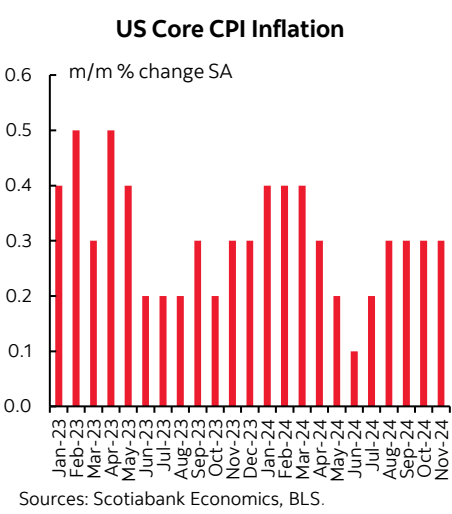


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Chart 1



US Core CPI Overstated, Fed To Cut Next Week

- Core CPI landed on the screws at 0.3...
- ...but pandemic-era seasonal adjustments are overstating core inflation...
- ...lending more support toward the Fed cutting next week

US CPI, m/m % change, November, SA:

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

US core CPI inflation landed on the screws, was likely weaker than reported if not for ongoing distortions to seasonal adjustment factors, but all summed up reinforces expectations for a quarter point cut from the Fed one week from today.

Headline and core CPI inflation was 0.31% m/m in November, matching Scotia's estimate and the median consensus estimate while higher than the minority of forecasters expected. It has landed at this rate for four months in a row (chart 1).

Before turning to details we need to consider the role of seasonal adjustment factors. Core CPI was likely lower than stated if not for an ongoing bias in the SA factors. It's no coincidence that the five biggest SA factors for core CPI have all been in the pandemic era (chart 2). SA factors are calculated with a recency bias that is slanted toward recent years. They always have been and there are lots of papers about this online that predate the pandemic. But it's more problematic when the recent period covers wild shutdowns and reopenings that throw all the SA factors into a period of turmoil.

This issue matters a lot. At any of the pre-pandemic SA factors, November's core CPI would have been between 0% m/m and 0.2 with generous rounding up (chart 3). In plain English, SA factors are distorting core inflation to be too high of late.

The problem is that the Fed can't have its cake and eat it too. Powell can't turn more dovish and cut 50 in September when SA factors were underestimating inflation over the summer and then be dovish when SA factors are overestimating it. Powell in July had it right when he said you need to smooth the figures. Powell since then has gotten it wrong imo. SA factor issues overstated inflation at the start of the year, understate is in the summer months and then overstate it again.

Across components, shelter is showing some improvement. It was up 0.3% m/m SA, but primary rent was up by just 0.2 and so was owners' equivalent rent. Maybe the Fed's long

Chart 2

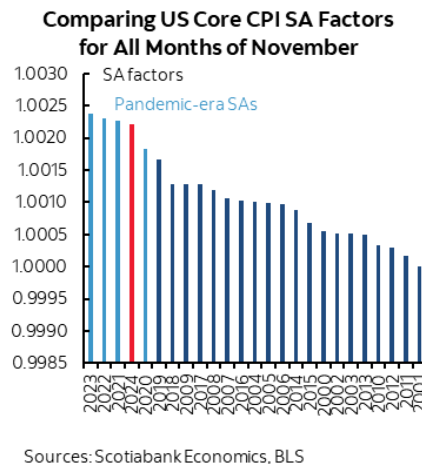
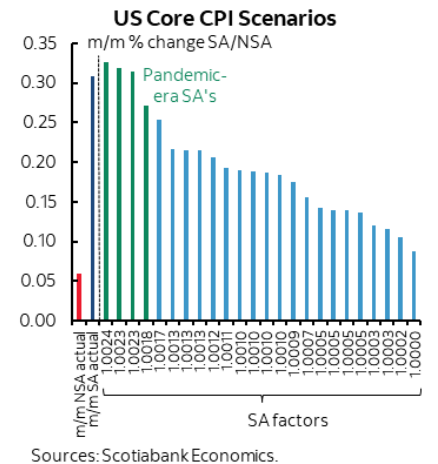


Chart 3



awaited disinflation from housing as market rents push through the inflation figures is finally coming to fruition.

