

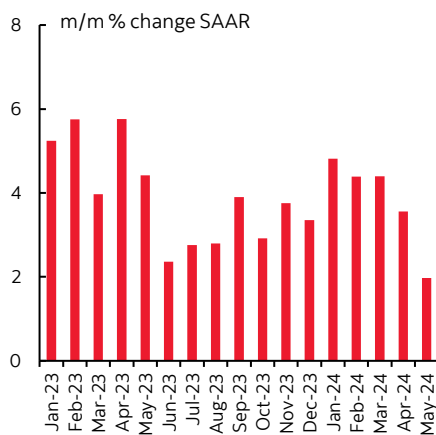
Contributors

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Chart 1

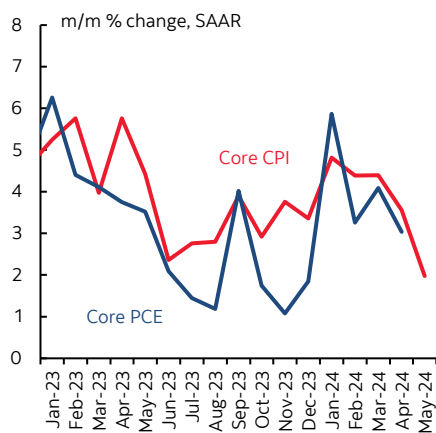
US Core CPI Inflation Progress



Sources: Scotiabank Economics, BLS.

Chart 2

US Core CPI & Core PCE



Sources: Scotiabank Economics, BLS, BEA.

US CPI is One Encouraging Step Forward

- Core CPI at 0.16% m/m was the softest in almost three years
- Core services inflation tumbled
- Breadth improved, underlying details were supportive
- Core PCE could be very soft at month-end
- This is the first soft print after a string of hot ones...
- ...raising the risk that markets are overreacting....
-ahead of Chair Powell’s cautious optimism
- Canadian rates followed suit, 5s may be getting pricey

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

Actual: 0.0 / 0.16
 Scotia: 0.2 / 0.3
 Consensus: 0.1 / 0.3
 Prior: 0.3 / 0.3

US CPI / core CPI, y/y %, May:

Actual: 3.3 / 3.4
 Scotia: 3.5 / 3.5
 Consensus: 3.4 / 3.5
 Prior: 3.4 / 3.6

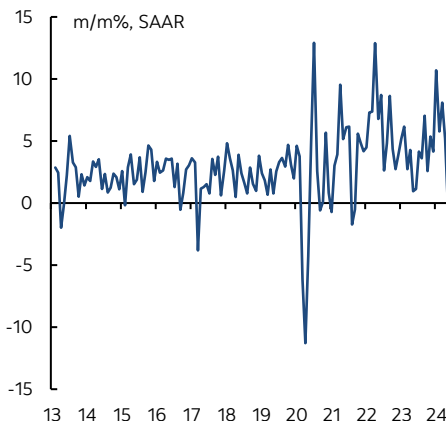
This is a great report! But settle down folks, it’s just one print. It’s an encouraging one, but the evidence bar for the Federal Reserve to be cutting any time soon is set much higher than a single inflation print.

Nevertheless, core CPI inflation landed at 0.16% m/m SA for the softest reading since August 2021. Underlying details were even better as they showcased very soft core services inflation that now joins soft core goods inflation, alongside further improvement in the breadth of price changes.

Chart 1 shows the drop in annualized core CPI. Chart 2 serves as a reminder of translation risk into core PCE later this month. Core PCE could be quite soft given its lower weight on shelter and higher weight on core services inflation that appears to have imploded. It’s feasible that on June 28th we’ll get the first one-handed core PCE m/m SAAR reading in

Chart 3

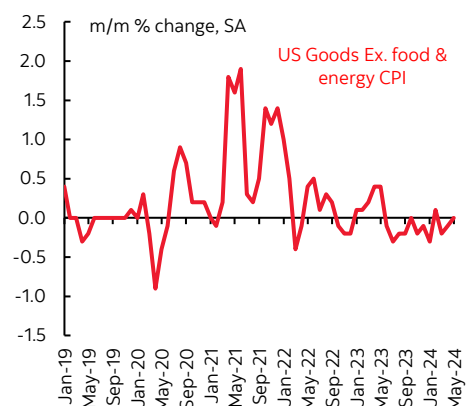
US CPI Core Services Ex-Housing



Sources: Scotiabank Economics, BLS.

Chart 4

US Goods Inflation



Sources: Scotiabank Economics, BLS.

about six months or even lower. Core PCE puts a lower weight on shelter that was still firm in CPI, and a higher weight on core services inflation that apparently tanked last month.

VIOLENT POSITIONING SWING

Markets reacted with a violent positioning swing that brought the US 2-year yield down 13bps to 4.69% which is getting back down to levels last seen in early April before a two-month rates sell off ensued. The US 5s yield fell similarly to 4.26% and is arguably still cheap. The dollar immediately depreciated including on a DXY basis, against almost all major and semi-major crosses, and including a half-cent appreciation in the C\$ relative to the USD.

