

Contributors

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Chart 1

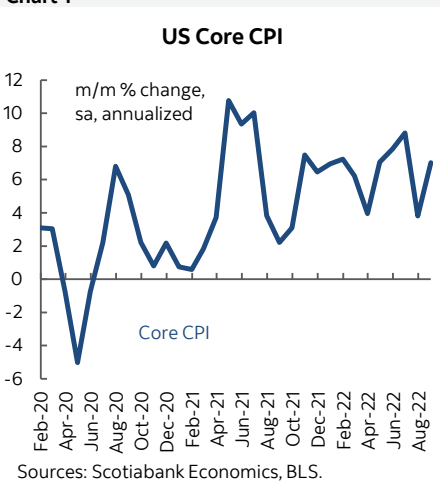
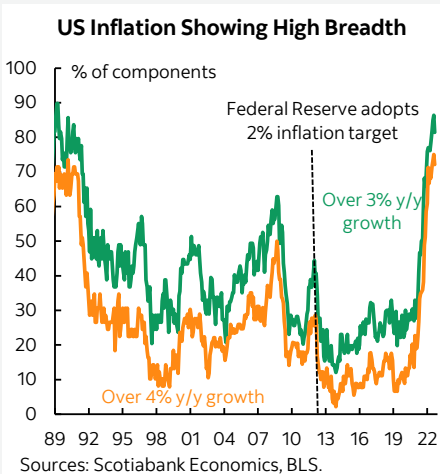


Chart 2



US Core Inflation Remains Hot and Widespread

- US core CPI was another hot one...
- ...with still very high breadth
- Markets reacted by driving a stronger dollar, higher rates and lower equities...
- ...and a 5% Fed funds terminal rate

US CPI m/m % // y/y %, September:

Actual: 0.4 / 8.2
 Scotia: 0.1 / 8.0
 Consensus: 0.2 / 8.1
 Prior: 0.1 / 8.3

US core CPI m/m % // y/y %, September:

Actual: 0.6 / 6.6
 Scotia: 0.5 / 6.6
 Consensus: 0.4 / 6.5
 Prior: 0.6 / 6.3

That US core inflation soaring is becoming an all-too-familiar observation, yet it did it again in September by landing higher than consensus and a touch higher than my above-consensus estimate. There is nothing here that says core inflation and its breadth is softening or leaning toward a Fed pivot.

Core CPI was up by 7% m/m at a seasonally adjusted and annualized rate (0.5% m/m SA non-annualized). The trend remains very hot as shown in chart 1 and has been hot dating right back to April 2021 with a few soft patches along the way. You can't cherry pick your favourite numbers along this path as the trend has been too hot for too long. The latest soft patch in July is now a proven head fake as core CPI sharply accelerated in the three months leading up to it and the two months since then.

Furthermore, breadth remains very high (chart 2). On a y/y basis, 91% of the CPI basket is up by over 2% y/y, 81% is up by over 3%, 72% over 4% and 63% over 5%. There are extremely widespread price pressures in the US economy and there isn't any evidence that the breadth of the pressures is cooling.

Markets reacted by pushing the two-year Treasury yield up by about 20bps, the USD about ½% firmer on a DXY basis and the S&P about 1% lower so far. Fed funds futures are pricing a few basis points more than a 75bps hike on November 2nd, a 4½% upper limit by December and a terminal rate at 5% in Q1 which I think generally makes sense with information at hand to date. In other words, about another 1¾ percentage points of rate hikes are pricing by Q1 from 3¼% now. I think the FOMC would be open to this path. The rate path has been pushed into uncharted waters with the Fed likely more determined to crush inflation's back with whatever pain is necessary.

