



# Inflation Outlook

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**September 2013**

**I. Introduction**

**II. International Environment**

**III. Financial Conditions**

**IV. Activity**

**V. Inflation Developments**

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# I. Introduction

# BCB's Mission

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- Ensuring the stability of the purchase power of the currency and a solid and efficient financial system.

# Importance of this Mission

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- The international experience and the economic theory set low and stable inflation as a precondition to sustainable growth.
  - **High inflation:**
    - Higher risk premium, low confidence, short planning horizon and little investment;
    - Less employment, less income and less consumption; and
    - More income concentration, less growth and reduction of welfare.

# The Brazilian Experience Ratifies this Vision

Period	Annual Average (%)	
	Real GDP Change	Inflation
1980-1985	2.6	147.1
1986-1994	2.3	842.5
1995-2003	2.2	9.1
2004-2012	3.9	5.5

# Retrospective - Abroad

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## Since the last Report release :

- Risks for global financial stability have remained high;
- Strong yield curve steepening in important mature economies;
- Moderate global activity;
- In the international markets some accommodation in the commodity prices, and US dollar appreciation trend; and
- In general terms, accommodative monetary policy, in emerging and mature economies.

# Retrospective - Brazil

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## Since the last Report release:

- Economic growth reached 1.5% in the second quarter;
- In the market of factors: ICU relatively stable and narrow idleness margin in the labor market;
- In the wholesale market, prices pressures in the industrial and agricultural segments;
- Consumer inflation at high level and showing resistance; and
- Continuation of the monetary conditions adjustment cycle.

# Prospects – Abroad - 2013-2014-2015

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- Still heightened risks for the global financial stability, albeit low probability of occurrence of extreme events;
- In the relevant horizon for the monetary policy, the volatility of financial markets tends to react to the start of the US monetary conditions normalization process;
- Prospects of intensification of the global activity pace; and
- In the relevant horizon, prospects for the increase of global inflation.

# Prospects – Brazil - 2013-2014-2015

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- More intense activity pace in this and in the upcoming year, with change in the composition of aggregate demand;
- Current account deficit essentially financed with foreign direct investment;
- Moderate credit expansion (consumption, especially);
- Moderation in wage gains; and
- High twelve-month inflation in the relevant horizon, but with retreating trend.

# Fiscal: Retrospective and Prospects

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- March Report: box presented calculation methodology for the structural surplus;
- June Report: box informed that projection models would consider the structural surplus;
- July Minutes: Ratified the information that, in the projections, the fiscal indicator would be the structural primary surplus (retrospectively: expansionist fiscal policy); and
- August Minutes: Repeated the information that the fiscal indicator considered in the projections was the structural primary surplus (prospectively: fiscal policy can move to neutrality).

# Fiscal: Retrospective and Prospects

## Box “Revision of the Small-Sized Projection Models – 2013”

...the change of the structural result between two periods is the measure of the fiscal impulse, which can be expansionist, contractionist or neutral...

$$(2) h_t = \beta_0 + \sum_{i>0} \beta_{1i} h_{t-i} + \sum_{j>0} \beta_{2j} r_{t-j} + \sum_{k>0} \beta_{3k} \Delta sup_{t-k} + \sum_{l \geq 0} \beta_{4l} \Delta \bar{y}_{t-l}^* + \sum_{m \geq 0} \beta_{5m} \Delta h_{t-m}^* + u_t,$$

Obs.: Following universally accepted and used procedure (for example, in the WEO, IMF).

# Fiscal: Retrospective and Prospects

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- The generation of primary surpluses at levels similar to those that have been recently obtained is compatible with a stable trajectory for the debt-to-GDP ratio in the upcoming years;
- The cost for the public sector financing has increased; and
- A sustainable trajectory for the public sector balance contributes for the strengthening of firms' and households' confidence.

# Prospects – Projections – 2013-2014-2015

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## GDP Projection:

- The estimate rate for the GDP growth in 2013 was revised to 2.5%, down from 2.7% in the March Report; and
- The estimate rate reaches 2.5% in the four quarters through the second quarter of 2014.

## Inflation Projections:

- Baseline scenario: 5.8% for 2013; 5.7% for 2014; and 5.5% for the third quarter of 2015; and
- Market scenario: 5.8% for 2013; 5.7% for 2014; and 5.4% for the third quarter of 2015.

