

Contributors

Derek Holt

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

Chart 1

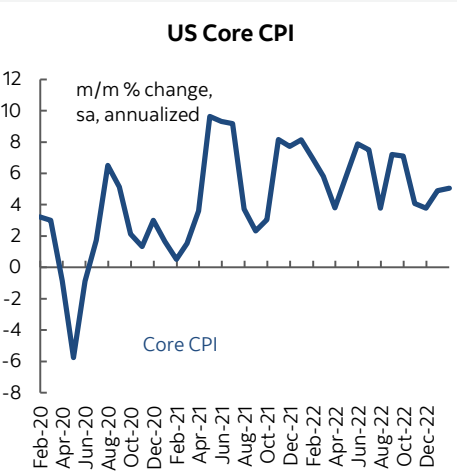
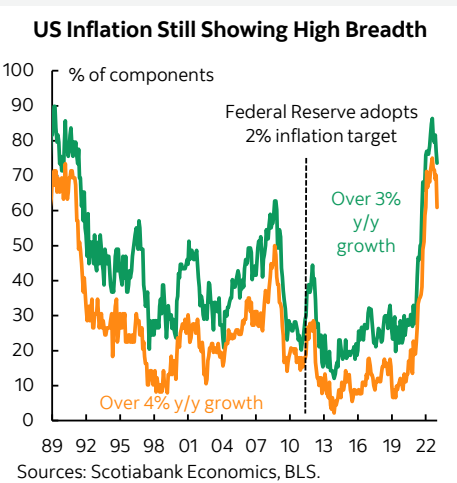


Chart 2



US Core CPI Picks Up — Lights Up Fed Pricing

- Core CPI is back on an upward trend...
- ...rising to 5.1% m/m SAAR in January
- Breadth remains high
- Markets reacted by pushing Fed terminal rate pricing toward 5½%

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

Actual: 0.5 / 0.4
 Scotia: 0.4 / 0.3
 Consensus: 0.5 / 0.4
 Prior: 0.1 / 0.4

US CPI y/y % headline/core, January:

Actual: 6.4 / 5.6
 Scotia: 6.1 / 5.4
 Consensus: 6.2 / 5.5
 Prior: 6.2 / 5.7

Markets are not feeling any love on Valentine’s Day. US core CPI put in another hot showing during January while nevertheless matching consensus expectations. It was up by 5.1% m/m at a seasonally adjusted and annualized rate (SAAR). That is definitely not going to tick any boxes in terms of looking for clear evidence of cooling inflation in the US economy. In fact, it is going the other way. Chart 1 shows the reacceleration of this measure over the past couple of months. Core CPI was up by 4.6% m/m SAAR on a three-month moving average that aims to reduce volatility.

MARKETS AND THE FED

Markets reacted by pushing the US two-year yield about 12bps higher post-data, while adding a touch to USD strength and pushing the S&P500 about ½% lower so far on the day. Markets continue to price a 25bps hike at the March FOMC meeting and pushed terminal rate pricing up another 9bps toward just shy of 5.5%. That implies that the FOMC will raise its terminal rate from 5.25% in December to 5.5% in March when the dots get updated, and possibly higher.

Bear in mind, however, that there is a lot of data between now and the March dots. That includes another PCE reading toward month-end, another nonfarm payrolls and wages report, and another CPI print.

DETAILS—HOUSING STILL HOT, CORE SERVICES FACE A LONG GRINDING ROAD

There remains high breadth to the pace of increases in the CPI basket (chart 2).

Most of the pressure in year-over-year terms continues to be through services as goods price inflation has continued to ebb (chart 3). That’s less true in m/m terms as core goods price inflation has picked up a touch recently (chart 4).

Core services ex-energy and ex-housing (Powell’s favourite measure) was up 0.3% m/m SA in January after 0.4% m/m the prior month and so it is now back to the October–November pace. There is a rough connection between this measure and wage inflation that Powell is concerned about particularly since this measure represents over half of the core PCE basket (chart 5). It is a lagging relationship with a loose connect to wages such that Powell is likely to remain focused upon how it evolves over a very long period of time ahead and in the context of a tighter job market than thought just before the last nonfarm payrolls report including large positive revisions.

