22	0.07	-1.2	1.5	18.2	1.0	3.6	7.1
Recreation serv.	4.9			0.5	3.16	0.15	0.02	2.6	0.7	3.5	2.3	0.7	3.5
Video & audio services	5.6			1.4	1.16	0.06	0.02	2.7	1.4	2.0	2.6	1.3	2.2
Pet services	7.8			-0.6	0.52	0.04	0.00	3.1	0.8	6.1	3.3	0.9	4.9
Photo services	5.6			0.4	0.03	0.00	0.00	-0.2	2.0	2.9	0.8	1.8	2.6
Other recreation services	3.2			0.3	1.45	0.05	0.00	2.4	0.6	1.4	1.7	1.1	1.4
Educ. & communication serv.	1.7			0.2	5.38	0.09	0.01	0.4	1.3	1.0	1.1	1.3	0.5
Tuition, school fees, child care	2.5			0.2	2.51	0.06	0.01	2.8	0.6	-0.5	3.3	0.8	-1.1
Postage & delivery	4.3			0.7	0.08	0.00	0.00	2.3	2.0	1.0	3.3	2.0	0.5
Telephone services	0.2			0.0	1.84	0.00	0.00	-2.4	3.0	0.9	-1.3	2.4	0.6
Internet services	2.5			0.5	0.94	0.02	0.00	-0.2	1.5	1.8	0.1	1.3	1.8
Other personal serv.	6.5			0.1	1.37	0.09	0.00	2.7	0.7	5.6	2.4	0.6	6.5
Personal care services	6.2			0.5	0.54	0.03	0.00	2.3	0.7	5.6	1.8	0.8	5.3
Miscellaneous personal services	6.6			-0.1	0.83	0.05	0.00	2.9	0.9	4.0	2.7	0.7	5.3

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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