# Prospective Scenario – Monetary Policy

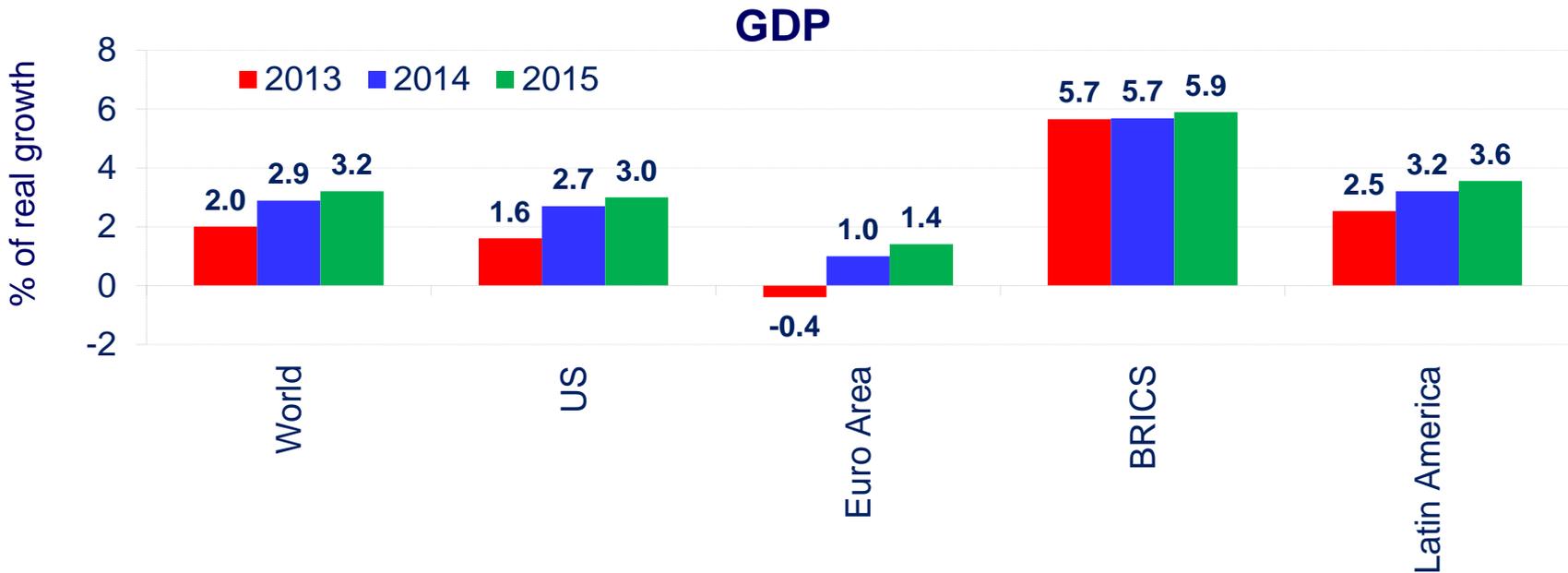
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- The Copom highlights that, in moments such as the current one, the monetary policy should remain especially vigilant, in order to minimize risks that high inflation levels such as the one observed in the last twelve months persist in the relevant horizon for the monetary policy.

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# II. International Environment

# Activity – Expectations



**2013 GDP (%)**

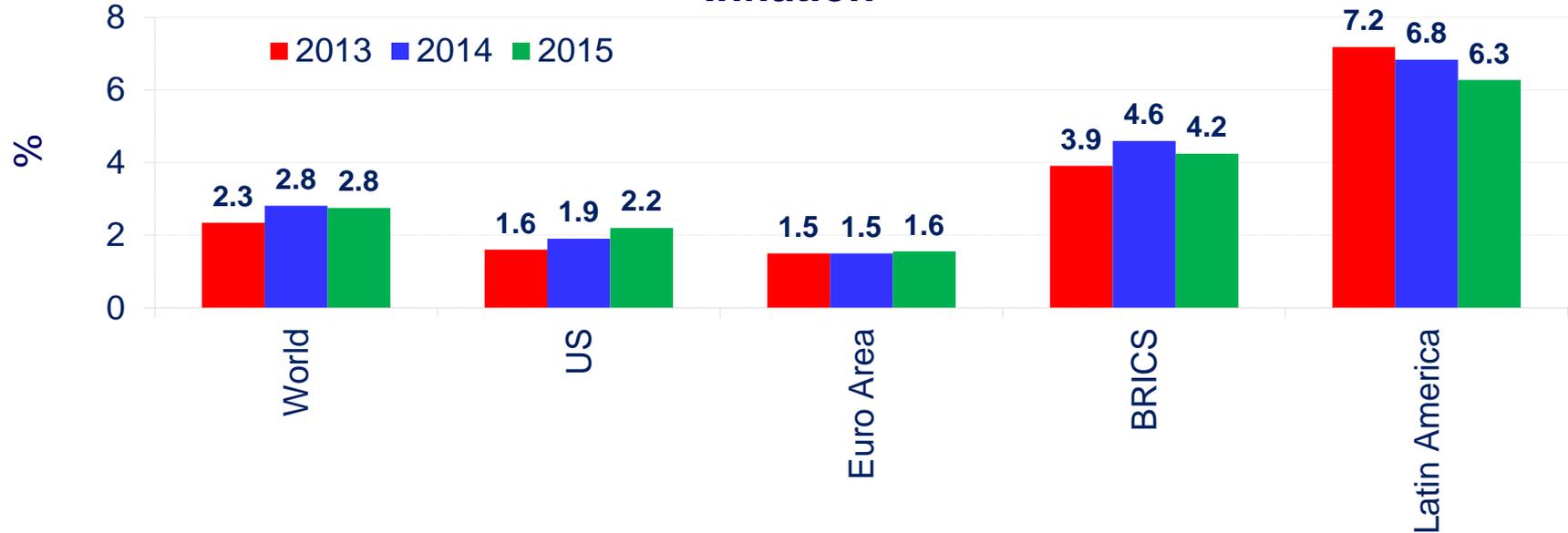
	2012		2013	
	Dec	Mar	Jun	Sep
US	2.0	1.9	1.9	1.6
Euro Area	-0.1	-0.2	-0.6	-0.4
Japan	0.7	1.2	1.8	1.9
U. Kingdom	1.1	0.9	0.9	1.3
China	8.1	8.1	7.7	7.6
India	5.6	5.2	5.1	5.7
Brazil	3.4	3.0	2.4	2.4

