Economics

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Canadian CPI (March): One down, one to go

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Consumer price index (% chg)	23:Q4	24:Q1	Jan	Feb	**Mar**
Year/year rate (unadjusted)	3.2	2.8	2.9	2.8	2.9
Monthly rate (unadjusted)	-	-	0.0	0.3	0.6
Monthly rate (SA)	-	-	-0.1	0.1	0.3
Three-month rate (SAAR)	-	-	1.8	1.3	1.0
CPI-trim (year/year rate)	3.5	3.2	3.4	3.2	3.1
CPI-median (year/year rate)	3.4	3.0	3.2	3.0	2.8

Source: Statistics Canada

- For a central bank trying to judge if downward momentum in core inflation has been maintained before it's next policy decision, today's release was a case of one down, one to go. While headline CPI ticked up slightly on a year-over-year basis, that was largely due to higher gasoline prices, and the Bank of Canada's preferred core measures of inflation (trim and median) actually printed weaker than consensus expectations. While there is still one more CPI release to come before the Bank's next policy decision, today's data keeps us on track to see a first rate cut at that June meeting.
- The headline 0.6% NSA increase on the month and 2.9% year-over-year pace were both broadly in line with the consensus expectation, with the one tick acceleration in the annual pace driven by higher gasoline prices. Excluding gasoline, the year-over-year pace would have eased slightly to 2.8%, from 2.9%. Food prices were little change on a seasonally adjusted basis, continuing a flat trend seen since the start of the year. The annual pace of food price inflation has eased to 3%, from a peak above 10% in January 2023.
- While the seasonally adjusted monthly increase in prices excluding food/energy accelerated to 0.3%, that followed a soft 0.1% gain in the prior month, and much of the price increase in that area is still being driven by shelter costs, including mortgage rates. Rents rose by a further 0.9% on the month, and mortgage interest costs by 1.2%, although the monthly change of the latter was the smallest since May 2022. CPI excluding mortgage interest costs was exactly in line with the Bank of Canada's inflation goal of 2% on a year-over-year basis. While clothing & footwear prices rebounded partially following two monthly declines, they remained 2.5% down on a year-over-year basis.
- The Bank's trim and median measures of core inflation showed more downward progress than expected by the consensus, printing at 3.1% and 2.8% y/y respectively (consensus 3.2% and 3.0%), and these measures should continue to decelerate in the months ahead. On a three and six-month annualized basis the average of CPI-trim and CPI-median was 1.3% and 2.3% respectively.

Implications & actions

Re: Economic forecast —Inflationary pressures in Canada remain weaker and more concentrated in specific areas (shelter) than in the US, which makes sense given weaker consumer spending here. That should justify a first interest rate cut from the Bank of Canada in June, provided the next CPI release doesn't show a sizeable reacceleration in core measures. However, a weakening currency complicates matters somewhat and could restrict how many cuts the Bank feels comfortable delivering before the Fed also starts trimming rates later in the year.

Re: Markets — Financial markets had been thinking there was a 50/50 chance of a June cut before today's data, but that probability rose to around 65% following the benign March CPI data release. That saw bond yields and the Canadian dollar fall.