

# Brazil Flash

## Inflation falls for the seventh consecutive month to 5.1% in April

Inflation dropped to 5.1%/y in April from 5.2%/y in March, but the decline was not as significant as expected (consensus and BBVA were at 5.0%/y). Inflation has been trending downwards since the end of 2011, at a large extent due to positive base effects, which are, however, expected to wane soon. We expect inflation to close this year at 5.4% and pressures to mount in 2013.

- **Monthly inflation climbed to 0.64%/m/m**

In spite of seeing inflation trending downwards in yearly terms, monthly inflation reached 0.64%/m/m in April, higher than expected (0.55%/m/m) and than the figure observed in March (0.21%/m/m). This negative surprise follows months of positive inflationary surprises, and was driven by a rebound in food (0.51%/m/m in April vs. 0.25%/m/m in March), housing (0.80%/m/m in April vs. 0.48%/m/m in March) and, especially, personal expenses (2.23%/m/m in April vs. 0.55%/m/m in March) prices.

- **Factors that are helping to drive the inflation down will soon stop doing so**

In our view, positive base effects are the main factors behind inflation's downward trend, but lower domestic demand pressures are also playing a positive role. Nonetheless, base effects will be much less supportive from June on. In addition to that, we expect domestic demand to recover more strongly in the second half of the year, following the monetary easing being adopted since the middle of 2011, and to have a less benign impact on prices. We, therefore, expect inflation to not converge to the 4.5% target. More precisely, we expect it to be in the 5.0% - 5.4% range in the remainder of the year and to average 5.9% in 2013. In spite of this "not so positive" outlook, we expect the Central Bank to soon bring the SELIC rate to 8.25% and to keep it unchanged for a long period of time.

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