**2014 GDP (%)**

	2012		2013	
	Dec	Mar	Jun	Sep
US	2.8	2.7	2.7	2.7
Euro Area	1.2	1.1	1.0	1.0
Japan	1.0	1.3	1.5	1.6
U. Kingdom	1.6	1.6	1.6	2.0
China	8.0	8.0	7.7	7.4
India	6.5	6.2	6.0	5.2
Brazil	3.8	3.5	3.0	2.2

# Prices – Expectations

## Inflation



2013 Inflation (%)

	2012		2013	
	Dec	Mar	Jun	Sep
US	1.9	1.9	1.5	1.6
Euro Area	1.9	1.7	1.5	1.5
Japan	0.0	0.1	0.1	0.2
U. Kingdom	2.5	2.6	2.7	2.7
China	3.1	3.1	2.8	2.6
India	8.6	8.6	9.3	6.1
Brazil	5.5	5.7	5.9	5.8

2014 Inflation (%)

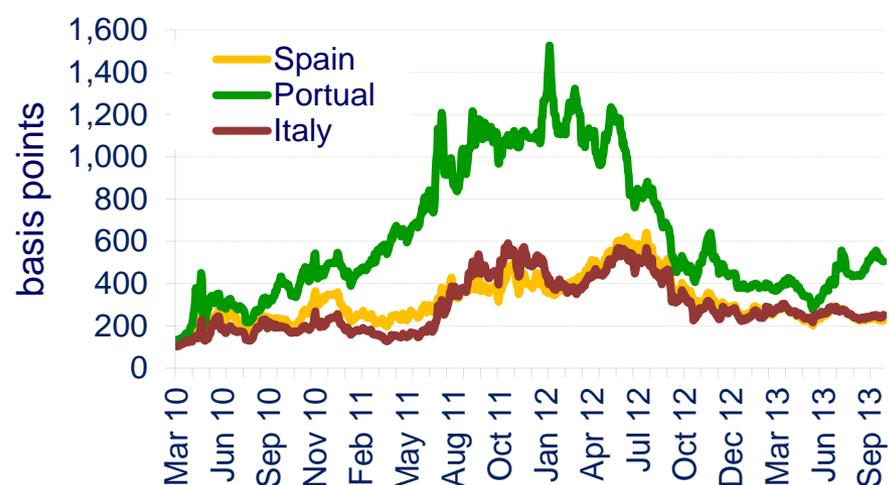
	2012		2013	
	Dec	Mar	Jun	Sep
US	2.1	2.1	1.9	1.9
Euro Area	1.8	1.7	1.6	1.5
Japan	1.7	1.8	2.0	2.3
U. Kingdom	2.0	2.3	2.4	2.3
China	3.5	3.5	3.2	3.2
India	7.6	7.9	8.3	8.7
Brazil	5.5	5.6	5.9	6.0

