

Contributors

**Derek Holt**

VP & Head of Capital Markets Economics  
 Scotiabank Economics  
 416.863.7707  
[derek.holt@scotiabank.com](mailto:derek.holt@scotiabank.com)

Chart 1

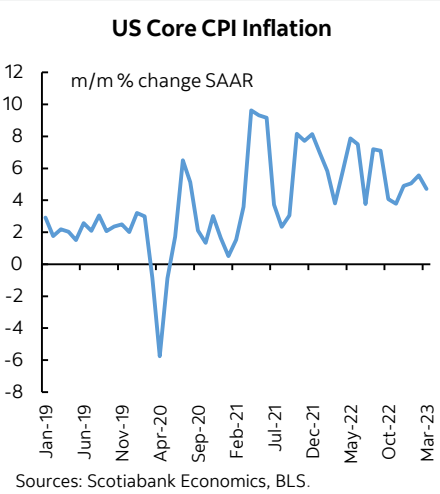
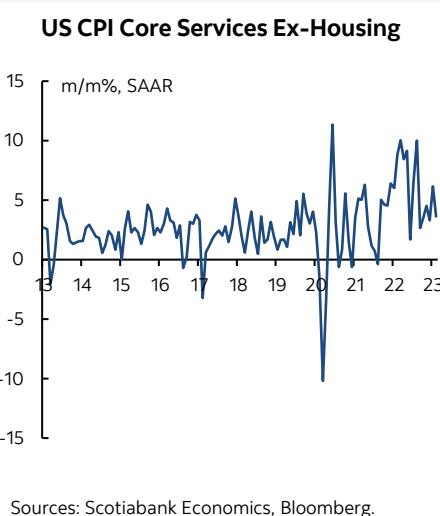


Chart 2



## US Core CPI Adds to the Case for More Fed Hikes

- Core CPI was hot again...
- ...including the CPI analog to Powell’s favoured gauge...
- ....which keeps the Fed on tack for another hike
- Why markets saw it differently

### US headline / core CPI, m/m % change, SA, March:

Actual: 0.1 / 0.4  
 Scotia: 0.2 / 0.3  
 Consensus: 0.2 / 0.4  
 Prior: 0.4 / 0.5

US core inflation remains hot with no satisfying progress toward achieving the Fed’s 2% inflation target. So why did markets react the way they did, at least so far?

The 2-year Treasury yield fell by about 19bps at first and has cut that to 10bps. S&P equity futures initially spiked 0.9% higher post-data but have reined that in to about half of the initial rally. The dollar depreciated by about ½% on a DXY basis.

One possibility is that markets had been positioned for an even hotter core reading than the hot reading we got and so off-base position squaring swung around in the opposite direction. Another possibility is that traders looked at the wrong number again—like they did with Eurozone figures earlier this year—by reacting to a one-tick downward surprise to headline CPI at 0.1% m/m. I guess a third possibility is that markets are still looking at the year-over-year measure that saw headline inflation drop by a full percentage point to 5% even though the year-over-year core gauge moved up a tick to 5.6%. Who knows, maybe traders typed ‘what should I do after CPI’ into ChatGPT and it told them to buy 2s. Either way, I don’t view the market reaction as indicative of how the FOMC will take the numbers.

Key is that core CPI excluding food and energy was up by 0.4% m/m and when annualized translates into a 4.7% m/m annualized rate (chart 1). The 3-month moving average is now set at 5.11% which is basically unchanged from the prior month’s 5.17%. Underlying price pressures remain quite firm and way above the Fed’s 2% PCE target.

We also see that in the CPI analog to Chair Powell’s favourite measure which is core PCE services inflation excluding housing. The CPI proxy for this was up by 3.6% m/m SAAR in March. It had surged by 6.2% in February as the hottest reading since September so call it cooler if you wish, but the smoothed 3-month moving average trend only ebbed by three-tenths to 4.4% at a seasonally adjusted and annualized rate. The trend remains too hot for the FOMC’s comfort (chart 2).

Charts 3 and 4 show the breakdown of m/m price changes by category and the weighted contributions to the overall change in CPI respectively. Charts 5 and 6 do the same things for the year-over-year rates that are more driven by base effects as opposed to the m/m pressures that indicate fresher evidence of inflationary pressures at the margin.

Charts 7 through 13 break down select parts of the basket.

The accompanying table provides a richer breakdown of the basket including micro charts and z-score measures of deviations from historical averages.

Overall we have firm core CPI inflation and nonfarm payrolls and the decision on May 3rd may have enough evidence to go with in support of +25bps. Next up will be Q1 GDP on April 27th and core PCE inflation on the 28th.