Still, bear in mind that for the most part the US 2-year yield has only taken out the jump that occurred after last Friday’s nonfarm payrolls report. On net, the yield is about 5–6bps lower than it was before nonfarm with this morning’s reaction.

Fed funds futures are now pricing about 21bps of a cut by September which is consistent with our call for a first quarter-point reduction at that meeting. July 31st FOMC cut pricing only marginally increased but is still a rounding error, albeit that the door cannot be slammed on that meeting with one more CPI and two more PCE reports due by then. Markets are pricing a little over 50bps of easing this year which is also our call.

Canada’s curve followed suit with a 12bps rally on the day in 2s and 5s. In my opinion, Canada 5s are starting to look a little pricey whereas US 5s arguably remain cheap in absolute terms and relative to Canada.

THE FOMC WILL REQUIRE MUCH MORE EVIDENCE

Still, it’s a single print. Core CPI at 2.0% m/m SAAR in May follows six months of three- and four-handled readings.

I wouldn’t expect Chair Powell to come out doing waist high leg kicks and pirouettes on this one print during his presser this afternoon. He’ll sound encouraged and retain the cautious optimism he had in his last presser, but say they don’t yet have the required ‘greater’ confidence toward achieving dual mandate goals to begin easing.

Much of their slowing growth and rebalancing narrative remains only partly achieved and requires further evidence to take the economy away from excess demand as a driver of inflation toward balance.

DETAILS

Chart 3 shows that the bottom fell out of core services inflation last month. At 0% m/m SA, CPI services less energy and housing was the softest reading since September 2021.

Chart 4 shows that this development joined still soft core goods inflation.

Breadth also continues to improve (charts 5, 6).

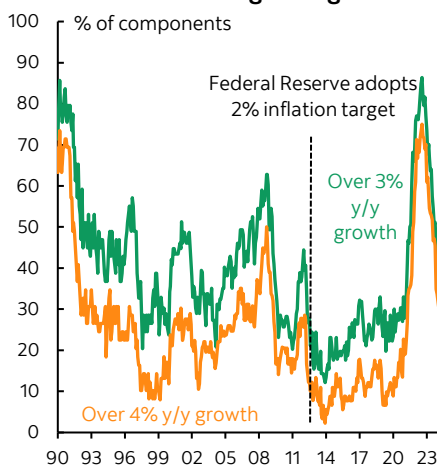
Charts 7 and 8 show the breakdown of the CPI basket in y/y terms and weighted contributions to the headline y/y inflation rate respectively.

Charts 9 and 10 do likewise for the month-over-month changes in the basket’s prices.

Charts 11–19 offer further charts across select components.

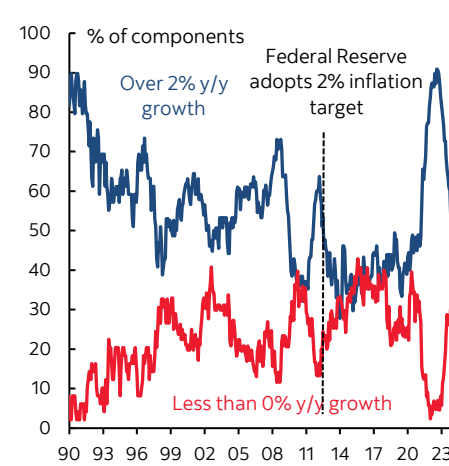
The appendix provides a fuller break down of the report with micro charts and z-score measures of deviations from recent performance.

Chart 5
US Inflation Showing Falling Breadth



Sources: Scotiabank Economics, BLS.