# Commodities, Volatility and Risk Aversion

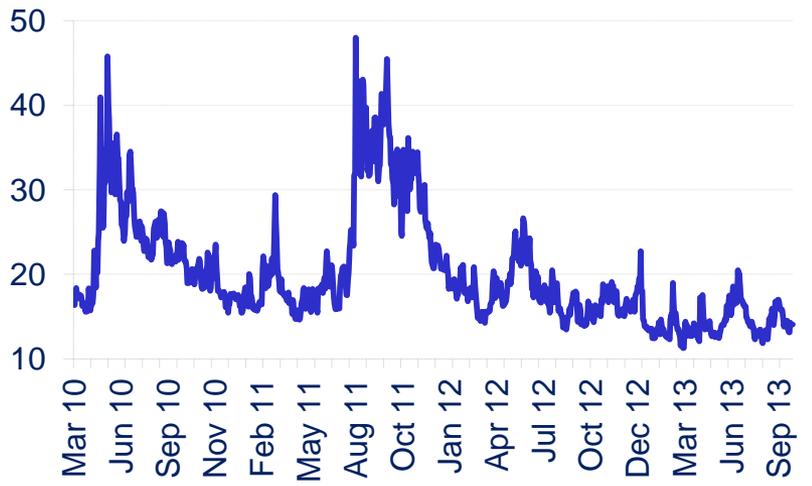
**CRB**



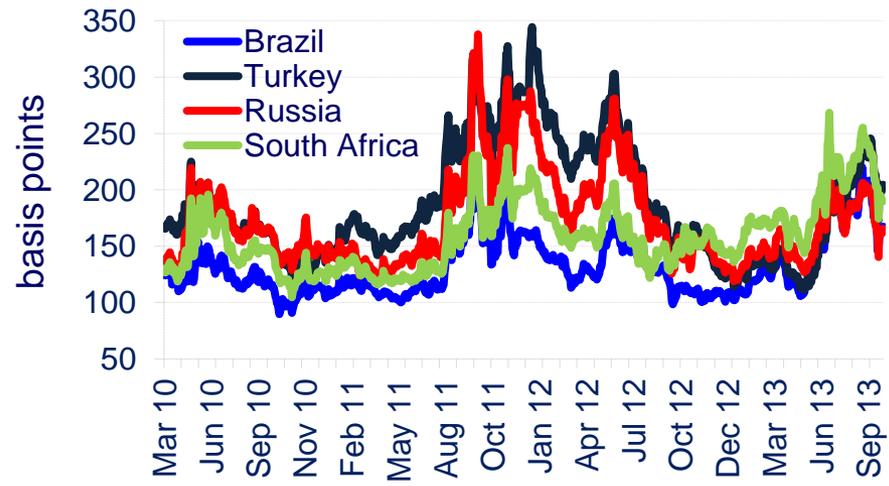
**CDS**



**VIX**



**CDS**



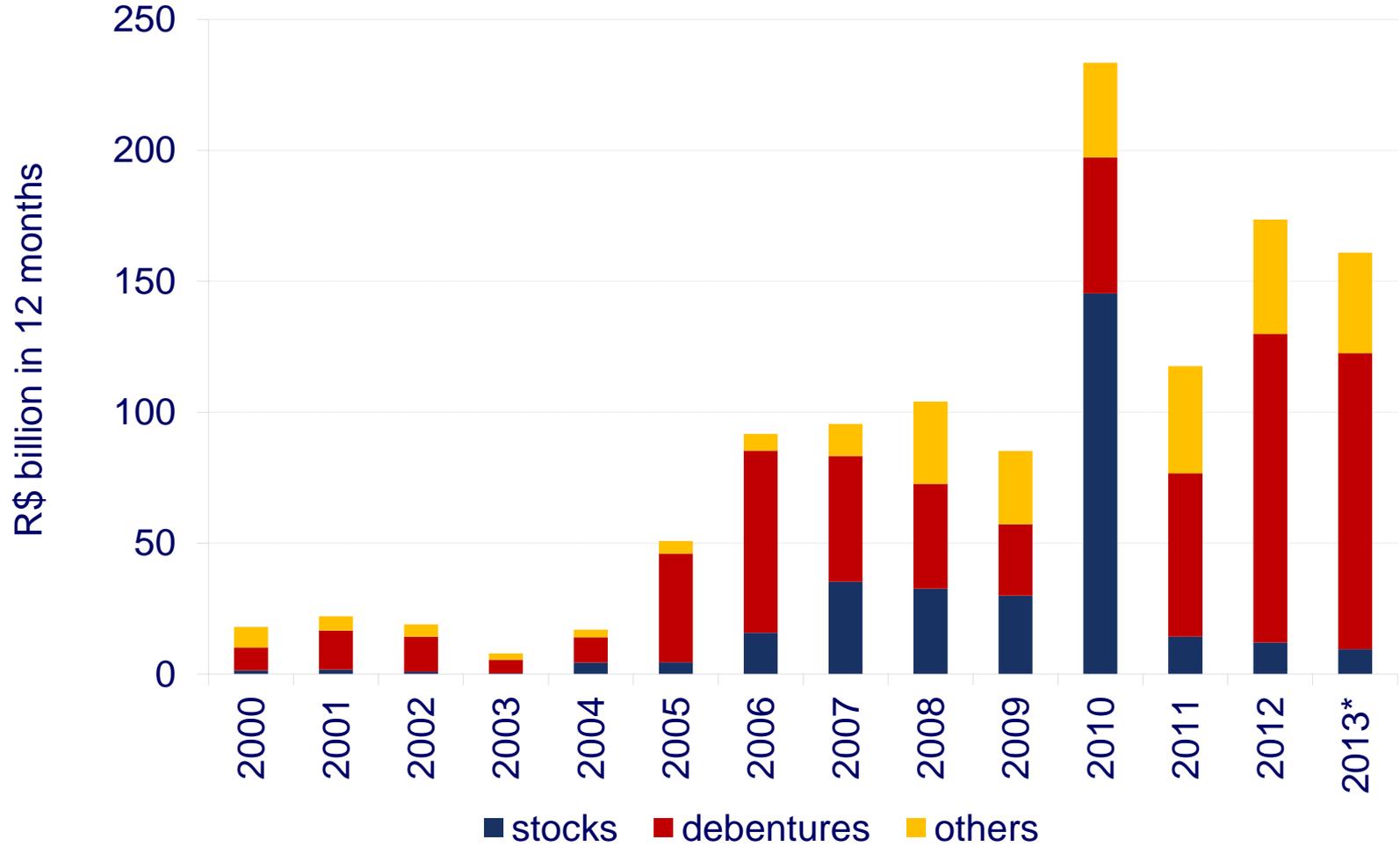
data up to 9/27