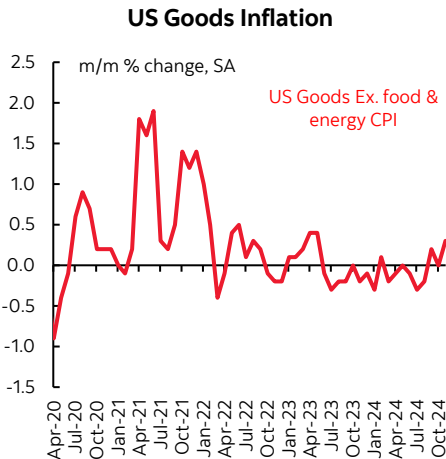
But what Powell also once emphasized is that this housing disinflation story may be offset by core services stickiness. Core service prices (ex-housing and energy services) were up 4.2% m/m SAAR last month and remain sticky at elevated levels.

Among other components, gas prices were up by 0.6% m/m SA, core goods prices were up 0.3%, food away from home was up by 0.3% which is still warm, groceries (aka food at home) were up 0.4% which is hotter, and clothing prices were unremarkable at 0.2%.

Based on CPI components I would tentatively lean toward 0.2 for core PCE pending PPI that we get tomorrow. We won't get PCE figures until next Friday, two days after the FOMC, but they'll have a good idea of the number ahead of time through their own estimates.

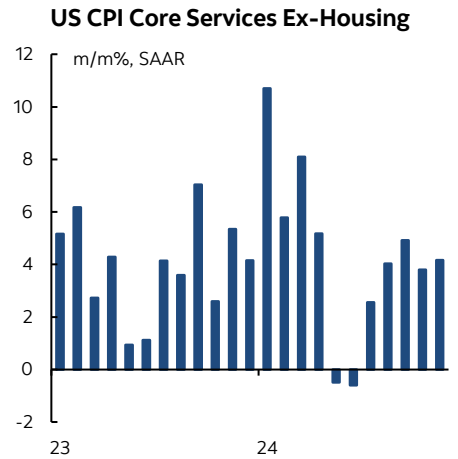
More charts are available on the following pages. Also please see the detailed table showing components, other measures, and charts.

Chart 4



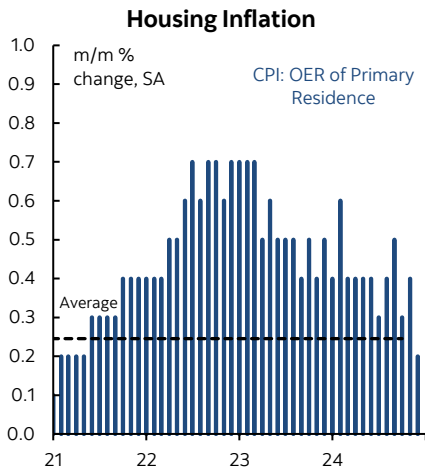
Sources: Scotiabank Economics, BLS.

Chart 5



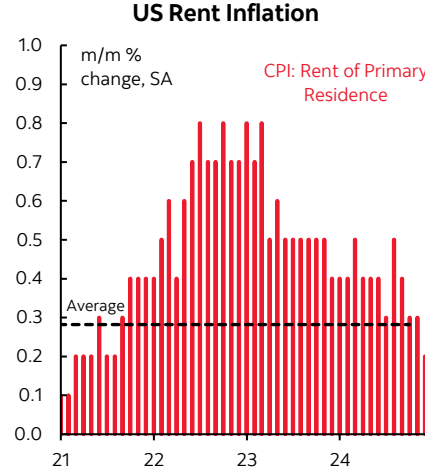
Sources: Scotiabank Economics, BLS.

Chart 6



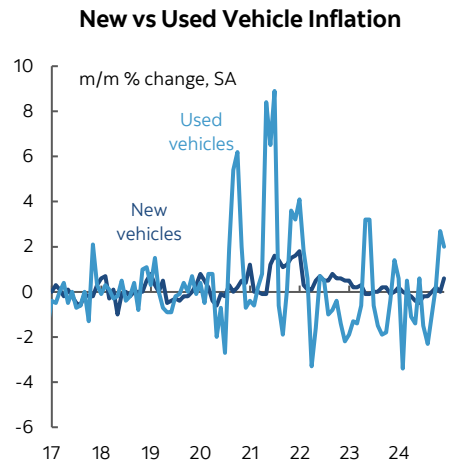
Sources: Scotiabank Economics, BLS.

