

Brazil Flash

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Economic Analysis

Brazil
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Inflation closed 2013 within the target range, but the BCB's implicit goal was not met

Annual inflation reached 5.91% in December, at the upper bound of the target range (4.5% +/- 2.0%) for the fourth year in a row. More importantly, the BCB's informal target of delivering a lower inflation in 2013 than in 2012 (5.84%) was not met. In our view, this adds to the pressures on the BCB to continue tightening monetary conditions.

- **Monthly inflation increased more than expected and reached 0.92% in December**

Inflation increased to 0.92% MoM in December from 0.54% MoM in November. Thanks to the adjustment in fuel prices at the very end of November, transport inflation came in at 1.85% MoM and contributed the most to the monthly jump. Food and personal expenses inflation, 0.89% MoM and 1.0% MoM respectively, also contributed to drive significantly up December inflation. The increase in monthly inflation was higher than expected (BBVA: 0.75% MoM; consensus: 0.82% MoM).

- **High inflation in spite of record low administered-price inflation in 2013**

Administered-price inflation closed 2013 at 1.5%, the lowest figure since the first publication of the current series in 1992. In the absence of this relief -administered prices account for almost one-quarter of the CPI basket- inflation would have closed 2013 at even higher levels. Market-set prices varied 7.3% in 2013 versus 6.6% in 2012. By groups, food inflation was the highest in the year (8.5% vs. 9.9% in 2012), followed by personal expenses, education, household articles and health and personal care inflation (8.4%, 7.9%, 7.1% and 7.0%, respectively). The average of core inflation measures reached 6.3% at the end of 2013, higher than one year ago (5.6%).

- **We see no room for inflation to ease significantly in 2014**

In our view, the negative impact on prices from the ongoing depreciation of the exchange rate as well as the difficulty the government will face to keep administered-price inflation as low as in 2013 will keep inflation around 6.0% in 2014. More precisely, we expect it to average 6.1% (vs. 6.2% in 2013) and close the year at 5.8% (6.0% according to the consensus). High inflation expectations and today's figures make us to think that a +50bp adjustment next week or especially a signaling that the tightening cycle will continue after the January meeting are now more likely than before. However, we continue to see more likely that the BCB hikes the SELIC rate by 25bp to 10.25% next week and then leaves it unchanged over the rest of the year. Finally, today's inflation figures should add to the negative mood hovering around Brazil, which among other things could help to determine a credit rating downgrade this year.

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La inflación cerró 2013 dentro del rango meta, pero el objetivo implícito del BCB no se cumplió

La inflación anual alcanzó el 5.91% en diciembre, en la parte superior del rango meta (4.5% +/- 2.0%) por cuarto año consecutivo. Sin embargo, no se cumplió el objetivo informal del BCB de lograr una inflación más baja en 2013 que en 2012 (5,84%). En nuestra opinión, esto se suma a las presiones sobre el BCB para continuar endureciendo su política monetaria.

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