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# III. Financial Conditions

# Capital Market Domestic Operations

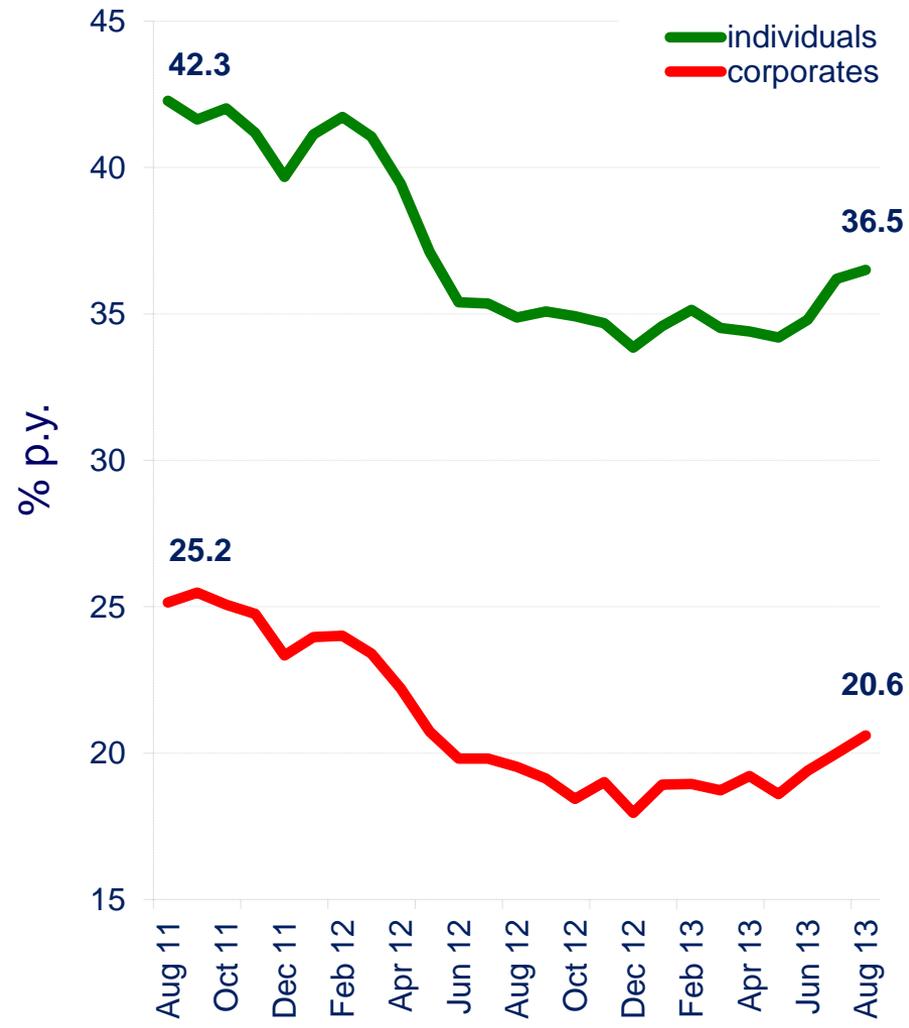
## Primary Issues



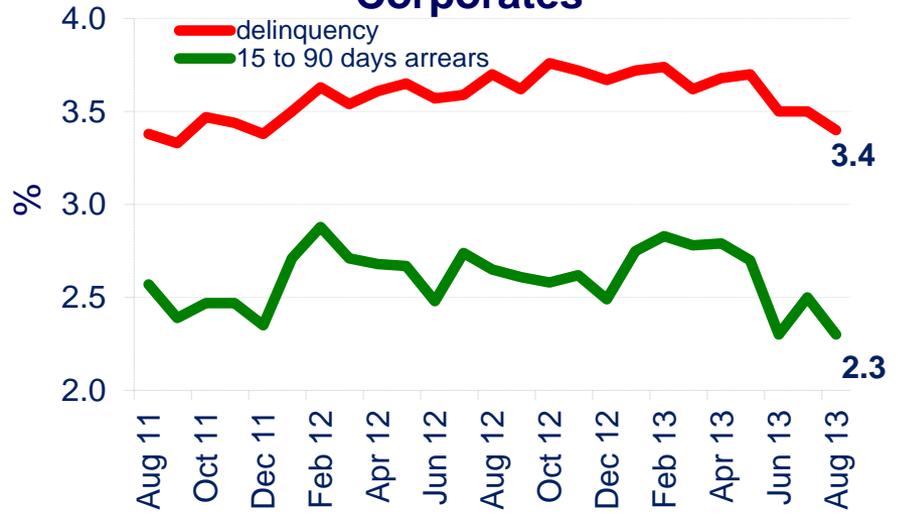
\*12 months through Jul/13

