



### All about the Base: Headline inflation shifts lower, trend still friendly

Headline inflation moved decidedly lower in March, downshifting from 5.2 per cent year-over-year (y/y) in February to 4.2 per cent in March. While driven in large part by base year impacts of a strong increase in prices last March (1.4 per cent m/m), inflation patterns are decelerating. On a monthly basis, the consumer price index rose 0.5 per cent as consumers still faced higher prices, but only 0.1 per cent when adjusting for seasonal factors, which was up slightly from February.

The March slowdown in headline y/y inflation was largely driven by base-year impacts, particularly gasoline where prices fell 13.8 per cent y/y despite rising 1.2 per cent during the month. This decline owed in large part to last year's March surge of 12 per cent following the invasion of Ukraine. Gas prices have since retreated. The pace of food price growth has also slowed in March, but consumers continue to take it on the chin with levels 8.9 per cent higher than a year ago. 12-month growth in store-bought food came in at 9.7 per cent, down from 10.6 per cent in February. Some of the biggest gains came in baked goods (13.5 per cent), poultry (10 per cent), and vegetables (11.9 per cent) but growth was strong across most food products.

Excluding food and energy, inflation came in at 4.5 per cent compared to 4.8 per cent in February. Households are facing strong shelter related costs, which were up 5.4 per cent from a year ago. Mortgage interest costs have surged with a record 26.4 per cent y/y increase. At the same time, homeownership costs decelerated from 6.5 to 5.7 per cent y/y, largely due to pass-through of lower home prices to replacement costs. In contrast, rent costs remained robust at 5.3 per cent, unchanged from February as huge demand from an unaffordable homeownership market and huge increase in population.

Among other key components, clothing prices accelerated but still only up 1.3 per cent y/y, while prices of household appliances slowed to a 2.3 per cent pace from 1.9 per cent. Vehicle purchase prices also decelerated suggesting the supply chain issues have unwound. Broadly, goods prices slowed from a 5.3 per cent y/y pace to 3.6 per cent. However, services remained robust at 5.1 per cent.

Broadly inflation is unwinding. Three-month inflation trends are annualizing 2.1 per cent and excluding food and energy, the annualized rate is 3.1 per cent is points to moderation. Bank of Canada core measures all fell during the month with core-common at 5.9 per cent, median at 4.6 per cent and trim at 4.4 per cent. Seasonally-adjusted, these measures rose at 0.3 per cent m/m, which is still firm. Services cost remain relatively strong and wage growth is likely to lift prices. This component of prices will take longer to fall to target levels. Prices, while evolving well, still require monetary policy tightness to bring it to two per cent, and the harder work to bring down service prices is ongoing. We believe the Bank will remain on hold at 4.5 per cent through year-end.

## Canada Consumer Price Index

Period	2023M01	2023M02	2023M03
<i>All-Items</i>			
Actual y/y %ch.	5.9	5.2	4.3
Actual, m/m %	0.5	0.4	0.5
Seas. adj., m/m %	0.3	0.1	0.1
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	4.9	4.8	4.5
Goods	6.4	5.3	3.6
Services	5.3	5.3	5.1
Food	10.4	9.7	8.9
Shelter	6.6	6.1	5.4
Gasoline	2.9	-4.7	-13.8
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	6.6	6.4	5.9
Trim	5.1	4.8	4.4
Median	5.1	4.9	4.6
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	2.4	1.6	2.1
Exc. food and energy	3.1	3.4	3.1

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