Charts 6 and 7 break down the weighted contributions to the m/m SA and y/y changes in CPI to show what drove inflation last month. Further charts follow on the following page.

Shelter was up 0.7% m/m including rent that was up 0.7 and OER that was up 0.7. Housing continues to rip higher both in terms of OER and rent of primary residence (chart 8). This will fall in future as the lagging effects of falling market rents works its way through, but not yet and it may be overwhelmed by the services point above.

Gasoline prices were up 2.4% m/m and so that was a minor contributor.

Food was up 0.5% m/m through groceries (up 0.4) and food away from home (up 0.6).

New vehicle prices were up by 0.2% m/m which is irrelevant at a 4.3% weight. Used vehicle prices were down 1.9% m/m SA at a 2.7% weight for a very minor drag (against the flawed stories about higher used vehicle prices that used wrong data).

Across pandemic-related service categories, lodging was up 1.2% m/m SA, airfare fell 2.1% m/m, intracity transit was flat, restaurants (ie: food away from home) were up 0.6% and vehicle rental prices were up 3% which is the hottest in a while.

Apparel prices were up 0.8% m/m mostly due to men's and boy's clothing.

Medical care commodity prices were up 1.1%

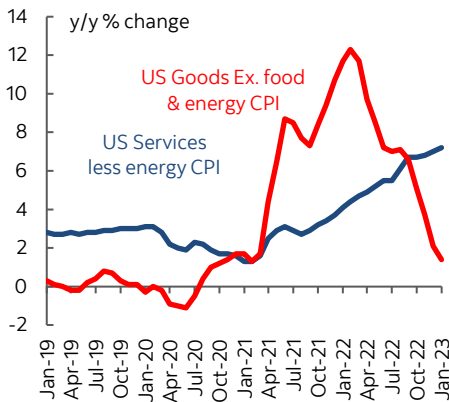
Medical care service prices were down 0.7%.

Leased vehicle prices were up 1% m/m.

Please also see the full detailed table at the back of this publication that breaks down more of the CPI basket including micro-charts and z-score measures of deviation from historical tendencies.

Chart 3

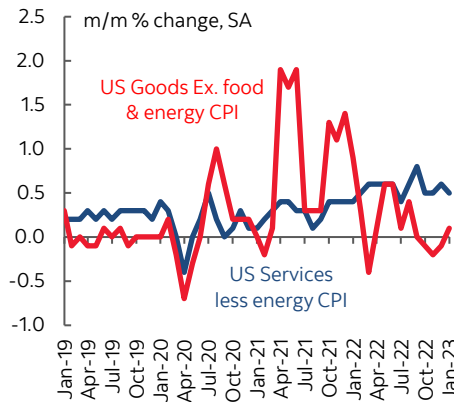
US Goods vs Services Inflation



Sources: Scotiabank Economics, BLS.

Chart 4

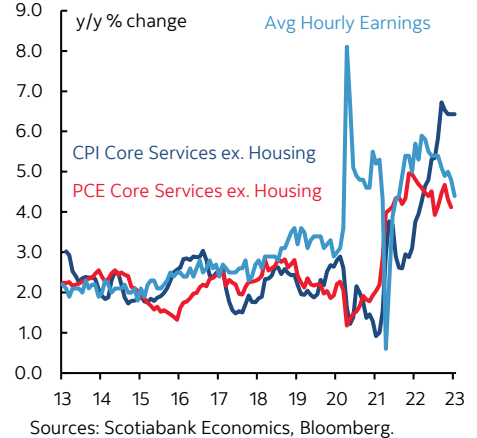
US Goods vs Services Inflation



Sources: Scotiabank Economics, BLS.

Chart 5

This is the Inflation that Powell Fears the Most



Sources: Scotiabank Economics, Bloomberg.