Chart 7



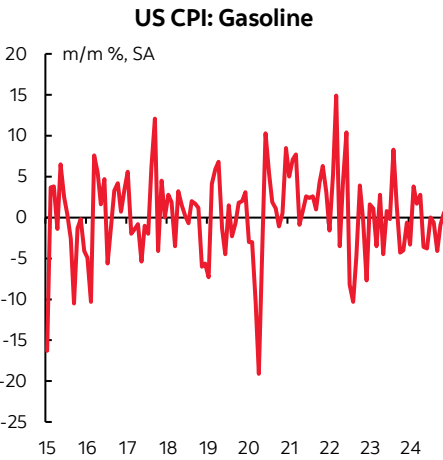
Sources: Scotiabank Economics, BLS.

Chart 8



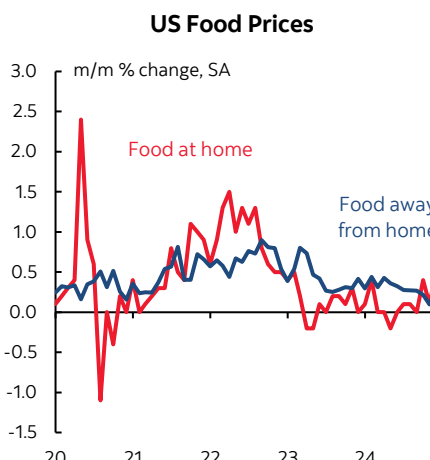
Sources: Scotiabank Economics, BLS.

Chart 9



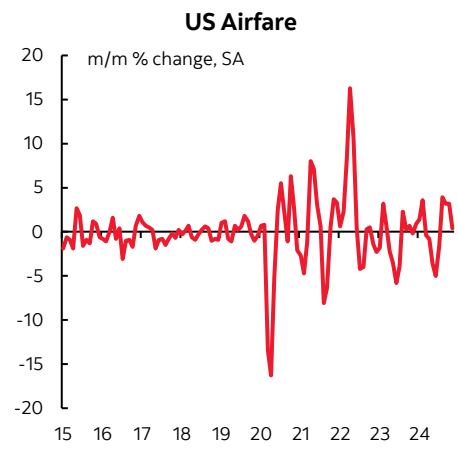
Sources: Scotiabank Economics, BLS

Chart 10



Sources: Scotiabank Economics, BLS, Haver.

Chart 11



Sources: Scotiabank Economics, BLS.

