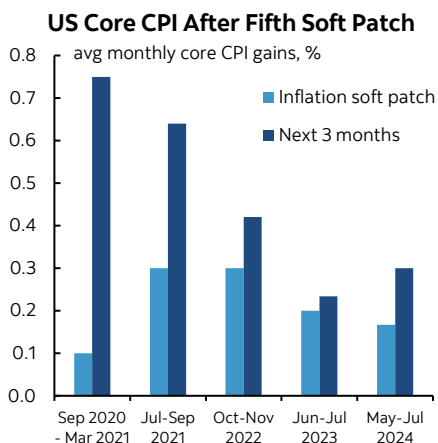


Contributors

Derek Holt

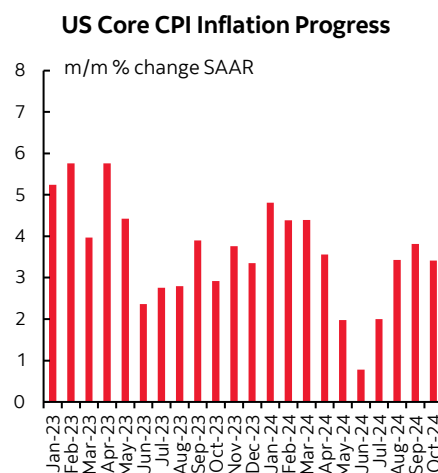
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Chart 1



Last obs.: Oct-2024.
 Sources: Scotiabank Economics, BLS.

Chart 2



Sources: Scotiabank Economics, BLS.

US Core Inflation Has Firmly and Broadly Reemerged from a Temporary Soft Patch

- Core CPI accelerated for a fourth straight month
- SA factors continue to distort the data through...
- ...begging the question why the Powell we knew in July has since disappeared
- Excess demand and US policy changes are likely to keep core inflation warm

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

Actual: 0.24 / 0.28
 Scotia: 0.2 / 0.3
 Consensus: 0.2 / 0.3
 Prior: 0.2 / 0.3

US core inflation was on consensus and at 0.3% m/m SA remains too warm for achieving the FOMC goals. The estimates were on the screws, yet prompted a rally in rates that resulted in fed funds futures adding 5bps to December pricing that is now priced for about 18 of a 25bps cut and drove the 2-year Treasury yield lower by 11bps.

How come? Either markets were braced for an upside surprise that a small minority in consensus had estimated and when that didn't happen market participants pounced on the front-end. Or they listened to Minneapolis Fed President Kashkari who immediately following the release—and wrongly in my view—said he doesn't think that inflation is stuck above the 2% target when it certainly seems to be.

In any event, the release on its own informs little to nothing. Before the December 18th FOMC communications we'll get another CPI report on December 11th, another PCE report for October on November 27th, nonfarm payrolls on December 6th, Q3 GDP revisions on November 27th, the outcome of Black Friday/Cyber Monday holiday shopping results, and no doubt more information on US policy risks following the election.

The Details

Core CPI at 0.3% m/m SA got a little help from rounding up effects as it was 0.28% m/m SA. As for the core PCE translation, I think we'll get another roughly 3% m/m SAAR print on November 27th after 3.1% m/m SAAR in September.

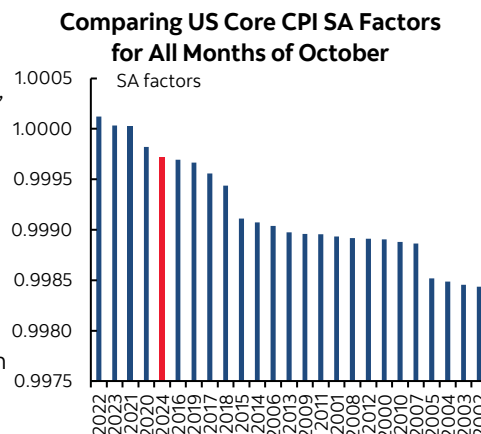
In year-over-year terms, CPI is up by 2.6% with core CPI ex-food and energy up 3.3%.