Chart 6

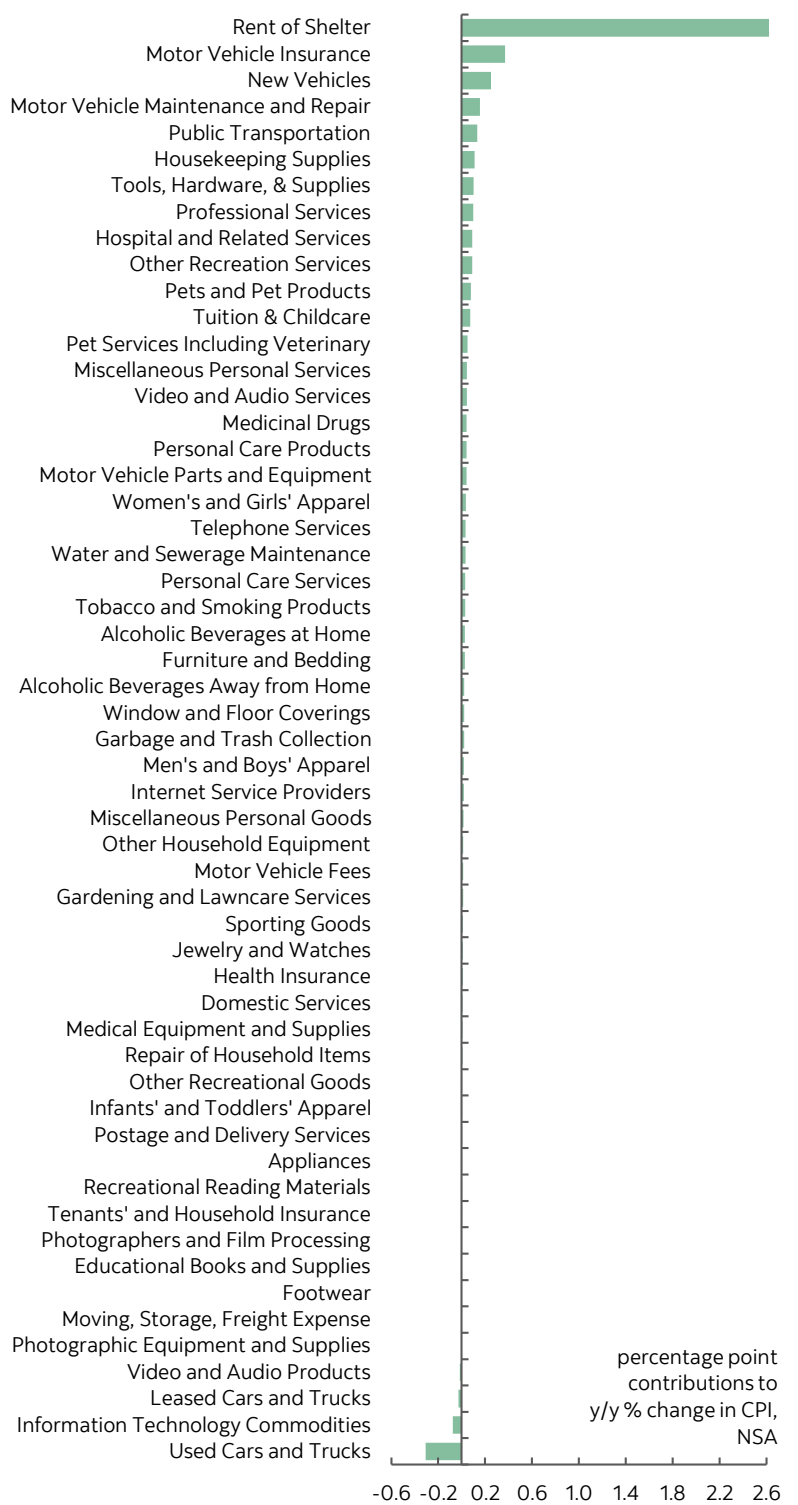
January Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 7

