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Canadian CPI (Mar): Descending steeply, but still too high

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Consumer price index (% chg)	22:Q4	23:Q1	Jan	Feb	**Mar**
Year/year rate (unadjusted)	6.7	5.1	5.9	5.2	4.3
Monthly rate (unadjusted)	-	-	0.5	0.4	0.5
Monthly rate (SA)	-	-	0.3	0.1	0.1
Three-month rate (SAAR)	-	-	2.4	1.6	2.1
CPI-trim (year/year rate)	5.4	4.8	5.1	4.8	4.4
CPI-median (year/year rate)	5.3	4.9	5.1	4.9	4.6

Source: Statistics Canada

- Canadian inflation continued a steep descent in March, with that flight path likely to continue for a few more months as some of the largest monthly price increases of 2022 drop out of the year-over-year calculation. However, with core measures remaining above the 2% target, the Bank of Canada will still be concerned as to where the ultimate landing spot for inflation will be. As such, policymakers will likely maintain a hawkish tone for now, with interest rate cuts not in the cards until next year.
- Headline CPI rose 0.5% on the month (0.1% seasonally adjusted), with the annual rate decelerating to 4.3%, from 5.2% in the prior month. Both the m/m and y/y figures were in line with the consensus expectation, although the Q1 average for headline inflation was slightly below the Bank of Canada's MPR forecast (5.1% vs 5.2%) suggesting that price pressures continue to ease a little quicker than policymakers had been expecting.
- Lower energy prices were the main reason for the deceleration in year-over-year inflation, with that impact negated somewhat by much higher mortgage interest costs than a year ago. While food price inflation slowed, prices continued to rise on average on a month-to-month basis, which is in slight contrast to the US figures released last week. We expect clearer signs of easing food price inflation to emerge over the summer months.
- Core measures of inflation continued to show slower trends than those seen in mid-2022, albeit ones still inconsistent with the Bank of Canada's 2% inflation target. The Bank's preferred CPI-median and CPI-trim posted increases of 3.6% and 3.3% respectively on a 3-month annualized basis. Seasonally adjusted CPI ex food/energy rose by 0.3% m/m, albeit with mortgage interest costs playing a big role which is something policymakers should look past in making interest rate decisions. Our preferred measure of core inflation (CPI excluding food, energy and mortgage interest costs) continues to trend much closer to 2% on a 3-month annualized basis (2.1%).
- Travel tour costs posted their sharpest monthly gain on record (+36.7%) and provided the largest upward contribution to monthly CPI despite having a relatively small weight. The surge was likely driven by the timing of March break and pent-up demand for travel, and so could reverse in the coming months. Air transportation prices (+1.3%) were fairly muted in comparison.
- Shelter costs posted their sharpest monthly increase since December, although inflation in that area continued to ease on a year-over-year basis. As well as mortgage interest costs and rent rising further, "other owned accommodation" costs posted a monthly increase for the first time since last May, with that component picking up the stabilisation in house prices seen recently.

Implications & actions

Re: Economic forecast —Inflation continues to ease and will do so further as some of the largest monthly increases from last year continue to drop out of the annual calculation. However, the descent in inflation will likely stall in the 2.5%-3% range during the second half of this year. That should be low enough to prevent a further interest rate hike from the Bank of Canada, but not yet to a level at which policymakers will feel confident about easing interest rates. We continue to expect no change in Bank of Canada policy this year before interest rate cuts begin early in 2024.

Re: Markets — Bond yields and the Canadian dollar were little changed after today's release, with the headline figures matching consensus expectations.