Brazil Flash

Unemployment and inflation surprise to the downside again

The unemployment rate reached 5.8% in May and mid-June IPCA-15 inflation came up at 0.18%m/m. Both figures show a decline in comparison to previous readings (unemployment was at 6.0% in April and mid-May inflation was 0.51%m/m) and were lower than markets expected (6.0% and 0.30%m/m, respectively). In spite of the resilience of labor markets, there is a clear downside bias to our current inflation forecasts for June (0.20%m/m; 5.1%y/y) and especially for the year (5.3%y/y).

- **Real wages remained practically constant in May in comparison to April**

  Even though the unemployment rate dropped to 5.8% from 6.0% (to 5.5% from 5.6%, if we strip seasonal factors out), real wages show practically no change in May (-0.1%m/m). This stability follows a 1.2%m/m drop in April and an accumulated expansion of 3.5% in the first quarter. All together, the recent data show wages dynamism is waning after having expanded robustly at the beginning of the year. In spite of this recent correction, we expect labor markets to continue strong and one of the main drivers of economic activity in the remainder of the year. If the external environment refrains from stabilizing, however, then there is a non-insignificant chance that the bad mood contaminates domestic labor markets. His would undermine Brazilian economic recovery and GDP growth would be closer to 2.0% than to 3.0% at the end of the year.

- **In yearly terms, the IPCA-15 dropped slightly to 5.0%y/y in May from 5.1%y/y in April**

  A significant monthly drop was expected, but it ended up being larger than anticipated: the mid-June IPCA-15 inflation, which measures inflation from mid-May to mid-June, came up at 0.18%m/m after having reached 0.51%m/m in the previous reading. Food, apparel and housing inflation all continued pressuring inflation (0.66%m/m, 0.66%m/m and 0.53%m/m, respectively), but deflation in household articles and transportation helped to keep domestic prices under control (-0.28%m/m and -0.77%m/m). We keep our 0.20%m/m (5.1%y/y) forecast for June, but recognize that inflation could surprise to the downside again, which would create a more comfortable environment for the CB to cut rates again.

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