

Economic Watch

Brazil

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Economic Analysis

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Inflation in Brazil: moving out of the target range

Driven by food and fuel prices, inflation reached 6.51%/y/y and surpassed the upper-limit of the inflation targeting system for the first time since 2005

- Inflation reached 0.77%/m/m in April, higher than our forecast (0.70%/m/m) but lower than markets expected (0.84%/m/m).
- April's inflation remained practically stable in comparison to March's figure (0.79%/m/m). However, stripping out seasonal effects, inflation dropped to 0.60%/m/m in April from 0.70%/m/m in March.
- The two main drivers of April's inflation were food/beverage and transport (which includes gasoline and other fuel prices). Together they accounted for 57% of this month's inflation. Food/beverage and transport prices increased 0.58%/m/m and 1.57%/m/m respectively this month.
- In yearly terms, inflation reached 6.51%/y/y, surpassing the upper-bound of the inflation targeting system (6.5%/y/y) for the first time since July of 2005.
- Looking forward, we expect monthly (m/m%) inflation to move downwards in the next months but yearly (y/y%) inflation to trend up and, therefore, remain higher than 6.5%/y/y due to a lower-base effect. We expect inflation to be around 6.1%/y/y and 4.8%/y/y by the end of 2011 and 2012 respectively.
- In our view, the moderation of (monthly) inflation to be observed from now on should make the Central Bank to feel comfortable with one last 25bps hike of the SELIC in June. However, additional 25bps hikes cannot be ruled out if inflation moderation proves to be weaker than expected.

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