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# Canada: Headline inflation driven by gasoline in March, but core inflation remains tepid

By Matthieu Arseneau/Alexandra Ducharme

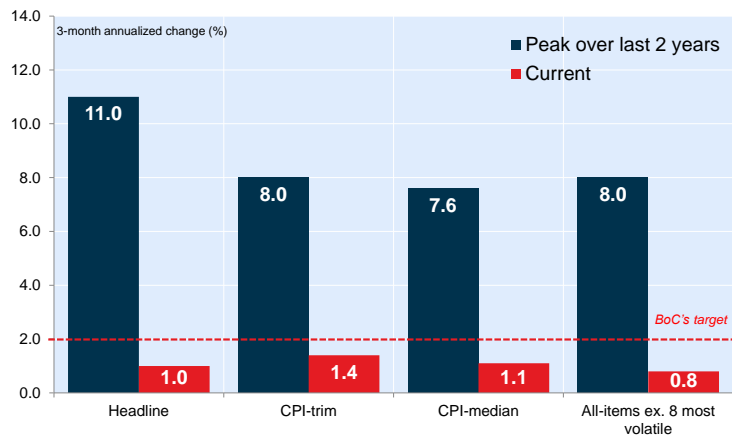
Geopolitical tensions and their impact on energy prices are beginning to affect Canadian inflation. The sharp rise in gasoline prices is the main reason for the one-tenth acceleration in annual inflation, which was expected by the consensus of economists. But the bad news on the inflation front stops there, and this morning's report is particularly pleasing. Food prices, which were rising at a blistering pace not so long ago, barely rose in March and have been stable over the last three months. For their part, core inflation measures suggest that widespread disinflation continued in March. The Bank of Canada's preferred measures of core inflation show general price weakness, with monthly increases of just one-tenth in March, following similar prints in the previous two months. Over three months, these measures are running at an annualized pace at the lower end of the central bank's target range (CPI median at 1.1%, CPI trim at 1.4%), and we believe these measures overstate current inflationary pressures as we pointed out in a special report published earlier this month ([link](#)). The CPI-X, which we believe is the most appropriate measure to use in the current inflationary episode as it excludes mortgage interest costs, has risen at an annualized rate of just 0.8% over this period (left chart). Inflation data for the past three months reflect the cooling of the Canadian economy over the past seven quarters of monetary policy transmission. GDP per capita is on track for a further decline in Q1 while hiring is no longer keeping pace with population growth, especially in the private sector. And there's no sign of a near-term rebound, with companies now much more concerned about sales than recruitment. Despite this, the Bank of Canada is maintaining an extremely restrictive monetary policy. In doing so, it risks doing too much damage to the economy, given the 6-8 quarter lag in the transmission of monetary policy. For more details, see our just-released [Monthly Economic Monitor](#).

### HIGHLIGHTS:

- The Consumer Price Index increased 0.63% in March, below consensus expectations for a 0.7% increase (not seasonally adjusted).
- In seasonally adjusted terms, headline prices were up 0.25 % after a 0.13% increase the prior month.
- This translated to an annual inflation rate of 2.9%, up from 2.8% in February.
- Prices increased in 7 of the 8 categories surveyed, namely, in order of magnitude, in clothing/footwear (+1.4%), recreation/reading (+0.6%), shelter (+0.4%), transportation (+0.2%), alcohol/tobacco (+0.2%), health/personal care (+0.1%) and food (+0.1%). Prices in household operation (-0.5%), meanwhile, declined in the month.
- Annual inflation was above the national average in Québec (+3.6%) and Alberta (+3.5%) and below that mark in British Columbia (+2.7%) and Ontario (+2.6%) .
- Core inflation measures preferred by the Bank of Canada were as follows: 3.1% for CPI trim (down one tick from last month) and 2.8% for CPI median (down two ticks). As a result, the average of the two measures declined one tick to 3.0%. The CPI excluding the 8 most volatile components, meanwhile, stood at 2.0% (down one tick, right chart).
- See table on next page for more details.

### Canada: Inflation shows weak momentum

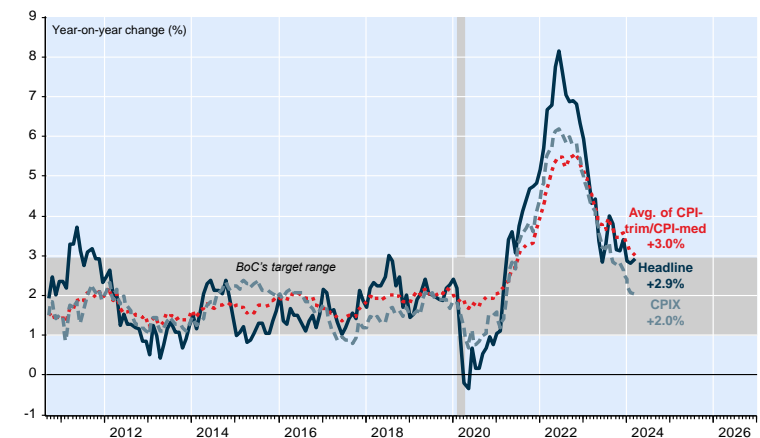
3-month annualized change in selected inflation measures



NBF Economics and Strategy (data via Statistics Canada)

### Canada: Annual inflation remains within the BoC's control range

Annual inflation rate, headline, CPI excluding 8 most volatile items and average of CPI-trim and CPI-median