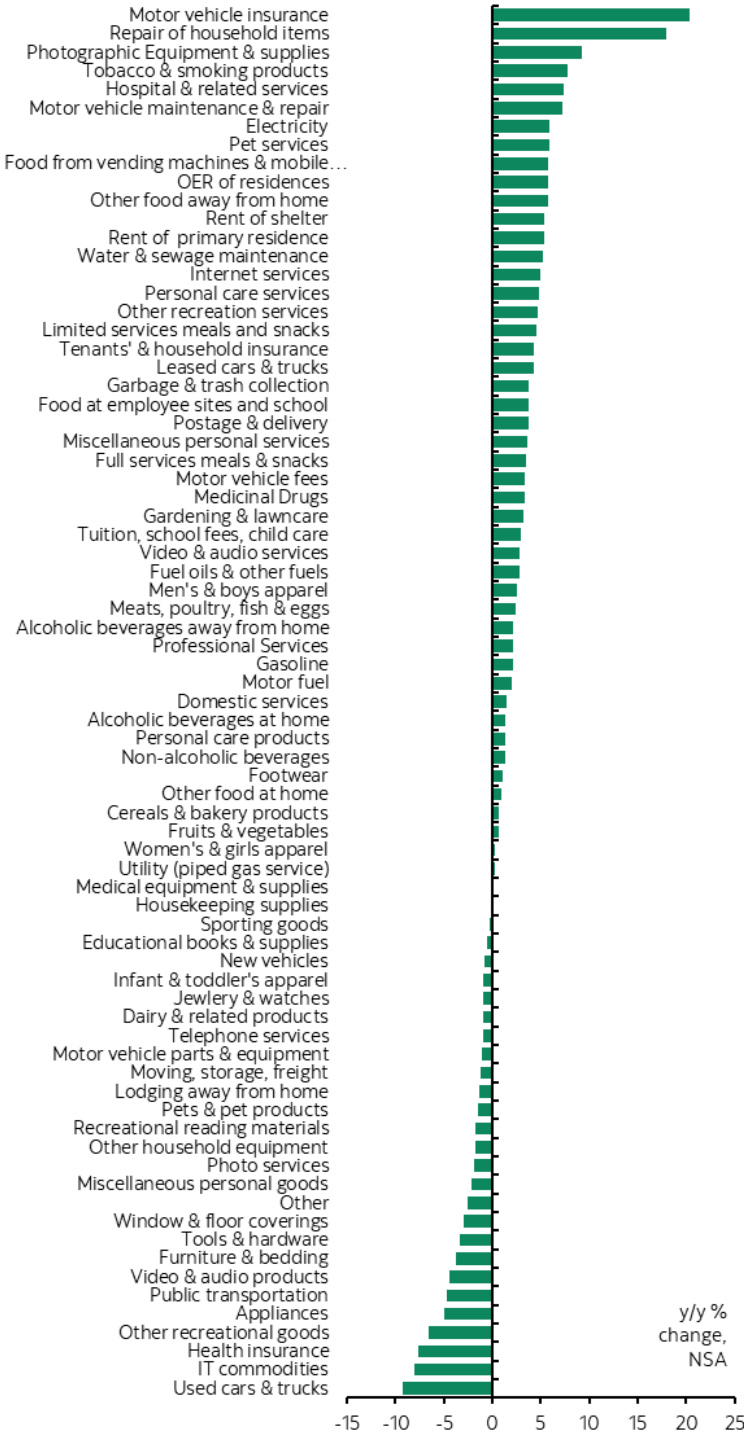
Chart 6
US Inflation Showing Falling Breadth



Sources: Scotiabank Economics, BLS.

Chart 7

May 12-Month Changes in US Headline CPI Categories



Sources: Scotiabank Economics, BLS.

Chart 8

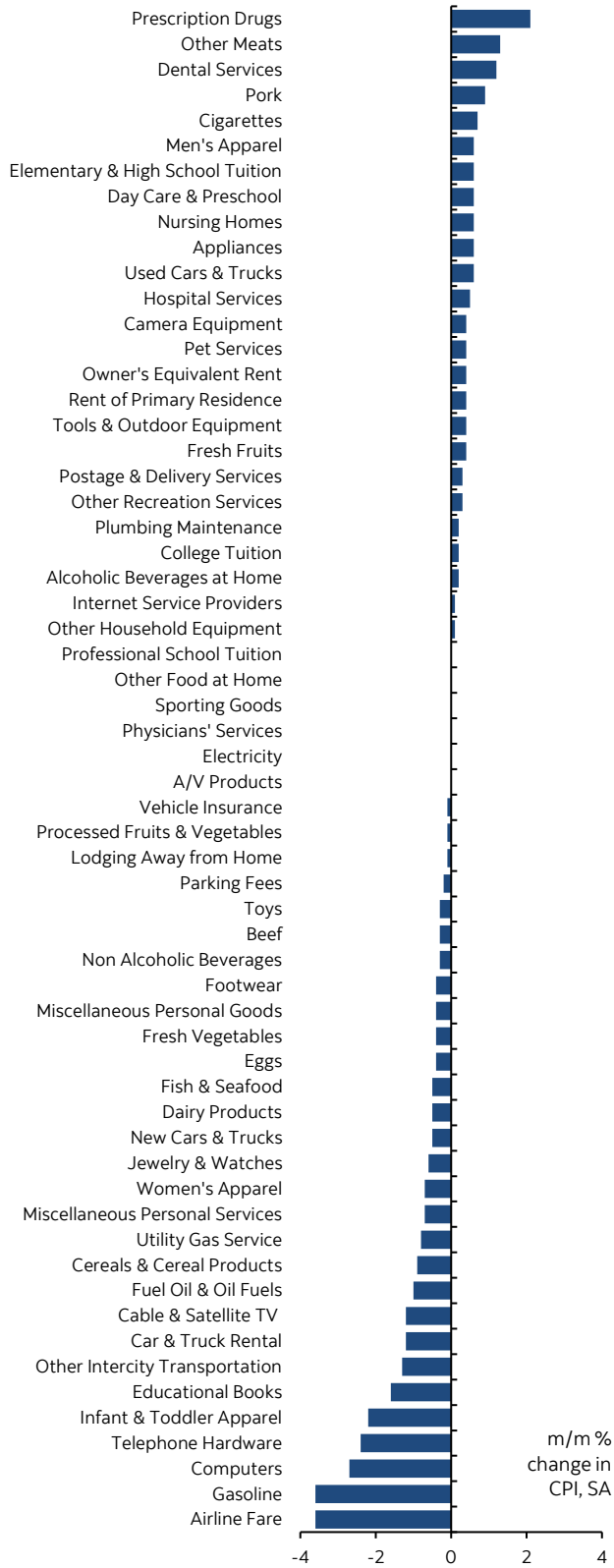
May Weighted Contributions to the 12-Month Change in US Headline CPI



Source: Scotiabank Economics, BLS.

