



# Inflation Observatory

7 April 2009

## No surprises in March 2009 inflation

Alejandro Puente  
[apuente@bbva.cl](mailto:apuente@bbva.cl)

- Inflation increased 0.4% in March, in line with our expectations.
- Due to the seasonality of prices for this month, Education items increased sharply, while Transport decreased to a lesser extent.
- The variations forecasted for the coming months would take the year-on-year inflation for June to the centre of the Central Bank's goal, and we expect to close out the year at 1.9%.

**March inflation:** Following four months of negative variations, the CPI increased 0.4% in March, in line with our expectations (BBVA 0.5%).

The factors that lead to the price evolution were those typical of this time of year: sharp increase in the Education category (8.6% and an impact of 0.54) and a drop in Transport due to the end of the holiday season (-1% and an impact of -0.189). Another noteworthy increase was in Alcoholic Beverages and Tobacco (4.3%), due primarily to the 8.8% increase in cigarettes. Finally, there were positive, though moderate variations for Clothing and Footwear and for Furniture and Home Furnishings.

The core inflation rate (CPIX) increased 0.6%, exceeding the CPI, basically because non-processed foods and fuels, which are excluded in the calculation, had negative variations of -1.4% and -1%, respectively.

In year-on-year terms, the CPI variation was 5%, and the CPIX was 6.2%.

**Wages:** In February, the General Hourly Wage Index increased by 0.3%, accumulating a nominal variation in 12 months of 7.6% and a real variation of 1.9%. The Nominal Average Wage dropped 0.2% in February, due primarily to the sharp decline in overtime hours. In the past 12 months, Hourly Wages have gone up 7.7%.

**Inflation Outlook:** For the months of April, May and June, we expect inflation rates of 0.2%, 0.3% and 0.4%, respectively. Should this prediction prove correct, due to the high inflation rates for the months of May and June 2008,

the year-on-year inflation rate would be at the centre of the Central Bank's goal in June.

### Appraisal:

The outlook for a sharp drop in the year-on-year inflation rate for the coming months leads us to believe that the Central Bank will continue to reduce the Monetary Policy Rate. Given the tone of the Chilean Central Bank's latest statement, we expect a 50 bp cut at the meeting on Thursday the 9th. However, the sharp drop in the IMACEC for February could lead to a 75 bp cut.

### INFLATION FORECAST BASELINE SCENARIO

|        | m-on-m % rate |      |       |
|--------|---------------|------|-------|
|        | CPI           | CPIX | CPIX1 |
| Jan-09 | -0.8          | -0.2 | -0.4  |
| Feb-09 | -0.4          | -0.3 | 0.2   |
| Mar-09 | 0.4           | 0.6  | 0.8   |
| Apr-09 | 0.2           | 0.4  |       |
| May-09 | 0.3           | 0.2  |       |
| Jun-09 | 0.4           | 0.3  |       |
| Jul-09 | 0.3           | 0.2  |       |
| Aug-09 | 0.3           | 0.2  |       |
| Sep-09 | 0.4           | 0.3  |       |
| Oct-09 | 0.4           | 0.4  |       |
| Nov-09 | 0.3           | 0.3  |       |
| Dec-09 | 0.1           | 0.1  |       |
| Jan-10 | 0.1           | 0.1  |       |
| Feb-10 | -0.2          | -0.2 |       |
| Mar-10 | 0.5           | 0.4  |       |
| Apr-10 | 0.1           | 0.1  |       |
| May-10 | 0.2           | 0.2  |       |
| Jun-10 | 0.2           | 0.1  |       |
| Jul-10 | 0.2           | 0.1  |       |
| Aug-10 | 0.2           | 0.1  |       |
| Sep-10 | 0.5           | 0.4  |       |
| Oct-10 | 0.3           | 0.2  |       |
| Nov-10 | 0.2           | 0.2  |       |
| Dec-10 | 0.1           | 0.1  |       |

Date: April 7, 2009

|        | y-on-y % rate |      |       |
|--------|---------------|------|-------|
|        | CPI           | CPIX | CPIX1 |
| Jan-09 | 6.3           | 8.4  | 6.9   |
| Feb-09 | 5.5           | 6.7  | 6.7   |
| Mar-09 | 5.0           | 6.5  | 6.2   |
| Apr-09 | 4.9           | 6.3  |       |
| May-09 | 3.9           | 5.7  |       |
| Jun-09 | 2.8           | 5.2  |       |
| Jul-09 | 1.9           | 4.2  |       |
| Aug-09 | 1.2           | 3.7  |       |
| Sep-09 | 0.6           | 3.1  |       |
| Oct-09 | 0.2           | 2.9  |       |
| Nov-09 | 0.6           | 2.5  |       |
| Dec-09 | 1.9           | 2.6  |       |
| Jan-10 | 2.8           | 2.9  |       |
| Feb-10 | 3.0           | 3.0  |       |
| Mar-10 | 3.1           | 2.8  |       |
| Apr-10 | 3.0           | 2.5  |       |
| May-10 | 3.0           | 2.5  |       |
| Jun-10 | 2.8           | 2.4  |       |
| Jul-10 | 2.7           | 2.3  |       |
| Aug-10 | 2.6           | 2.3  |       |
| Sep-10 | 2.7           | 2.4  |       |
| Oct-10 | 2.5           | 2.3  |       |
| Nov-10 | 2.4           | 2.1  |       |
| Dec-10 | 2.4           | 2.1  |       |