Chart 3

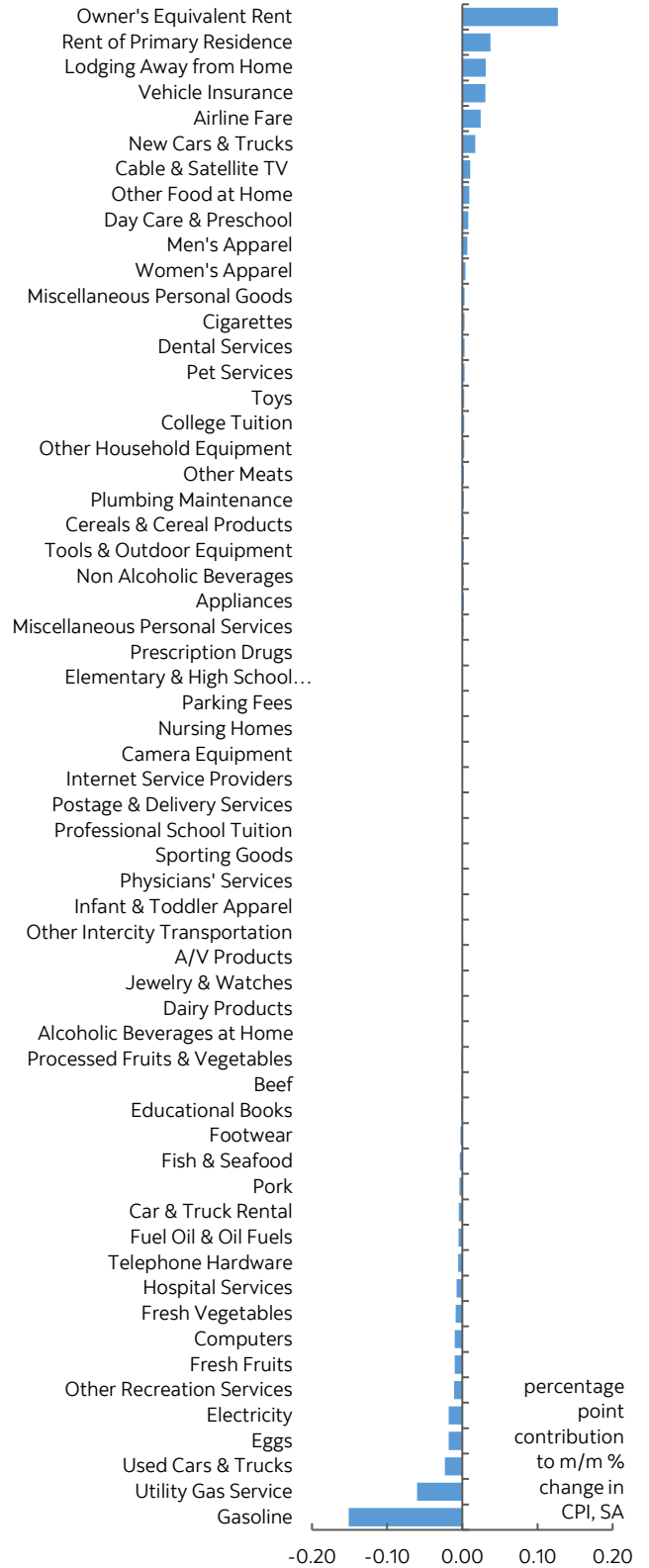
March Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 4

March Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 5

**March 12-Month Changes in US Headline CPI Categories**

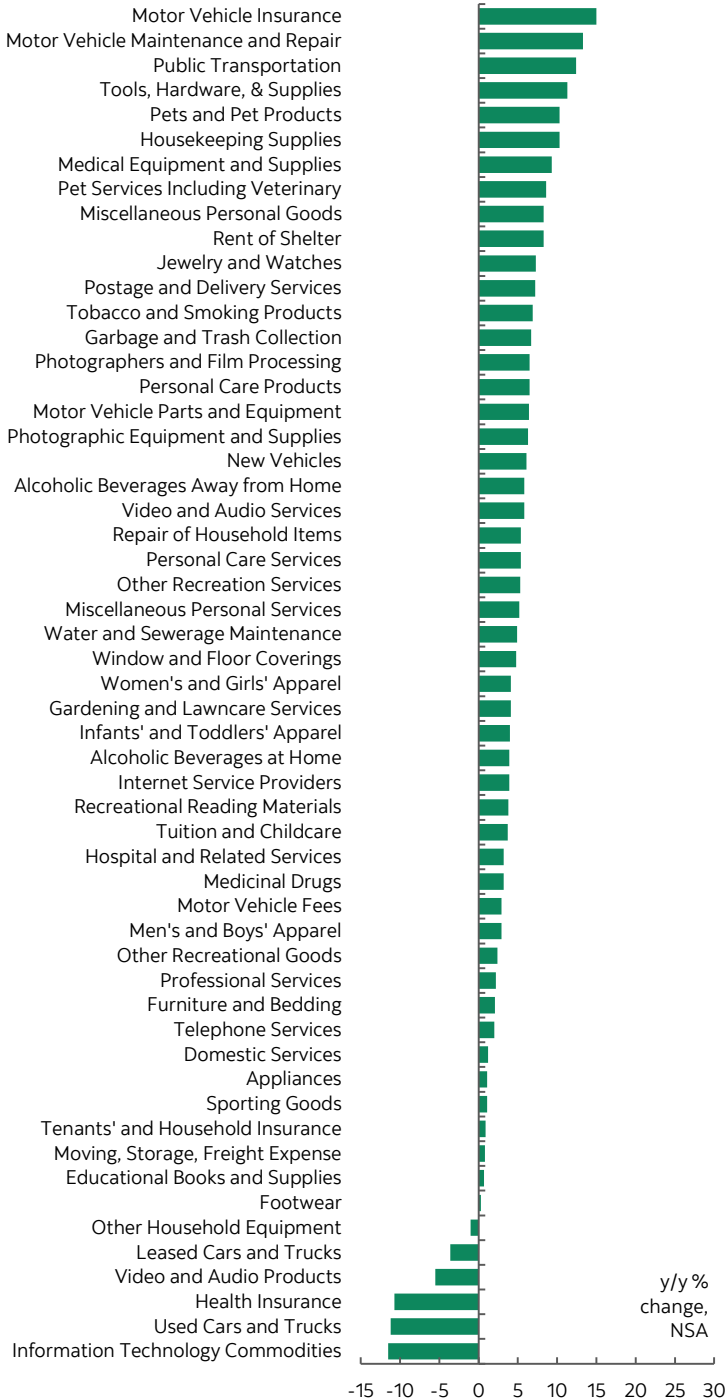


