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TD Economics

Data Release: Inflation pulls vanishing act in March

- The consumer price index (CPI) fell 0.3% in March, weaker than the flat reading expected by markets. On a year-on-year basis inflation was 2.4%, a marked deceleration from 2.7% in February.

- The largest factor taking prices lower was a 6.2% drop in the price of gasoline. Food prices provided a small offset, rising 0.3% on the month on hefty increases for groceries (0.5%). Food had exerted downward pressure on headline inflation since the middle of last year, but prices are now showing a bit more upward momentum, with food inflation now up 0.5% year-on-year.

- Even more surprising was a 0.1% (m/m) decline in core prices in March – the first such decline since 2010. Several areas saw noted price declines including wireless telephone services (-7.0%), used cars and trucks (-0.9%), new vehicles (-0.3%) and clothing (-0.7%).

- The weak reading in March took the rate of core inflation to 2.0% year-on-year, the slowest pace in over a year. The divergence between goods and services price trends continue. Core goods prices were down 0.6% year-on-year in March, while core services inflation ran at a sturdy 2.9%.

Key Implications

- Inflation pulled a vanishing act in March, but we will wait to see if it reappears before considering a change to our view on gradually building in core inflation pressures. Sizeable price declines in a couple of specific categories are particularly at risk of a rebound in the next reading.

- Weak inflation data in March adds to the mounting pile of disappointing economic data for the first quarter. Economic data can be noisy, and often gives false signals over the short term. Indications still suggest a rebound in growth in the second quarter. That should help drive firmer inflationary pressures in the months ahead.

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