Still, that's now three months in a row in which we've faded the temporary soft patch (chart 1). In m/m SAAR terms, core CPI went from 2% in May, 0.8% in June and 2% in July, to 3.4%, 3.8% and 3.4% in August, September and October respectively. The three-month moving average is now at 3½% m/m SAAR.

This is a significant renewed reemergence from the temporary soft patch over May to July (chart 2) and is the fifth time a soft patch has given way to renewed pressures.

Seasonal adjustment factors played the expected role here. October's core SA factor

Chart 3



Sources: Scotiabank Economics, BLS

was 0.999714. The last five years from 2020–2024 have had the highest SA factors for like months of October in history (chart 3). There is an ongoing recency bias in how they are calculated. Whereas SA factors underplayed inflation in the summer, they are overplaying it now.

One way of adjusting for the SA factor distortions is to smooth the data. Chair Powell said during the July press conference that he was looking at full year smoothed data because they were aware of SA factor distortions that overstated inflation at the start of the year, then understated, then overstated again. Here's his direct quote from that presser with the only addition being my editor comment to place it in context:

"If it's just seasonality that drove higher inflation earlier then that implies inflation would be stronger later in the year with the opposite seasonal adjustment problems [ed. opposite in reference to the soft figures in May and June that he had at that presser]. This is why we look at 12 months."

Ergo, he knew at that time that SA factors were messing with inflation, driving it higher earlier in the year, then lower, then likely higher later, said the solution is to smooth, but then abandoned that logic and cut 50bps as the opening salvo with a dovish bias. It was wrong to have done so and with all of this now coming back to haunt them.

And so we need to smooth the data. The ytd average for m/m core CPI is now 3.3% m/m SAAR which smooths through all of the SA factor distortions throughout the year. The 6-month MA isn't fully adjusting for these distortions because it excludes the early part of the year, but is 2.6% m/m SAAR. The 3 mo MA is 3.5% which is also just a partial sample of the effects of SA factor distortions.

Much of that soft patch is giving way to a rebound coming from core services. Higher used vehicle prices and shelter contributed, but it's core services that drove the jump higher. October core services CPI (services ex shelter and energy) was up 0.3% m/m which extends the string of warmer readings to three in a row after 0.4 in Sept and 0.3% in August (chart 4). Among the drivers were hotter prices for recreation services, airfare, hospital services, financial services etc.

Added to the core service price inflation is the fact that shelter inflation picked up with a rise of 0.4% m/m SA from 0.2% the prior month. Rent of primary residence was up another 0.3% m/m SA, but owners equivalent rent accelerated (0.4% m/m SA from 0.3% the prior month).

Core goods prices were flat this time at 0% m/m SA (chart 5).

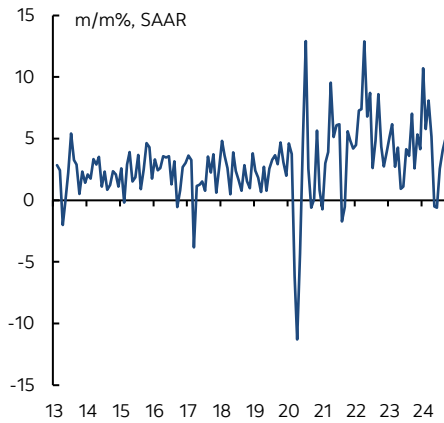
All of these points mean that it is incorrect to argue that there is ongoing broad disinflationary pressure in the US economy. Readings are off their peaks, but not light and reemerging from a transitory soft patch.

Charts 6–9 show the unweighted changes and weighted contributions to CPI by component in y/y and m/m terms.