Chart 6

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

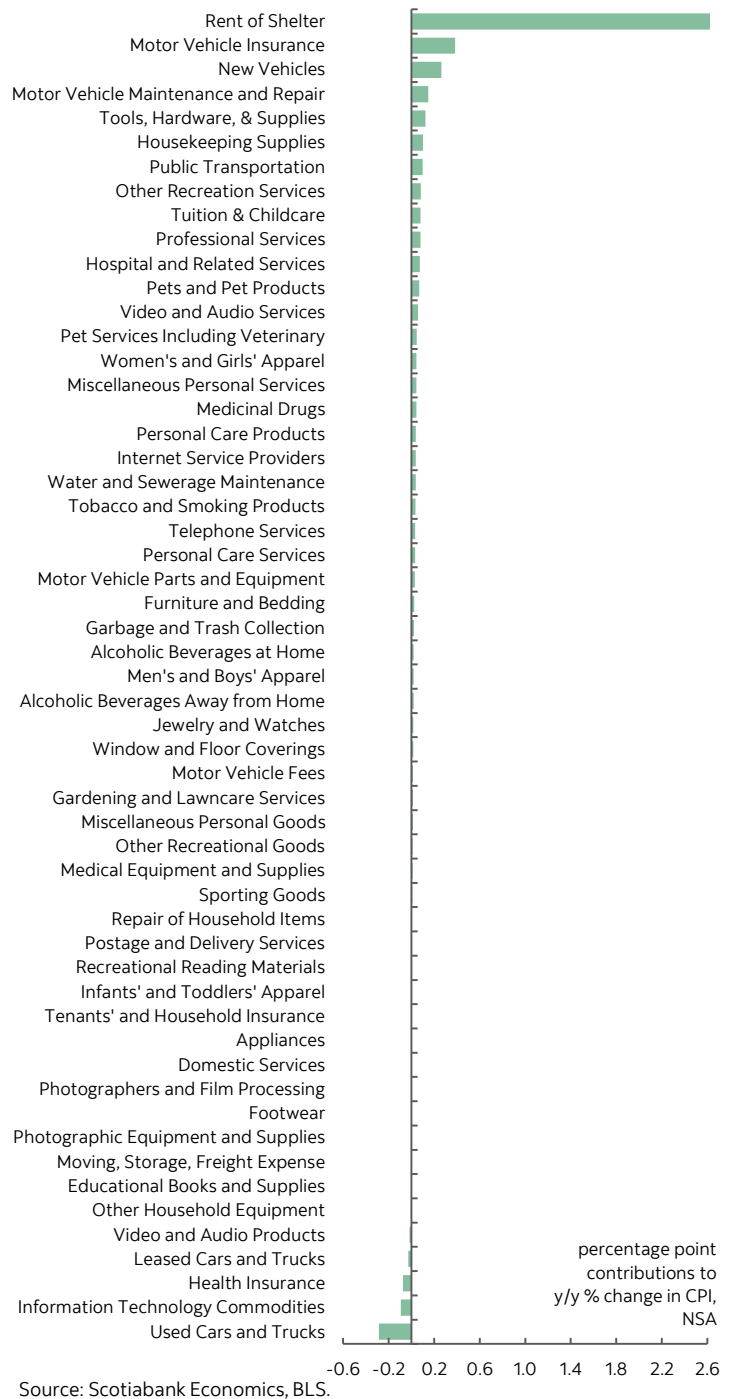
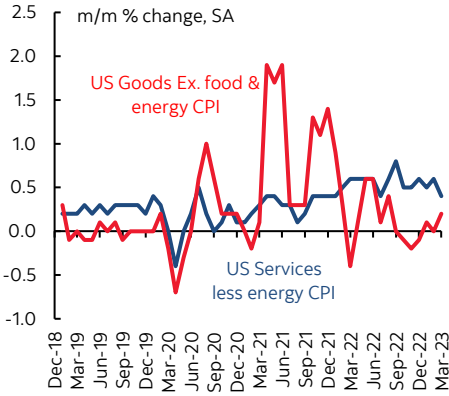