Chart 9

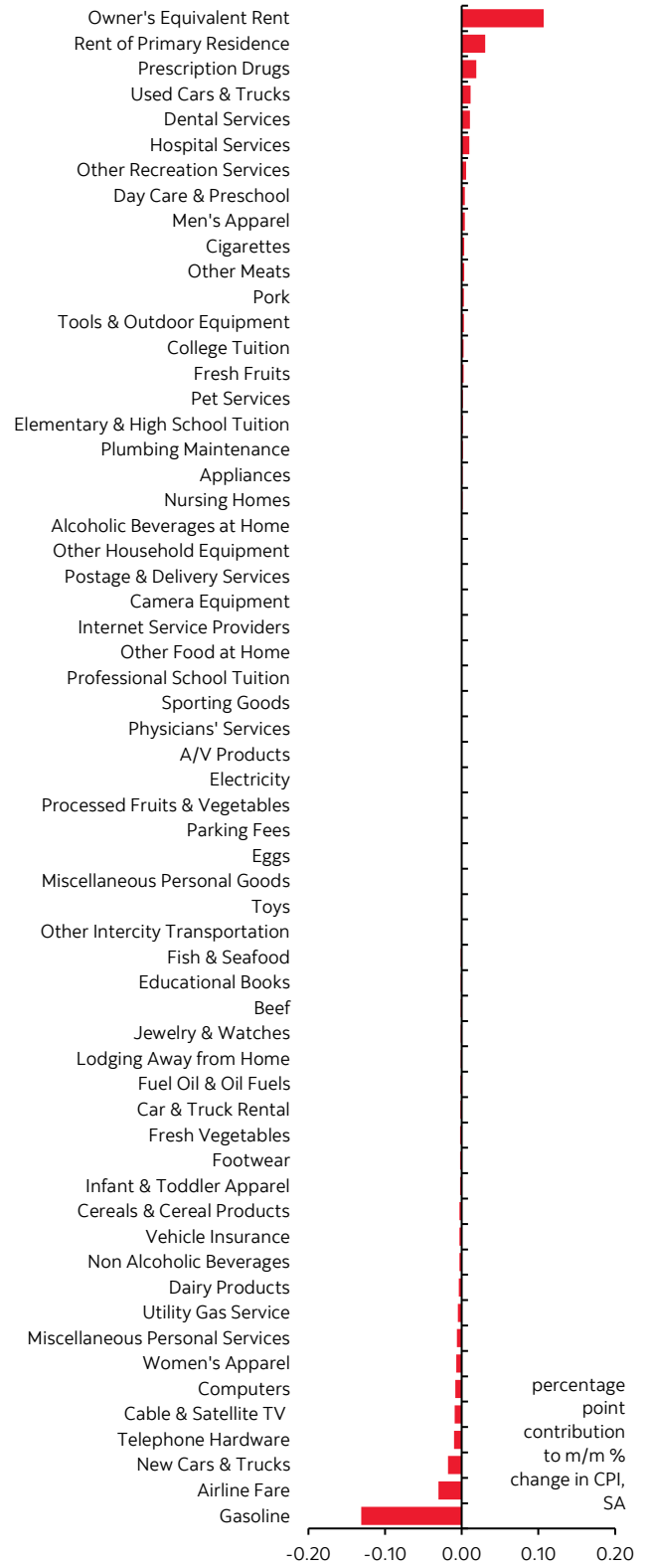
May Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 10

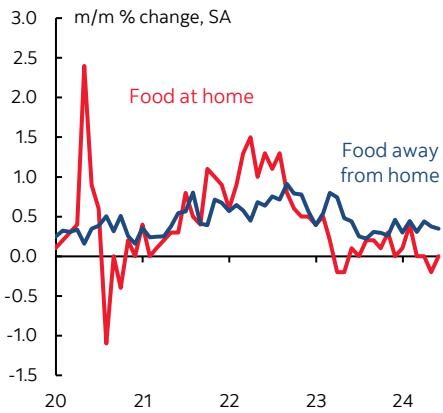
May Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 11

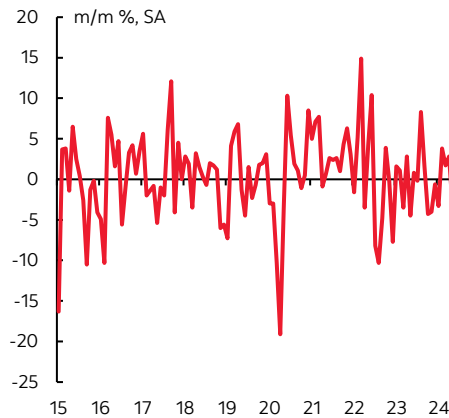
US Food Prices



Sources: Scotiabank Economics, BLS, Haver.

