Economic Commentary

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central 1 Economics

March delivers a whopper of an inflation print

Canadian consumer price inflation came in at a whopping 6.7 per cent y/y in March to handily outpace market consensus and soared from February's 5.7 per cent print. This marked the highest pace since January 1991 as m/m growth in the consumer price index posted a 30-year high of 1.4 per cent (0.9 per cent seasonally-adjusted). That said, the 1991 surge owed to the introduction of the GST, and going back further, this is the highest since June 1981.

The latest round of price hikes reflected broad-based gains with households feeling the pinch among a wide spectrum of goods and services. Unsurprisingly, conflict in Ukraine following the Russia invasion triggered sharply higher energy prices. While since easing, March gasoline prices rose 11.8 per cent m/m and 39.8 per cent y/y. Fuel oils rose 20 per cent. Food price momentum remained strong at 0.9 per cent m/m with y/y growth at 7.7 per cent which was the highest since March 2009 as consumers have seen grocery aisle prices skyrocket driven by meat (10.5 per cent y/y), baked goods (10 per cent), and fruit (8.2 per cent). Restaurant prices (up 5.4 per cent) have been more modest.

Meanwhile durable goods prices also marched higher, reflecting supply chain impacts and uplift from introduction of new vehicle models. Furniture prices soared 6.9 per cent m/m and 12.5 per cent y/y, while vehicle prices accelerated from a 4.7 per cent y/y pace in February to 7 per cent in March.

Shelter costs picked up 1.0 per cent m/m and 6.8 per cent y/y, as homeowners replacement gains of 12.9 per cent y/y was partially offset by lower mortgage interest costs, while rental costs rose 4.2 per cent y/y.
Excluding some of the key volatility, classic core inflation (exc. Food and energy) rose 0.9 per cent m/m and 4.6 per cent y/y, which was the highest since 1991. The Bank of Canada's three core measures of inflation all rose, with the preferred common measure edging up to 2.8 per cent, and a high of 4.7 per cent in the CPI-trim. At an average of 3.8 per cent, core remains too high for comfort.

The latest inflation print is yet another sign that the Bank of Canada will be more aggressive at its June rate meeting with a 50 bps increase. Inflation is running hotter than expected, the economy has fully recovered, and strong labour market conditions will likely mean more of this growth will be imbedded in wage negotiations. That said, we remain of the view that supply chain challenges will likely temper later this year and interest rates will temper domestic demand. We expect the Bank of Canada to hike to 2.0 per cent by year- end and 2.5 per cent partway through 2023.

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