Chart 7

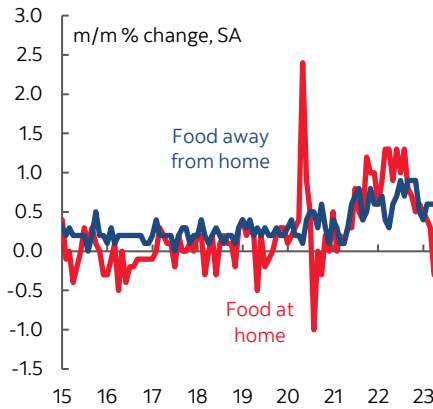
**US Goods vs Services Inflation**



Sources: Scotiabank Economics, BLS.

Chart 8

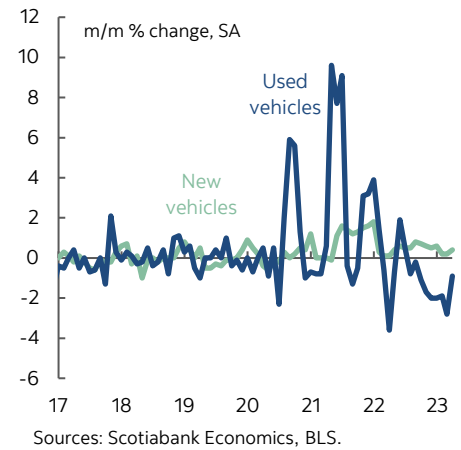
**US Food Prices**



Sources: Scotiabank Economics, BLS.

Chart 9

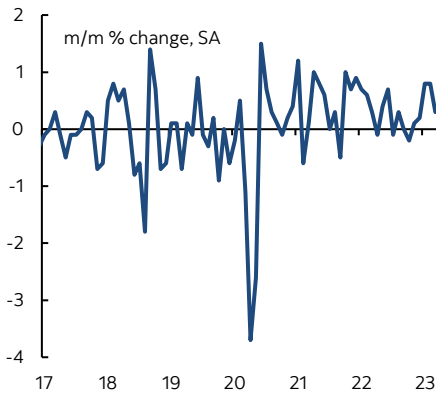
**New vs Used Vehicle Inflation**



Sources: Scotiabank Economics, BLS.

Chart 10

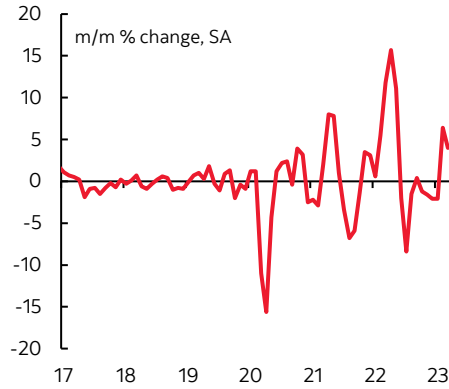
**US Apparel**



Sources: Scotiabank Economics, BLS.

Chart 11

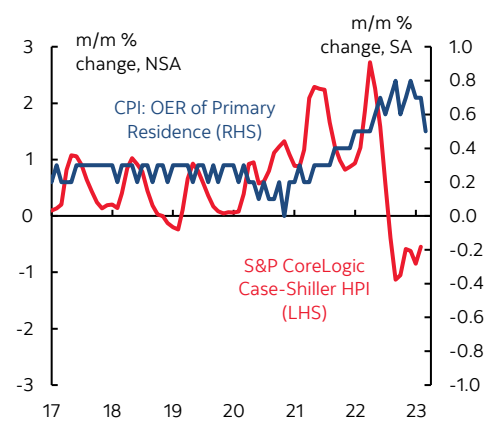
**US Airfare**



Sources: Scotiabank Economics, BLS.