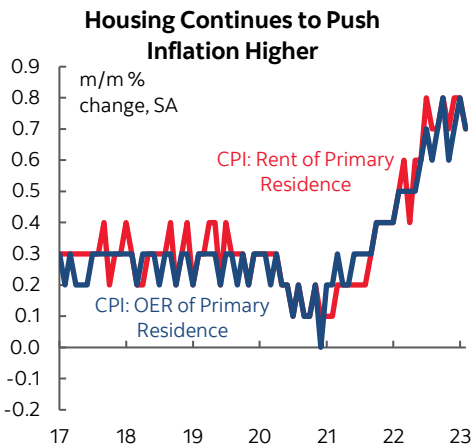
January Weighted Contributions to the 12-Month Change in US Headline CPI



Source: Scotiabank Economics, BLS.

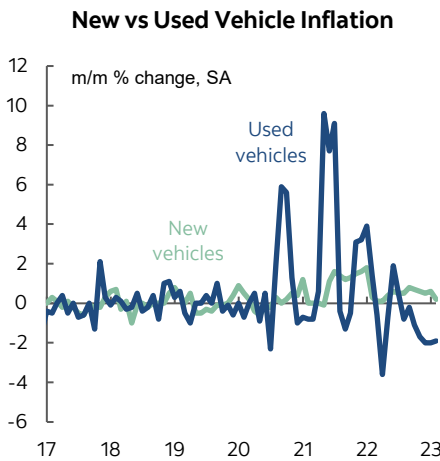
percentage point contributions to y/y % change in CPI, NSA

Chart 8



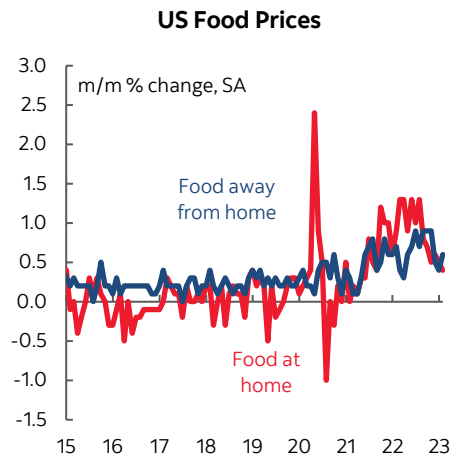
Sources: Scotiabank Economics, BLS.

Chart 9



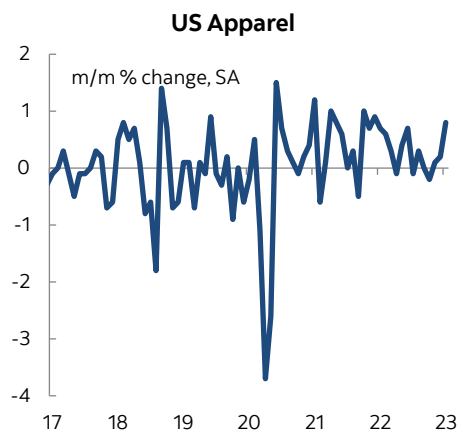
Sources: Scotiabank Economics, BLS.

Chart 10



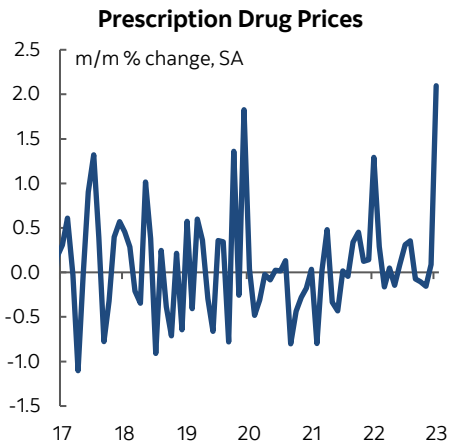
Sources: Scotiabank Economics, BLS.

