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