Chart 12

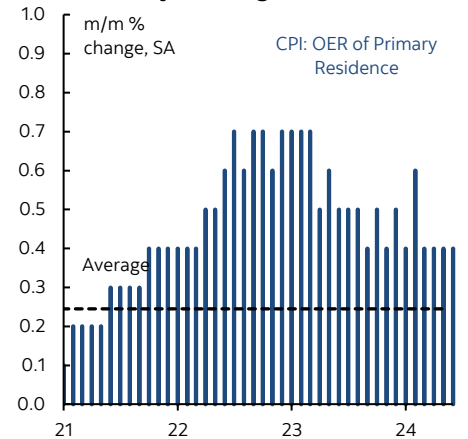
US CPI: Gasoline



Sources: Scotiabank Economics, BLS

Chart 13

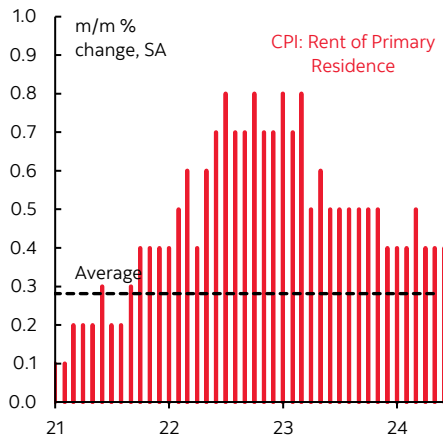
Sticky Housing Inflation



Sources: Scotiabank Economics, BLS.

Chart 14

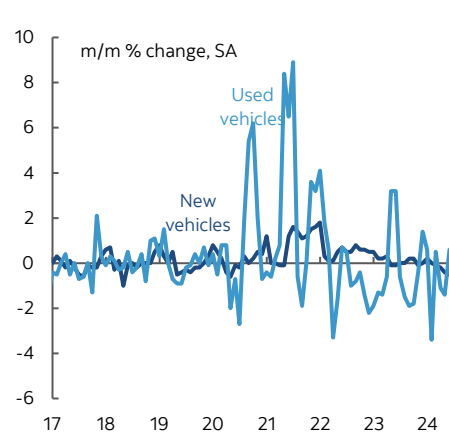
US Rent Inflation



Sources: Scotiabank Economics, BLS.

Chart 15

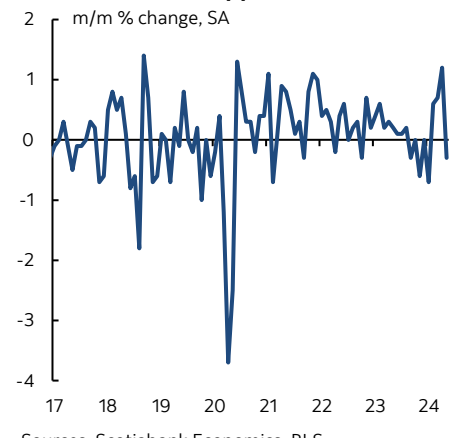
New vs Used Vehicle Inflation



Sources: Scotiabank Economics, BLS.

Chart 16

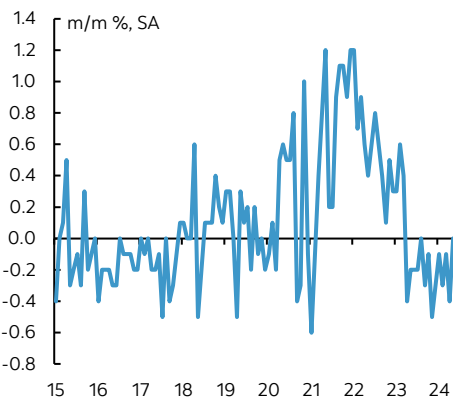
US Apparel



Sources: Scotiabank Economics, BLS.

Chart 17

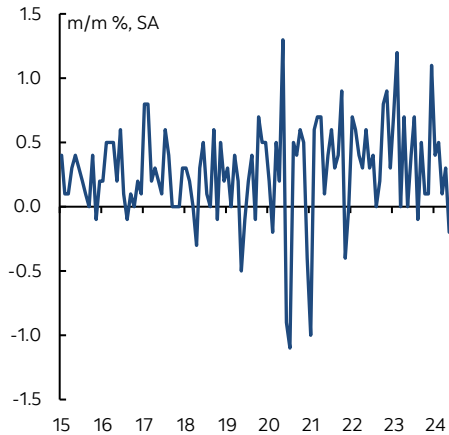
US CPI: Household Furnishings



Sources: Scotiabank Economics, BLS.