December 11, 2024

Nov 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	2.4			0.4	13.47	0.32	0.05	1.3	0.8	1.5	1.7	1.1	0.6
Food, home	1.6			0.5	8.07	0.14	0.04	0.2	1.1	1.2	1.2	1.9	0.2
Cereals & bakery products	-0.5			-1.1	1.05	-0.01	-0.01	0.4	0.9	-1.0	0.9	1.7	-0.8
Meats, poultry, fish & eggs	3.8			1.7	1.72	0.07	0.03	-0.2	3.2	1.2	2.1	3.9	0.4
Dairy & related products	1.2			-0.1	0.74	0.01	0.00	-0.6	1.6	1.1	1.1	3.1	0.0
Fruits & vegetables	1.1			0.2	1.39	0.02	0.00	0.4	1.7	0.4	1.0	2.0	0.1
Non-alcoholic beverages	2.8			1.5	1.02	0.03	0.02	0.6	1.0	2.1	0.5	1.6	1.5
Other food at home	0.7			0.1	2.16	0.02	0.00	0.5	0.6	0.3	1.0	1.6	-0.2
Food, away	3.6			0.3	5.39	0.18	0.02	2.7	0.3	3.0	2.5	0.5	2.2
Full services meals & snacks	3.6			0.3	2.48	0.08	0.01	2.6	0.4	2.8	2.4	0.5	2.4
Limited services meals and snacks	3.7			0.3	2.52	0.08	0.01	2.8	0.3	2.7	2.5	0.7	1.7
Food at employee sites and school	3.5			-0.9	0.08	0.00	0.00	2.8	2.4	0.3	2.8	1.9	0.3
Food from vending machines & mobile vendors	0.5			0.1	0.05	0.00	0.00	3.1	1.0	-2.6	2.5	1.3	-1.6
Other food away from home	4.3			-0.1	0.27	0.01	0.00	2.5	1.3	1.4	2.3	1.0	2.0
Energy	-3.2			0.2	6.55	-0.22	0.01	-1.9	10.0	-0.1	1.6	9.6	-0.5
Energy comm.	-8.5			0.5	3.43	-0.30	0.02	-2.8	17.0	-0.3	3.0	17.1	-0.7
Fuel oils & other fuels	-10.7			0.4	0.15	-0.02	0.00	-2.3	15.8	-0.5	2.7	14.4	-0.9
Motor fuel	-8.4			0.5	3.28	-0.28	0.02	-2.8	17.1	-0.3	3.0	17.3	-0.7
<u>Gasoline</u>	<u>-8.1</u>			<u>0.6</u>	<u>3.19</u>	<u>-0.26</u>	<u>0.02</u>	<u>-2.8</u>	<u>17.1</u>	<u>-0.3</u>	<u>3.0</u>	<u>17.4</u>	<u>-0.6</u>
<u>Other</u>	<u>-18.1</u>			<u>-1.9</u>	<u>0.10</u>	<u>-0.02</u>	<u>0.00</u>	<u>-2.3</u>	<u>19.5</u>	<u>-0.8</u>	<u>3.6</u>	<u>17.9</u>	<u>-1.2</u>
Energy serv.	2.8			-0.1	3.12	0.09	0.00	0.0	2.4	1.1	0.5	2.7	0.9
Electricity	3.1			-0.4	2.46	0.08	-0.01	0.5	1.5	1.7	1.0	1.7	1.2
Utility (piped gas service)	1.8			1.0	0.66	0.01	0.01	-1.4	7.5	0.4	-0.9	7.3	0.4
All items less food and energy	3.3			0.3	79.99	2.63	0.24	2.0	0.2	5.6	1.8	0.4	3.6
Commodities less food and energy	-0.6			0.3	18.41	-0.12	0.06	-0.3	0.4	-0.7	0.2	0.9	-0.9
Household furnishings	-1.0			0.7	3.95	-0.04	0.03	-0.8	1.2	-0.1	-0.9	1.2	-0.1
Window & floor coverings	0.8			0.5	0.28	0.00	0.00	-2.3	1.7	1.8	-2.8	1.8	2.0
Furniture & bedding	-1.8			-0.2	0.93	-0.02	0.00	-0.3	1.7	-0.9	-0.9	2.1	-0.4
Appliances	-1.0			0.7	0.22	0.00	0.00	-1.2	3.1	0.1	-1.6	3.0	0.2
Other household equipment	-0.5			-0.5	0.50	0.00	0.00	-3.5	1.8	1.6	-3.7	1.5	2.1
Tools & hardware	-2.5			0.1	0.69	-0.03	0.00	-0.1	1.0	-2.4	-0.3	1.2	-1.8
Housekeeping supplies	0.8			0.4	0.78	0.01	0.00	0.3	1.2	0.5	0.4	1.3	0.3