Where to from here for warmer core inflation? With the US in excess aggregate demand with a positive output gap (chart 10) and facing inflationary policies it will likely remain that way on a smoothed basis. Publicly, central bankers will always say nothing's change, nothing to see here, they'll only adapt once policy changes are known and implemented because they don't wish to get sucked into speculating about policy changes or seen to be engaged in mandate creep and stepping on other toes. Which leads to two outcomes as I wrote last week. One is they will always lag developments while stumbling into mistimed policy mistakes in serial fashion. The other is that privately, the individual FOMC members are very likely to be thinking about revisions to the SEP projections in December including the dot plot.

Chart 4

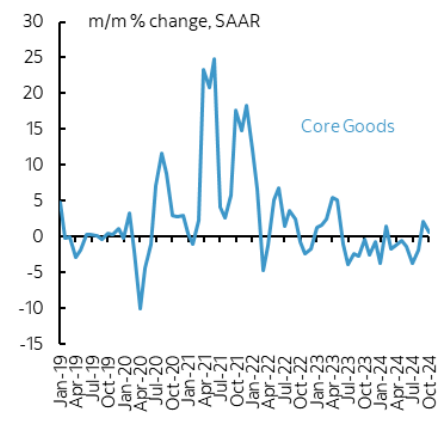
US CPI Core Services Ex-Housing



Sources: Scotiabank Economics, BLS.

Chart 5

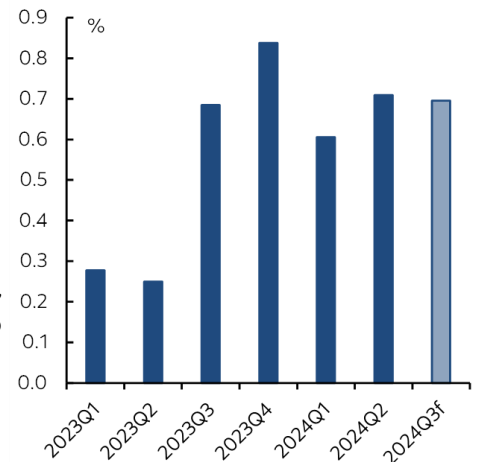
US Goods Inflation



Sources: Scotiabank Economics, BLS.

Chart 10

US Output Gap



Sources: Scotiabank Economics.

Chart 6

October Weighted Contributions to Monthly Change in US Headline CPI



Sources: Scotiabank Economics, US BLS.

Chart 7

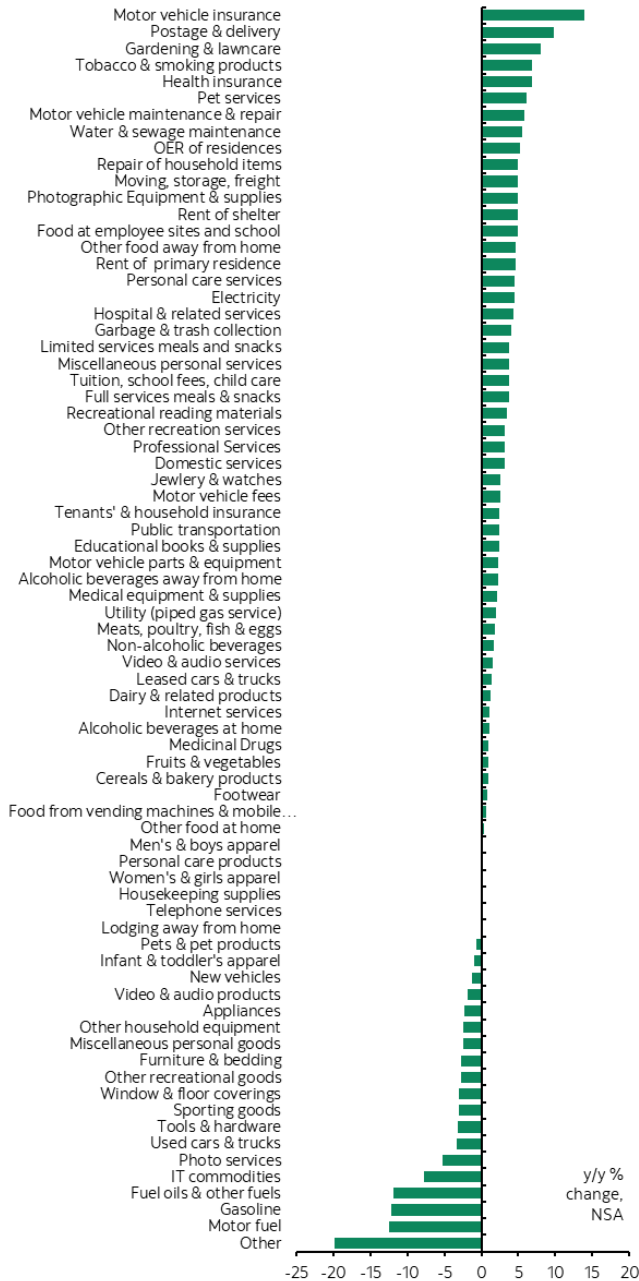
October Changes in US Headline CPI Categories