Chart 18

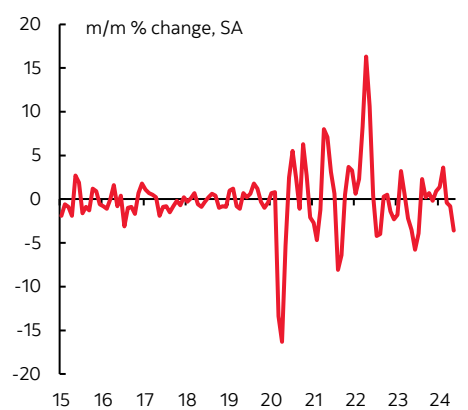
US CPI: Recreation Services



Sources: Scotiabank Economics, BLS.

Chart 19

US Airfare



Sources: Scotiabank Economics, BLS.

June 12, 2024

May 2024				Weighted Contributions (pts)*			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	2.1			0.1	13.40	0.28	0.01	1.3	0.8	1.1	1.7	1.1	0.3
Food, home	1.0			0.0	8.06	0.09	0.00	0.2	1.1	0.7	1.2	1.9	-0.1
Cereals & bakery products	0.7			0.2	1.05	0.01	0.00	0.4	0.9	0.3	0.9	1.7	-0.1
Meats, poultry, fish & eggs	2.4			0.2	1.70	0.04	0.00	-0.2	3.2	0.8	2.1	3.9	0.1
Dairy & related products	-1.0			-0.5	0.73	-0.01	0.00	-0.6	1.6	-0.3	1.1	3.1	-0.7
Fruits & vegetables	0.6			0.0	1.39	0.01	0.00	0.4	1.7	0.1	1.0	2.0	-0.2
Non-alcoholic beverages	1.3			-0.3	1.03	0.01	0.00	0.6	1.0	0.7	0.5	1.6	0.5
Other food at home	1.0			0.0	2.17	0.02	0.00	0.5	0.6	0.8	1.0	1.6	0.0
Food, away	4.0			0.4	5.33	0.19	0.02	2.7	0.3	4.4	2.5	0.5	2.9
Full services meals & snacks	3.5			0.4	2.44	0.08	0.01	2.6	0.4	2.5	2.4	0.5	2.2
Limited services meals and snacks	4.5			0.2	2.51	0.10	0.01	2.8	0.3	5.2	2.5	0.7	2.9
Food at employee sites and school	3.8			0.2	0.08	0.00	0.00	2.8	2.4	0.4	2.8	1.9	0.5
Food from vending machines & mobile vendors	5.7			1.0	0.05	0.00	0.00	3.1	1.0	2.6	2.5	1.3	2.4
Other food away from home	5.7			0.8	0.26	0.01	0.00	2.5	1.3	2.4	2.3	1.0	3.4
Energy	3.7			-2.0	7.03	0.25	-0.14	-1.9	10.0	0.6	1.6	9.6	0.2
Energy comm.	2.2			-3.5	3.94	0.08	-0.14	-2.8	17.0	0.3	3.0	17.1	0.0
Fuel oils & other fuels	2.8			-1.0	0.16	0.00	0.00	-2.3	15.8	0.3	2.7	14.4	0.0
Motor fuel	2.0			-3.6	3.78	0.07	-0.14	-2.8	17.1	0.3	3.0	17.3	-0.1
<u>Gasoline</u>	<u>2.2</u>			<u>-3.6</u>	<u>3.67</u>	<u>0.07</u>	<u>-0.13</u>	<u>-2.8</u>	<u>17.1</u>	<u>0.3</u>	<u>3.0</u>	<u>17.4</u>	<u>0.0</u>
<u>Other</u>	<u>-2.5</u>			<u>-2.3</u>	<u>0.11</u>	<u>0.00</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>0.0</u>	<u>3.6</u>	<u>17.9</u>	<u>-0.3</u>
Energy serv.	4.7			-0.2	3.09	0.15	-0.01	0.0	2.4	1.9	0.5	2.7	1.6
Electricity	5.9			0.0	2.44	0.15	0.00	0.5	1.5	3.7	1.0	1.7	2.9
Utility (piped gas service)	0.2			-0.8	0.65	0.00	-0.01	-1.4	7.5	0.2	-0.9	7.3	0.2
All items less food and energy	3.4			0.2	79.58	2.71	0.16	2.0	0.2	6.1	1.8	0.4	3.8
Commodities less food and energy	-1.7			0.0	18.61	-0.36	0.00	-0.3	0.4	-3.5	0.2	0.9	-2.1
Household furnishings	-2.5			0.0	3.97	-0.11	0.00	-0.8	1.2	-1.4	-0.9	1.2	-1.3
Window & floor coverings	-3.0			-2.0	0.30	-0.01	-0.01	-2.3	1.7	-0.4	-2.8	1.8	-0.1
Furniture & bedding	-3.7			-0.6	0.95	-0.04	-0.01	-0.3	1.7	-2.0	-0.9	2.1	-1.3
Appliances	-4.9			0.6	0.22	-0.01	0.00	-1.2	3.1	-1.2	-1.6	3.0	-1.1
Other household equipment	-1.8			-0.6	0.51	-0.01	0.00	-3.5	1.8	0.9	-3.7	1.5	1.3
Tools & hardware	-3.3			0.4	0.70	-0.04	0.00	-0.1	1.0	-3.1	-0.3	1.2	-2.4
Housekeeping supplies	-0.1			0.2	0.79	0.00	0.00	0.3	1.2	-0.3	0.4	1.3	-0.4

