

Inflation Monitor for March 2024

A Publication of BMO Capital Markets Economic Research • Douglas Porter, CFA, Chief Economist, BMO Financial Group

Summary

- **U.S. and Canadian CPI** reports diverged in January, with the former coming in hotter than expected while the latter dropped to within the BoC's target range. Although central bankers have started to discuss cutting rates, it's likely they will take a more patient approach before pulling the trigger, especially given elevated wage gains. **Looking ahead:** Inflation progress will likely bumpy, with the 2024 headline figure expected to average 2.9% in the U.S. and 2.7% in Canada.

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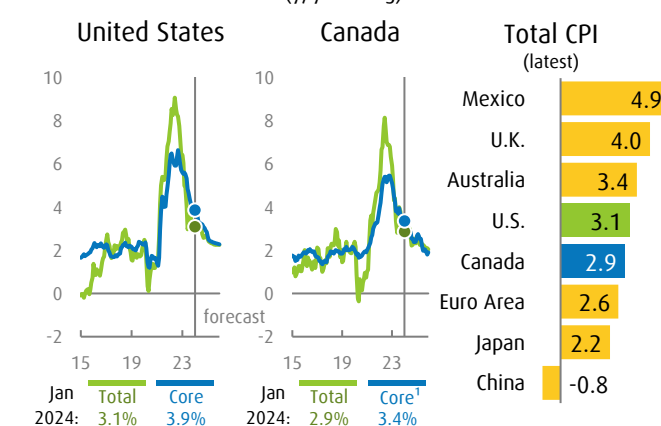
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Key Developments

- **U.S. inflation pressures** flared in January, with headline CPI jumping by more than expected, up 0.3% m/m. That left the year-ago rate at a still-elevated 3.1%, while the growth in core metrics also remained high. Meantime, **core PCE prices**—the Fed's preferred inflation gauge—accelerated 0.4% m/m, even as favourable base effects helped slow the year-ago measure to +2.8%. The data highlight that the Fed's fight to restore price stability isn't over just yet thanks to sticky services inflation.
- **U.S. producer prices** jumped 0.3% m/m in January while core PPI climbed 0.5%, suggesting bubbling cost pressures coming down the pipeline.
- In contrast, **Canada's January inflation rate** slowed to 2.9% y/y from 3.4% in the prior month. The BoC's two preferred core inflation rates also eased. With price pressures coming down, the BoC has more room to consider rate cuts in the summer.
- But, **still-elevated wage growth** will keep both the BoC and the Fed guarded. In the U.S., average hourly earnings are expected to pick up to 4.5% y/y in February. Meantime, the Canadian average hourly wage is expected to slow to 4.9% y/y, though that's still high and comes after two straight months of above 5% gains.

Inflation Trends and Outlook

Consumer Price Index (y/y % chng)



¹ avg. of 2 BoC core measures; Sources: BMO Economics, Haver Analytics

year/year % change	2023				2024				2025				2022	2023	2024	2025
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
CANADA																
CPI All Items	5.1	3.5	3.7	3.2	2.9	2.9	2.4	2.4	2.4	2.3	2.2	2.1	6.8	3.9	2.7	2.2
New Core CPIs <i>trim/median avg.</i>	4.8	4.0	3.8	3.5	3.2	2.8	2.6	2.4	2.7	2.4	2.0	1.9	5.1	4.0	2.8	2.2
UNITED STATES																
CPI All Items	5.7	4.0	3.6	3.2	3.1	3.0	2.8	2.7	2.4	2.3	2.3	2.3	8.0	4.1	2.9	2.3
Ex. Food and Energy	5.5	5.2	4.4	4.0	3.8	3.3	3.2	2.9	2.5	2.4	2.3	2.3	6.2	4.8	3.3	2.4
PCE Deflator	5.0	3.9	3.3	2.8	2.4	2.4	2.3	2.4	2.2	2.1	2.1	2.1	6.5	3.7	2.4	2.1
Core PCE Deflator	4.8	4.6	3.8	3.2	2.7	2.5	2.5	2.6	2.3	2.2	2.2	2.1	5.2	4.1	2.6	2.2

Shaded values represent forecasts; Sources: BMO Economics, Haver Analytics

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