



Inflation Observatory

February 20, 2008

Consumer prices (January)

- Core prices increased in a year-over-year basis, more than expected, by 2.5 percent in January, up from 2.4 percent in December
- Headline consumer prices increased at a seasonally adjusted annual rate of 6.8 percent in the last three months
- One of the largest contributors to the overall increase in price levels continued to be the energy index, which rose by 19.6 percent in the last twelve months

In January, consumer prices were 4.3 percent higher than a year ago, before seasonal adjustment. This is the largest 12-month increase since June 2006, when the CPI-U reached 4.2 percent. On a seasonally adjusted basis, the CPI-U increased 0.4 percent in January following a 0.4 percent increase in December, according to the Bureau of Labor and Statistics latest release. In addition, the CPI-W (Index for Urban Wage Earners) increased by 0.4 percent in January, on a seasonally adjusted basis, and it was 4.6 percent higher than a year ago.

The index for energy rose by 0.7 in January following a 1.7 percent increase in December. The index for energy commodities rose by 1.4 percent while the food index increased by 0.7 percent, up from 0.1 percent in the previous month, contributing more to overall inflation in January compared to last month.

The consumer price index excluding food and energy increased by 0.3 percent in January, up from 0.2 percent in December; on year over year basis core CPI increased by 2.5 percent in January, before seasonal adjustment; this is consistent with a scenario of moderate inflation expectations.

In addition, the slight upward movement on core inflation readings is, mainly, due to a higher index for shelter combined with a small increase in the index for apparel during the last month. Overall, headline consumer prices are gaining some momentum but core inflation appears to be contained.

Our current forecast for February includes a scenario of moderation of energy prices, consistent with a 4.1 percent year-over-year rate. We expect core inflation to increase by 2.4 percent in February.

Going forward our assessment of inflation risks remains tilted towards the upside given an environment of high commodities and oil prices, along with dollar weakness and slower corporate profit growth, higher core producer prices, and moderate wage inflation.

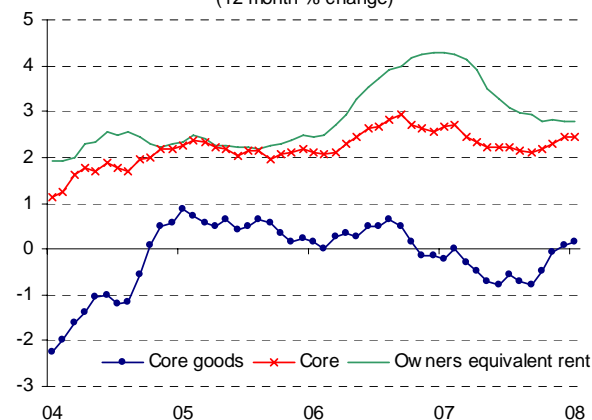
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Consumer prices (sa, %)

	Jan	Dec	Nov	3-month change	12-month change
CPI	0.4	0.4	0.9	6.8	4.3
Core	0.3	0.2	0.2	3.1	2.5
Excl. shelter	0.3	0.2	0.2	2.9	2.0
Energy	0.7	1.7	6.9	43.6	19.6
Food	0.7	0.1	0.4	4.7	4.9
By expenditure					
Food & Beverages	0.7	0.1	0.4	4.6	4.8
Housing	0.2	0.3	0.4	3.5	3.0
Shelter	0.3	0.3	0.3	3.5	3.1
Rent of prim. resid.	0.3	0.4	0.4	4.5	3.9
Owners' eq. rent	0.3	0.3	0.3	3.3	2.8
Apparel	0.4	0.1	0.6	4.6	-0.2
Transportation	0.5	1.0	3.5	22.3	9.4
New vehicles	-0.3	-0.1	0.0	-1.1	-0.6
Gasoline	1.2	2.8	11.8	82.7	34.4
Medical Care	0.5	0.3	0.4	5.1	4.9
Recreation	0.2	0.0	0.2	1.6	1.0
Education & Comm.	0.4	0.3	0.0	2.8	3.4
Other Goods & Serv.	0.4	0.3	0.0	3.0	3.3
Commodities	0.2	1.5	0.2	3.9	3.0
Excl. food & energy	0.2	0.0	0.1	1.2	0.2
Services	0.3	0.3	0.3	3.7	3.3
Excl. energy	0.4	0.3	0.3	3.9	3.4

