April 21, 2017

TD Economics

Data Release: Inflation mellows in March

- Consumer price inflation decelerated to 1.6% (year-on-year) in March from 2.0% in February. Most categories experienced a slower rate of price growth in March, with decelerating energy prices leading the way. The broader, transportation price growth slowed to 4.6% from 6.6% in February.
- Declining food prices (-1.9% y/y) and clothing and footwear prices (-0.9% y/y) weighed on the headline.
- The Bank of Canada's core measures softened, with CPI-median edging down to 1.7% (from 1.8%), and CPI-trim to 1.4% (from 1.5%), and CPI-common unchanged at a feeble 1.3%,

Key Implications

- Economic data has turned up in Canada in recent months, but softening inflation gives the Bank of Canada scope to fade some of that strength and await confirmation that it will be sustained. The deceleration in the core measures in particular means the Bank of Canada will be in no rush to remove accommodation.
- Soft inflation and wage growth is the best evidence that the Canadian economy continues to operate under its potential. With faster economic growth, the output gap will eventually close and begin to exert upward pressure on inflation. However, this is likely to be more of a 2018 story than a 2017 one.

James Marple, Senior Economist
416-982-2557

@TD_Economics