Sources: Scotiabank Economics, US BLS.

Chart 8

October 12-Month Changes in US Headline CPI Categories



Sources: Scotiabank Economics, BLS.

Chart 9

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



Source: Scotiabank Economics, BLS.

November 13, 2024

Oct 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
Food	2.1			0.2	13.46	0.28	0.03	1.3	0.8	1.1	1.7	1.1	0.3
Food, home	1.1			0.1	8.07	0.09	0.01	0.2	1.1	0.8	1.2	1.9	0.0
Cereals & bakery products	0.9			1.0	1.04	0.01	0.01	0.4	0.9	0.6	0.9	1.7	0.0
Meats, poultry, fish & eggs	1.9			-1.2	1.74	0.03	-0.02	-0.2	3.2	0.7	2.1	3.9	-0.1
Dairy & related products	1.3			1.0	0.73	0.01	0.01	-0.6	1.6	1.2	1.1	3.1	0.1
Fruits & vegetables	0.9			0.4	1.39	0.01	0.01	0.4	1.7	0.3	1.0	2.0	0.0
Non-alcoholic beverages	1.7			0.4	1.02	0.02	0.00	0.6	1.0	1.1	0.5	1.6	0.8
Other food at home	0.4			0.1	2.15	0.01	0.00	0.5	0.6	-0.1	1.0	1.6	-0.4
Food, away	3.8			0.2	5.39	0.18	0.01	2.7	0.3	3.7	2.5	0.5	2.6
Full services meals & snacks	3.7			0.2	2.47	0.09	0.00	2.6	0.4	3.0	2.4	0.5	2.6
Limited services meals and snacks	3.8			0.2	2.52	0.09	0.01	2.8	0.3	3.1	2.5	0.7	1.9
Food at employee sites and school	4.9			1.2	0.08	0.00	0.00	2.8	2.4	0.9	2.8	1.9	1.1
Food from vending machines & mobile vendors	0.7			-0.4	0.05	0.00	0.00	3.1	1.0	-2.4	2.5	1.3	-1.4
Other food away from home	4.7			0.7	0.26	0.01	0.00	2.5	1.3	1.7	2.3	1.0	2.4
Energy	-4.9			0.0	6.63	-0.34	0.00	-1.9	10.0	-0.3	1.6	9.6	-0.7
Energy comm.	-12.4			-1.0	3.49	-0.46	-0.03	-2.8	17.0	-0.6	3.0	17.1	-0.9
Fuel oils & other fuels	-11.9			-2.2	0.15	-0.02	0.00	-2.3	15.8	-0.6	2.7	14.4	-1.0
Motor fuel	-12.5			-0.9	3.35	-0.44	-0.03	-2.8	17.1	-0.6	3.0	17.3	-0.9
<u>Gasoline</u>	<u>-12.2</u>			<u>-0.9</u>	<u>3.25</u>	<u>-0.42</u>	<u>-0.03</u>	<u>-2.8</u>	<u>17.1</u>	<u>-0.5</u>	<u>3.0</u>	<u>17.4</u>	<u>-0.9</u>
<u>Other</u>	<u>-19.9</u>			<u>-0.2</u>	<u>0.10</u>	<u>-0.02</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>-0.9</u>	<u>3.6</u>	<u>17.9</u>	<u>-1.3</u>
Energy serv.	4.0			1.0	3.13	0.13	0.03	0.0	2.4	1.6	0.5	2.7	1.3
Electricity	4.5			1.2	2.48	0.11	0.03	0.5	1.5	2.7	1.0	1.7	2.1
Utility (piped gas service)	2.0			0.3	0.65	0.01	0.00	-1.4	7.5	0.5	-0.9	7.3	0.4
All items less food and energy	3.3			0.3	79.92	2.63	0.24	2.0	0.2	5.6	1.8	0.4	3.6
Commodities less food and energy	-1.0			0.0	18.48	-0.21	0.00	-0.3	0.4	-1.7	0.2	0.9	-1.3
Household furnishings	-2.2			0.0	3.97	-0.09	0.00	-0.8	1.2	-1.1	-0.9	1.2	-1.1
Window & floor coverings	-3.0			-2.0	0.29	-0.01	-0.01	-2.3	1.7	-0.4	-2.8	1.8	-0.1
Furniture & bedding	-2.7			1.0	0.93	-0.03	0.01	-0.3	1.7	-1.4	-0.9	2.1	-0.9
Appliances	-2.3			-0.6	0.22	-0.01	0.00	-1.2	3.1	-0.4	-1.6	3.0	-0.2
Other household equipment	-2.4			-0.5	0.50	-0.01	0.00	-3.5	1.8	0.6	-3.7	1.5	0.9
Tools & hardware	-3.2			0.4	0.69	-0.03	0.00	-0.1	1.0	-3.0	-0.3	1.2	-2.3
Housekeeping supplies	-0.1			-0.3	0.79	0.00	0.00	0.3	1.2	-0.3	0.4	1.3	-0.4

