



# Inflation Observatory

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## Surprises in April inflation

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

- Inflation fell 0.2% in April, a surprise downturn for the market.
- The sectors that contributed the most to the decline were food and non-alcoholic beverages and clothing and shoes.
- Without taking the reinstatement of fuel tax into account (which would add 0.6 pp), year-end inflation is forecast at 1.2%, and could bring about an acceleration of the expansionary monetary policy.

**May inflation:** Seasonal factors and climate had an impact on the 0.2% fall in May inflation, a surprise for the market, which had expected a 0.1% increase.

The clothing and shoes (-2.3%) and food and non-alcoholic beverages (-0.6%) sectors posted the most negative impacts, 0.108 pp and 0.105 pp, respectively, on the month's inflation. In the former case, the accumulated change for the year, -10%, is explained by an inventory reduction policy by companies which was brought about by an extremely mild climate that led to heavy reductions in warm clothing prices. As regards food and non-alcoholic beverages, the most volatile component in this sector, non-processed foods, especially vegetables, pulses and tuber crops (-3.8%) and meat (-0.7%), had a significant impact on the month's CPI.

Apart from the performance of these sectors, general price falls were recorded, the only exceptions being health (2.3%) and transport (0.6%).

Core inflation (IPCX), which excludes non-processed food and fuel, recorded the same variation as CPI (-0.2%), insofar as the IPCX1, which also excludes regulated prices, dropped by 0.1%.

In year-on-year terms, the CPI was 4.5%, and the CPIX was 5.7%.

**Wages:** In March, the General Hourly Wage Index increased by 0.3%, accruing a nominal change of 7.3% over twelve months and a real change of 2.3%. The General Labor Cost Index rose by 0.6% in March, and 7.5% over 12 months. In real terms, the 12-month increase was 2.5%.

According to the INE (National Institute of Statistics), the decreasing trend in overtime will probably remain in March, with a negative impact on wages and average costs.

**Inflation Outlook:** For the months of May, June and July, we expect inflation rates of 0.1%, 0.3% and 0.3%, respectively. Due to the high basis for comparison, annualized inflation will probably be negative for October and November, and will close at 1.2% in December. However, these estimates do not take the reinstatement of the specific fuel tax into account. If this were applied from June onwards it would add 0.6 pp to the year's inflation.

### Appraisal:

**The central bank is likely to continue its monetary policy easing, taking the policy rate to around 1% and 1.25% over the next two months and keeping it there until at least the first quarter of 2010.**

**INFLATION FORECASTS**

**BASE SCENARIO**

Date: May 7, 2009

MONTHLY CHANGE			
	CPI	IPCX	IPCX1
Jan-09	-0,8	-0,2	-0,4
feb-09	-0,4	-0,3	0,2
mar-09	0,4	0,7	0,8
Apr-09	-0,2	-0,2	-0,1
may-09	0,1	0,1	
June-09	0,3	0,2	
July-09	0,3	0,1	
Aug-09	0,3	0,1	
sep-09	0,4	0,3	
oct-09	0,3	0,3	
nov-09	0,2	0,2	
Dec-09	0	0,1	
Jan-10	0,2	0,2	
feb-10	0,4	0,4	
mar-10	0,3	0,2	
Apr-10	0	0	
may-10	0,2	0,2	
June-10	0,1	0,1	
July-10	0,2	0,1	
Aug-10	0,2	0,2	
sep-10	0,3	0,2	
oct-10	0,1	0,2	
nov-10	0,1	0,1	
Dec-10	0	0,1	

YOY CHANGE			
	CPI	IPCX	IPCX1
Jan-09	6,3	8	6,9
feb-09	5,5	6,7	6,7
mar-09	5	6,6	6,2
Apr-09	4,5	5,7	5,3
may-09	3,4	5,1	
June-09	2,2	4,5	
July-09	1,4	3,4	
Aug-09	0,8	2,8	
sep-09	0,2	2,2	
oct-09	-0,4	1,9	
nov-09	-0,1	1,5	
Dec-09	1,2	1,5	
Jan-10	2,1	1,8	
feb-10	2,9	2,5	
mar-10	2,8	2	
Apr-10	2,9	2,3	
may-10	3,1	2,3	
June-10	2,8	2,2	
July-10	2,7	2,2	
Aug-10	2,6	2,3	
sep-10	2,4	2,2	
oct-10	2,2	2,1	
nov-10	2,1	2	
Dec-10	2,1	2	