December 11, 2024

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Apparel	1.1			0.2	2.58	0.03	0.01	-0.5	1.0	1.7	0.3	1.7	0.4
Men's & boys apparel	2.2			1.0	0.66	0.01	0.01	-0.3	1.5	1.6	0.5	2.3	0.8
Women's & girls apparel	0.4			-0.2	1.05	0.00	0.00	-1.3	1.9	0.9	-0.1	2.5	0.2
Footwear	0.7			-0.3	0.54	0.00	0.00	0.2	1.3	0.4	0.8	1.7	0.0
Infant & toddler's apparel	-0.6			0.0	0.10	0.00	0.00	0.4	3.8	-0.3	0.5	3.6	-0.3
Jewelry & watches	3.4			0.8	0.24	0.01	0.00	1.0	3.4	0.7	1.5	3.8	0.5
Trans. less fuel	-1.4			0.9	5.96	-0.10	0.05	-0.3	0.9	-1.2	0.4	1.5	-1.2
New vehicles	-0.7			0.6	3.56	-0.03	0.02	0.1	0.7	-1.2	0.8	1.2	-1.2
Used cars & trucks	-3.4			2.0	1.88	-0.09	0.04	-1.3	2.1	-1.0	1.1	4.8	-0.9
Motor vehicle parts & equipment	1.5			-0.6	0.46	0.01	0.00	0.2	1.1	1.2	0.9	2.2	0.3
Medical comm.	0.4			-0.1	1.46	0.01	0.00	2.1	1.7	-1.0	2.3	1.5	-1.3
Medicinal Drugs	0.3			-0.1	1.34	0.00	0.00	2.2	1.8	-1.1	2.3	1.6	-1.3
Medical equipment & supplies	1.2			-0.4	0.12	0.00	0.00	0.4	1.2	0.7	0.3	1.2	0.7
Recreation comm.	-1.5			-0.5	1.98	-0.03	-0.01	-2.6	1.1	1.0	-2.3	0.9	0.9
Video & audio products	-0.7			-0.6	0.28	0.00	0.00	-10.1	2.4	3.9	-9.2	2.2	3.8
Pets & pet products	0.0			0.4	0.61	0.00	0.00	0.4	1.5	-0.3	0.5	1.5	-0.3
Sporting goods	-2.8			-0.3	0.62	-0.02	0.00	-0.7	1.5	-1.4	-0.6	1.2	-1.8
Photographic Equipment & supplies	2.4			-1.3	0.03	0.00	0.00	-1.7	4.6	0.9	-3.0	4.0	1.3
Recreational reading materials	-1.3			-4.9	0.10	0.00	-0.01	1.6	1.9	-1.5	1.5	1.8	-1.6
Other recreational goods	-3.1			-0.9	0.34	-0.01	0.00	-6.5	1.3	2.6	-5.2	1.7	1.2
Educ. & communication comm.	-5.4			-1.1	0.81	-0.05	-0.01	-3.7	1.0	-1.6	-3.5	0.9	-2.1
Educational books & supplies	10.6			6.3	0.08	0.01	0.01	2.2	3.0	2.8	3.6	2.7	2.6
IT commodities	-7.1			-2.0	0.73	-0.05	-0.01	-6.1	1.9	-0.5	-6.8	1.8	-0.2
Alcohol	1.8			0.1	0.84	0.02	0.00	1.3	0.3	1.6	1.4	0.4	1.2
Alcoholic beverages at home	1.1			-0.2	0.47	0.01	0.00	0.8	0.6	0.4	0.8	0.5	0.6
Alcoholic beverages away from home	2.7			0.5	0.37	0.01	0.00	1.9	0.5	1.8	2.2	0.7	0.7
Other goods	2.6			0.2	1.37	0.03	0.00	1.4	0.9	1.4	1.4	0.7	1.7
Tobacco & smoking products	6.6			1.0	0.56	0.03	0.01	4.3	1.5	1.5	4.4	3.8	0.6
Personal care products	0.5			-0.1	0.66	0.00	0.00	-0.3	0.6	1.4	-0.1	0.8	0.7
Miscellaneous personal goods	-2.4			-0.6	0.16	0.00	0.00	-2.4	3.1	0.0	-1.7	2.4	-0.3