November 13, 2024

Oct 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	0.3			-1.5	2.63	0.01	-0.04	-0.5	1.0	0.9	0.3	1.7	0.0
Men's & boys apparel	0.0			-0.6	0.66	0.00	0.00	-0.3	1.5	0.2	0.5	2.3	-0.2
Women's & girls apparel	-0.1			-2.9	1.08	0.00	-0.03	-1.3	1.9	0.7	-0.1	2.5	0.0
Footwear	0.8			0.7	0.53	0.00	0.00	0.2	1.3	0.4	0.8	1.7	0.0
Infant & toddler's apparel	-1.0			-0.3	0.10	0.00	0.00	0.4	3.8	-0.4	0.5	3.6	-0.4
Jewelry & watches	2.6			-2.4	0.26	0.01	-0.01	1.0	3.4	0.5	1.5	3.8	0.3
Trans. less fuel	-1.7			0.8	5.97	-0.13	0.05	-0.3	0.9	-1.6	0.4	1.5	-1.4
New vehicles	-1.3			0.0	3.57	-0.06	0.00	0.1	0.7	-2.1	0.8	1.2	-1.7
Used cars & trucks	-3.4			2.7	1.87	-0.09	0.05	-1.3	2.1	-1.0	1.1	4.8	-0.9
Motor vehicle parts & equipment	2.3			0.1	0.46	0.01	0.00	0.2	1.1	2.0	0.9	2.2	0.6
Medical comm.	1.0			-0.2	1.46	0.01	0.00	2.1	1.7	-0.7	2.3	1.5	-0.9
Medicinal Drugs	0.9			-0.2	1.35	0.01	0.00	2.2	1.8	-0.7	2.3	1.6	-0.9
Medical equipment & supplies	2.1			0.0	0.12	0.00	0.00	0.4	1.2	1.4	0.3	1.2	1.5
Recreation comm.	-1.7			0.0	1.98	-0.04	0.00	-2.6	1.1	0.8	-2.3	0.9	0.7
Video & audio products	-1.9			1.2	0.28	-0.01	0.00	-10.1	2.4	3.4	-9.2	2.2	3.3
Pets & pet products	-0.7			-0.4	0.61	0.00	0.00	0.4	1.5	-0.8	0.5	1.5	-0.8
Sporting goods	-3.1			-0.5	0.63	-0.02	0.00	-0.7	1.5	-1.6	-0.6	1.2	-2.0
Photographic Equipment & supplies	4.9			0.9	0.03	0.00	0.00	-1.7	4.6	1.4	-3.0	4.0	2.0
Recreational reading materials	3.5			3.4	0.10	0.00	0.00	1.6	1.9	1.0	1.5	1.8	1.1
Other recreational goods	-2.8			-0.6	0.35	-0.01	0.00	-6.5	1.3	2.8	-5.2	1.7	1.4
Educ. & communication comm.	-6.7			-1.1	0.82	-0.06	-0.01	-3.7	1.0	-2.9	-3.5	0.9	-3.5
Educational books & supplies	2.5			0.7	0.08	0.00	0.00	2.2	3.0	0.1	3.6	2.7	-0.4
IT commodities	-7.7			-1.2	0.74	-0.06	-0.01	-6.1	1.9	-0.9	-6.8	1.8	-0.5
Alcohol	1.6			0.4	0.84	0.01	0.00	1.3	0.3	1.0	1.4	0.4	0.7
Alcoholic beverages at home	1.1			-0.3	0.47	0.01	0.00	0.8	0.6	0.4	0.8	0.5	0.6
Alcoholic beverages away from home	2.3			1.2	0.37	0.01	0.00	1.9	0.5	0.9	2.2	0.7	0.1
Other goods	2.4			0.4	1.37	0.03	0.01	1.4	0.9	1.2	1.4	0.7	1.4
Tobacco & smoking products	6.8			0.6	0.55	0.03	0.00	4.3	1.5	1.6	4.4	3.8	0.6
Personal care products	0.0			0.3	0.66	0.00	0.00	-0.3	0.6	0.6	-0.1	0.8	0.1
Miscellaneous personal goods	-2.4			1.5	0.16	0.00	0.00	-2.4	3.1	0.0	-1.7	2.4	-0.3