DETAILS

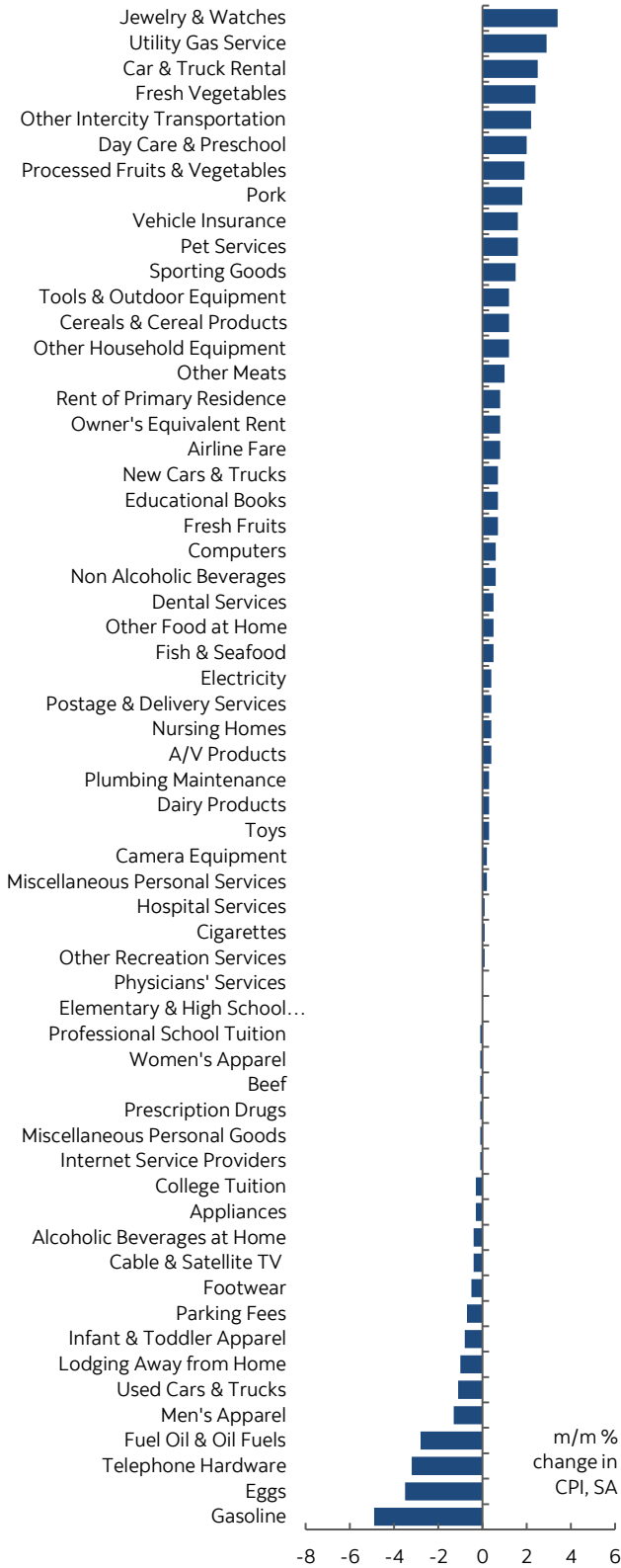
Charts 3 and 4 show the unweighted m/m changes in prices across CPI components and the weighted contributions to the overall m/m change in CPI respectively. Charts 5 and 6 do likewise in year-over-year terms. Please also see the accompanying collection of charts providing further breakdowns.

Across components, food prices were up 0.8% m/m with both at home (0.7%) and away from home food prices (0.9%) were up strongly. The food at school category was up by 44.9% m/m but maybe ask students if the quality has gone up with it... bwah!

Gasoline prices were a drag as expected as they fell by -4.9% m/m.

Chart 3

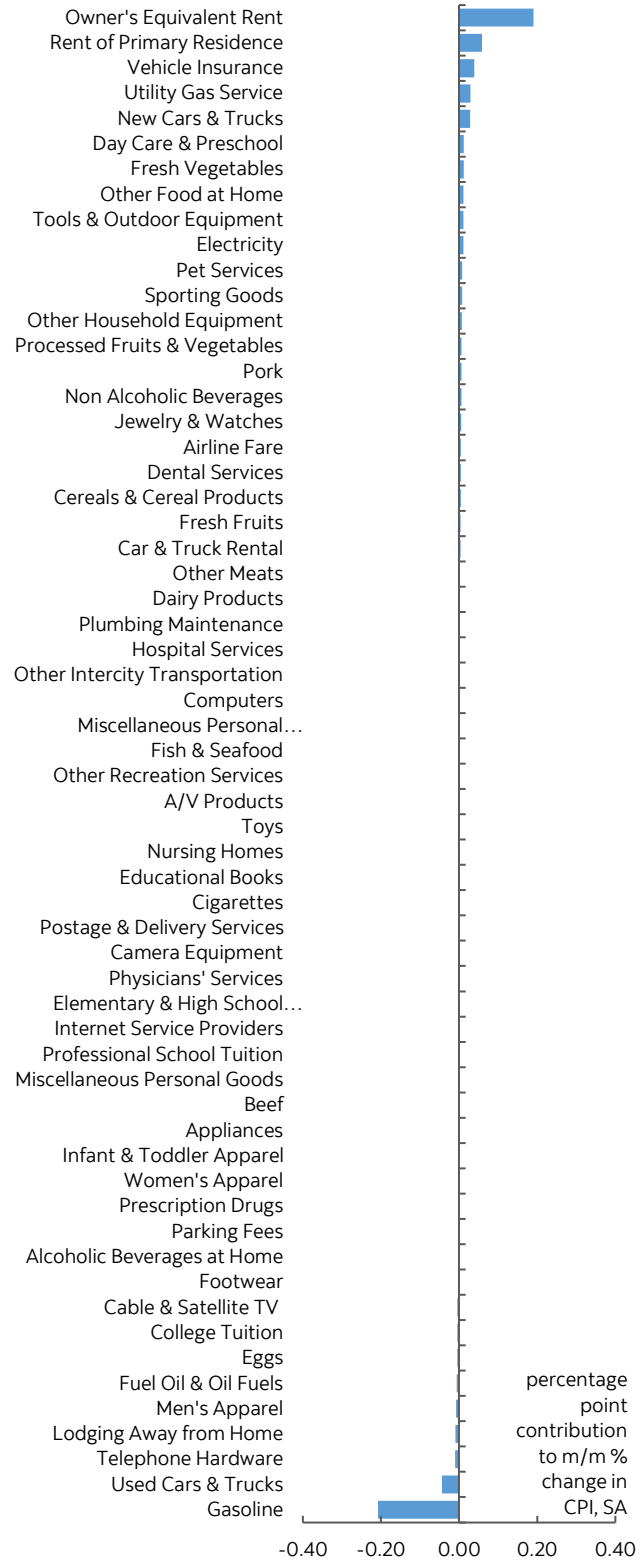
September Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 4

September Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 5

September 12-Month Changes in US Headline CPI Categories

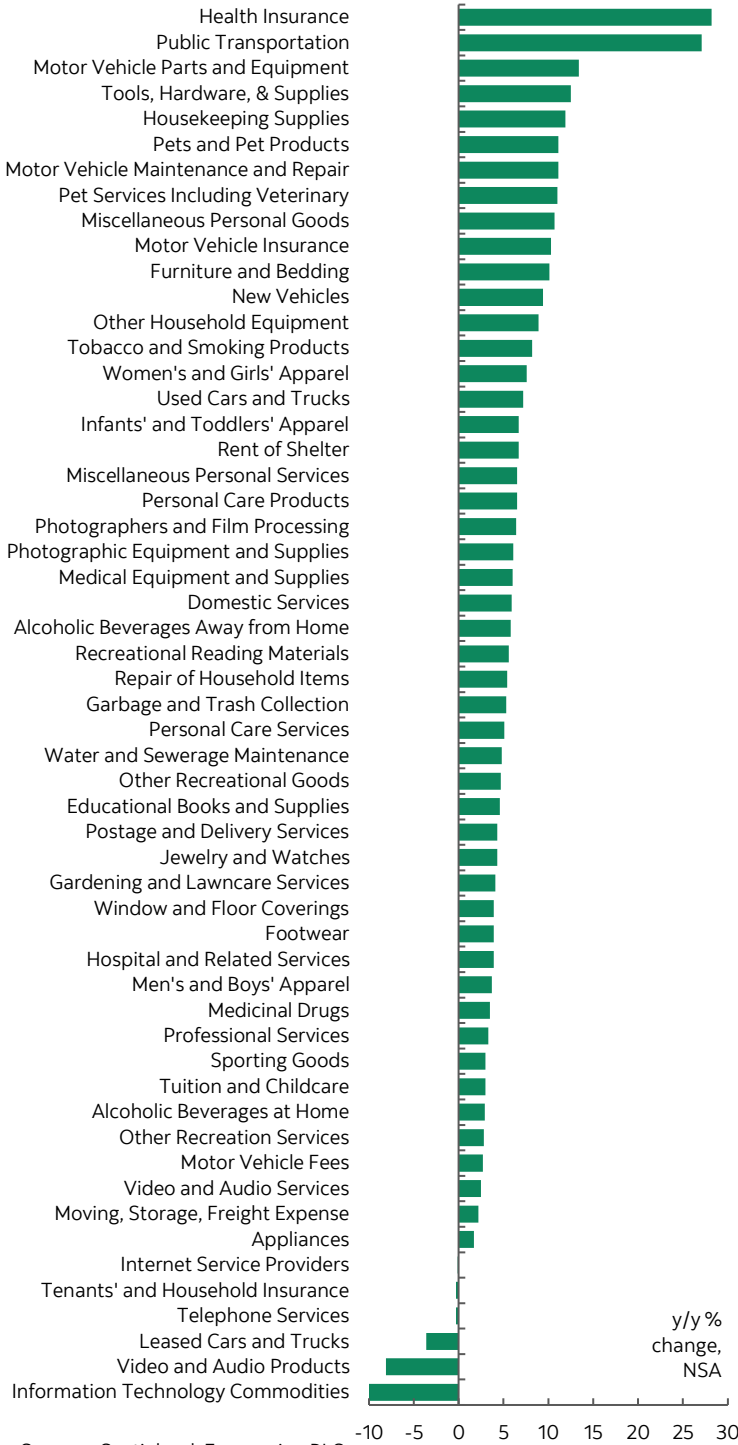


Chart 6

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



Owners equivalent rent was up by 0.8% m/m and won't turn for a while longer and only after a string of declines in repeat sale home prices. Used vehicle prices were down 1.1% m/m in line with expectations but I'm surprised that new vehicles were up 0.7% m/m.

Across pandemic affected categories, vehicle rentals were up by 2.5% m/m, airfare was up 0.8% m/m, and lodging was down 1%.

