

Brazil | Inflation jumps above 8%; pressure from administered prices to ease ahead

Enestor Dos Santos

Inflation increased for the third month in a row and reached 8.1% YoY in March after closing 2014 at 6.4% YoY. As most of the adjustment in administered prices is now over, inflation should stop increasing so abruptly ahead. We expect it to be around 8% YoY in the remainder of the year.

Monthly inflation reached 1.32% MoM mostly due to the upward adjustment in electricity tariffs

After being slightly above 1.2% MoM in both January and February, monthly inflation reached 1.32% MoM in March. The figure was somewhat higher than we expected (1.25% MoM) and somewhat lower than the market consensus (1.40% MoM). As in the previous two months, the main determinant of abnormally high inflation were administered prices. In March their variation was equal to 3.4% MoM (2.5% MoM in January and 2.4% MoM in February). This month, the main driver of inflation in supervised prices was the 22.1% MoM adjustment in electricity tariffs, which are the consequence of i) the sharp increase in costs faced by the firms in the sector, in an environment marked by water and -therefore- electricity scarcity, and ii) the lack of room of maneuver in fiscal accounts to support the sector.

Pressure from administered prices is expected to ease going forward

After growing by more than 1.0% MoM in the first three months of the year (the only three times that monthly inflation was above 1.0% MoM in the last ten years), we expect monthly administered-price inflation to ease ahead. Therefore, the process of realignment in supervised prices is now close to its end (in annual terms, inflation in this segment is now at 13.6% YoY, not far from the level we expect it to be at the end of the year). Regarding market-determined prices, the recent exchange rate depreciation should have some negative impact on tradable inflation (it reached 5.7% YoY in comparison to non-tradable inflation which eased to 7.4% YoY in March). However, this effect should be offset by the impact of the domestic demand deceleration on prices. All in all, we expect annual inflation to be around 8.0% YoY in the remainder of 2015. Even though it will not grow as sharply as it did in the last few months ahead, it will only go through a significant moderation at the beginning of 2016 when the 12-month inflation figure will stop including the abnormally high readings observed in 1Q15.

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance. This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.