

Inflation Monitor for March 27

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

Summary

- Canadian inflation is trending lower on both the headline and core measures. That will likely keep the BoC comfortably on the sidelines—unlike the Fed and many other major central banks, which have signalled more rate hikes are possible amid persistent underlying price pressures.

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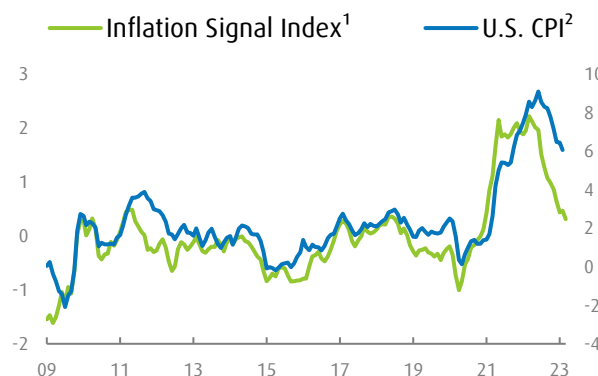
Priscilla Thiagamoorthy, Senior Economist
priscilla.thiagamoorthy@bmo.com

Key Developments

- Canadian consumer prices** rose 5.2% y/y in February, slower than the 5.9% gain in January. The two main core gauges—the trim and median rates—also eased, averaging 4.9% y/y compared to 5.1% a month earlier. With inflation trending in the right direction, the BoC can stay on the sidelines with greater conviction.
- Further improving the Canadian inflation picture are falling **new home prices**. The new housing price index fell 0.2% m/m in February, after dropping by the same amount in January. The index hasn't posted an increase in 7 months and, compared to a year ago, is up only 1.3%, the slowest since June 2020.
- The **Fed** hiked rates by 25 bps in the midst of the banking sector turmoil, but backed away from a pledge to raise rates further given the banking stress. Chair Powell also noted that “rate cuts are not in our base case” for 2023. The FOMC's latest economic projections showed PCE inflation was raised two-tenths to 3.3% for this year.
- BMO's Inflation Signal Index** fell again in March, helped by lower commodity prices and consumer inflation expectations. The implied 5-year inflation spot rate from TIPS went from around 2.6%-to-2.7% at the start of March to near 2.3% more recently.
- U.K.'s consumer prices** unexpectedly jumped 10.4% y/y in February amid soaring food costs. With headline inflation holding in the double digits, the BoE lifted rates 25 bps and signalled more hikes are likely.
- Japan's inflation** came in at 3.3% y/y in March, slowing for the first time in over a year. But that was mostly due to government energy subsidies. The so-called core-core measure, which excludes food and energy, jumped to 3.5% y/y. That was the fastest pace in over four decades, suggesting underlying price pressures remain sticky.

Inflation Trends and Outlook

United States



¹ (lhs : std. deviations); ² (rhs : y/y % chng)

Sources: BMO Economics, Haver Analytics

year/year % change	2022				2023				2024				2021	2022	2023	2024
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4				
CANADA																
CPI All Items	5.8	7.5	7.2	6.7	↓5.3	↓3.6	↓3.3	↓2.9	↓2.9	2.6	2.3	2.1	3.4	6.8	↓3.8	2.5
New Core CPIs <i>avg. of measures</i>	4.3	5.5	5.7	5.8	↑5.1	3.8	↓3.2	↑3.1	↑2.9	2.6	2.4	2.2	2.7	5.3	↑3.8	2.5
UNITED STATES																
CPI All Items	8.0	8.6	8.3	7.1	5.9	4.5	4.0	3.7	3.1	2.7	2.3	2.1	4.7	8.0	4.5	2.5
Ex. Food and Energy	6.3	6.0	6.3	6.0	5.5	5.1	4.4	3.8	3.3	2.9	2.7	2.6	3.6	6.2	4.7	2.9
PCE Deflator	6.4	6.6	6.3	5.7	5.0	4.2	3.9	3.7	3.0	2.5	2.1	1.9	4.0	6.3	4.2	2.4
Core PCE Deflator	5.3	5.0	4.9	4.8	4.7	4.6	4.2	3.7	3.1	2.7	2.5	2.4	3.5	5.0	4.3	2.7

Shaded values represent forecasts; arrows mark forecast changes since the previous issue of this publication; Sources: BMO Economics, Haver Analytics

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