

## **Economic News**

### **Canada: Surprise Weakness in March Inflation Gives the BoC Some Breathing Room**

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#### **Highlights**

- Headline CPI rose 2.3% y/y in March, slowing from a 2.6% advance in February and coming in well below the consensus expectation of economists (2.7%). Prices were up 0.3% month-over-month, and were flat after adjusting for seasonal effects. Table 1 summarizes the key data points.
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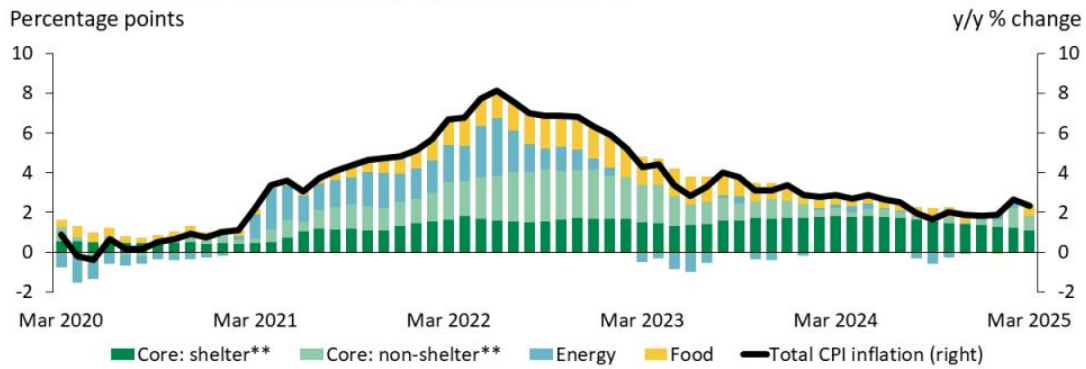
#### **Implications**

Lower inflation came as a surprise in March, given that the end of the GST/HST holiday in mid-February pointed to an acceleration in food prices, which were 3.2% y/y higher than a year ago. But this contribution to higher inflation was mostly offset by more modest price gains elsewhere (graph 1). Total CPI excluding food and energy was 2.4% above the same month last year, down from 2.9% in February. Lower prices for travel tours (-4.7%) and air transportation (-12.0%) coinciding with fewer trips to the US were big contributors to the weaker-than-expected print, as were prices for cellular services (-8.8%). A 1.6% year-over-year decline in gasoline prices also helped to keep a lid on headline price growth.

## Graph 1

### Core and Energy CPI Inflation Slowed in March while Food Prices Advanced

#### Total CPI inflation and its underlying decomposition\*



\*Calculated using fixed basket weights

\*\*Core refers to CPI indexes that exclude food and energy prices

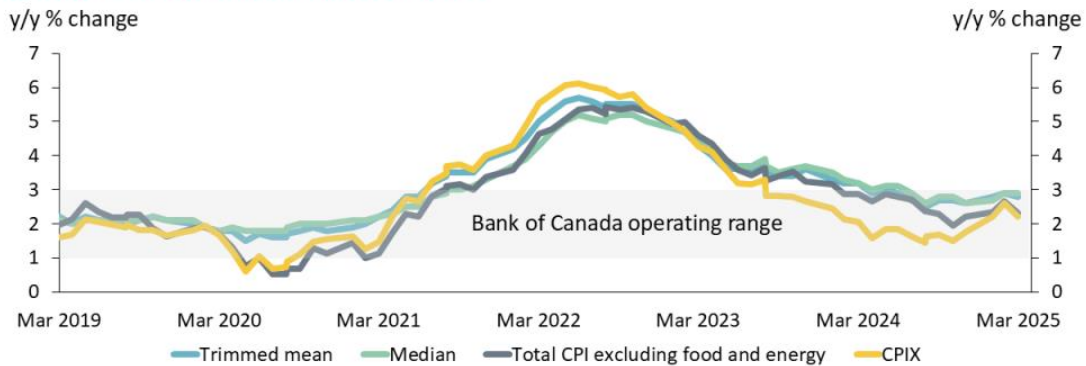
Sources: Statistics Canada and Desjardins Economic Studies

Looking to underlying inflation, the Bank of Canada's (BoC's) preferred measures of core year-over-year price growth—CPI median and trimmed mean—stopped advancing in March, remaining roughly unchanged at an average of 2.9% y/y (graph 2). Other measures of core inflation slowed more sharply. But that pales in comparison to the annualized 3-month moving average of these seasonally adjusted series, which cooled materially from the previous month's pace. This suggests the recent uptick in underlying inflation may have been less of a concern than thought.

