



Inflation Observatory

September 24, 2009

Annual inflation in the first two weeks of September reaches its lowest level for the past 32 fortnights. Future agricultural pressures not ruled out

- Headline inflation for the first two weeks of September came in at 0.39% (vs. 0.32% BBVA and 0.41% market); core inflation was 0.32% (vs. 0.32% BBVA, market 0.37%). As a result, headline year-on-year inflation stood at 5% (its lowest since May 2008 vs. 5.1% in August) and core inflation broke this barrier, coming in at 4.91% over 5.1%. The main upward pressures were due to seasonal educational services, pressure in some agricultural products and some foodstuffs (see sugar chart) factors. In turn, the downward factors came from the other basket of services and the frozen public price policy.
- In terms of core inflation, service prices include the downward economic growth, and in goods upward pressures in identified products (sugar and cars). Despite seasonal rises in school fees, the increases seen (2.32% for the fortnight) are historical minimums for these dates. In this way, other services recorded lower variations to their trend. Both results are in line with the country's low economic growth. Inflation was near historic levels in goods, where the largest increases were due to specific products (sugar and cars) as a result of the relative scarcity and the passing on of past exchange shocks in introducing new models.
- Non-core prices stood out for opposing effects: Upward pressures in agricultural prices due to past wholesale increases and downward pressures in public prices based on the rate freezing program. In the face of uncertain climate phenomena, agricultural product price volatility increased and the previous month's increases in wholesale markets were not passed on to consumers with the same frequency and scope as in the past. These prices, alongside central decisions for public price policy, are behind one of the main inflationary risks for year-end.
- Outlook: We are maintaining our forecasts for September with practically no changes. Core annual inflation is likely to come in above the headline rate for the rest of the year if the current agricultural movements remain in place. The fortnightly results, alongside those from the previous month, continue to point to annual inflation closing the year at nearly 4%.

Mexico: Bi-Weekly Inflation

	avg bi-week 2001-2008	1Q Sep 2007	1Q Sep 2008	1Q Sep 2009	BBVA Bancomer Forecast	Consensus
CPI-Mx	0.53	0.62	0.44	0.39	0.32	0.41
Core-Mx	0.48	0.39	0.41	0.32	0.32	0.37
Goods	0.18	0.22	0.23	0.26		
Food products	0.25	0.41	0.21	0.26		
Other Goods	0.13	0.07	0.26	0.26		
Services	0.78	0.55	0.58	0.38		
Rent	0.14	0.12	0.09	0.10		
Education	4.90	3.26	3.30	2.32		
Other serv.	0.06	-0.09	0.00	-0.11		
Non Core-Mx	0.66	1.28	0.51	0.59		
Farm products	1.10	3.27	0.66	1.75		
Fruits//Vegetables	2.24	7.21	1.30	3.95		
Meat//Eggs	0.36	0.72	0.26	0.26		
Public managed	0.45	0.29	0.44	-0.06		
Energy	0.88	0.58	0.64	-0.10		
Controlled prices	0.09	0.00	0.24	-0.01		

Mexico: CPI forecast by components

	Monthly change (%)			Annual change (%)		
	Jul-09	Ago-09	Sep-09	Jul-09	Ago-09	Sep-09
CPI-Mx	0.27	0.24	0.51	5.44	5.08	4.91
Core-Mx	0.34	0.21	0.39	5.32	5.10	4.88
Goods	0.23	0.31	0.36	6.79	6.48	6.34
Food products	0.17	0.22	0.27	7.60	7.11	6.84
Other Goods	0.28	0.38	0.41	6.12	5.97	5.91
Services	0.45	0.12	0.43	3.96	3.80	3.52
Rent	0.15	0.13	0.16	3.09	2.99	2.93
Education	0.11	0.56	2.53	5.60	5.08	4.18
Other serv.	0.94	-0.08	0.01	4.29	4.21	4.10
Non Core-Mx	0.08	0.32	0.87	5.75	5.04	5.00
Farm products	0.33	0.28	2.77	12.14	11.58	13.46
Fruits//Vegetab	2.32	1.64	6.67	13.84	15.88	21.50
Meat//Eggs	-0.92	-0.61	0.11	11.06	8.90	8.32
Public managed	-0.06	0.34	-0.02	2.51	1.74	0.88
Energy	-0.03	0.47	-0.14	1.39	0.65	-0.24
Controlled price	-0.09	0.21	0.07	3.64	2.83	1.98
	Current Forecast			Current Forecast		