



# Inflation Observatory

March 25, 2009

## Inflation in the first two weeks in March was in line with expectations: pressure from goods will continue with positive performance of administered prices.

- General inflation in the first two weeks of March (0.31%) was close to forecasts (BBVA 0.29% and consensus 0.24%). For core inflation (0.29% vs. 0.27% BBVA and 0.25% consensus) the inflationary pressures had already been taken into account: above trend increases for goods (0.35% vs. 2001-08 average of 0.19%), in particular goods other than processed foodstuffs. These pressures partially reflect higher exchange costs (e.g. automobiles) despite the slowdown in the business cycle. Service price trends were close to their historic trend in the period.
- In terms of non-core prices, there were significant increases in fruit and vegetables (1.45%) following four fortnights of price reductions for such products (average -2.85%). Whilst reductions in agricultural prices has contributed to the fall in annual inflation in 2009, the increases in the fortnight highlight the risk of a price shock which would delay inflationary convergence beyond Banxico's projections.
- For goods with administered and controlled prices, public programs freezing prices for some energy products and reductions in telephone call charges have had a positive effect. It is expected that this trend will continue into this year; however, the effects of the basis for comparison and a potential improvement in the economy could result in inflationary pressure in these areas as we approach 2010.
- Short-term inflation has performed as expected; however, risks are continuing to accumulate: the results are dependent on the dynamics of volatile prices (agriculture) and the possibility of prices being contaminated by higher exchange costs. Looking forward, it is important to monitor service sector inflation (core), as this should start to reduce in line with the low growth cycle. If this does not occur, the risks of inflation rising will increase as a result of the impact of currency depreciation.

Mexico: Bi-Weekly Inflation

	avg bi-week			
	2001-2008	1Q Mar 2007	1Q Mar 2008	1Q Mar 2009
<b>CPI-Mx</b>	<b>0.25</b>	<b>0.08</b>	<b>0.48</b>	<b>0.31</b>
<b>Core-Mx</b>	<b>0.22</b>	<b>0.15</b>	<b>0.33</b>	<b>0.29</b>
Goods	0.19	0.13	0.29	0.35
Food products	0.27	0.07	0.37	0.38
Other Goods	0.13	0.18	0.22	0.33
Services	0.25	0.16	0.36	0.23
Rent	0.21	0.15	0.18	0.20
Education	0.04	0.02	0.09	0.03
Other serv.	0.36	0.23	0.69	0.33
<b>Non Core-Mx</b>	<b>0.35</b>	<b>-0.10</b>	<b>0.90</b>	<b>0.37</b>
Farm products	0.28	-0.04	1.14	1.21
Fruits//Vegetables	0.24	0.10	1.76	1.45
Meat//Eggs	0.31	-0.14	0.74	1.07
Public managed	0.39	-0.12	0.78	-0.05
Energy	0.53	-0.26	0.82	-0.08
Controlled prices	0.27	0.02	0.73	-0.03

Mexico: CPI forecast by components

	Monthly change (%)			Annual change (%)			
	Jan-09	Feb-09	Mar-09	Jan-09	Feb-09	Mar-09	Feb-09
<b>CPI-Mx</b>	<b>0.23</b>	<b>0.22</b>	<b>0.53</b>	<b>6.28</b>	<b>6.20</b>	<b>5.99</b>	<b>5.93</b>
<b>Core-Mx</b>	<b>0.43</b>	<b>0.49</b>	<b>0.54</b>	<b>5.76</b>	<b>5.78</b>	<b>5.83</b>	<b>5.79</b>
Goods	0.80	0.60	0.67	6.80	6.98	7.12	7.02
Food products	1.10	0.30	0.50	9.70	9.50	9.27	9.13
Other Goods	0.55	0.85	0.78	4.48	4.97	5.36	5.29
Services	0.08	0.39	0.42	4.80	4.68	4.63	4.65
Rent	0.27	0.52	0.47	3.95	3.89	4.03	4.15
Education	0.23	0.40	0.07	5.66	5.88	5.85	5.95
Other serv.	-0.21	0.25	0.48	5.44	5.09	4.79	4.66
<b>Non Core-Mx</b>	<b>-0.29</b>	<b>-0.51</b>	<b>0.48</b>	<b>7.71</b>	<b>7.36</b>	<b>6.45</b>	<b>6.30</b>
Farm products	-0.68	-1.37	1.48	10.67	11.08	10.17	9.98
Fruits//Vegetables	-4.06	-5.64	1.05	6.91	5.83	3.12	4.04
Meat//Eggs	1.58	1.33	1.78	13.19	14.42	14.80	13.78
Public managed	-0.08	-0.07	0.00	6.25	5.56	4.66	4.53
Energy	-1.42	-0.39	0.05	5.80	4.97	4.14	3.64
Controlled prices	1.39	0.26	-0.04	6.74	6.20	5.23	5.41
	Current Forecast				Current Forecast		Forecasted one month ago