Overall services ex-energy prices were up by 0.8% which continues to escalate.

I'm also surprised that piped gas was up 2.9% m/m unweighted. July's drop in natural gas flowed through to CPI, this time the drop in September didn't. Regulatory delays and differences in plans, but I would expect October to be a drag in this category although there is only a small 1% weight on this category.

We are seeing disinflation in the clothing categories since some of the inventory burn began at some retailers switching between seasons on overstocked clothing items. Apparel down 0.3% m/m and soft for the past three months. Men's clothing leading the declines. Same with footwear.

Smartphone prices were down 2.9% m/m in September and are down by 21% y/y. Funny, I didn't think they had become some combination of that much cheaper and that much better as I'll stick with my existing one.

There is also some evidence that folks are returning more and more to services they may have held off on. Dental service prices were up 0.5% m/m after a gain of 1.7% the prior month. Eyeglasses and eye care up 3.2% m/m. Physicians' services up 0.5% m/m.

Auto insurance is still soaring with ongoing >1% m/m increases as insurers may be making up for tough markets.

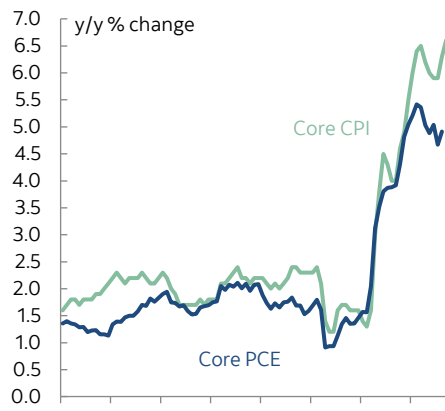
Health insurance is also continuing to soar with a string of >2% m/m increases. Home insurance is relatively tame.

Please also see the accompanying table that provides further detail along with micro trend charts and z-score measures of price changes compared to recent multi-year norms.

Regular publishing will resume on Monday.

Chart 7

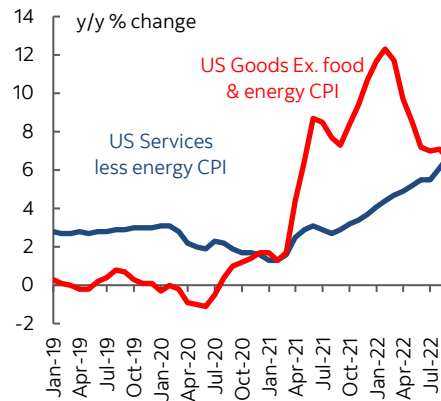
US Core PCE & CPI



Sources: Scotiabank Economics, BLS, BEA.

Chart 8

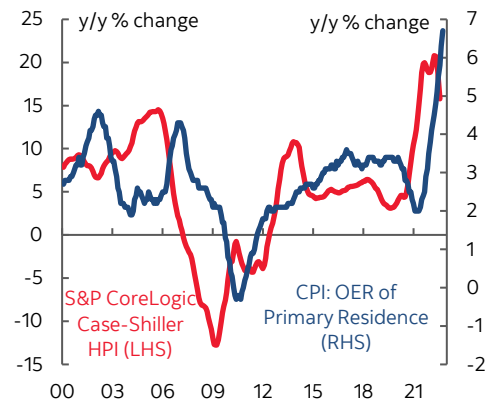
US Goods vs Services Inflation



Sources: Scotiabank Economics, BLS.

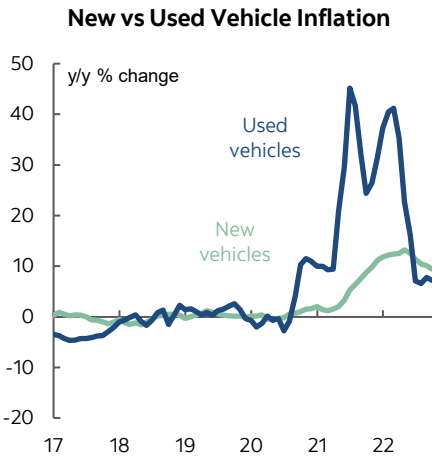
Chart 9

Homebuying Price Surges Causing Upward Pressure on Rents



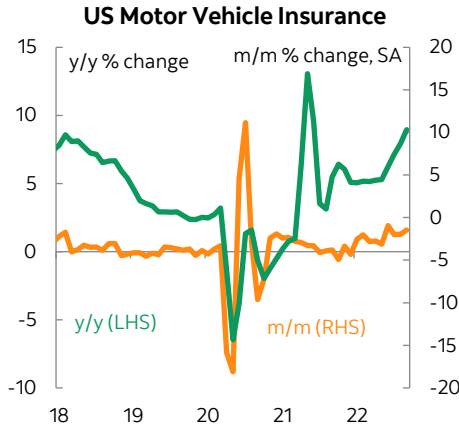
Sources: Scotiabank Economics, BLS, S&P.

