



Inflation Observatory

July 23, 2009

Inflation for the first two weeks of July stood at 0.20% headline rate and 0.21% core rate. Year-on-year inflation drops to 5.54% (vs. 5.74% in June)

- Headline inflation for the first two weeks of July was 0.2% (vs. BBVA forecast of 0.18% and a market forecast of 0.2%); core inflation was 0.21% (vs. BBVA 0.15%, market 0.17%). Year-on-year, headline inflation in the first half of July dropped 0.2 pp. in comparison to June, running to 5.54%, while the underlying rate only dropped 6 pp. running at 5.33%. Unlike what was seen in the previous two-month period, the downward adjustment in annual core inflation was restrained due to greater than estimated increases in tourist services.
- Annual core inflation slowed its downward slide due to the persistent increase in goods other than foodstuffs and an upturn in service prices linked to tourism. Although fortnightly price increases in "other services" are due to holiday season factors, the size of the increase (0.59% vs. 0.52% from the previous year) was greater than anticipated given the present recession stage of the economy. In turn, other underlying prices showed increases near those expected.
- Non-core controlled (telephony), administered (domestic gas) and livestock (meat and eggs) prices showed a slightly better than expected fortnightly development. In opposition to this, volatile agricultural produce prices (tomatoes, onions and avocados) showed greater increases. Year-on-year, administered (see energy chart) and controlled (see telephony chart) prices continued to fall throughout the year (present 2.7% vs. 7.2% at 2008 close), showing their lowest levels on the indicator (minimum 1.9% in April 2007) due to increased competition in the telecommunications market and public energy price cap programs.
- Outlook: For July as a whole we estimate a headline inflation rate of 0.3% (5.47% annual) and a core rate of 0.35% (5.33%). While the reduction in inflation has not been as large as we would have expected given the recession stage of the economy, we estimate that, as the year progresses, there will be greater decreases possibly leading to levels near 3.8% at the end of 2009 or the beginning of next year. The main risk factors continue to be the downward rigidity of prices in certain markets (e.g. tourist services and other goods) and the volatility of agricultural prices.

Inflation: Considered valuation of of short term (monthly Change %)

	Jul-09		(pp)
	Estimado un mes antes	Revisión quincenal	Revisión quincenal
CPI-Mx	0.26	0.30	0.01
Core-Mx	0.30	0.30	0.05
Goods	0.28	0.28	-0.04
Food products	0.21	0.21	-0.05
Other Goods	0.32	0.32	-0.03
Services	0.32	0.32	0.13
Rent	0.15	0.15	0.00
Education	0.11	0.11	0.00
Other serv.	0.59	0.59	0.33
Non Core-Mx	0.14	0.29	-0.12
Fam products	0.23	0.68	-0.15
Fruits/Vegetables	1.00	2.13	0.50
Meat/Eggs	-0.30	-0.30	-0.60
Public managed	0.10	0.10	-0.10
Energy	0.21	0.21	-0.18
Controlled prices	0.01	0.01	-0.03

