



# Inflation Observatory

September 8, 2009

## Negative Annual inflation in August 2009

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- **August inflation recorded a 0.4% fall, in line with expectations (-0.4% BBVA forecast).**
- **Inflation stood at -1% year-on-year, recording negative figures for the first time since April 2004.**
- **Only the change in electricity prices (-17.7%) affected the index by -0.462 pp.**
- **The clothing and shoes sector posted one of the highest growth rates (5.2%), which is a considerable upturn considering its heavy negative impact in July.**
- **We are keeping our inflation forecast for the end of 2009 at -0.8%, but revising the monthly pattern until the end of the year. In particular, we forecast 0.6% in September.**
- **The Central Bank is likely to keep the monetary policy rate at 0.5% at today's meeting.**

**August inflation:** Heavily driven by the reduction in electricity prices, the August CPI recorded a 0.4% fall, in line with our forecasts (-0.4% BBVA). Yoy inflation entered negative terrain, -1%, for the first time since April 2004.

The -17.7% slash (vs. -14% BBVA forecast) in electricity prices in August was due to an adjustment in May and June and had a -0.462 pp impact on the general index. This price cut will probably be offset completely in September. Clothing and shoes, on the other hand, after recording a significant downturn in July (and for several consecutive months), posted a 5.2% rise in prices, adding 0.212 pp to the August CPI. Finally, the seasonal nature of some products (e.g. seasonal vegetables) significantly affected the Food and Non-alcoholic Beverages sector. Also, the imminent arrival of 2010 model cars prompted reductions in the price of new cars.

Core inflation (CPIX), which excludes fresh fruit and vegetables and fuel, saw a steep -0.6% drop, standing at 0.4% for 12 months. The CPIX1, which also excludes regulated prices and therefore does not consider the electricity price cut, did not change (0%), standing at 1% over 12 months.

**Wages:** In July, the General Hourly Wage Index recorded an annual slowdown in its growth rate, with a nominal 5.9% and 5.6% real yoy change, in spite of the minimum wage increase. The General Labor Cost Index recorded lower growth, with a nominal 6.9% and real 9.9% yoy change (the highest for five years, which breaks the negative trend). The

gap between both indicators is due to the higher growth in the Mining and Education sectors, which hold more relative weight in the ICMO than in the IR.

**Inflation Outlook:** In September we forecast a sharp upturn in monthly inflation (0.6%), largely explained by the return of electricity prices. In October and November we expect 0.3% and 0.1% changes, respectively, and back to negative (-0.1%) in December. The inflation forecast therefore changes from month to month for the rest of the year, ending at -0.8% yoy as forecast previously.

**Appraisal:** As well as the price information that the National Institute of Statistics announced today, we must take into account the information that the Central Bank submitted yesterday. This shows that economic activity as measured by Imacec has recorded margin growth for three consecutive months, which confirms that the economy is on the road to recovery. We therefore expect the Central Bank to keep the monetary policy rate at 0.5 bps at today's meeting, without announcing additional measures.

# PROYECCIONES DE INFLACION

## ESCENARIO BASE

Fecha: 8 de septiembre de 2009

VAR MENSUAL			
	IPC	IPCX	IPCX1
ene-09	-0.8	-0.2	-0.4
feb-09	-0.4	-0.3	0.2
mar-09	0.4	0.6	0.8
abr-09	-0.2	-0.2	-0.1
may-09	-0.2	-0.3	-0.5
jun-09	0.3	0.0	-0.2
jul-09	-0.4	-0.8	-0.6
ago-09	-0.4	-0.6	0.0
sep-09	0.6		
oct-09	0.3		
nov-09	0.1		
dic-09	-0.1		
ene-10	-0.1		
feb-10	0.4		
mar-10	0.2		
abr-10	0.2		
may-10	0.2		
jun-10	0.1		
jul-10	0.1		
ago-10	0.3		
sep-10	0.3		
oct-10	0.4		
nov-10	0.0		
dic-10	-0.1		

VAR INTERANUAL			
	IPC	IPCX	IPCX1
ene-09	6.3	8.0	6.9
feb-09	5.5	6.7	6.7
mar-09	5.0	6.5	6.2
abr-09	4.5	5.5	5.3
may-09	3.0	4.4	3.7
jun-09	1.9	3.6	3.0
jul-09	0.3	1.7	1.5
ago-09	-1.0	0.4	2.5
sep-09	-1.5		
oct-09	-2.1		
nov-09	-1.9		
dic-09	-0.8		
ene-10	-0.1		
feb-10	0.7		
mar-10	0.5		
abr-10	0.9		
may-10	1.3		
jun-10	1.0		
jul-10	1.6		
ago-10	2.3		
sep-10	2.0		
oct-10	2.2		
nov-10	2.1		
dic-10	2.0		

### Promedios

2009	1.6
2010	1.4