# Credit: Cost, Delinquency and Arrears

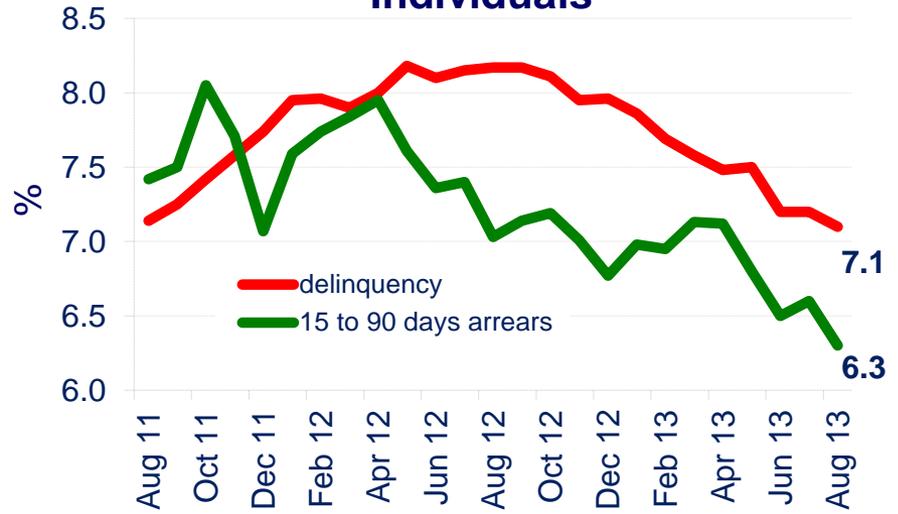
### Interest Rate



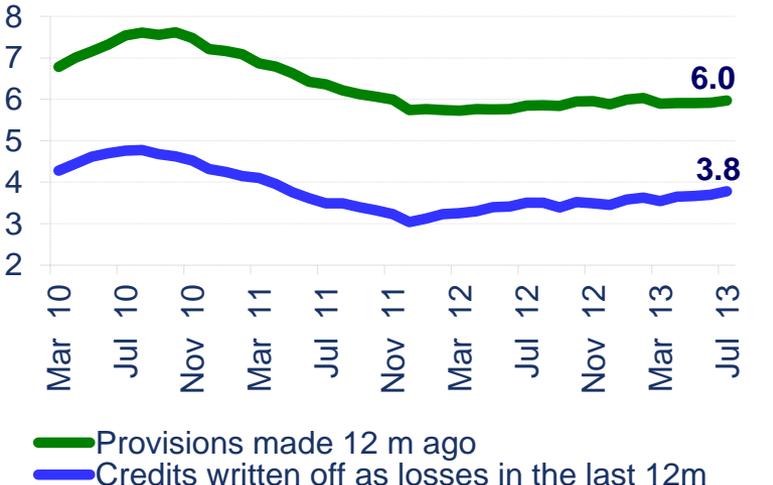
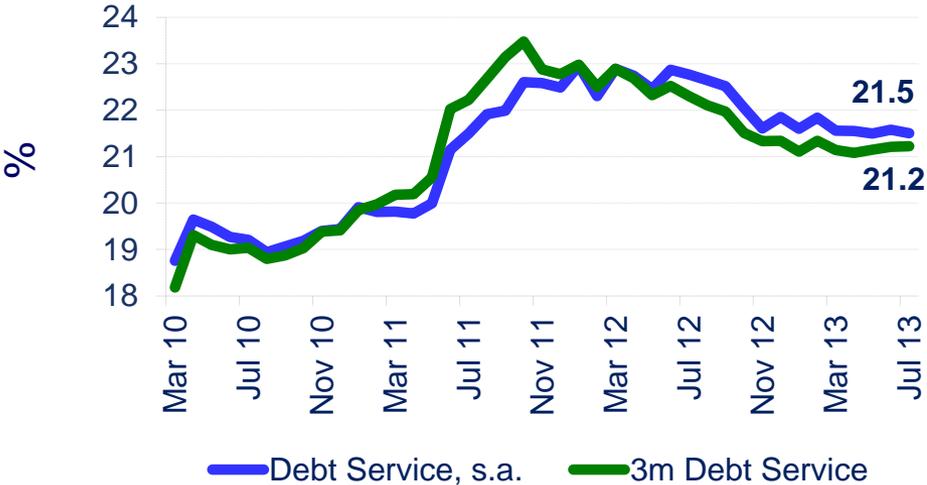
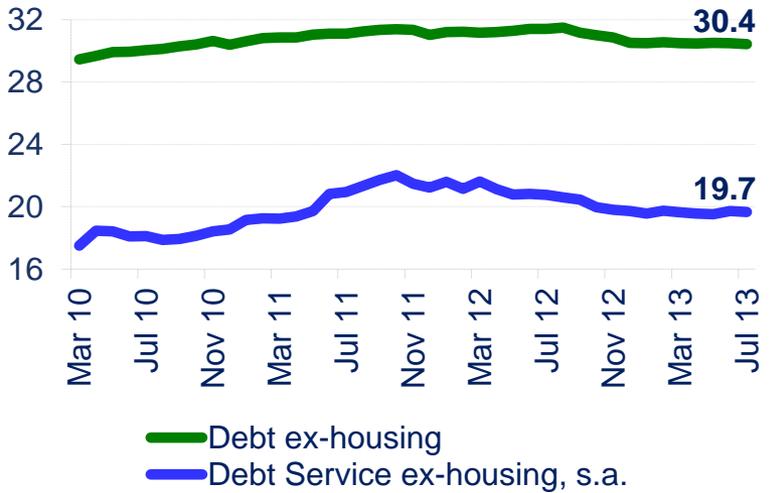
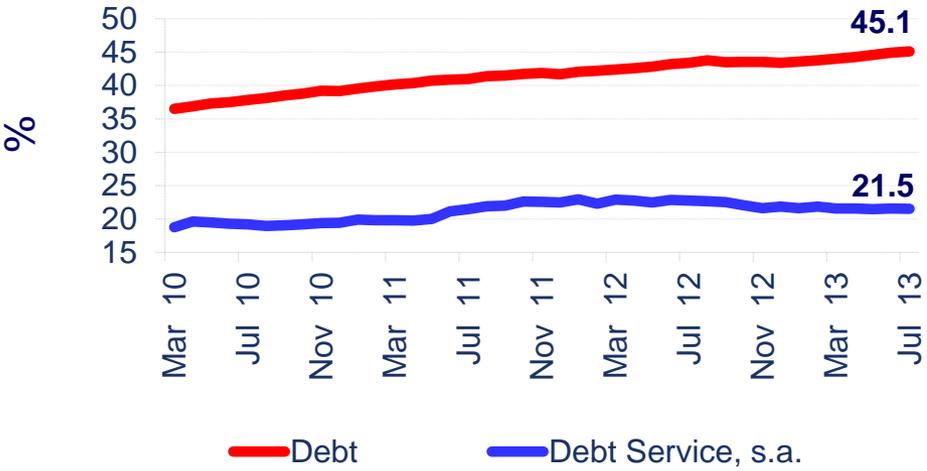
### Corporates



