

BBVA Research Flash

U.S.

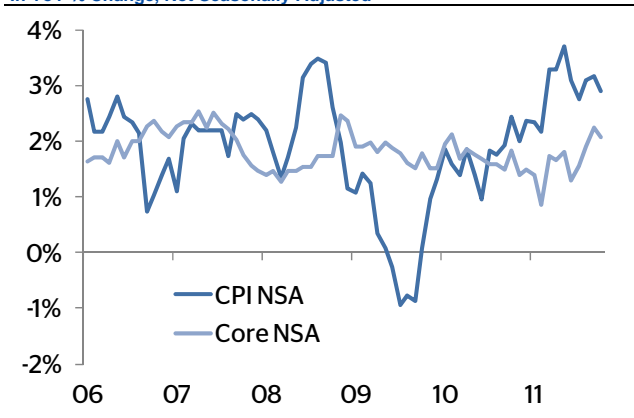
Canada: Inflation cools down in October

- **Headline inflation grows at 2.9% YoY in October, down from 3.2% last month**
- **Core inflation prints an increase of 2.1% YoY, less than September**
- **Data entails no immediate implications for Bank of Canada**

Canadian headline inflation increased at a 2.90% YoY rate (Consensus: 2.8%, BBVA: 2.7%). This outturn arrived towards the upper end of consensus estimates and is largely the result of less of a downshift in gasoline and food prices. The core inflation index increased 2.06% YoY (Consensus: 1.9%, BBVA: 2.0%), which also represented the upper band of consensus estimates. On a MoM basis, core inflation surprised all 23 estimates by increasing 0.3%. Similar to last month, passenger vehicles and food purchased from restaurants achieved notable increases. Both headline and core inflation grew at lower YoY rates than in the previous month. Although the data surprised to the upside of consensus, the overall trend of a slowing in headline inflation is no surprise.

In terms of implications for the Bank of Canada (BoC), today's result is consistent with BoC's short-term forecast for core inflation and perhaps too high of a start for BoC's short-term forecast for headline inflation. Today's data will not trigger any new posture from the BoC, which is currently more concerned with events in Europe and a larger output gap in Canada. With BoC focused on excess resource slack, economic growth and demand for Canadian exports, this month's data will not feature in an outsize manner on current BoC policy. One possible wrinkle over the next month may arise from seasonal factors in inflation. If these seasonalities run contrary to BoC's assumptions, this may put greater weight on standing pat as such factors will impart less of a downward pressure than assumed. This will further dampen expectations of a rate cut. Our current expectation is for a next rate hike in March 2013. Another possible wrinkle in BoC's forecast is that WTI in November is currently higher than their estimate for 2011Q4, although this may not be the case for the entire quarter.

Chart 1
Canada Headline and Core Inflation
In YoY % Change, Not Seasonally-Adjusted



Source: Haver Analytics

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