Chart 12

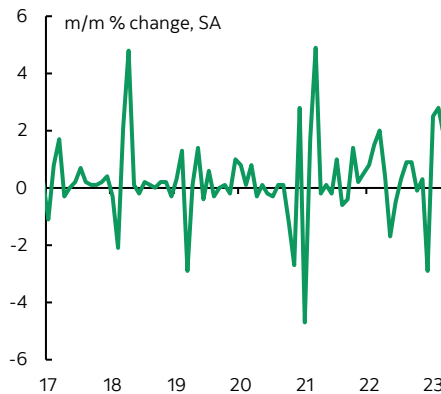
**US Home Prices & Rent**



Sources: Scotiabank Economics, BLS, S&P.

Chart 13

**US Financial Services**



Sources: Scotiabank Economics, BLS.

April 12, 2023

Mar 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
<b>Food</b>	<b>8.5</b>			<b>0.0</b>	<b>13.51</b>	<b>1.15</b>	<b>0.00</b>	<b>1.3</b>	<b>0.8</b>	<b>9.5</b>	<b>1.7</b>	<b>1.1</b>	<b>6.0</b>
<b>Food, home</b>	<b>8.4</b>			<b>-0.3</b>	<b>8.71</b>	<b>0.73</b>	<b>-0.03</b>	<b>0.2</b>	<b>1.1</b>	<b>7.2</b>	<b>1.2</b>	<b>1.9</b>	<b>3.9</b>
Cereals & bakery products	13.6			0.6	1.17	0.16	0.01	0.4	0.9	15.0	0.9	1.7	7.5
Meats, poultry, fish & eggs	4.3			-1.4	1.83	0.08	-0.03	-0.2	3.2	1.4	2.1	3.9	0.6
Dairy & related products	10.7			-0.1	0.81	0.09	0.00	-0.6	1.6	7.0	1.1	3.1	3.1
Fruits & vegetables	2.5			-1.3	1.50	0.04	-0.02	0.4	1.7	1.2	1.0	2.0	0.7
Non-alcoholic beverages	11.3			0.2	1.05	0.12	0.00	0.6	1.0	10.3	0.5	1.6	6.8
Other food at home	11.1			0.4	2.35	0.26	0.01	0.5	0.6	16.5	1.0	1.6	6.4
<b>Food, away</b>	<b>8.8</b>			<b>0.6</b>	<b>4.80</b>	<b>0.42</b>	<b>0.03</b>	<b>2.7</b>	<b>0.3</b>	<b>20.5</b>	<b>2.5</b>	<b>0.5</b>	<b>12.0</b>
Full services meals & snacks	8.0			0.7	2.30	0.18	0.02	2.6	0.4	14.7	2.4	0.5	11.2
Limited services meals and snacks	7.9			0.5	2.23	0.18	0.01	2.8	0.3	15.8	2.5	0.7	7.6
Food at employee sites and school	131.3			0.2	0.08	0.10	0.00	2.8	2.4	52.5	2.8	1.9	67.0
Food from vending machines & mobile vendors	16.2			0.8	0.03	0.00	0.00	3.1	1.0	13.2	2.5	1.3	10.5
Other food away from home	6.3			0.7	0.17	0.01	0.00	2.5	1.3	2.9	2.3	1.0	4.0
<b>Energy</b>	<b>-6.4</b>			<b>-3.5</b>	<b>7.00</b>	<b>-0.45</b>	<b>-0.24</b>	<b>-1.9</b>	<b>10.0</b>	<b>-0.5</b>	<b>1.6</b>	<b>9.6</b>	<b>-0.8</b>
<b>Energy comm.</b>	<b>-17.0</b>			<b>-4.6</b>	<b>3.58</b>	<b>-0.61</b>	<b>-0.16</b>	<b>-2.8</b>	<b>17.0</b>	<b>-0.8</b>	<b>3.0</b>	<b>17.1</b>	<b>-1.2</b>
Fuel oils & other fuels	-10.8			-2.5	0.20	-0.02	-0.01	-2.3	15.8	-0.5	2.7	14.4	-0.9
Motor fuel	-17.3			-4.7	3.38	-0.58	-0.16	-2.8	17.1	-0.8	3.0	17.3	-1.2
<u>Gasoline</u>	<u>-17.4</u>			<u>-4.6</u>	<u>3.28</u>	<u>-0.57</u>	<u>-0.15</u>	<u>-2.8</u>	<u>17.1</u>	<u>-0.9</u>	<u>3.0</u>	<u>17.4</u>	<u>-1.2</u>
<u>Other</u>	<u>-9.9</u>			<u>-4.9</u>	<u>0.10</u>	<u>-0.01</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>-0.4</u>	<u>3.6</u>	<u>17.9</u>	<u>-0.8</u>
<b>Energy serv.</b>	<b>9.2</b>			<b>-2.3</b>	<b>3.42</b>	<b>0.31</b>	<b>-0.08</b>	<b>0.0</b>	<b>2.4</b>	<b>3.7</b>	<b>0.5</b>	<b>2.7</b>	<b>3.3</b>
Electricity	10.2			-0.7	2.57	0.26	-0.02	0.5	1.5	6.6	1.0	1.7	5.5
Utility (piped gas service)	5.5			-7.1	0.85	0.05	-0.06	-1.4	7.5	0.9	-0.9	7.3	0.9
<b>All items less food and energy</b>	<b>5.6</b>			<b>0.4</b>	<b>79.50</b>	<b>4.45</b>	<b>0.32</b>	<b>2.0</b>	<b>0.2</b>	<b>16.0</b>	<b>1.8</b>	<b>0.4</b>	<b>9.3</b>
<b>Commodities less food and energy</b>	<b>1.5</b>			<b>0.2</b>	<b>21.32</b>	<b>0.32</b>	<b>0.04</b>	<b>-0.3</b>	<b>0.4</b>	<b>4.7</b>	<b>0.2</b>	<b>0.9</b>	<b>1.5</b>
<b>Household furnishings</b>	<b>5.8</b>			<b>0.4</b>	<b>3.76</b>	<b>0.22</b>	<b>0.02</b>	<b>-0.8</b>	<b>1.2</b>	<b>5.5</b>	<b>-0.9</b>	<b>1.2</b>	<b>5.6</b>
Window & floor coverings	4.8			0.5	0.32	0.02	0.00	-2.3	1.7	4.1	-2.8	1.8	4.3
Furniture & bedding	2.1			0.4	1.17	0.02	0.00	-0.3	1.7	1.4	-0.9	2.1	1.4
Appliances	1.1			0.7	0.29	0.00	0.00	-1.2	3.1	0.7	-1.6	3.0	0.9
Other household equipment	-1.0			-0.1	0.59	-0.01	0.00	-3.5	1.8	1.4	-3.7	1.5	1.8
Tools & hardware	11.3			0.2	1.09	0.12	0.00	-0.1	1.0	11.0	-0.3	1.2	9.5
Housekeeping supplies	10.3			0.5	0.97	0.10	0.00	0.3	1.2	8.4	0.4	1.3	7.5