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	Year over year					3-m annualized change, seasonally adj.				1-m change, seasonally adj.			
	20-year average	12 months ago	Mar-24	Feb-24	1-month trend	12 months ago	Mar-24	Feb-24	1-month trend	12 months ago	Mar-24	Feb-24	1-month trend
<b>Headline</b>	2.2	4.3	2.9	2.8	▲	2.9	1.0	1.3	▼	0.19	0.25	0.13	▲
Food	3.1	8.9	3.0	3.3	▼	7.8	0.0	1.3	▼	0.39	0.05	-0.05	▲
Shelter	2.7	5.4	6.5	6.5	▲	2.6	4.8	4.8	▼	0.36	0.39	0.45	▼
Household operations, furnishings and equip.	1.3	3.3	-2.3	-1.7	▼	0.3	-2.4	-1.2	▼	-0.08	-0.54	-0.46	▼
Clothing and footwear	-0.3	2.4	-2.7	-4.2	▲	2.5	-10.3	-11.9	▲	0.10	1.40	-2.31	▲
Transportation	2.4	0.3	3.0	2.2	▲	-2.1	-0.9	4.3	▼	-0.66	0.23	0.35	▼
Health and personal care	1.9	6.5	3.2	3.8	▼	5.7	4.1	4.4	▼	0.56	0.13	0.40	▼
Recreation, education and reading	1.2	1.6	1.9	1.1	▲	1.9	1.9	-7.8	▲	0.24	0.55	0.56	▼
Alcoholic beverages and tobacco products	2.7	5.4	3.2	3.6	▼	6.4	2.1	1.9	▲	0.69	0.21	0.00	▲
<b>CPI-median</b>	2.2	4.7	2.8	3.0	▼	3.8	1.1	2.3	▼	0.29	0.09	0.14	▼
<b>CPI-trimmed</b>	2.1	4.4	3.1	3.2	▼	3.2	1.4	2.4	▼	0.25	0.14	0.10	▲
<b>All-items excluding food</b>	2.0	3.5	2.9	2.7	▲	1.9	1.0	1.0	▼	0.07	0.26	0.13	▲
<b>All-items excluding food and energy</b>	1.9	4.5	2.9	2.8	▲	3.6	1.9	1.6	▲	0.34	0.27	0.13	▲
<b>All-items ex. 8 most volatile and indirect taxes</b>	2.0	4.3	2.0	2.1	▼	2.7	0.8	0.3	▲	0.27	0.19	0.00	▲
<b>All-items excluding MIC</b>	2.2	3.6	2.0	1.9	▲	-	-	-	-	-	-	-	-
<b>Energy</b>	3.1	-6.9	2.8	1.3	▲	-	-	-	-	-	-	-	-
Electricity	2.7	2.3	6.5	10.7	▼	-	-	-	-	-	-	-	-
Natural gas	1.2	13.4	-10.5	-9.5	▼	-	-	-	-	-	-	-	-
Fuel oil and other fuels	5.3	-7.1	-2.7	-10.9	▲	-	-	-	-	-	-	-	-
Gasoline	3.6	-13.8	4.5	0.8	▲	-	-	-	-	-	-	-	-
Fuel, parts and accessories for recreational vehic	3.7	-11.4	3.8	0.7	▲	-	-	-	-	-	-	-	-

	Year-over-year percentage change													
	All prices			All items excluding food and energy		Goods		Goods excluding food and energy*		Services		Services excluding food and shelter*		
	20-year average	Latest	Prior month	20-year average	Latest	20-year average	Latest	20-year average	Latest	20-year average	Latest	20-year average	Latest	
<b>Canada</b>	2.2	2.9	2.8	1.9	2.9	1.7	1.1	0.7	0.4	2.6	4.5	2.2	1.1	
Ontario	2.2	2.6	2.4	2.0	2.8	1.6	0.8	0.6	1.8	2.7	4.1	2.3	0.9	
Québec	2.1	3.6	3.3	1.7	3.8	1.7	1.3	0.8	2.7	2.5	5.8	2.2	3.3	
British Columbia	2.0	2.7	2.6	1.7	2.6	1.7	0.5	0.7	-0.4	2.3	4.5	2.2	0.3	
Alberta	2.4	3.5	4.2	2.1	2.5	1.7	2.4	0.6	-0.3	2.9	4.4	2.3	-1.0	
Manitoba	2.2	0.8	0.9	2.0	1.2	1.7	-0.6	1.0	3.3	2.8	2.4	2.2	-1.8	
Saskatchewan	2.3	1.5	1.7	2.0	1.8	1.8	0.1	1.0	1.7	2.8	3.1	2.2	-0.2	
Nova Scotia	2.3	3.3	2.8	1.8	2.7	2.1	2.0	1.0	-0.4	2.4	4.9	2.1	2.9	
New Brunswick	2.2	2.6	2.1	1.7	2.2	2.1	1.6	1.0	-0.9	2.3	3.9	2.0	0.6	
Newfoundland and Labrador	2.3	3.1	2.0	1.8	2.6	2.2	2.2	1.1	1.2	2.4	4.4	1.9	1.1	
Prince Edward Island	2.3	2.6	1.5	1.7	2.1	2.4	1.5	1.2	0.9	2.1	3.7	1.9	1.6	

\*In-house calculation

NBF Economics and Strategy (data via Statistics Canada)

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