



Inflation Observatory

September 9, 2009

Inflation increased in August by 0.24% (5.08% annual), less than expected thanks to unrealized pressures of wholesale agricultural produce prices

- August inflation was less than expected by the BBVA (0.25% consensus and 0.36 BBVA), reaching a year-on-year variation of 5.08% (5.44% in July). The downward surprise comes from the non-core rate since higher wholesale agricultural produce prices were not passed on the end consumers. In turn, the core inflation rate also saw lower processed food price pressure, moderating to 5.10% annual vs. 5.13% estimated by the BBVA.
- Annual core inflation in August was 5.10%, two points below July's figure. The goods sub-index reached 6.48% (vs. 6.79% in July) with falls in the prices of some foodstuffs such as rice, ham and oil. The services sub-index reached 3.80% (vs. 3.96% in July) with declines in package tourist services (seasonal factor) and lower growth in services related to education, normal behavior for the economic cycle.
- Non-core prices reached an annual 5.04% inflation rate, which is 0.71 percentage points less than that recorded in the previous month, due to wholesale agricultural price pressures not being completely passed on to end consumers, with annual inflation in August running at 11.58% (vs. 12.14% in July): In turn, administered and regulated goods prices continued their favorable development, in August recording annual inflation at 1.74% (vs. 2.51% in July) with declines in domestic gas and local telephone service prices.
- Outlook: the downward inflation movement continues in line with our forecasts, meaning inflation could come in below 4% at the end of 2009. Potential upward pressures may come from more volatile agricultural prices and advanced modifications to public prices and higher advances for fiscal costs towards 2010.

Inflation: Short term deviations (% mom)

	Ago-09			Diference (pp)	
	Forecas t -1 month	bi- weekly revision	Actual	bi- weekly revision	Actual bi-weekly
CPI-Mx	0.31	0.36	0.24	0.05	-0.12
Core-Mx	0.30	0.25	0.21	-0.05	-0.03
Goods	0.38	0.31	0.31	-0.07	0.00
Food products	0.15	0.28	0.22	0.13	-0.05
Other Goods	0.53	0.33	0.38	-0.20	0.05
Services	0.22	0.18	0.12	-0.04	-0.06
Rent	0.20	0.15	0.13	-0.05	-0.03
Education	0.69	0.66	0.56	-0.03	-0.10
Other serv.	0.08	0.05	-0.08	-0.03	-0.13
Non Core-Mx	0.34	0.70	0.32	0.36	-0.39
Farm products	0.90	1.53	0.28	0.62	-1.25
Fruits//Vegetab	2.10	4.50	1.64	2.40	-2.86
Meat//Eggs	0.09	-0.50	-0.61	-0.59	-0.11
Public managed	0.08	0.32	0.34	0.24	0.02
Energy	0.13	0.57	0.47	0.44	-0.10
Controlled price	0.04	0.11	0.21	0.07	0.10

Source: BBVA Bancomer