April 12, 2023

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<b>Apparel</b>	<b>3.3</b>			<b>0.3</b>	<b>2.59</b>	<b>0.09</b>	<b>0.01</b>	<b>-0.5</b>	<b>1.0</b>	<b>3.9</b>	<b>0.3</b>	<b>1.7</b>	<b>1.7</b>
Men's & boys apparel	2.9			1.0	0.68	0.02	0.01	-0.3	1.5	2.1	0.5	2.3	1.1
Women's & girls apparel	4.1			0.4	1.07	0.04	0.00	-1.3	1.9	2.9	-0.1	2.5	1.7
Footwear	0.3			-0.5	0.51	0.00	0.00	0.2	1.3	0.1	0.8	1.7	-0.3
Infant & toddler's apparel	4.0			-0.3	0.11	0.00	0.00	0.4	3.8	1.0	0.5	3.6	1.0
Jewelry & watches	7.3			-0.3	0.23	0.02	0.00	1.0	3.4	1.9	1.5	3.8	1.6
<b>Trans. less fuel</b>	<b>-1.8</b>			<b>0.0</b>	<b>7.57</b>	<b>-0.14</b>	<b>0.00</b>	<b>-0.3</b>	<b>0.9</b>	<b>-1.7</b>	<b>0.4</b>	<b>1.5</b>	<b>-1.5</b>
New vehicles	6.1			0.4	4.29	0.26	0.02	0.1	0.7	9.1	0.8	1.2	4.3
Used cars & trucks	-11.2			-0.9	2.55	-0.29	-0.02	-1.3	2.1	-4.8	1.1	4.8	-2.5
Motor vehicle parts & equipment	6.4			0.1	0.48	0.03	0.00	0.2	1.1	5.8	0.9	2.2	2.5
<b>Medical comm.</b>	<b>3.6</b>			<b>0.6</b>	<b>1.45</b>	<b>0.05</b>	<b>0.01</b>	<b>2.1</b>	<b>1.7</b>	<b>0.9</b>	<b>2.3</b>	<b>1.5</b>	<b>0.9</b>
Medicinal Drugs	3.2			0.5	1.34	0.04	0.01	2.2	1.8	0.6	2.3	1.6	0.6
Medical equipment & supplies	9.3			1.2	0.11	0.01	0.00	0.4	1.2	7.2	0.3	1.2	7.6
<b>Recreation comm.</b>	<b>3.2</b>			<b>0.2</b>	<b>2.29</b>	<b>0.07</b>	<b>0.00</b>	<b>-2.6</b>	<b>1.1</b>	<b>5.5</b>	<b>-2.3</b>	<b>0.9</b>	<b>6.1</b>
Video & audio products	-5.5			-0.2	0.28	-0.02	0.00	-10.1	2.4	1.9	-9.2	2.2	1.7
Pets & pet products	10.3			0.8	0.67	0.07	0.01	0.4	1.5	6.7	0.5	1.5	6.7
Sporting goods	1.1			-0.6	0.76	0.01	0.00	-0.7	1.5	1.2	-0.6	1.2	1.4
Photographic Equipment & supplies	6.3			1.0	0.02	0.00	0.00	-1.7	4.6	1.7	-3.0	4.0	2.3
Recreational reading materials	3.8			0.9	0.11	0.00	0.00	1.6	1.9	1.2	1.5	1.8	1.3
Other recreational goods	2.4			0.9	0.44	0.01	0.00	-6.5	1.3	6.7	-5.2	1.7	4.3
<b>Educ. &amp; communication comm.</b>	<b>-10.2</b>			<b>-0.5</b>	<b>0.91</b>	<b>-0.09</b>	<b>0.00</b>	<b>-3.7</b>	<b>1.0</b>	<b>-6.4</b>	<b>-3.5</b>	<b>0.9</b>	<b>-7.4</b>
Educational books & supplies	0.7			-1.4	0.10	0.00	0.00	2.2	3.0	-0.5	3.6	2.7	-1.1
IT commodities	-11.5			-0.4	0.82	-0.09	0.00	-6.1	1.9	-2.9	-6.8	1.8	-2.6
<b>Alcohol</b>	<b>4.5</b>			<b>0.1</b>	<b>0.84</b>	<b>0.04</b>	<b>0.00</b>	<b>1.3</b>	<b>0.3</b>	<b>9.4</b>	<b>1.4</b>	<b>0.4</b>	<b>8.6</b>
Alcoholic beverages at home	3.9			-0.2	0.51	0.02	0.00	0.8	0.6	5.1	0.8	0.5	5.9
Alcoholic beverages away from home	5.8			0.3	0.33	0.02	0.00	1.9	0.5	8.4	2.2	0.7	5.4
<b>Other goods</b>	<b>6.9</b>			<b>0.5</b>	<b>1.24</b>	<b>0.09</b>	<b>0.01</b>	<b>1.4</b>	<b>0.9</b>	<b>6.5</b>	<b>1.4</b>	<b>0.7</b>	<b>7.7</b>
Tobacco & smoking products	6.9			0.8	0.50	0.03	0.00	4.3	1.5	1.7	4.4	3.8	0.7
Personal care products	6.5			0.8	0.60	0.04	0.00	-0.3	0.6	11.7	-0.1	0.8	8.0
Miscellaneous personal goods	8.3			-1.3	0.15	0.01	0.00	-2.4	3.1	3.5	-1.7	2.4	4.2

