Economic Research Department

BBVA

U.S.

Inflation Observatory

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Kristin Lomicka
Kristin.Lomicka@compassbank.com

Headline CPI rose for the first time in five months

- This result was influenced by a rise in energy prices
- Core inflation increased after a period of moderation
- Fed Funds rates are expected to remain unchanged

The positive results are only transitory

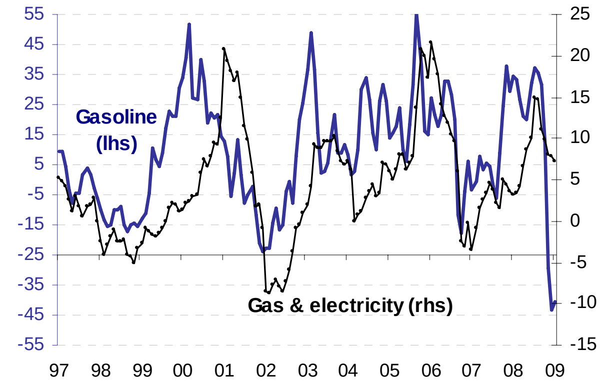
Headline consumer prices slightly exceeded our expectations in January by increasing 0.3%, compared to our forecast of 0.2%. The increase was driven by energy prices, which rose by 1.7% in January for the first time in six months. Gasoline prices rose by 5.9%, putting an end to a five month trend of falling prices. In addition, food prices increased 0.1% after remaining unchanged in the previous month. The 0.1% decrease in food at home prices was offset by a 0.3% increase in food away from home. Currently, the average price at the pump was $1.98/gallon for the first three weeks of February, compared to an average price of $1.84/gallon for January. On the other hand, natural gas prices averaged $4.2 in February, against $5.2 in the previous month. This data suggests that energy prices could only see a small change and have limited impact on headline consumer prices for the next month.

In January, core inflation increased by 0.2% after remaining unchanged in December. This was largely influenced by a 0.2% rise in shelter prices after remaining stable in the previous month. The shelter prices were driven by a 0.3% increase in both rent and housing equivalent rent due to a rise in demand. However, we expect future shelter prices to remain fairly stable because the rise in demand will be balanced by a greater vacancy rate due to foreclosures. Core commodities also increased in January by 0.6%, following a three month decline. In addition, the prices of new automobiles increased by 0.2% for the first time in five months. However, given that auto demand is decreasing, the rise in prices and the boost to core inflation are most likely transitory.

We expect to see a lower increase in consumer prices going forward

Considering the weaker than expected economic data, clearly the January results do not indicate a changing trend. Thus, we maintain our forecast of a downward trend in consumer prices for 2009. In fact, when we consider the increase in excess capacity in production and the labor market as well as the downward trend in producer prices, we should expect to see a lower rate of inflation. Finally, these expected trends are consistent with the downside risks to inflation. In that scenario, the Fed is unlikely to move rates in the near future.

Gasoline & Gas & Electricity
(12-month % change)



Capacity Utilization & Unemployment Rate
(%, inverted scale & %)