

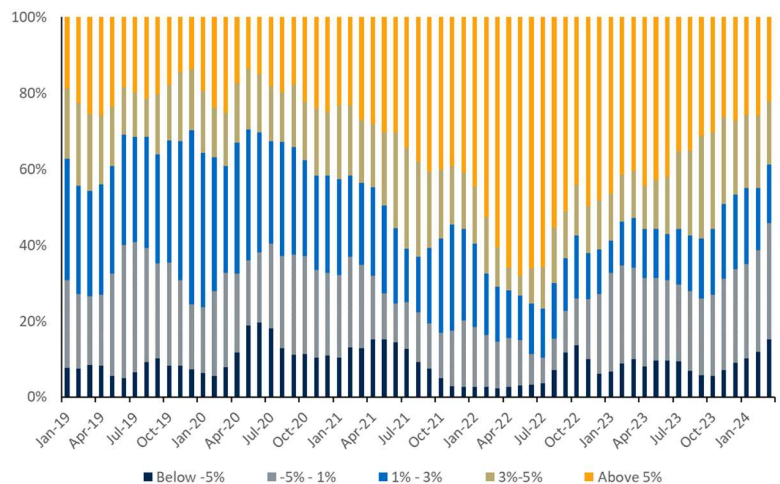
April 16, 2024

Higher energy prices masked another downside Canadian inflation surprise in March

- Canadian CPI growth ticked up to 2.9% year-over-year in March from 2.8% in the prior month, thanks to higher energy prices. Despite the rise, details in the report continue to point to price pressures broadly unwinding.
- Trends in food and energy inflation continue to diverge. Food CPI growth slowed further to 3% with grocery inflation dropping to 1.9% year-over-year. Price growth for dining out in the meantime was higher at 5.1% and was unchanged for a second month in a row.

Scope of price pressures in Canada easing towards pre-pandemic

% of CPI basket, based on three-month annualized growth rate



Source: Statistics Canada, RBC Economics

- Energy inflation jumped to 2.8% year-over-year in March led by higher gasoline prices in the month. That was a result of rising oil prices that are tied to heightened supply concerns with ongoing geopolitical tensions.
- The Bank of Canada’s preferred ‘core’ measures that are designed to gauge broader underlying price growth all showed further improvement. CPI trim and median both eased and averaged below the top end of the 1% - 3% inflation target for the first time since inflation started to rise more substantially, around the summer of 2021.
- Excluding energy and shelter related components from services CPI, another preferred core inflation measure that is the Bank of Canada’s “supercore” dropped to 2.8% in March on a three-month annualized basis from 3.4% in February.

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- Shelter prices continued to account for a disproportionate share of overall price growth, especially in rent costs that saw inflation rise to 8.3% in March, highest since 1983.
- Also in shelter, inflation for mortgage interest costs (a direct lagged result of earlier interest rate increases) continued to moderate but was still elevated at +25.4% year-over-year. That washed out a small increase in other owned accommodation costs, and left CPI for overall home owning related expenses slightly higher still, at 6.8% in March.
- **Bottom Line:** Building on two prior months of CPI reports that were both downside surprises, March's reading today confirmed that broad-based easing in price pressures in Canada are indeed underway. Different measures of core inflation all continued to decelerate and the diffusion index that measures the scope of inflation pressures also improved again and now tracks a breadth of price pressure that's similar to pre-pandemic. The BoC in its last meeting agreed with those developments, highlighting increased confidence that "that inflation will continue to come down gradually even as economic activity strengthens". We continue to look for slowing inflation will allow for a first rate cut from the BoC in June.

Canadian CPI Inflation				
	Dec-23	Jan-24	Feb-24	Mar-24
	<i>m/m % change</i>			
All Items CPI	-0.3	0.0	0.3	0.6
Food	0.3	0.7	0.0	-0.2
Energy	-2.6	-1.1	2.8	2.1
All items ex-food & energy	-0.3	-0.1	0.2	0.7
	<i>y/y % change</i>			
All Items CPI	3.4	2.9	2.8	2.9
Food	5.0	3.9	3.3	3.0
Energy	-0.4	-2.7	1.3	2.8
All items ex-food & energy	3.4	3.1	2.8	2.9

Source: Statistics Canada, RBC Economics