## Graph 2

### Underlying Inflation Halted Its Advance in March

#### Bank of Canada core inflation measures



CPIX: CPI excluding 8 most volatile components & indirect taxes  
Statistics Canada and Desjardins Economic Studies

Slower inflation in March will no doubt let the BoC breathe a sigh of relief in the lead up to tomorrow's rate announcement. Indeed, markets had increased the odds of a cut to a coin toss as of the time of writing. That said, we remain of the view that the Bank will stay on hold in April while it keeps some powder dry for the ongoing trade imbroglio with the United States.

The Bank of Canada will have a lot more to contend with on the inflation front as the year continues. For starters, counter tariffs should apply consistent upward pressure to inflation. This could add as much as 0.6 percentage points to inflation over the next year, by [our estimate External link.](#), even as [weaker economic activity External link.](#) due to the trade war weighs on price growth. But this will be offset by lower energy prices starting in April 2025 as a result of the elimination of the federal price on pollution. We've [estimated External link.](#) that could reduce inflation by 0.7 percentage points immediately, and keep inflation similarly lower than it otherwise would be for the subsequent year. This will not only reduce actual inflation but, given the highly visible nature of gasoline prices, may help to keep a lid on elevated consumer inflation expectations as well. As such, we're not convinced that the Bank of Canada is done cutting rates just yet.

**TABLE 1****Consumer Price Index, March 2025**

ALL VALUES ARE EXPRESSED IN PERCENT CHANGE	YEAR-OVER-YEAR*		MONTH-OVER-MONTH**		3-MONTH ANNUALIZED**	
	FEB 2025	MAR 2025	FEB 2025	MAR 2025	FEB 2025	MAR 2025
<b>Total CPI inflation</b>	<b>2.6</b>	<b>2.3</b>	<b>0.6</b>	<b>0.0</b>	<b>4.0</b>	<b>3.2</b>
Food	1.3	3.2	1.9	1.9	-3.2	11.2
Shelter	4.2	3.9	0.2	0.2	3.1	2.6
Household operations and furnishings	0.8	0.8	0.5	-0.2	4.1	5.0
Clothing and footwear	1.4	0.2	0.4	0.0	6.2	5.7
Transportation	3.0	1.2	-0.2	-0.9	6.7	-2.5
Health and personal care	2.4	2.5	0.3	0.3	1.9	1.6
Recreation, education and reading	3.7	0.9	1.6	-2.1	10.4	-0.5
Alcohol, tobacco and cannabis	0.6	2.4	1.7	2.0	-6.0	9.7
<b>Special Aggregates</b>						
Gasoline	5.1	-1.6	--	--	--	--
Energy	3.0	-0.3	--	--	--	--
CPI excluding food and energy	2.9	2.4	0.5	-0.1	4.3	2.6
CPI ex. 8 most volatile and indirect taxes	2.7	2.2	0.4	-0.2	4.4	2.3
CPI median	2.9	2.9	0.4	0.1	3.4	2.8
CPI trim	2.9	2.8	0.2	0.1	3.3	2.7
Goods	1.5	1.3	--	--	--	--
Durable goods	0.7	1.1	--	--	--	--
Semidurable goods	0.7	0.4	--	--	--	--
Nondurable goods	2.0	1.7	--	--	--	--
Goods excluding food and energy	0.5	1.0	--	--	--	--
Services	3.6	3.1	--	--	--	--
<b>Provincial total CPI inflation</b>						
Newfoundland and Labrador	1.2	1.1	--	--	--	--
Prince Edward Island	2.0	1.8	--	--	--	--
Nova Scotia	2.1	2.3	--	--	--	--
New Brunswick	2.0	1.9	--	--	--	--
Quebec	2.0	1.9	--	--	--	--
Ontario	2.7	2.3	--	--	--	--
Manitoba	3.5	3.0	--	--	--	--
Saskatchewan	3.1	2.5	--	--	--	--
Alberta	2.8	2.8	--	--	--	--
British Columbia	3.0	2.6	--	--	--	--

\* non-seasonally adjusted unless otherwise indicated; \*\* seasonally adjusted unless otherwise indicated  
 Statistics Canada and Desjardins Economic Studies