

Brazil | Inflation moderates as pressure from administered prices ease

Enestor Dos Santos

Annual inflation reached 8.17% YoY in April, broadly unchanged in comparison to the previous reading (8.11% YoY). However, in monthly terms inflation declined to 0.71% MoM, after three months within the 1.2 MoM% - 1.4% MoM range. We expect annual inflation to remain around 8.0% YoY and monthly figures to continue to slowdown in the next few months.

The process of adjustment in administered prices is mostly over

Inflation was somewhat higher than we expected (8.11% YoY / 0.65% MoM), but a bit lower than markets anticipated (8.23% YoY / 0.76% MoM). The moderation in monthly inflation to 0.71% MoM from around 1.3% MoM in the first three months of 2015, which allowed annual inflation to remain relatively stable, was mostly due to a much less significant pressure from administered prices. The inflation in this segment was of 0.78% MoM in April, well below the previous three readings (2.50% MoM in January, 2.37% MoM in February and 3.36% MoM in March). In annual term, administered price inflation remained stable at 13.4% YoY in April after having skyrocketed since the end of 2014 (5.3% YoY) as the government was forced to adjust the prices of regulated goods and services due to the lack of room of maneuver in the fiscal side. This figure is close to our 14.0% YoY forecast for the end of the year, which implies that we consider that the process of adjustment in administered prices is mostly over. On the other hand, market price inflation (i.e. inflation of goods and services freely set) was of 6.6% YoY / 0.69% MoM in April, broadly unchanged in comparison to the March reading, but lower than the figures recorded some few months ago. In our view, recent market inflation figures suggest that up to now the effect of the exchange rate depreciation on market prices has been broadly offset by the impact of the domestic demand deceleration.

Annual inflation will remain around 8.0% YoY for a good time

Looking forward, we expect the significant reduction in the pressure from regulated prices to enable monthly inflation to decline further over the next few months (to 0.45% MoM in May and to around 0.2% from June to August). However, this will not allow annual inflation to trend downward from now on. We rather expect it to remain close to 8.0% YoY for some time, before receding somewhat and closing the year at 7.6% YoY.