



Inflation Observatory

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Inflation falls 0.4% back into negative territory

Alejandro Puenta
apuenta@bbva.cl

- In July inflation fell by 0.4%, below expectations.
- Inflation stood at 0.3% year-on-year and is set to record negative figures from August to January 2010.
- The main declines were seen in Clothing and Shoes (-7.7%) and Housing, Water, Electricity, Gas and Other Fuels (-1.8%), with all sectors showing price falls except Transport, Health, and Restaurants and Hotels.
- We have revised our inflation forecast for the end of 2009 to -0.8%.
- The movement in prices could lead to new Central Bank measures.

July inflation: Following on from June's rises, prices in July fell back (-0.4%) leaving inflation at 0.3% with an accumulated change over the year of -1.2%.

The main sectors behind this movement were Clothing, with an -8.4% drop and an impact of -0.241 pp, Footwear with a -7.6% drop and impact of -0.97 pp, and Housing, Water, Electricity, Gas and Other Fuels with a -1.8% drop and impact of 0.233 pp. In turn, all sectors saw price drops with the exception of Transport, Health, and Restaurants and Hotels. The 8.5% drop in electricity prices applied in July should be highlighted for the last sector.

It is also important to underline that the change in methodology to eliminate any smoothing out for seasonal price variations – such as clothing and footwear – over previous months has led to an increase for this seasonal factor when comparing with previous years. Nonetheless, beyond this phenomenon and the price adjustments, the almost general nature of the drops shows consumer demand remains weak.

Core inflation (CPIX), which excludes fresh fruit and vegetables and fuel, saw a steep -0.8% drop, standing at 1.7% for 12 months. In this way, the CPIX1, which also excludes regulated prices, dropped by 0.6%, standing at 1.5% over 12 months.

Wages: In June, the General Hourly Wage Index remained the same for 12 months with regard to May, at a nominal rate of 6.7%, meaning the change in real terms stands at

4.8%. In turn, the General Labor Cost Index also remained at a nominal rate of 7.3%, standing at 5.4% in real terms over 12 months.

Inflation Outlook: For August and September, we expect inflation rates of 0.1% and 0.2% for October. Consequently, inflation will be -0.6% year-on-year and is set to remain negative until January 2010.

Finally, we expect an inflation rate of -0.8% for the end of 2009.

Appraisal:

The Monthly Economic Activity Indicator (IMACEC) for June (-4.0%) released yesterday and, specifically, the seasonally adjusted month-on-month change (+0.8%) is a sign that the economy could be starting to recover. However, the inflation data may lead to accelerated monetary policy with an extension of the unconventional measures for the last month.

PROYECCIONES DE INFLACION

ESCENARIO BASE

Fecha: 6 de agosto 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	0.1	0.0	
Sep-09	0.1	0.0	
Oct-09	0.2	0.0	
Nov-09	0.1	0.2	
Dic-09	0.0	0.1	
Ene-10	-0.3	-0.2	
Feb-10	0.4	0.1	
Mar-10	0.4	0.4	
Abr-10	0.0	-0.1	
May-10	0.1	-0.2	
Jun-10	0.1	-0.1	
Jul-10	0.1	-0.2	
Ago-10	0.2	-0.1	
Sep-10	0.4	0.3	
Oct-10	0.4	0.0	
Nov-10	0.1	0.1	
Dic-10	-0.1	0.0	

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	-0.6	1.0	
Sep-09	-1.5	0.0	
Oct-09	-2.2	-0.6	
Nov-09	-2.0	-1.0	
Dic-09	-0.8	-1.0	
Ene-10	-0.3	-1.1	
Feb-10	0.5	-0.6	
Mar-10	0.5	-0.8	
Abr-10	0.7	-0.7	
May-10	1.1	-0.6	
Jun-10	0.8	-0.7	
Jul-10	1.4	-0.1	
Ago-10	1.5	-0.2	
Sep-10	1.8	0.1	
Oct-10	2.1	0.2	
Nov-10	2.0	0.1	
Dic-10	2.0	0.0	

Promedios

2009	1.6	2.9
2010	1.2	-0.4