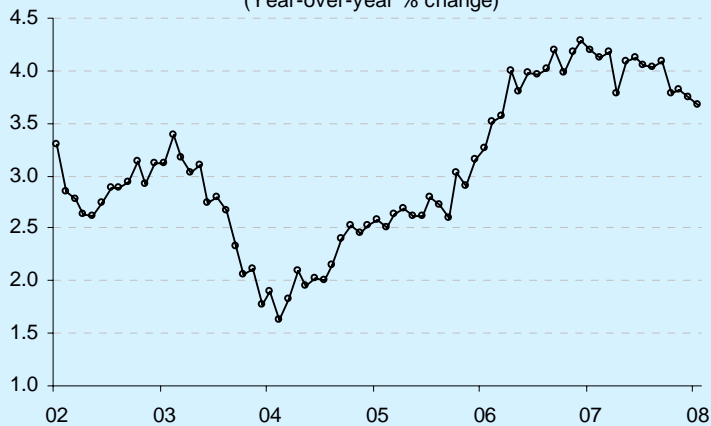
Consumer Price Index
(12 month % change)



Trends

Labor Costs

Average Hourly Earnings
(Year-over-year % change)



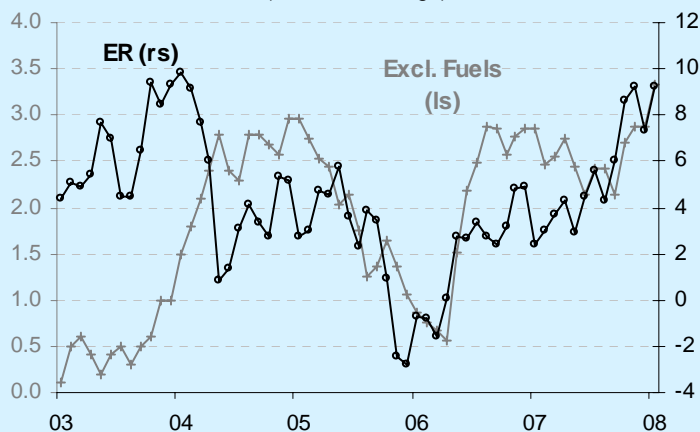
Labor costs pressures are losing momentum

Average hourly earnings (AHE) increased for two consecutive months by 3.7 percent in January. The growth rate in AHE has moderated after reaching a peak of 4.3 percent in December 2006; however, it remains relatively high.

Currently, labor costs create downward pressure on business profits; in our view, these pressures are likely to continue for some time, but should retreat somewhat in 2008 as economic slack increases.

Import prices

Import Prices & Effective Exchange Rate
(12-month change)



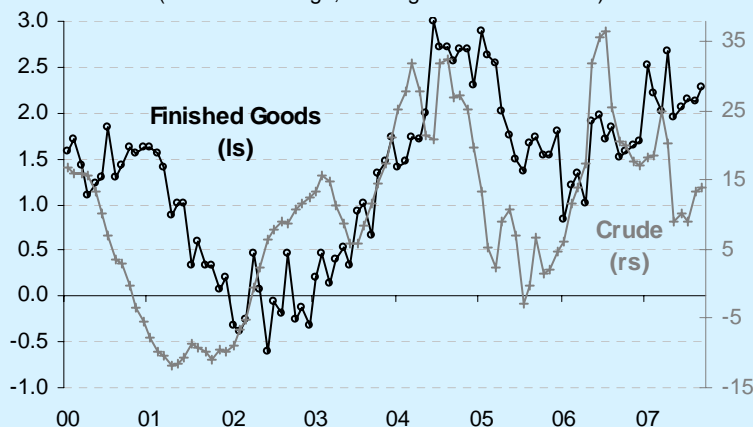
High oil prices and the dollar weakness continue creating upward pressure in import prices

Record high energy and commodity prices continue to force the upward trend in import prices. Overall, the import price index excluding energy and commodity prices continues with a strong upward trend; most of the pressure on import prices is due to the dollar weakness.

Until recently, firms have been carrying the burden of higher import prices and the pass-through effects from import prices to core consumer prices has been limited. We expect this situation to continue in the near-term.