Chart 11



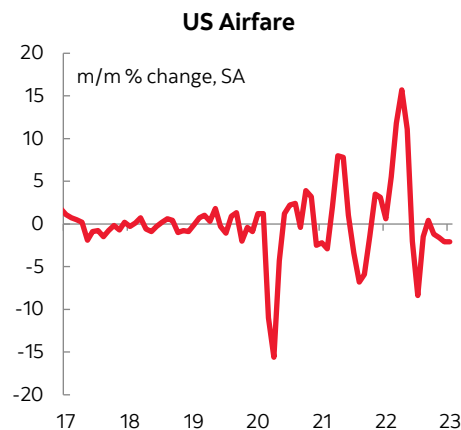
Sources: Scotiabank Economics, BLS.

Chart 12



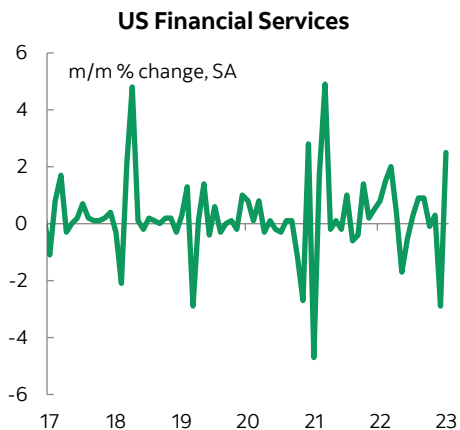
Sources: Scotiabank Economics, BLS.

Chart 13



Sources: Scotiabank Economics, BLS.

Chart 14



Sources: Scotiabank Economics, BLS.

February 14, 2023

Jan 2023				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			0.5	13.78	1.39	0.07	1.3	0.8	11.6	1.7	1.1	7.4
Food, home	11.3			0.4	8.53	0.96	0.03	0.2	1.1	9.8	1.2	1.9	5.5
Cereals & bakery products	15.6			1.0	1.12	0.17	0.01	0.4	0.9	17.3	0.9	1.7	8.7
Meats, poultry, fish & eggs	8.1			0.7	1.90	0.15	0.01	-0.2	3.2	2.6	2.1	3.9	1.5
Dairy & related products	14.0			0.0	0.81	0.11	0.00	-0.6	1.6	9.1	1.1	3.1	4.1
Fruits & vegetables	7.2			-0.5	1.43	0.10	-0.01	0.4	1.7	4.0	1.0	2.0	3.1
Non-alcoholic beverages	13.1			0.4	0.98	0.13	0.00	0.6	1.0	12.0	0.5	1.6	8.0
Other food at home	13.2			0.7	2.29	0.30	0.02	0.5	0.6	19.7	1.0	1.6	7.8
Food, away	8.2			0.6	5.26	0.43	0.03	2.7	0.3	18.5	2.5	0.5	10.9
Full services meals & snacks	8.1			0.5	2.44	0.20	0.01	2.6	0.4	15.0	2.4	0.5	11.4
Limited services meals and snacks	6.7			0.7	2.53	0.17	0.02	2.8	0.3	12.1	2.5	0.7	5.9
Food at employee sites and school	130.3			0.1	0.08	0.10	0.00	2.8	2.4	52.1	2.8	1.9	66.4
Food from vending machines & mobile vendors	13.8			1.7	0.04	0.01	0.00	3.1	1.0	10.8	2.5	1.3	8.7
Other food away from home	5.9			0.0	0.17	0.01	0.00	2.5	1.3	2.6	2.3	1.0	3.6