Chart 10



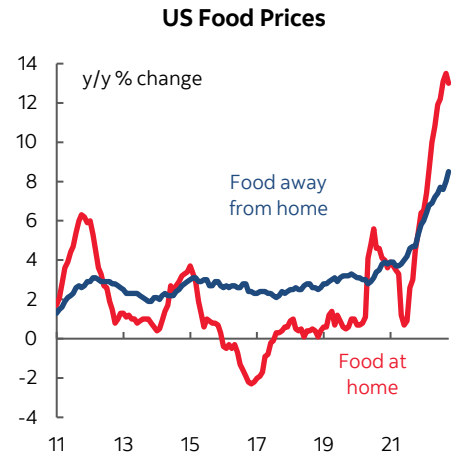
Sources: Scotiabank Economics, BLS.

Chart 11



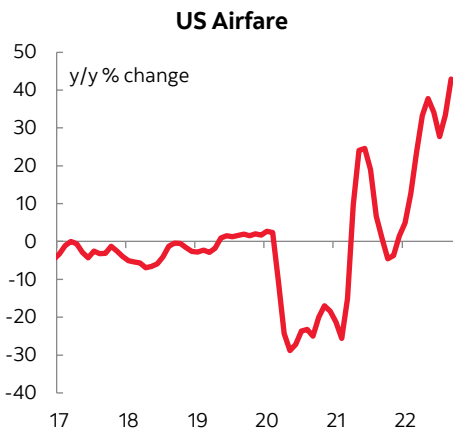
Sources: Scotiabank Economics, BLS.

Chart 12



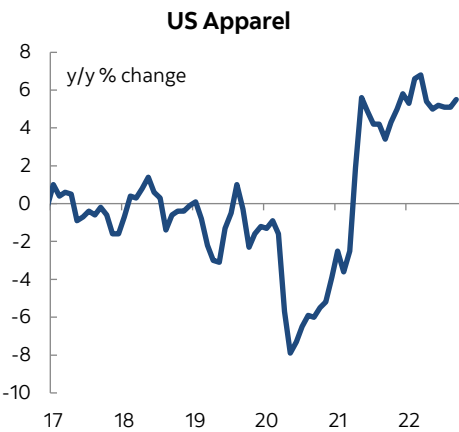
Sources: Scotiabank Economics, BLS.

Chart 13



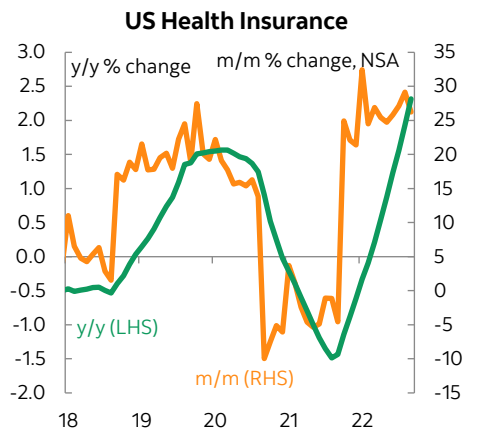
Sources: Scotiabank Economics, BLS.

Chart 14



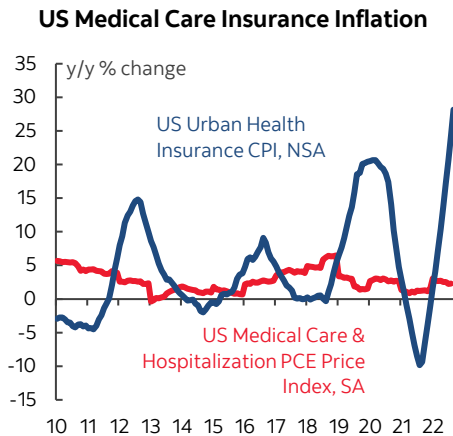
Sources: Scotiabank Economics, BLS.

Chart 15



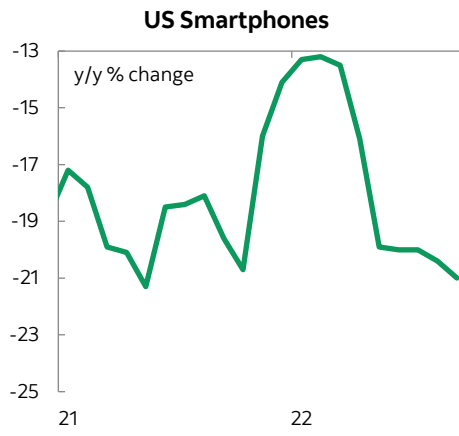
Sources: Scotiabank Economics, BLS.