Producer prices

Core Producer Prices
(12-month change, crude goods 6-month lead)



Producer prices continue to be a serious risk to inflation in 2008

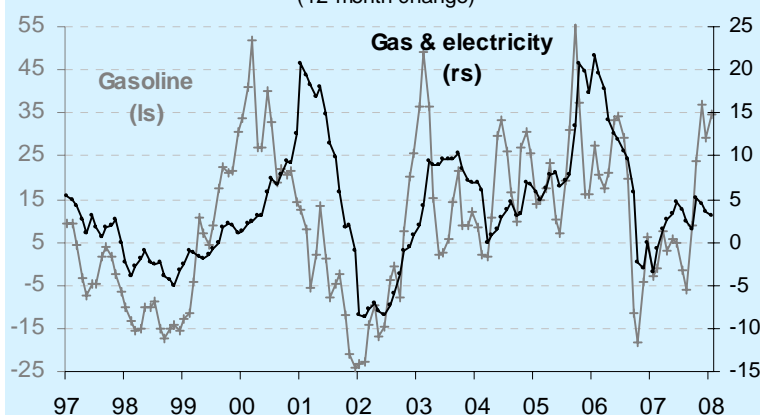
Finished core producer prices increased by 2.1 percent in January on a month-to-month basis. Core prices remain relatively high compared to the long-term average. Also, in January crude core producer prices continued with the upward trend.

In our view, slower economic growth should offset the rising cost of production; overall, we expect final prices to remain, somewhat, contained in the near term.

Energy prices

Gasoline & Gas & Electricity

(12-month change)



According to our expectations pressures from energy prices are stabilizing

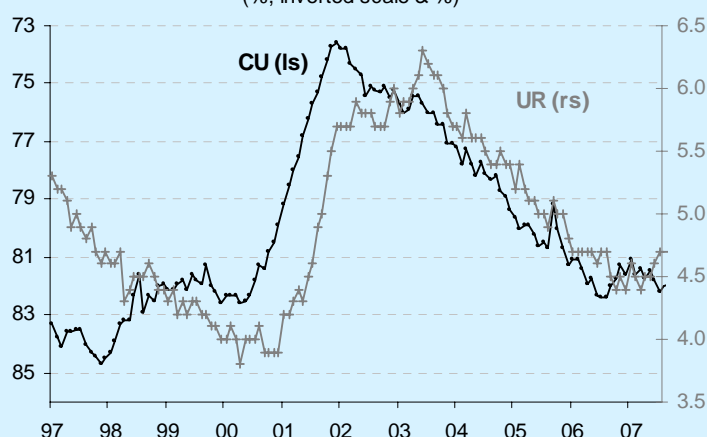
Electricity prices decreased by 0.1 percent and gasoline prices increased by 1.2 percent in January, significantly less than the 11.8 percent observed in November. Natural gas prices lost momentum decreasing by 2.2 percent in January.

Overall, energy prices moderated in January; however, high-energy prices have the potential to push upwards core inflation. In our view, energy prices should soften as economic activity slows down in coming quarters.

Economic slack

Capacity Utilization & Unemployment Rate

(%, inverted scale & %)



Unemployment rate eased a bit in January

The unemployment rate (UR) reached 4.9 percent in January, remaining at relatively low levels; the UR is likely to increase in the near-term as the economy cools down. Currently, the capacity of the service sector to absorb all the workers released from the manufacturing and construction sectors is limited; however, it is likely that a slower pace of economic growth will result in higher economic slack, which in turn should contain some of the inflationary pressures.

Forecasts

CPI			Core		
%		12-month	M/M*	12-month	M/M*
2007	Dec	4.1	0.4	2.4	0.2
2008	Jan	4.3	0.4	2.5	0.3
	Feb	4.1	0.3	2.4	0.2
	Mar	3.4	0.2	2.5	0.2
	Apr	3.3	0.2	2.4	0.3
	May	3.1	0.2	2.4	0.1
	Jun	2.9	0.2	2.3	0.2
	Jul	3.0	0.2	2.2	0.2
	Aug	3.1	0.2	2.2	0.1
	Sep	2.9	0.2	2.1	0.3
	Oct	2.8	0.2	2.1	0.2
	Nov	2.8	0.1	2.0	0.1
	Dec	3.3	0.2	2.0	0.2
Average	2007	2.9		2.3	
	2008	3.3		2.3	

Forecasts in bold; *sa

Core CPI

12-month change

