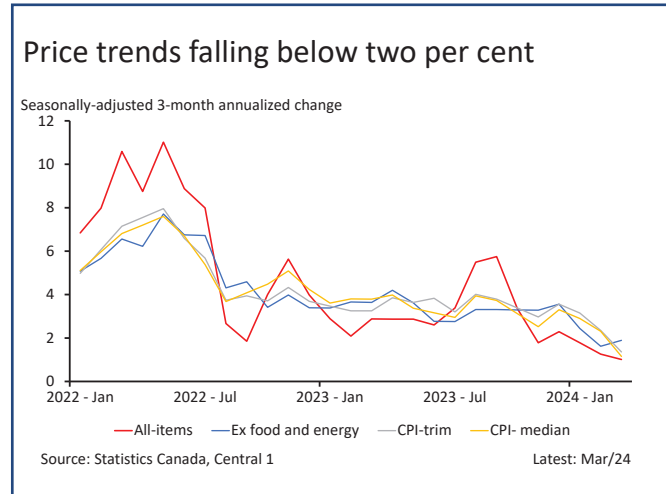




Inflation trends continue to cool even as headline growth picks up in March

In another important inflation reading, Canadian consumer price inflation accelerated in March after decelerating for two consecutive months owing to higher gasoline prices. Headline CPI inflation rose to 2.9 per cent y/y from 2.8 per cent in February with m/, price growth of 0.6 per cent m/m (0.25 per cent, seasonally- adjusted). While this could complicate the Bank of Canada’s rate decision, inflation remained within the pivotal 1-3 per cent range, while core trends continued to point to easing domestic inflation.

Movements in inflation were driven again by one of the usual suspects. Gasoline prices jumped 4.5 per cent y/y following a 0.8 per cent reading in February and rose 4.9 per cent m/m to the highest level since October and followed underlying crude prices higher. West Texas Intermediate spot prices were up five per cent m/m and 10 per cent y/y in March, reflecting global production cuts and conflict in the middle east. Excluding gasoline inflation was better behaved with CPI growth down to 2.8 per cent and a seventh straight decline.



Among other key prices, food costs slowed to just below three per cent y/y which was the lowest rate since August 2021. Grocery prices came in below 1.9 per cent y/y with a downshift in dairy and baked goods price growth to below one per cent, while fruit prices declined from a year ago. Restaurant prices continued to grow at a fast pace of 5.1 per cent.

Excluding both food and energy, or a classic core definition of inflation, Canadian CPI inflation aligned with headline at a touch below 2.9 per cent, but we continue to see plenty of shelter driven lift. The shelter component edged up to 6.5 per cent, driven by rent growth (8.5 per cent from 8.2 per cent). Ownership costs held steady near 6.8 per cent as mortgage interest growth slipped to 25 per cent (!). Housing continues to keep headline and core inflation elevated. High interest rates are not cooling these factors as housing supply, massive population growth are determinants of rents while elevated rates are contributing to mortgage interest costs.

Among other products and services, furnishing and equipment prices have fallen from a year ago, and while clothing and footwear rose 2.8 per cent m/m, levels were 2.7 per cent lower from a year ago. Lower cellular plan prices pushed communications costs down 17 per cent y/y, travel costs and accommodation have declined.

While there are plenty of moving parts, we should look through the uptick in March inflation given the gasoline uptick and influence of shelter prices and underlying price pressures moderate. The Bank of Canada’s three preferred core inflation measures declined 0.1 to 0.2 percentage points, and two of the three now sit below three per cent y/y. While a touch higher than February, inflation excluding mortgage interest costs (2.0 per cent) and excluding shelter (1.5 per cent), are at or below the Bank’s target. On a trend basis, 3-month measure of headline, ex food and energy, and the Bank’s core measures all sit below two per cent. This should provide sufficient evidence for the Bank of Canada to kick start its cut cycle in June, although as we have noted, the path thereafter is unlikely to be smooth.

Canada Consumer Price Index			
Period	2024M01	2024M02	2024M03
<i>All-Items</i>			
Actual y/y %ch.	2.9	2.8	2.9
Actual, m/m %	0.0	0.3	0.6
Seas. adj., m/m %	-0.1	0.1	0.3
<i>CPI by Select Product Group, y/y % ch.</i>			
Exc. food and energy	3.1	2.8	2.9
Goods	1.3	1.2	1.1
Services	4.2	4.2	4.5
Food	3.9	3.3	3.0
Shelter	6.2	6.5	6.5
Gasoline	-4.0	0.8	4.5
<i>Bank of Canada Core Measures, y/y % ch</i>			
Common	3.3	3.1	2.9
Trim	3.4	3.2	3.1
Median	3.2	3.0	2.8
<i>3-mth trend, seasonally-adjusted (ann.)</i>			
All-Items	1.8	1.3	1.0
Exc. food and energy	2.4	1.6	1.9

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