June 12, 2024

May 2024				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	0.8			-0.3	2.61	0.02	-0.01	-0.5	1.0	1.4	0.3	1.7	0.3
Men's & boys apparel	2.6			0.6	0.67	0.02	0.00	-0.3	1.5	1.9	0.5	2.3	0.9
Women's & girls apparel	0.2			-0.7	1.06	0.00	-0.01	-1.3	1.9	0.8	-0.1	2.5	0.1
Footwear	1.1			-0.4	0.54	0.01	0.00	0.2	1.3	0.7	0.8	1.7	0.2
Infant & toddler's apparel	-0.9			-2.2	0.10	0.00	0.00	0.4	3.8	-0.3	0.5	3.6	-0.4
Jewelry & watches	-1.0			-0.6	0.24	0.00	0.00	1.0	3.4	-0.6	1.5	3.8	-0.7
Trans. less fuel	-3.9			-0.1	6.03	-0.30	-0.01	-0.3	0.9	-4.1	0.4	1.5	-2.9
New vehicles	-0.8			-0.5	3.60	-0.03	-0.02	0.1	0.7	-1.3	0.8	1.2	-1.3
Used cars & trucks	-9.3			0.6	1.90	-0.26	0.01	-1.3	2.1	-3.9	1.1	4.8	-2.2
Motor vehicle parts & equipment	-1.1			0.5	0.46	-0.01	0.00	0.2	1.1	-1.3	0.9	2.2	-0.9
Medical comm.	3.1			1.3	1.46	0.05	0.02	2.1	1.7	0.6	2.3	1.5	0.6
Medicinal Drugs	3.4			1.3	1.34	0.05	0.02	2.2	1.8	0.7	2.3	1.6	0.7
Medical equipment & supplies	-0.1			0.7	0.12	0.00	0.00	0.4	1.2	-0.4	0.3	1.2	-0.4
Recreation comm.	-2.3			-0.1	2.01	-0.05	0.00	-2.6	1.1	0.3	-2.3	0.9	0.0
Video & audio products	-4.4			0.0	0.28	-0.01	0.00	-10.1	2.4	2.4	-9.2	2.2	2.2
Pets & pet products	-1.5			0.0	0.61	-0.01	0.00	0.4	1.5	-1.3	0.5	1.5	-1.3
Sporting goods	-0.3			-0.3	0.64	0.00	0.00	-0.7	1.5	0.3	-0.6	1.2	0.3
Photographic Equipment & supplies	9.2			0.4	0.02	0.00	0.00	-1.7	4.6	2.4	-3.0	4.0	3.0
Recreational reading materials	-1.8			-1.0	0.10	0.00	0.00	1.6	1.9	-1.8	1.5	1.8	-1.9
Other recreational goods	-6.5			-0.1	0.34	-0.03	0.00	-6.5	1.3	0.0	-5.2	1.7	-0.7
Educ. & communication comm.	-7.4			-1.6	0.85	-0.07	-0.01	-3.7	1.0	-3.6	-3.5	0.9	-4.3
Educational books & supplies	-0.6			0.7	0.08	0.00	0.00	2.2	3.0	-0.9	3.6	2.7	-1.5
IT commodities	-8.1			-1.9	0.77	-0.06	-0.01	-6.1	1.9	-1.1	-6.8	1.8	-0.7
Alcohol	1.7			0.1	0.84	0.01	0.00	1.3	0.3	1.3	1.4	0.4	0.9
Alcoholic beverages at home	1.4			0.2	0.47	0.01	0.00	0.8	0.6	0.9	0.8	0.5	1.2
Alcoholic beverages away from home	2.2			0.1	0.37	0.01	0.00	1.9	0.5	0.7	2.2	0.7	0.0
Other goods	3.4			0.5	1.36	0.04	0.01	1.4	0.9	2.4	1.4	0.7	2.8
Tobacco & smoking products	7.8			1.6	0.54	0.04	0.01	4.3	1.5	2.3	4.4	3.8	0.9
Personal care products	1.3			-0.3	0.66	0.01	0.00	-0.3	0.6	2.8	-0.1	0.8	1.7
Miscellaneous personal goods	-2.2			-0.4	0.16	0.00	0.00	-2.4	3.1	0.1	-1.7	2.4	-0.2