Energy	8.7			2.0	7.87	0.68	0.16	-1.9	10.0	1.1	1.6	9.6	0.7
Energy comm.	2.8			1.9	4.31	0.12	0.08	-2.8	17.0	0.3	3.0	17.1	0.0
Fuel oils & other fuels	18.3			-3.9	0.26	0.05	-0.01	-2.3	15.8	1.3	2.7	14.4	1.1
Motor fuel	1.9			2.3	4.05	0.08	0.09	-2.8	17.1	0.3	3.0	17.3	-0.1
<u>Gasoline</u>	<u>1.5</u>			<u>2.4</u>	<u>3.95</u>	<u>0.06</u>	<u>0.09</u>	<u>-2.8</u>	<u>17.1</u>	<u>0.3</u>	<u>3.0</u>	<u>17.4</u>	<u>-0.1</u>
<u>Other</u>	<u>26.0</u>			<u>-4.2</u>	<u>0.10</u>	<u>0.03</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>1.5</u>	<u>3.6</u>	<u>17.9</u>	<u>1.3</u>
Energy serv.	15.6			2.1	3.56	0.56	0.07	0.0	2.4	6.4	0.5	2.7	5.7
Electricity	11.9			0.5	2.61	0.31	0.01	0.5	1.5	7.7	1.0	1.7	6.5
Utility (piped gas service)	26.7			6.7	0.95	0.25	0.06	-1.4	7.5	3.7	-0.9	7.3	3.8
All items less food and energy	5.6			0.4	78.35	4.39	0.31	2.0	0.2	16.0	1.8	0.4	9.3
Commodities less food and energy	1.4			0.1	20.88	0.29	0.02	-0.3	0.4	4.4	0.2	0.9	1.4
Household furnishings	6.4			0.5	3.80	0.24	0.02	-0.8	1.2	6.0	-0.9	1.2	6.1
Window & floor coverings	6.7			3.4	0.29	0.02	0.01	-2.3	1.7	5.2	-2.8	1.8	5.4
Furniture & bedding	2.2			0.0	0.95	0.02	0.00	-0.3	1.7	1.5	-0.9	2.1	1.5
Appliances	1.4			1.4	0.24	0.00	0.00	-1.2	3.1	0.8	-1.6	3.0	1.0
Other household equipment	2.5			1.5	0.55	0.01	0.01	-3.5	1.8	3.3	-3.7	1.5	4.2
Tools & hardware	9.6			0.6	0.96	0.09	0.01	-0.1	1.0	9.4	-0.3	1.2	8.1
Housekeeping supplies	11.3			1.4	0.96	0.11	0.01	0.3	1.2	9.2	0.4	1.3	8.3

