



April 14, 2016

TD Economics

Data Release: Inflationary pressures take a spring break in March

- Consumer prices rose by 0.1% month-over-month in March, below market expectations for a 0.2% gain. Core CPI prices rose 0.1%, also below consensus for 0.2%. On a year-over-year basis, headline inflation edged down to 0.9% (from 1.0% in February), while the core rate also edged down to 2.2% (from 2.3%).
- For a change, energy prices lifted headline inflation in March, rising 0.9% on the month. Energy prices still remain nearly 13% lower than a year ago. Food prices fell slightly (-0.2% month-on-month) reversing February's gain.
- Core price growth cooled slightly in March, up just 0.1% on the month. Core inflation has been a bit hot under the collar over the past six months, driven largely by prices for core services, but that trend took a breather in March. Core services rose a more modest 0.2% month/month, but inflation there is still running at 3% on a yearly basis. The deceleration in core services prices was relatively broad-based, but led by medical care services, which decelerated to just 0.1% (from 0.5% in the previous two months).
- Slightly cooler inflation on the month wasn't confined to services, however, apparel prices also dropped 1.1% in March. That helps to reverse some of the puzzling increase in apparel prices in the past two months, which stood in contrast to a stronger dollar and lower import prices over the past 18 months.

Key Implications

- Repeating what we've said before, it appears that the bulk of the disinflationary impulse from lower energy prices is now in the rear-view mirror and inflation will continue to edge up over the next year. The deceleration in inflationary pressures was not unexpected given the string of quite hot readings in recent months. This breather means the Fed can continue to hold off raising interest rates at its April meeting, awaiting further confirmation that the U.S. economy has gathered speed after its first quarter lull.
- That said core inflation did remain above 2%, and core services inflation is running at 3% – evidence that aggregate demand growth is sufficient enough to generate inflationary pressures. We expect this process to continue through this year, and will lead the Fed to hike rates twice more, with the next move likely to come in June.

Leslie Preston, Senior Economist
416-983-7053

 [@TD_Economics](https://twitter.com/TD_Economics)

DISCLAIMER

This report is provided by TD Economics. It is for informational and educational purposes only as of the date of writing, and may not be appropriate for other purposes. The views and opinions expressed may change at any time based on market or other conditions and may not come to pass. This material is not intended to be relied upon as investment advice or recommendations, does not constitute a solicitation to buy or sell securities and should not be considered specific legal, investment or tax advice. The report does not provide material information about the business and affairs of TD Bank Group and the members of TD Economics are not spokespersons for TD Bank Group with respect to its business and affairs. The information contained in this report has been drawn from sources believed to be reliable, but is not guaranteed to be accurate or complete. This report contains economic analysis and views, including about future economic and financial markets performance. These are based on certain assumptions and other factors, and are subject to inherent risks and uncertainties. The actual outcome may be materially different. The Toronto-Dominion Bank and its affiliates and related entities that comprise the TD Bank Group are not liable for any errors or omissions in the information, analysis or views contained in this report, or for any loss or damage suffered.