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Canadian CPI (March): A reprieve ahead of tariffs

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Consumer price index (% chg)	24:Q4	25:Q1	Jan	Feb	**Mar**
Year/year rate (unadjusted)	1.9	2.3	1.9	2.6	2.3
Monthly rate (unadjusted)	-	-	0.1	1.1	0.3
Monthly rate (SA)	-	-	0.2	0.6	0.0
Three-month rate (SAAR)	-	-	2.2	4.0	3.2
CPI-trim (year/year rate)	2.7	2.8	2.8	2.9	2.8
CPI-median (year/year rate)	2.7	2.8	2.7	2.9	2.9

Source: Statistics Canada

- Following a couple of months of upside surprises to inflation, the Bank of Canada received good news in the March data as prices moderated notably. The 0.3% m/m NSA increase was well below the consensus expectation of 0.7%, but closer to our 0.5% call, and that left the annual rate down three ticks at 2.3% (vs. 2.7% expected). Looking through the volatility, the Bank of Canada's key core measures of trim and median, which strip out changes in taxes, both eased to a 0.1% m/m SA pace, leaving the annual rates at 2.8% and 2.9%, respectively (vs. 3.0% and 2.9% expected), while CPIX fell by 0.2% m/m and is sitting at 2.2% y/y. The easing in price pressures is consistent with the Bank of Canada cutting interest rates by 25bps at tomorrow's meeting, with the downside risks to growth from the trade war outweighing any upside to inflation from tariffs in our view.
- There were some distortions normalizing beneath the surface, with the full end of the federal tax holiday being captured in the March data, resulting in a jump in restaurant prices. But leaning against that impact was a sharp drop in travel tour prices after a surge in prices in the prior month, a decline in cellphone prices, and lower prices at the pump. It's too early to see any impact of retaliatory tariffs or US tariffs in the data, but roughly 13% of Canada's CPI basket is made up of goods imported from the US, so there will be a lift to inflation ahead. However, the Canadian dollar has appreciated since March and will help to cushion the impact of tariffs, as will lower oil prices and the removal of the carbon tax.
- Mortgage interest costs and rents are still the largest upward contributors to year-over-year inflation, but their influence is waning, with both rising by only 0.2% m/m NSA in March, and annual rates down sharply from their peaks. Market data continues to point to a soft rental market with excess supply and slower demand from international students that will keep a lid on that component, while annual increases in mortgage interest costs, currently at 7.9% y/y, should continue their descent.

Implications & actions

Re: Economic forecast — We expect the negative demand impact from higher unemployment due to tariffs and the deterioration in sentiment since March to be more worrisome for the BoC than temporary upward pressure on prices from tariffs ahead, and we continue to look for the overnight rate to reach a trough of 2.25%.

Re: Markets — The Canadian dollar was little changed following a drop ahead of the release while bond yields were down marginally.

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