November 13, 2024

Oct 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
Services less energy services	4.8			0.3	61.43	2.82	0.18	2.8	0.2	8.5	2.4	0.6	3.8
Shelter	4.9			0.4	36.54	1.71	0.15	3.3	0.2	9.6	2.5	1.2	2.1
Rent of shelter	4.9			0.4	36.73	1.70	0.14	3.3	0.2	8.6	2.5	1.2	2.0
<i>Rent of primary residence</i>	<i>4.6</i>			<i>0.3</i>	<i>7.70</i>	<i>0.35</i>	<i>0.02</i>	<i>3.7</i>	<i>0.1</i>	<i>6.8</i>	<i>2.9</i>	<i>1.1</i>	<i>1.5</i>
<i>Lodging away from home</i>	<i>-0.1</i>			<i>0.4</i>	<i>1.43</i>	<i>0.00</i>	<i>0.01</i>	<i>2.3</i>	<i>2.0</i>	<i>-1.2</i>	<i>2.2</i>	<i>2.2</i>	<i>-1.0</i>
<i>OER of residences</i>	<i>5.2</i>			<i>0.4</i>	<i>27.00</i>	<i>1.34</i>	<i>0.11</i>	<i>3.2</i>	<i>0.2</i>	<i>9.7</i>	<i>2.4</i>	<i>1.1</i>	<i>2.6</i>
Tenants' & household insurance	2.5			0.7	0.41	0.01	0.00	1.4	1.2	0.9	2.3	1.5	0.2
Water, sewer, trash collection	5.0			0.5	1.10	0.05	0.01	3.6	0.6	2.4	4.3	1.0	0.7
Water & sewage maintenance	5.5			0.6	0.77	0.04	0.00	4.0	0.8	1.9	4.8	1.4	0.5
Garbage & trash collection	4.0			0.3	0.33	0.01	0.00	2.5	1.5	1.0	2.5	1.1	1.4
Household ops.	5.7			-0.3	1.01	0.06	0.00	3.8	1.3	1.5	2.6	1.6	1.9
Domestic services	3.1			-2.1	0.31	0.01	-0.01	2.0	1.1	1.1	1.6	1.0	1.4
Gardening & lawn care	8.1			-2.2	0.35	0.03	-0.01	4.3	2.7	1.4	2.8	2.6	2.0
Moving, storage, freight	5.0			1.7	0.15	0.01	0.00	5.6	3.9	-0.2	3.3	3.9	0.4
Repair of household items	5.0			1.7	0.14	0.00	0.00	4.8	2.1	0.1	4.2	2.0	0.4
Medical serv.	3.8			0.4	6.51	0.24	0.03	2.9	1.0	0.9	3.0	0.8	0.9
Professional Services	3.1			0.5	3.60	0.11	0.02	1.5	0.9	1.7	1.8	0.8	1.6
Hospital & related services	4.3			0.5	2.32	0.10	0.01	3.8	1.1	0.4	4.5	1.3	-0.2