Chart 16



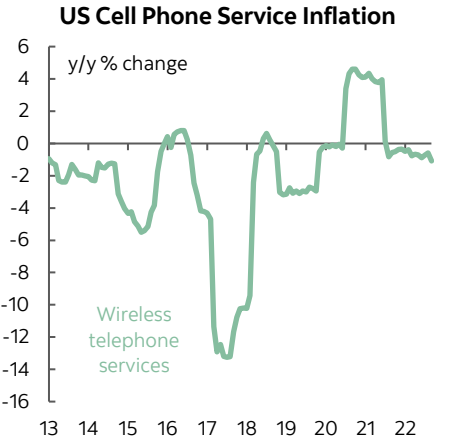
Sources: Scotiabank Economics, US BLS, US Bureau of Economic Analysis.

Chart 17



Sources: Scotiabank Economics, BLS.

Chart 18



Sources: Scotiabank Economics, BLS.

October 13, 2022

Sep 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	11.2			0.8	13.64	1.53	0.11	1.3	0.8	13.0	1.7	1.1	8.3
Food, home	13.0			0.7	8.48	1.10	0.06	0.2	1.1	11.3	1.2	1.9	6.4
Cereals & bakery products	16.2			0.9	1.10	0.18	0.01	0.4	0.9	18.0	0.9	1.7	9.0
Meats, poultry, fish & eggs	9.0			0.4	1.91	0.17	0.01	-0.2	3.2	2.9	2.1	3.9	1.8
Dairy & related products	15.9			0.3	0.80	0.13	0.00	-0.6	1.6	10.3	1.1	3.1	4.7
Fruits & vegetables	10.4			1.6	1.41	0.15	0.02	0.4	1.7	5.8	1.0	2.0	4.6
Non-alcoholic beverages	12.9			0.6	0.97	0.13	0.01	0.6	1.0	11.8	0.5	1.6	7.8
Other food at home	15.7			0.5	2.28	0.36	0.01	0.5	0.6	23.6	1.0	1.6	9.4
Food, away	8.5			0.9	5.16	0.44	0.05	2.7	0.3	19.5	2.5	0.5	11.5
Full services meals & snacks	8.8			0.4	2.40	0.21	0.01	2.6	0.4	16.9	2.4	0.5	12.8
Limited services meals and snacks	7.1			0.6	2.50	0.18	0.01	2.8	0.3	13.3	2.5	0.7	6.5
Food at employee sites and school	91.4			44.9	0.05	0.05	0.02	2.8	2.4	36.2	2.8	1.9	46.2
Food from vending machines & mobile vendors	7.2			0.1	0.04	0.00	0.00	3.1	1.0	4.2	2.5	1.3	3.6
Other food away from home	5.4			0.3	0.17	0.01	0.00	2.5	1.3	2.2	2.3	1.0	3.1
Energy	19.8			-2.1	8.24	1.63	-0.17	-1.9	10.0	2.2	1.6	9.6	1.9
Energy comm.	19.7			-4.7	4.57	0.90	-0.21	-2.8	17.0	1.3	3.0	17.1	1.0
Fuel oils & other fuels	39.9			-2.8	0.23	0.09	-0.01	-2.3	15.8	2.7	2.7	14.4	2.6
Motor fuel	18.8			-4.8	4.34	0.82	-0.21	-2.8	17.1	1.3	3.0	17.3	0.9
<u>Gasoline</u>	<u>18.2</u>			<u>-4.9</u>	<u>4.24</u>	<u>0.77</u>	<u>-0.21</u>	<u>-2.8</u>	<u>17.1</u>	<u>1.2</u>	<u>3.0</u>	<u>17.4</u>	<u>0.9</u>
<u>Other</u>	<u>49.0</u>			<u>-2.1</u>	<u>0.10</u>	<u>0.05</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>2.6</u>	<u>3.6</u>	<u>17.9</u>	<u>2.5</u>
Energy serv.	19.8			1.1	3.68	0.73	0.04	0.0	2.4	8.1	0.5	2.7	7.3
Electricity	15.5			0.4	2.69	0.42	0.01	0.5	1.5	10.2	1.0	1.7	8.7
Utility (piped gas service)	33.1			2.9	0.99	0.33	0.03	-1.4	7.5	4.6	-0.9	7.3	4.6
All items less food and energy	6.6			0.6	78.12	5.16	0.47	2.0	0.2	20.4	1.8	0.4	11.7
Commodities less food and energy	6.6			0.0	21.29	1.41	0.00	-0.3	0.4	17.8	0.2	0.9	7.2
Household furnishings	9.9			0.6	3.80	0.38	0.02	-0.8	1.2	8.9	-0.9	1.2	9.1
Window & floor coverings	3.9			1.0	0.29	0.01	0.00	-2.3	1.7	3.6	-2.8	1.8	3.8
Furniture & bedding	10.1			-0.1	0.98	0.10	0.00	-0.3	1.7	6.0	-0.9	2.1	5.3
Appliances	1.7			-0.3	0.24	0.00	0.00	-1.2	3.1	0.9	-1.6	3.0	1.1
Other household equipment	8.9			1.3	0.55	0.05	0.01	-3.5	1.8	6.7	-3.7	1.5	8.5
Tools & hardware	12.5			1.2	0.93	0.12	0.01	-0.1	1.0	12.2	-0.3	1.2	10.5
Housekeeping supplies	11.9			0.6	0.95	0.11	0.01	0.3	1.2	9.7	0.4	1.3	8.8

