ECONOMIC NEWS

# Canada: Further Price Cooling Is Good News for Bank of Canada's Pause Plans

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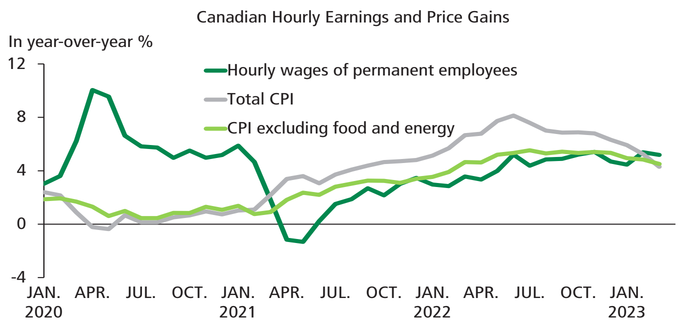
## HIGHLIGHTS

- Consumer prices climbed 0.5% in March to lower the annual rate of inflation to 4.3%. It was the first annual print under 5% since 2021 and the softest advance since August of that year.
- Gasoline prices dropped by 14% versus year-earlier levels as crude oil prices tanked in March. The weakness was also due to the base-year effect, as gasoline prices had spiked in March 2022 following the invasion of Ukraine. It was the weakest print for gasoline since the peak of the pandemic.
- Food prices climbed at 8.9% versus year-earlier levels, slightly less than the prior seven months' pace. However, this will come as cold comfort to Canadian consumers who have seen significant price increases at the grocery store. Still, the last two months' direction is encouraging.
- Excluding food and energy, prices rose by only 0.3% on a seasonally-adjusted basis, somewhat lower than in February. On an annual basis, that corresponded to a 4.5% rate of Core CPI growth (graph).
- In three-month annualized terms, the Bank of Canada's "supercore" trim and median inflation measures averaged 3.4%. That is in line with prior months.

**GRAPH**
**Total and Core Inflation Continue to Ease from Peaks**




CPI: Consumer price index
Sources: Statistics Canada and Desjardins, Economic Studies

## COMMENTS

It's certainly far too early to declare victory in the fight with inflation, but the direction of travel remains encouraging. Base effects (including the impact of the policy-induced decline in childcare costs) helped the headline number. However, we've now seen five consecutive months of slowing total price gains, and most measures of underlying inflation are easing, though at a more moderate pace. Importantly, the "supercore" trim and median measures—which Desjardins Economics was one of the first shops to identify as critical to the course of monetary policy—did not reaccelerate. They do, however, remain above the target range, and unlike headline inflation, they have only been slowly grinding lower in recent months.

## IMPLICATIONS

The Bank of Canada should be encouraged by today's inflation print, as it suggests the painful medicine of sharply raising interest rates is having its intended impact in the most interest-sensitive sectors. We reiterate that the Canadian economy has yet to feel the full effects of last year's rate hikes, and that more economic weakness over the course of 2023 should help to bring prices to heel. As such, we still think that the central bank will move to cut borrowing costs towards the end of this year.

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