### Individuals



# Household Debt and Provisions of the System



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# IV. Activity

# Demand

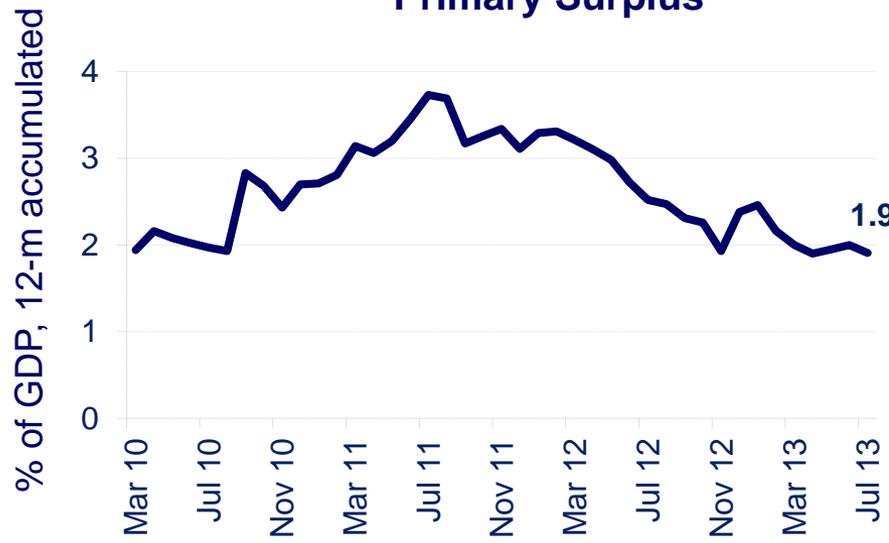
### Household Consumption



### FCGF



### Primary Surplus

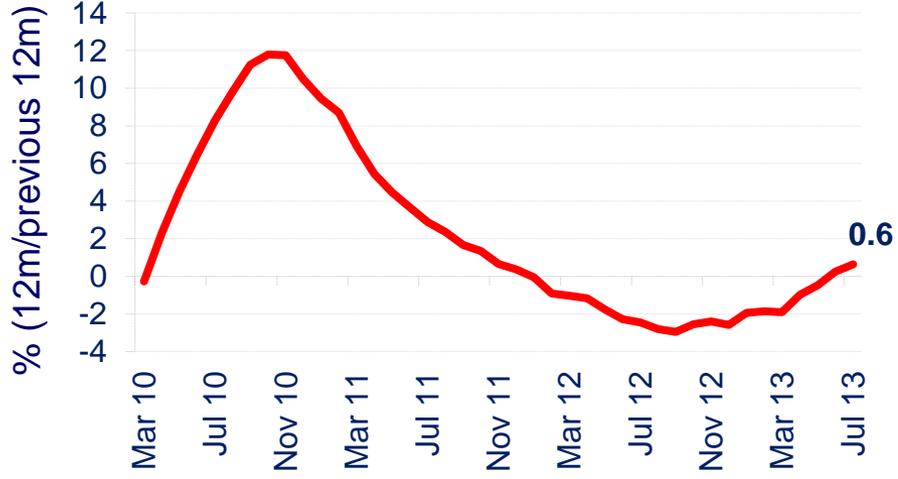


### Exports Quantum

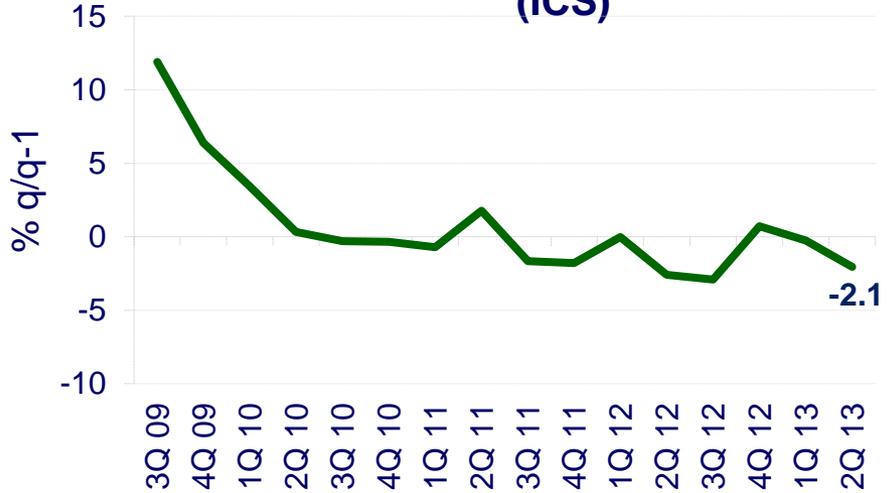