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Apparel	3.1			0.8	2.41	0.07	0.02	-0.5	1.0	3.7	0.3	1.7	1.6
Men's & boys apparel	3.1			1.4	0.60	0.02	0.01	-0.3	1.5	2.2	0.5	2.3	1.2
Women's & girls apparel	3.7			0.3	0.96	0.04	0.00	-1.3	1.9	2.7	-0.1	2.5	1.5
Footwear	0.4			-0.2	0.59	0.00	0.00	0.2	1.3	0.2	0.8	1.7	-0.2
Infant & toddler's apparel	5.1			3.7	0.11	0.01	0.00	0.4	3.8	1.2	0.5	3.6	1.3
Jewelry & watches	4.9			1.3	0.15	0.01	0.00	1.0	3.4	1.2	1.5	3.8	0.9
Trans. less fuel	-2.3			-0.7	8.21	-0.19	-0.06	-0.3	0.9	-2.3	0.4	1.5	-1.8
New vehicles	5.8			0.2	4.07	0.24	0.01	0.1	0.7	8.7	0.8	1.2	4.1
Used cars & trucks	-11.6			-1.9	3.62	-0.42	-0.07	-1.3	2.1	-5.0	1.1	4.8	-2.6
Motor vehicle parts & equipment	8.3			0.3	0.44	0.04	0.00	0.2	1.1	7.6	0.9	2.2	3.4
Medical comm.	3.4			1.1	1.47	0.05	0.02	2.1	1.7	0.8	2.3	1.5	0.8
Medicinal Drugs	3.2			1.2	1.37	0.04	0.02	2.2	1.8	0.6	2.3	1.6	0.6
Medical equipment & supplies	7.0			-0.8	0.10	0.01	0.00	0.4	1.2	5.3	0.3	1.2	5.6
Recreation comm.	3.3			0.1	1.87	0.06	0.00	-2.6	1.1	5.6	-2.3	0.9	6.2
Video & audio products	-6.2			0.7	0.27	-0.02	0.00	-10.1	2.4	1.6	-9.2	2.2	1.4
Pets & pet products	11.9			0.2	0.58	0.07	0.00	0.4	1.5	7.8	0.5	1.5	7.8
Sporting goods	1.5			0.5	0.55	0.01	0.00	-0.7	1.5	1.4	-0.6	1.2	1.7
Photographic Equipment & supplies	5.4			-0.3	0.02	0.00	0.00	-1.7	4.6	1.5	-3.0	4.0	2.1
Recreational reading materials	3.1			-0.4	0.10	0.00	0.00	1.6	1.9	0.8	1.5	1.8	0.9
Other recreational goods	1.2			-0.8	0.36	0.00	0.00	-6.5	1.3	5.8	-5.2	1.7	3.7
Educ. & communication comm.	-10.3			-0.1	0.73	-0.07	0.00	-3.7	1.0	-6.5	-3.5	0.9	-7.5
Educational books & supplies	2.2			-0.4	0.09	0.00	0.00	2.2	3.0	0.0	3.6	2.7	-0.5
IT commodities	-11.7			0.0	0.64	-0.07	0.00	-6.1	1.9	-3.0	-6.8	1.8	-2.7
Alcohol	5.8			0.4	0.88	0.05	0.00	1.3	0.3	13.1	1.4	0.4	12.1
Alcoholic beverages at home	5.3			0.4	0.58	0.03	0.00	0.8	0.6	7.5	0.8	0.5	8.5
Alcoholic beverages away from home	6.9			0.6	0.29	0.02	0.00	1.9	0.5	10.8	2.2	0.7	7.1
Other goods	7.2			0.8	1.36	0.10	0.01	1.4	0.9	6.8	1.4	0.7	8.1
Tobacco & smoking products	6.3			0.7	0.52	0.03	0.00	4.3	1.5	1.3	4.4	3.8	0.5
Personal care products	7.1			0.3	0.65	0.05	0.00	-0.3	0.6	12.7	-0.1	0.8	8.7
Miscellaneous personal goods	10.3			3.1	0.19	0.02	0.01	-2.4	3.1	4.1	-1.7	2.4	5.0