Health insurance	6.8			0.5	0.59	0.04	0.00	5.0	5.8	0.3	3.6	6.0	0.5
Transportation serv.	8.2			0.4	6.52	0.50	0.03	2.6	1.1	5.1	2.6	1.0	5.8
Leased cars & trucks	1.4			-0.2	0.51	0.01	0.00	0.5	3.0	0.3	-1.6	3.2	0.9
Motor vehicle maintenance & repair	5.8			1.1	1.26	0.07	0.01	2.2	0.7	5.2	2.0	0.6	6.6
Motor vehicle insurance	14.0			-0.1	3.01	0.40	0.00	5.5	2.6	3.2	4.8	2.0	4.5
Motor vehicle fees	2.6			-0.1	0.54	0.01	0.00	1.8	0.7	1.2	2.2	1.9	0.2
Public transportation	2.5			2.4	1.06	0.02	0.03	-1.2	1.5	2.5	1.0	3.6	0.4
Recreation serv.	2.8			0.7	3.21	0.09	0.02	2.6	0.7	0.3	2.3	0.7	0.6
Video & audio services	1.5			-0.4	0.90	0.01	0.00	2.7	1.4	-0.8	2.6	1.3	-0.8
Pet services	6.1			0.9	0.43	0.03	0.00	3.1	0.8	3.9	3.3	0.9	3.1
Photo services	-5.3			-0.5	0.05	0.00	0.00	-0.2	2.0	-2.6	0.8	1.8	-3.3
Other recreation services	3.2			1.2	1.83	0.05	0.02	2.4	0.6	1.4	1.7	1.1	1.4
Educ. & communication serv.	2.1			-0.2	5.01	0.10	-0.01	0.4	1.3	1.3	1.1	1.3	0.8
Tuition, school fees, child care	3.8			0.2	2.43	0.08	0.00	2.8	0.6	1.8	3.3	0.8	0.6
Postage & delivery	9.8			3.9	0.07	0.01	0.00	2.3	2.0	3.8	3.3	2.0	3.3
Telephone services	-0.1			-0.4	1.54	0.00	-0.01	-2.4	3.0	0.8	-1.3	2.4	0.5
Internet services	1.1			-1.0	0.97	0.01	-0.01	-0.2	1.5	0.9	0.1	1.3	0.8
Other personal serv.	4.1			0.3	1.54	0.06	0.00	2.7	0.7	2.1	2.4	0.6	2.7
Personal care services	4.5			0.2	0.64	0.03	0.00	2.3	0.7	3.1	1.8	0.8	3.3
Miscellaneous personal services	3.8			0.3	0.90	0.03	0.00	2.9	0.9	1.0	2.7	0.7	1.5

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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