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<b>Services less energy services</b>	<b>7.1</b>			<b>0.4</b>	<b>58.18</b>	<b>4.13</b>	<b>0.23</b>	<b>2.8</b>	<b>0.2</b>	<b>18.5</b>	<b>2.4</b>	<b>0.6</b>	<b>7.5</b>
<b>Shelter</b>	<b>8.2</b>			<b>0.6</b>	<b>34.47</b>	<b>2.83</b>	<b>0.21</b>	<b>3.3</b>	<b>0.2</b>	<b>29.2</b>	<b>2.5</b>	<b>1.2</b>	<b>4.9</b>
Rent of shelter	8.3			0.6	34.10	2.83	0.20	3.3	0.2	27.1	2.5	1.2	4.9
<i>Rent of primary residence</i>	<i>8.8</i>			<i>0.5</i>	<i>7.53</i>	<i>0.66</i>	<i>0.04</i>	<i>3.7</i>	<i>0.1</i>	<i>38.3</i>	<i>2.9</i>	<i>1.1</i>	<i>5.3</i>
<i>Lodging away from home</i>	<i>7.3</i>			<i>2.7</i>	<i>1.16</i>	<i>0.08</i>	<i>0.03</i>	<i>2.3</i>	<i>2.0</i>	<i>2.5</i>	<i>2.2</i>	<i>2.2</i>	<i>2.3</i>
<i>OER of residences</i>	<i>8.0</i>			<i>0.5</i>	<i>25.41</i>	<i>2.03</i>	<i>0.13</i>	<i>3.2</i>	<i>0.2</i>	<i>23.6</i>	<i>2.4</i>	<i>1.1</i>	<i>5.2</i>
Tenants' & household insurance	0.9			0.0	0.37	0.00	0.00	1.4	1.2	-0.4	2.3	1.5	-0.9
<b>Water, sewer, trash collection</b>	<b>5.4</b>			<b>0.3</b>	<b>1.06</b>	<b>0.06</b>	<b>0.00</b>	<b>3.6</b>	<b>0.6</b>	<b>3.1</b>	<b>4.3</b>	<b>1.0</b>	<b>1.1</b>
Water & sewage maintenance	4.9			0.3	0.76	0.04	0.00	4.0	0.8	1.1	4.8	1.4	0.0
Garbage & trash collection	6.7			0.2	0.30	0.02	0.00	2.5	1.5	2.9	2.5	1.1	3.9
<b>Household ops.</b>	<b>6.6</b>			<b>0.1</b>	<b>0.83</b>	<b>0.05</b>	<b>0.00</b>	<b>3.8</b>	<b>1.3</b>	<b>2.2</b>	<b>2.6</b>	<b>1.6</b>	<b>2.5</b>
Domestic services	1.2			0.0	0.26	0.00	0.00	2.0	1.1	-0.7	1.6	1.0	-0.4
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	0.8			1.5	0.10	0.00	0.00	5.6	3.9	-1.2	3.3	3.9	-0.6
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
<b>Medical serv.</b>	<b>1.0</b>			<b>-0.5</b>	<b>6.53</b>	<b>0.07</b>	<b>-0.03</b>	<b>2.9</b>	<b>1.0</b>	<b>-1.9</b>	<b>3.0</b>	<b>0.8</b>	<b>-2.5</b>
Professional Services	2.2			0.0	3.56	0.08	0.00	1.5	0.9	0.7	1.8	0.8	0.5
Hospital & related services	3.2			-0.2	2.26	0.07	0.00	3.8	1.1	-0.6	4.5	1.3	-1.0
Health insurance	-10.7			-4.2	0.70	-0.08	-0.03	5.0	5.8	-2.7	3.6	6.0	-2.4
<b>Transportation serv.</b>	<b>13.9</b>			<b>1.4</b>	<b>5.81</b>	<b>0.81</b>	<b>0.08</b>	<b>2.6</b>	<b>1.1</b>	<b>10.3</b>	<b>2.6</b>	<b>1.0</b>	<b>11.7</b>
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	13.3			0.3	1.11	0.15	0.00	2.2	0.7	15.9	2.0	0.6	19.6
Motor vehicle insurance	15.0			1.2	2.55	0.38	0.03	5.5	2.6	3.6	4.8	2.0	5.0
Motor vehicle fees	2.9			-0.3	0.50	0.01	0.00	1.8	0.7	1.6	2.2	1.9	0.4
Public transportation	12.4			3.2	0.80	0.10	0.03	-1.2	1.5	9.0	1.0	3.6	3.2
<b>Recreation serv.</b>	<b>5.9</b>			<b>0.0</b>	<b>3.12</b>	<b>0.18</b>	<b>0.00</b>	<b>2.6</b>	<b>0.7</b>	<b>5.0</b>	<b>2.3</b>	<b>0.7</b>	<b>4.8</b>
Video & audio services	5.8			0.9	1.00	0.06	0.01	2.7	1.4	2.1	2.6	1.3	2.4
Pet services	8.6			0.5	0.55	0.05	0.00	3.1	0.8	7.2	3.3	0.9	5.8
Photo services	6.5			-1.0	0.04	0.00	0.00	-0.2	2.0	3.4	0.8	1.8	3.1
Other recreation services	5.3			-0.7	1.54	0.08	-0.01	2.4	0.6	4.8	1.7	1.1	3.4
<b>Educ. &amp; communication serv.</b>	<b>3.3</b>			<b>0.3</b>	<b>4.87</b>	<b>0.16</b>	<b>0.01</b>	<b>0.4</b>	<b>1.3</b>	<b>2.2</b>	<b>1.1</b>	<b>1.3</b>	<b>1.8</b>
Tuition, school fees, child care	3.7			0.6	2.15	0.08	0.01	2.8	0.6	1.6	3.3	0.8	0.5
Postage & delivery	7.2			0.1	0.08	0.01	0.00	2.3	2.0	2.5	3.3	2.0	2.0
Telephone services	2.0			-0.4	1.67	0.03	-0.01	-2.4	3.0	1.5	-1.3	2.4	1.4
Internet services	3.9			0.9	0.98	0.04	0.01	-0.2	1.5	2.7	0.1	1.3	2.9
<b>Other personal serv.</b>	<b>5.3</b>			<b>0.5</b>	<b>1.44</b>	<b>0.08</b>	<b>0.01</b>	<b>2.7</b>	<b>0.7</b>	<b>3.9</b>	<b>2.4</b>	<b>0.6</b>	<b>4.6</b>
Personal care services	5.4			0.2	0.60	0.03	0.00	2.3	0.7	4.4	1.8	0.8	4.4
Miscellaneous personal services	5.2			0.7	0.84	0.04	0.01	2.9	0.9	2.5	2.7	0.7	3.4

\*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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