

BBVA Research Flash

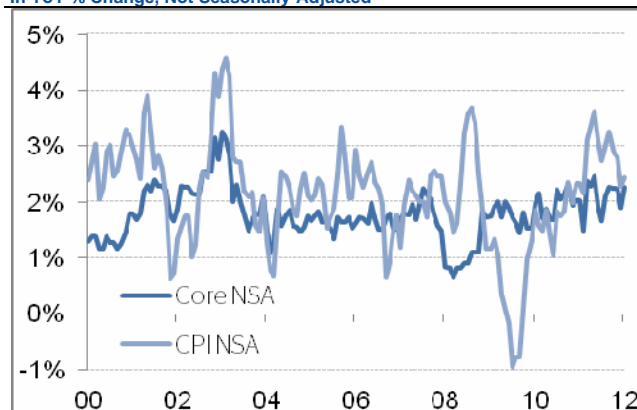
Canada

Canada: CPI accelerates but should not challenge BoC

- **Non-Seasonally adjusted core inflation (BBVA:0.1% MoM, Consensus:0.1) increased 0.2% in January following a 0.5% plunge in December, driven by sharp increases to transportation costs (1.8% MoM)**
- **Commodity price increases drove headline inflation higher, as food and energy prices returned to 2011 trends, increasing 4.2% and 6.5% YoY, respectively**
- **We do not expect major revisions to BoC's inflation forecast in March as a result of today's data**

Today's Canada inflation release showed slight upward pressures on prices, which are mostly thought to be transitory. In addition, the non-seasonally adjusted figure is susceptible to seasonality and thus the strong MoM fluctuations this month compared to last are not atypical. One such measure is transportation, which increased 1.8% MoM. Our expectations over the next several months are still for a declining trend in inflation, which is congruent with the Bank of Canada's (BoC) expectations for 1Q12 (BBVA: 1.8%, BoC: 2.1%), and the baseline scenario of abating global demand and transitory regional tax influences. The uncertainty effect from the overhang of geopolitical risk in Iran and Syria could be a contributing factor to the jump in commodity prices in January. However, if the MoM price increases persist for food, energy and transportation, which accelerated to 6.8%, 4.2% and 3.7%, then BoC could be forced to revisit its benchmark rate. Nevertheless, we believe this month's inflation increases, while noteworthy, does not warrant revisions to BoC's 2012 expectations and thus we do not expect major changes to the central bank's inflation forecast in its March statement.

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



Source: Haver Analytics

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