October 13, 2022

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Apparel	5.5			-0.3	2.43	0.13	-0.01	-0.5	1.0	6.1	0.3	1.7	3.0
Men's & boys apparel	3.7			-1.3	0.61	0.02	-0.01	-0.3	1.5	2.6	0.5	2.3	1.4
Women's & girls apparel	7.6			-0.1	0.95	0.07	0.00	-1.3	1.9	4.8	-0.1	2.5	3.1
Footwear	3.9			-0.5	0.60	0.02	0.00	0.2	1.3	2.8	0.8	1.7	1.9
Infant & toddler's apparel	6.7			-0.8	0.12	0.01	0.00	0.4	3.8	1.7	0.5	3.6	1.7
Jewelry & watches	4.3			3.4	0.16	0.01	0.01	1.0	3.4	1.0	1.5	3.8	0.8
Trans. less fuel	8.4			-0.2	8.57	0.72	-0.02	-0.3	0.9	9.8	0.4	1.5	5.4
New vehicles	9.4			0.7	4.05	0.38	0.03	0.1	0.7	14.2	0.8	1.2	7.0
Used cars & trucks	7.2			-1.1	4.01	0.29	-0.04	-1.3	2.1	4.1	1.1	4.8	1.3
Motor vehicle parts & equipment	13.4			0.8	0.43	0.06	0.00	0.2	1.1	12.5	0.9	2.2	5.8
Medical comm.	3.7			-0.1	1.48	0.05	0.00	2.1	1.7	0.9	2.3	1.5	1.0
Medicinal Drugs	3.5			-0.2	1.38	0.05	0.00	2.2	1.8	0.7	2.3	1.6	0.8
Medical equipment & supplies	6.0			0.9	0.10	0.01	0.00	0.4	1.2	4.5	0.3	1.2	4.8
Recreation comm.	4.0			0.0	1.88	0.08	0.00	-2.6	1.1	6.2	-2.3	0.9	7.0
Video & audio products	-8.1			0.4	0.28	-0.02	0.00	-10.1	2.4	0.8	-9.2	2.2	0.5
Pets & pet products	11.1			0.9	0.56	0.06	0.01	0.4	1.5	7.3	0.5	1.5	7.3
Sporting goods	3.0			-1.1	0.55	0.02	-0.01	-0.7	1.5	2.4	-0.6	1.2	3.0
Photographic Equipment & supplies	6.1			0.2	0.02	0.00	0.00	-1.7	4.6	1.7	-3.0	4.0	2.3
Recreational reading materials	5.6			-1.3	0.10	0.01	0.00	1.6	1.9	2.2	1.5	1.8	2.3
Other recreational goods	4.7			0.3	0.37	0.02	0.00	-6.5	1.3	8.4	-5.2	1.7	5.7
Educ. & communication comm.	-8.3			-0.6	0.76	-0.06	0.00	-3.7	1.0	-4.5	-3.5	0.9	-5.3
Educational books & supplies	4.6			-0.4	0.09	0.00	0.00	2.2	3.0	0.8	3.6	2.7	0.4
IT commodities	-10.0			-0.6	0.67	-0.07	0.00	-6.1	1.9	-2.1	-6.8	1.8	-1.8
Alcohol	4.1			0.0	0.87	0.04	0.00	1.3	0.3	8.2	1.4	0.4	7.5
Alcoholic beverages at home	2.9			-0.4	0.58	0.02	0.00	0.8	0.6	3.4	0.8	0.5	4.0
Alcoholic beverages away from home	5.8			0.5	0.29	0.02	0.00	1.9	0.5	8.4	2.2	0.7	5.4
Other goods	7.9			0.4	1.35	0.11	0.01	1.4	0.9	7.7	1.4	0.7	9.1
Tobacco & smoking products	8.2			0.2	0.52	0.04	0.00	4.3	1.5	2.5	4.4	3.8	1.0
Personal care products	6.5			0.4	0.65	0.04	0.00	-0.3	0.6	11.7	-0.1	0.8	8.0
Miscellaneous personal goods	10.7			1.0	0.18	0.02	0.00	-2.4	3.1	4.2	-1.7	2.4	5.2