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Services less energy services	7.2			0.5	57.47	4.14	0.29	2.8	0.2	18.9	2.4	0.6	7.6
Shelter	7.9			0.7	32.93	2.60	0.23	3.3	0.2	27.4	2.5	1.2	4.7
Rent of shelter	8.0			0.8	32.57	2.61	0.26	3.3	0.2	25.5	2.5	1.2	4.7
<u>Rent of primary residence</u>	<u>8.6</u>			<u>0.7</u>	<u>7.45</u>	<u>0.64</u>	<u>0.05</u>	<u>3.7</u>	<u>0.1</u>	<u>36.8</u>	<u>2.9</u>	<u>1.1</u>	<u>5.1</u>
<u>Lodging away from home</u>	<u>7.7</u>			<u>1.2</u>	<u>0.89</u>	<u>0.07</u>	<u>0.01</u>	<u>2.3</u>	<u>2.0</u>	<u>2.7</u>	<u>2.2</u>	<u>2.2</u>	<u>2.5</u>
<u>QER of residences</u>	<u>7.8</u>			<u>0.7</u>	<u>24.24</u>	<u>1.89</u>	<u>0.17</u>	<u>3.2</u>	<u>0.2</u>	<u>22.6</u>	<u>2.4</u>	<u>1.1</u>	<u>5.0</u>
Tenants' & household insurance	0.9			0.1	0.36	0.00	0.00	1.4	1.2	-0.4	2.3	1.5	-0.9
Water, sewer, trash collection	5.0			0.9	1.09	0.05	0.01	3.6	0.6	2.4	4.3	1.0	0.7
Water & sewage maintenance	4.2			0.8	0.78	0.03	0.01	4.0	0.8	0.3	4.8	1.4	-0.5
Garbage & trash collection	7.0			0.9	0.31	0.02	0.00	2.5	1.5	3.1	2.5	1.1	4.2
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	3.2			0.5	0.24	0.01	0.00	2.0	1.1	1.1	1.6	1.0	1.5
Gardening & lawn care	4.1			0.2	0.32	0.01	0.00	4.3	2.7	-0.1	2.8	2.6	0.5
Moving, storage, freight	1.6			0.5	0.10	0.00	0.00	5.6	3.9	-1.0	3.3	3.9	-0.4
Repair of household items	5.4			0.1	0.11	0.01	0.00	4.8	2.1	0.3	4.2	2.0	0.6
Medical serv.	3.0			-0.7	6.79	0.20	-0.05	2.9	1.0	0.1	3.0	0.8	-0.1
Professional Services	2.7			-0.1	3.46	0.09	0.00	1.5	0.9	1.3	1.8	0.8	1.1
Hospital & related services	4.0			0.7	2.49	0.10	0.02	3.8	1.1	0.2	4.5	1.3	-0.4
Health insurance	1.2			-3.6	0.84	0.01	-0.03	5.0	5.8	-0.7	3.6	6.0	-0.4
Transportation serv.	14.6			0.9	6.02	0.88	0.05	2.6	1.1	10.9	2.6	1.0	12.4
Leased cars & trucks	-3.6			1.0	0.73	-0.03	0.01	0.5	3.0	-1.4	-1.6	3.2	-0.6
Motor vehicle maintenance & repair	14.2			1.3	1.09	0.15	0.01	2.2	0.7	17.2	2.0	0.6	21.2
Motor vehicle insurance	14.7			1.4	2.53	0.37	0.04	5.5	2.6	3.5	4.8	2.0	4.8
Motor vehicle fees	2.7			1.2	0.50	0.01	0.01	1.8	0.7	1.3	2.2	1.9	0.3
Public transportation	17.1			-1.8	0.91	0.16	-0.02	-1.2	1.5	12.1	1.0	3.6	4.5
Recreation serv.	5.8			0.7	3.15	0.18	0.02	2.6	0.7	4.9	2.3	0.7	4.7
Video & audio services	3.9			0.6	1.14	0.04	0.01	2.7	1.4	0.8	2.6	1.3	0.9
Pet services	9.4			1.0	0.52	0.05	0.01	3.1	0.8	8.2	3.3	0.9	6.6
Photo services	7.7			2.7	0.03	0.00	0.00	-0.2	2.0	4.0	0.8	1.8	3.7
Other recreation services	5.9			0.7	1.45	0.09	0.01	2.4	0.6	5.8	1.7	1.1	3.9
Educ. & communication serv.	2.8			0.5	5.32	0.15	0.03	0.4	1.3	1.8	1.1	1.3	1.4
Tuition, school fees, child care	3.4			0.3	2.50	0.09	0.01	2.8	0.6	1.1	3.3	0.8	0.1
Postage & delivery	6.8			1.5	0.08	0.01	0.00	2.3	2.0	2.3	3.3	2.0	1.8
Telephone services	2.0			0.2	1.81	0.04	0.00	-2.4	3.0	1.5	-1.3	2.4	1.4
Internet services	2.0			1.0	0.92	0.02	0.01	-0.2	1.5	1.5	0.1	1.3	1.4
Other personal serv.	5.3			0.5	1.37	0.07	0.01	2.7	0.7	3.9	2.4	0.6	4.6
Personal care services	5.2			0.2	0.54	0.03	0.00	2.3	0.7	4.2	1.8	0.8	4.1
Miscellaneous personal services	5.4			0.8	0.82	0.04	0.01	2.9	0.9	2.7	2.7	0.7	3.7

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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