

Brazil Flash

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Economic Analysis

Brazil

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Inflation surprises to the downside

Monthly inflation declined to 0.67% MoM in April from 0.92% MoM in March, following the deceleration in food prices, which however remained very high (1.2% MoM vs. 1.9% MoM in the previous reading). The headline figure was significantly lower than expected (BBVA: 0.72% MoM; consensus: 0.81% MoM). Although annual inflation continued to trend up, we expect the BCB to focus on the monthly deceleration and keep the SELIC rate unchanged at 11.0% at its next meeting.

- **Annual inflation reached 6.3% YoY in April**

Even though monthly inflation moderated in April, it increased in comparison to the same period last year (0.55% MoM). Therefore, annual inflation continued to increase in April. More precisely, it rose to 6.28% YoY from 6.15% YoY in March and 5.6% YoY at the beginning of the year. In line with our view, most of the pressure on inflation continued to come from administered-prices, which varied 3.8% YoY in April vs. 3.4% YoY in March, rather than from market-set inflation, which remained stable at 7.0% YoY. The average of the main core inflation measures remained practically unchanged at 6.5%.

- **Looking ahead, a deceleration in monthly inflation will not prevent annual inflation from breaching the 6.5% target ceiling soon**

In the next few months, monthly inflation should continue to decline as the effect of the drought that hit the country at the beginning of the year on food inflation wanes and due to some favorable seasonal effects. However, the moderation will not be enough to bring annual inflation's upward trend to a halt. We expect it to rather near the 6.5% mark in the forthcoming readings and to breach the 6.5% target ceiling no later than at the beginning of the third quarter. Our 6.2% YoY forecast for inflation at the end of the year remains unchanged.

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La inflación sorprende a la baja

La inflación mensual bajó de 0,92% m/m en marzo a 0,67% m/m en abril, debido en gran parte a la desaceleración de los precios de los alimentos, cuya inflación, no obstante, se mantiene muy alta (1,2% m/m vs. 1,9% m/m en el mes anterior). La inflación general fue significativamente inferior a lo esperado (BBVAe: 0,72% MoM; consenso: 0,81% MoM). Aunque la inflación anual siguió al alza, esperamos que el BCB se centre en la desaceleración mensual y mantenga sin cambios la tasa Selic en 11,0% en su próxima reunión.

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