October 13, 2022

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Services less energy services	6.7			0.8	56.83	3.81	0.45	2.8	0.2	16.7	2.4	0.6	6.8
Shelter	6.6			0.7	32.47	2.14	0.23	3.3	0.2	19.7	2.5	1.2	3.5
Rent of shelter	6.7			0.8	32.11	2.15	0.26	3.3	0.2	18.4	2.5	1.2	3.6
<i>Rent of primary residence</i>	<i>7.2</i>			<i>0.8</i>	<i>7.30</i>	<i>0.53</i>	<i>0.06</i>	<i>3.7</i>	<i>0.1</i>	<i>26.3</i>	<i>2.9</i>	<i>1.1</i>	<i>3.9</i>
<i>Lodging away from home</i>	<i>2.9</i>			<i>-1.0</i>	<i>0.97</i>	<i>0.03</i>	<i>-0.01</i>	<i>2.3</i>	<i>2.0</i>	<i>0.3</i>	<i>2.2</i>	<i>2.2</i>	<i>0.3</i>
<i>OER of residences</i>	<i>6.7</i>			<i>0.8</i>	<i>23.84</i>	<i>1.60</i>	<i>0.19</i>	<i>3.2</i>	<i>0.2</i>	<i>17.1</i>	<i>2.4</i>	<i>1.1</i>	<i>4.0</i>
Tenants' & household insurance	-0.3			-0.4	0.36	0.00	0.00	1.4	1.2	-1.4	2.3	1.5	-1.7
Water, sewer, trash collection	4.9			0.7	1.08	0.05	0.01	3.6	0.6	2.2	4.3	1.0	0.6
Water & sewage maintenance	4.8			0.3	0.78	0.04	0.00	4.0	0.8	1.0	4.8	1.4	0.0
Garbage & trash collection	5.3			1.7	0.30	0.02	0.01	2.5	1.5	1.9	2.5	1.1	2.6
Household ops.	6.6			0.1	0.83	0.05	0.00	3.8	1.3	2.2	2.6	1.6	2.5
Domestic services	5.9			0.6	0.24	0.01	0.00	2.0	1.1	3.7	1.6	1.0	4.1
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	2.2			-2.2	0.10	0.00	0.00	5.6	3.9	-0.9	3.3	3.9	-0.3
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.	6.5			1.0	6.86	0.45	0.07	2.9	1.0	3.7	3.0	0.8	4.2
Professional Services	3.3			0.7	3.45	0.11	0.02	1.5	0.9	1.9	1.8	0.8	1.8
Hospital & related services	3.9			0.2	2.51	0.10	0.01	3.8	1.1	0.1	4.5	1.3	-0.5
Health insurance	28.2			2.1	0.90	0.25	0.02	5.0	5.8	4.0	3.6	6.0	4.1
Transportation serv.	14.6			1.9	5.86	0.86	0.11	2.6	1.1	10.9	2.6	1.0	12.4
Leased cars & trucks	-3.6			0.6	0.76	-0.03	0.00	0.5	3.0	-1.4	-1.6	3.2	-0.6
Motor vehicle maintenance & repair	11.1			1.9	1.05	0.12	0.02	2.2	0.7	12.7	2.0	0.6	15.8
Motor vehicle insurance	10.3			1.6	2.43	0.25	0.04	5.5	2.6	1.8	4.8	2.0	2.7
Motor vehicle fees	2.7			0.5	0.50	0.01	0.00	1.8	0.7	1.3	2.2	1.9	0.3
Public transportation	27.1			0.1	0.90	0.24	0.00	-1.2	1.5	18.7	1.0	3.6	7.3
Recreation serv.	4.1			0.2	3.11	0.13	0.01	2.6	0.7	2.3	2.3	0.7	2.4
Video & audio services	2.5			-0.4	1.14	0.03	0.00	2.7	1.4	-0.2	2.6	1.3	-0.1
Pet services	11.0			1.6	0.52	0.06	0.01	3.1	0.8	10.3	3.3	0.9	8.4
Photo services	6.4			0.5	0.03	0.00	0.00	-0.2	2.0	3.3	0.8	1.8	3.0
Other recreation services	2.8			0.1	1.43	0.04	0.00	2.4	0.6	0.7	1.7	1.1	1.0
Educ. & communication serv.	1.4			0.2	5.27	0.07	0.01	0.4	1.3	0.7	1.1	1.3	0.3
Tuition, school fees, child care	3.0			0.4	2.49	0.07	0.01	2.8	0.6	0.4	3.3	0.8	-0.5
Postage & delivery	4.3			0.4	0.08	0.00	0.00	2.3	2.0	1.0	3.3	2.0	0.5
Telephone services	-0.3			0.0	1.78	-0.01	0.00	-2.4	3.0	0.7	-1.3	2.4	0.4
Internet services	-0.1			-0.1	0.91	0.00	0.00	-0.2	1.5	0.1	0.1	1.3	-0.1
Other personal serv.	5.9			0.3	1.35	0.08	0.00	2.7	0.7	4.8	2.4	0.6	5.5
Personal care services	5.1			0.3	0.54	0.03	0.00	2.3	0.7	4.0	1.8	0.8	4.0
Miscellaneous personal services	6.5			0.3	0.82	0.05	0.00	2.9	0.9	3.9	2.7	0.7	5.2

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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