June 12, 2024

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Services less energy services	5.3			0.2	60.97	3.09	0.12	2.8	0.2	10.7	2.4	0.6	4.6
Shelter	5.4			0.4	36.14	1.87	0.14	3.3	0.2	12.6	2.5	1.2	2.5
Rent of shelter	5.4			0.4	35.74	1.85	0.14	3.3	0.2	11.3	2.5	1.2	2.5
<i>Rent of primary residence</i>	<u>5.3</u>			<u>0.4</u>	<u>7.61</u>	<u>0.40</u>	<u>0.03</u>	<u>3.7</u>	<u>0.1</u>	<u>12.0</u>	<u>2.9</u>	<u>1.1</u>	<u>2.2</u>
<i>Lodging away from home</i>	<u>-1.4</u>			<u>-0.1</u>	<u>1.50</u>	<u>-0.02</u>	<u>0.00</u>	<u>2.3</u>	<u>2.0</u>	<u>-1.8</u>	<u>2.2</u>	<u>2.2</u>	<u>-1.6</u>
<i>OER of residences</i>	<u>5.7</u>			<u>0.4</u>	<u>26.63</u>	<u>1.45</u>	<u>0.11</u>	<u>3.2</u>	<u>0.2</u>	<u>12.2</u>	<u>2.4</u>	<u>1.1</u>	<u>3.1</u>
Tenants' & household insurance	4.3			0.5	0.41	0.02	0.00	1.4	1.2	2.4	2.3	1.5	1.3
Water, sewer, trash collection	4.8			0.1	1.09	0.05	0.00	3.6	0.6	2.1	4.3	1.0	0.5
Water & sewage maintenance	5.2			0.2	0.77	0.04	0.00	4.0	0.8	1.5	4.8	1.4	0.3
Garbage & trash collection	3.8			-0.3	0.32	0.01	0.00	2.5	1.5	0.9	2.5	1.1	1.2
Household ops.	3.7			-1.2	0.99	0.00	-0.01	3.8	1.3	-0.1	2.6	1.6	0.7
Domestic services	1.5			-2.1	0.31	0.00	-0.01	2.0	1.1	-0.4	1.6	1.0	-0.1
Gardening & lawn care	3.2			0.9	0.33	0.00	0.00	4.3	2.7	-0.4	2.8	2.6	0.2
Moving, storage, freight	-1.2			0.0	0.14	0.00	0.00	5.6	3.9	-1.7	3.3	3.9	-1.2
Repair of household items	18.0			1.7	0.14	0.00	0.00	4.8	2.1	6.2	4.2	2.0	7.0
Medical serv.	3.1			0.3	6.49	0.20	0.02	2.9	1.0	0.2	3.0	0.8	0.1
Professional Services	2.2			0.3	3.57	0.08	0.01	1.5	0.9	0.7	1.8	0.8	0.5
Hospital & related services	7.3			0.3	2.33	0.16	0.01	3.8	1.1	3.1	4.5	1.3	2.1
Health insurance	-7.7			0.5	0.59	-0.05	0.00	5.0	5.8	-2.2	3.6	6.0	-1.9
Transportation serv.	10.5			-0.5	6.53	0.62	-0.03	2.6	1.1	7.2	2.6	1.0	8.2
Leased cars & trucks	4.3			-0.2	0.52	0.03	0.00	0.5	3.0	1.2	-1.6	3.2	1.8
Motor vehicle maintenance & repair	7.2			0.3	1.24	0.08	0.00	2.2	0.7	7.2	2.0	0.6	9.1
Motor vehicle insurance	20.3			-0.1	2.94	0.53	0.00	5.5	2.6	5.7	4.8	2.0	7.6
Motor vehicle fees	3.4			-0.1	0.54	0.02	0.00	1.8	0.7	2.3	2.2	1.9	0.6
Public transportation	-4.7			-3.1	1.15	-0.04	-0.04	-1.2	1.5	-2.3	1.0	3.6	-1.6
Recreation serv.	3.9			-0.2	3.25	0.12	-0.01	2.6	0.7	2.0	2.3	0.7	2.1
Video & audio services	2.8			-1.3	0.92	0.03	-0.01	2.7	1.4	0.1	2.6	1.3	0.1
Pet services	5.9			0.4	0.44	0.03	0.00	3.1	0.8	3.7	3.3	0.9	2.9
Photo services	-1.9			-2.8	0.05	0.00	0.00	-0.2	2.0	-0.9	0.8	1.8	-1.5
Other recreation services	4.7			0.3	1.84	0.07	0.01	2.4	0.6	3.8	1.7	1.1	2.8
Educ. & communication serv.	2.0			0.3	4.98	0.10	0.01	0.4	1.3	1.2	1.1	1.3	0.7
Tuition, school fees, child care	2.9			0.4	2.37	0.06	0.01	2.8	0.6	0.2	3.3	0.8	-0.6
Postage & delivery	3.8			0.3	0.07	0.00	0.00	2.3	2.0	0.8	3.3	2.0	0.3
Telephone services	-1.0			0.2	1.54	-0.02	0.00	-2.4	3.0	0.5	-1.3	2.4	0.1
Internet services	5.0			0.1	0.99	0.05	0.00	-0.2	1.5	3.4	0.1	1.3	3.7
Other personal serv.	4.1			-0.3	1.53	0.06	0.00	2.7	0.7	2.1	2.4	0.6	2.7
Personal care services	4.8			0.2	0.63	0.03	0.00	2.3	0.7	3.6	1.8	0.8	3.6
Miscellaneous personal services	3.6			-0.7	0.90	0.03	-0.01	2.9	0.9	0.8	2.7	0.7	1.2

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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