

Inflation nears 8.5% after surprising significantly to the upside in May

Enestor Dos Santos

Inflation increased to 8.47%YoY (0.74% MoM) in May, frustrating the expectations that it would moderate after having skyrocketed in the first four months of the year. Favorable seasonality, weaker domestic demand and lower administered price pressures should prevent inflation from moving further up, but it should be somewhat higher than we previously expected ahead.

The main contributions to inflation in May came from food and electricity prices

Food prices increased 1.37% MoM in May, more than expected, contributing with 0.34 p.p. to overall monthly inflation (0.74% MoM). Electricity prices also pressured domestic prices in the period: they increased 2.77% MoM and contributed with 0.11 p.p. to the headline in the period. This additional adjustment in electricity prices helped to drive inflation in administered prices to 1.22% MoM, still very high but below the levels observed previously (2.3% MoM on average between January and April). On the other hand, inflation of non-administered prices receded to 0.59% MoM, from 0.79% MoM on average in the first four months of the year. All in all, even though inflation surprised to the upside in May (observed 0.74% MoM; BBVA forecast: 0.48% MoM; consensus forecast: 0.58% MoM), it was below the 1.1% MoM average of the previous prints in the year up to May.

Inflation upward surprise in May determines an upward revision in our forecasts. It also puts more pressure on the BCB

In our view the process of adjustment in administered prices is mostly over. This, together with the impact of a decelerating domestic demand and more favorable seasonality in the June-August period, make us think that monthly inflation will ease and annual inflation will stop moving up going ahead. Anyway, the larger-than-expected inflation figures in May determine an upward revision in our inflation forecasts for the remainder of the year. In particular, we have revised our forecast for the end of the year from 7.6% YoY to 8.0% YoY. We leave our 5.5% forecast for the end of 2016 unchanged. Finally, today's figures are not good news for the BCB. They mean that there is a more significant risk that the monetary authority will be forced to increase the SELIC rate again in July rather than leaving it at 13.75% as we expect.