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Services less energy services	4.6			0.3	61.57	2.72	0.18	2.8	0.2	7.7	2.4	0.6	3.5
Shelter	4.7			0.3	36.60	1.65	0.11	3.3	0.2	8.4	2.5	1.2	1.9
Rent of shelter	4.8			0.3	36.19	1.67	0.11	3.3	0.2	8.1	2.5	1.2	2.0
<i>Rent of primary residence</i>	<i>4.4</i>			<i>0.2</i>	<i>7.72</i>	<i>0.34</i>	<i>0.02</i>	<i>3.7</i>	<i>0.1</i>	<i>5.3</i>	<i>2.9</i>	<i>1.1</i>	<i>1.3</i>
<i>Lodging away from home</i>	<i>3.7</i>			<i>3.2</i>	<i>1.38</i>	<i>0.04</i>	<i>0.04</i>	<i>2.3</i>	<i>2.0</i>	<i>0.7</i>	<i>2.2</i>	<i>2.2</i>	<i>0.7</i>
<i>OER of residences</i>	<i>4.9</i>			<i>0.2</i>	<i>27.09</i>	<i>1.27</i>	<i>0.05</i>	<i>3.2</i>	<i>0.2</i>	<i>8.3</i>	<i>2.4</i>	<i>1.1</i>	<i>2.3</i>
Tenants' & household insurance	2.0			0.0	0.41	0.01	0.00	1.4	1.2	0.5	2.3	1.5	-0.2
Water, sewer, trash collection	5.2			0.6	1.10	0.06	0.01	3.6	0.6	2.8	4.3	1.0	0.9
Water & sewage maintenance	5.7			0.4	0.78	0.04	0.00	4.0	0.8	2.1	4.8	1.4	0.6
Garbage & trash collection	4.2			0.9	0.33	0.01	0.00	2.5	1.5	1.2	2.5	1.1	1.6
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			0.7	0.31	0.01	0.00	2.0	1.1	1.1	1.6	1.0	1.4
Gardening & lawn care	6.3			-0.8	0.35	0.03	0.00	4.3	2.7	0.7	2.8	2.6	1.3
Moving, storage, freight	4.6			-0.4	0.15	0.00	0.00	5.6	3.9	-0.3	3.3	3.9	0.3
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.	3.7			0.4	6.52	0.24	0.03	2.9	1.0	0.8	3.0	0.8	0.8
Professional Services	3.0			0.4	3.61	0.11	0.01	1.5	0.9	1.6	1.8	0.8	1.5
Hospital & related services	4.3			0.1	2.32	0.10	0.00	3.8	1.1	0.4	4.5	1.3	-0.2
Health insurance	5.9			0.2	0.59	0.03	0.00	5.0	5.8	0.1	3.6	6.0	0.4
Transportation serv.	7.1			0.0	6.58	0.44	0.00	2.6	1.1	4.1	2.6	1.0	4.6
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	5.7			0.2	1.27	0.07	0.00	2.2	0.7	5.0	2.0	0.6	6.5
Motor vehicle insurance	12.7			0.1	3.01	0.36	0.00	5.5	2.6	2.8	4.8	2.0	3.8
Motor vehicle fees	2.9			-0.9	0.54	0.01	0.00	1.8	0.7	1.6	2.2	1.9	0.4
Public transportation	2.9			0.0	1.11	0.02	0.00	-1.2	1.5	2.7	1.0	3.6	0.5
Recreation serv.	3.5			0.7	3.23	0.11	0.02	2.6	0.7	1.4	2.3	0.7	1.6
Video & audio services	1.4			-0.2	0.89	0.01	0.00	2.7	1.4	-0.9	2.6	1.3	-0.9
Pet services	7.1			0.6	0.44	0.04	0.00	3.1	0.8	5.2	3.3	0.9	4.2
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	4.1			1.2	1.85	0.06	0.02	2.4	0.6	2.9	1.7	1.1	2.2
Educ. & communication serv.	1.8			-0.2	5.00	0.09	-0.01	0.4	1.3	1.0	1.1	1.3	0.6
Tuition, school fees, child care	3.9			0.2	2.43	0.08	0.00	2.8	0.6	2.0	3.3	0.8	0.7
Postage & delivery	9.8			-0.1	0.07	0.01	0.00	2.3	2.0	3.8	3.3	2.0	3.3
Telephone services	-0.3			-0.2	1.53	0.00	0.00	-2.4	3.0	0.7	-1.3	2.4	0.4
Internet services	-0.7			-1.6	0.96	-0.01	-0.02	-0.2	1.5	-0.3	0.1	1.3	-0.6
Other personal serv.	4.2			0.4	1.54	0.06	0.01	2.7	0.7	2.3	2.4	0.6	2.9
Personal care services	4.8			0.6	0.64	0.03	0.00	2.3	0.7	3.6	1.8	0.8	3.6
Miscellaneous personal services	3.7			0.2	0.90	0.03	0.00	2.9	0.9	0.9	2.7	0.7	1.4

*Number may not add due to rounding

Sources: Scotiabank Economics, BLS.

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