

Brazil

Economic Watch

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Economic Analysis

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Brazil: Inflation crosses (timidly) the 6%y/y line

- Inflation came up at 0.80%m/m in February, broadly in line with BBVA and markets expectations (0.74%m/m and 0.84%m/m). The figure was slightly lower than in January (0.83%m/m) but higher than in Feb-10 (0.78%m/m).
- Education prices, which are usually adjusted in the second month of the year, increased 5.81%m/m and contributed with 0.41bps to the monthly inflation (which therefore explains more than 50% of February's inflation).
- The good news was that food and beverage inflation continued to ease. It moved down to 0.23%m/m from 1.16%m/m in January.
- In yearly terms the inflation crossed very timidly the 6.0%y/y line and reached 6.01% in comparison to 5.99% in the previous month.
- The average of the three core inflation measures remained stable around 0.7%m/m.

Table 1

IPCA m/m%

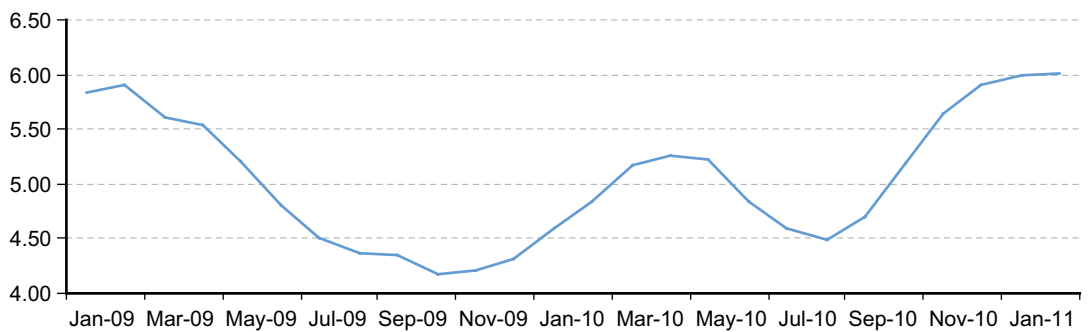
	February-11	January-11
IPCA	0.80	0.83
Food and Beverages	0.23	1.16
Clothes	-0.25	0.12
Personal Expenditures	1.43	0.83
Education	5.81	0.30
Health	0.31	0.47
Housing	0.32	0.61
Home Supplies	0.44	0.25
Transport	0.46	1.55
Communication	0.49	0.29

Source: IBGE

Looking forward, inflation should trend downwards in the next months, especially due to seasonal effects, but also due to lower food prices and softer domestic demand.

We think there is now some space for accommodation of inflation expectations which would then support our call for one last upward adjustment of the SELIC in April. Rising oil prices and private consumption's resilience to slowdown increase, however, the risks of a more prolonged monetary tightening cycle.

Chart 1

Inflation: IPCA (y/y%)

Source: IBGE

For more on Brazil, [click here](#).

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