

Brazil Flash

August inflation comes in line with expectations

Inflation reached 5.24%/y/y (0.41%/m/m) in August, relatively stable in comparison to July and broadly in line with expectations. We expect yearly inflation to continue moving sideways over the remainder of the year as rising food prices, less positive base effects and the depreciation of the currency will offset the impact on prices from slow, below potential growth.

- **Food prices pressure inflation**

August inflation came up close to forecasts (BBVA Research: 5.19%/y/y and 0.35%/m/m; Consensus: 5.23%/y/y and 0.40%/m/m). Food prices increased 0.88%/m/m in the period and contributed with 0.21 bps to monthly inflation (i.e. the food group was responsible for more than 50% of inflation in August).

- **Inflation outlook: also bear in mind the impact of tax-incentives and heightened protectionism**

The recent extension of tax breaks on vehicles, home appliances, furniture, capital goods and construction materials will help to keep inflation relatively under control in the months ahead. As we pointed out in our [Q3 2012 Brazil Economic Outlook](#), domestic inflation has been benefitting from tax cuts on goods with a significant weight on the official inflation index. Comments from local authorities, actually, suggest that by providing tax incentives the government is not only eyeing growth, but also inflation. Anyway, we expect more tax measures to be announced and to continue to impact inflation positively in the months ahead. Other actions being taken by the government will, however, have a different impact on prices: the measures being adopted to protect domestic manufacturers (such as the import tariff hike on one hundred good announced yesterday by the government) could add to inflation pressures in the medium-term, especially if we consider the efforts being made to keep the Brazilian Real weak. Taking into account all these factors, we expect inflation to close this year at 5.1% and 2013 at 5.5%.

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La inflación en línea con lo esperado en agosto

La inflación alcanzó 5,24%a/a (0,41%/m/m) en agosto, relativamente estable en comparación con el mes anterior y próxima a lo previsto. Esperamos que la inflación interanual continúe cercana a los niveles actuales en el restante del año ya que los crecientes precios de los alimentos, el menor efecto base y la depreciación de la moneda compensarán el impacto de un crecimiento lento y por debajo del potencial sobre los precios.

Para ver más acerca de Brasil, [haga clic aquí](#)

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