# Supply

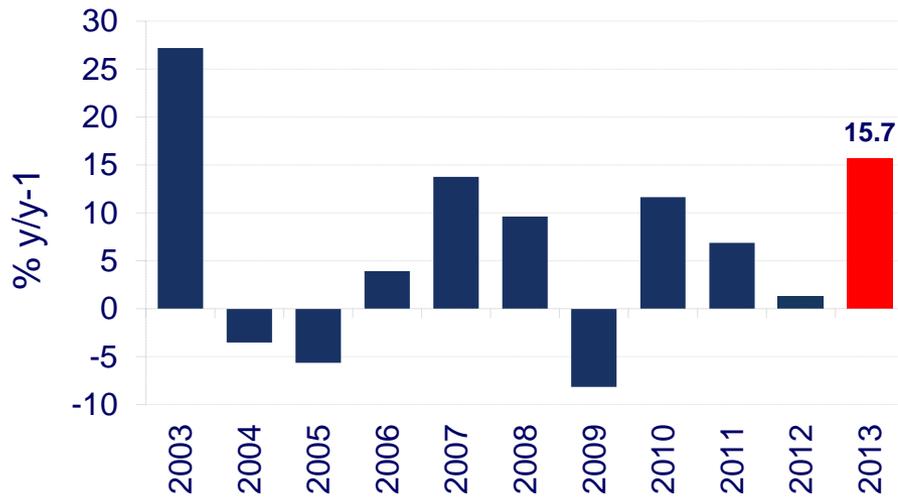
### Industrial Production



### Service Sector Confidence (ICS)

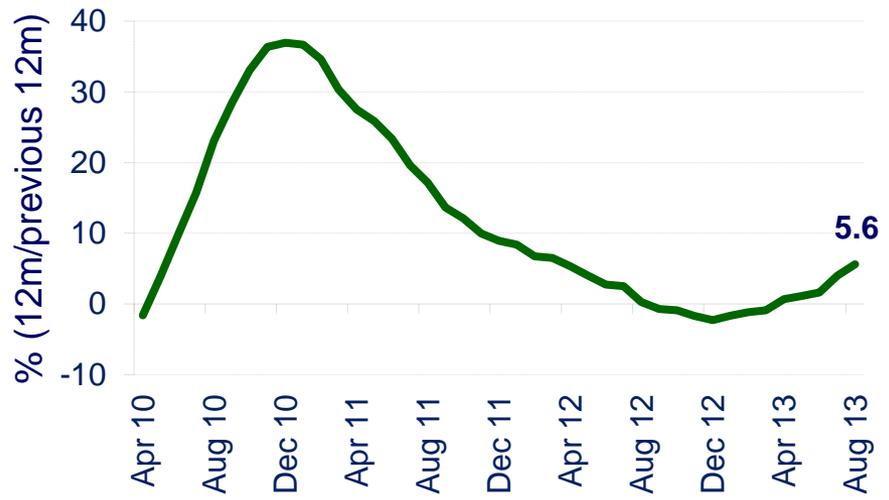


### Crop Harvest



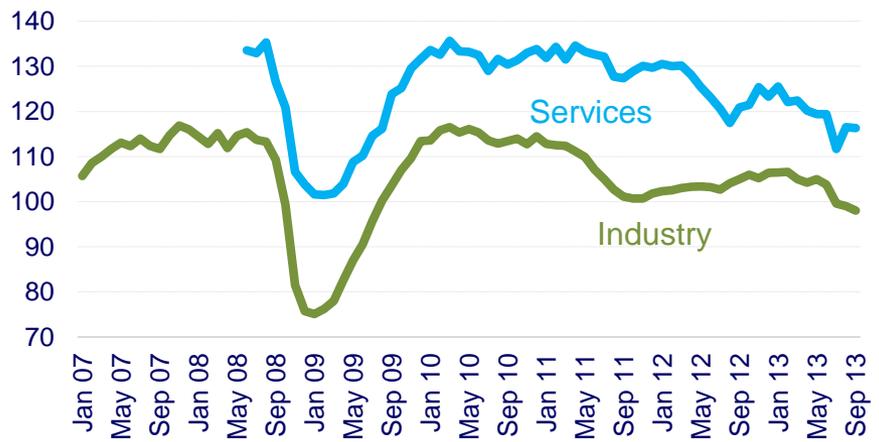
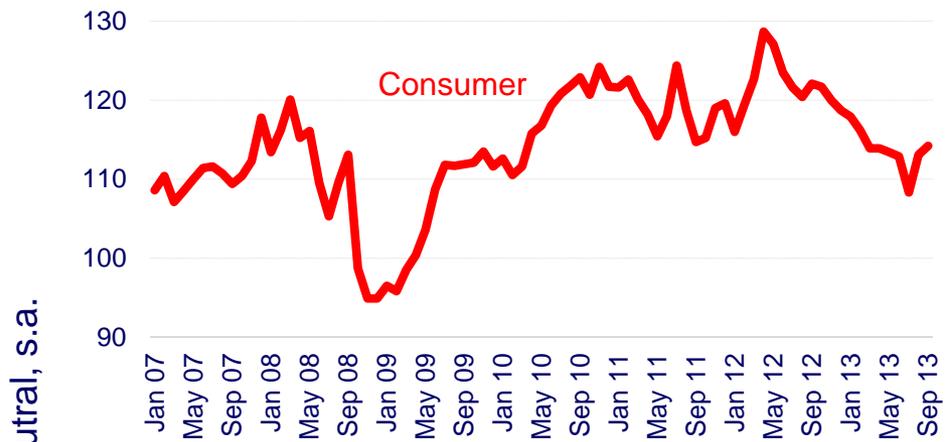
2013: IBGE estimates in Aug/13

### Imports Quantum

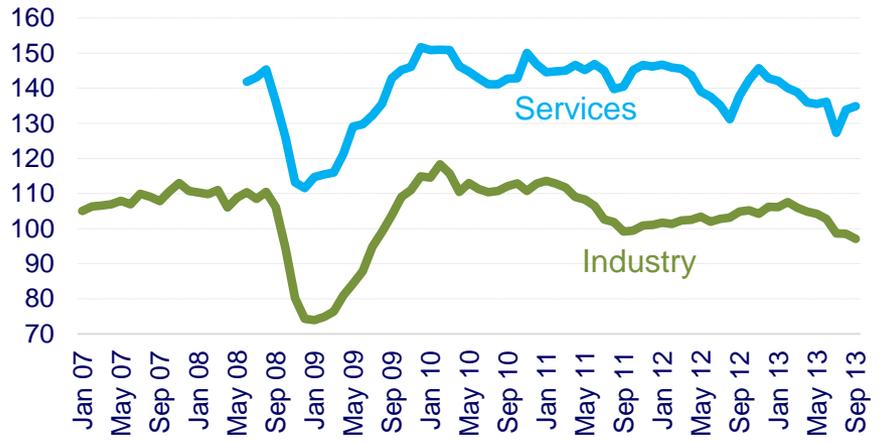
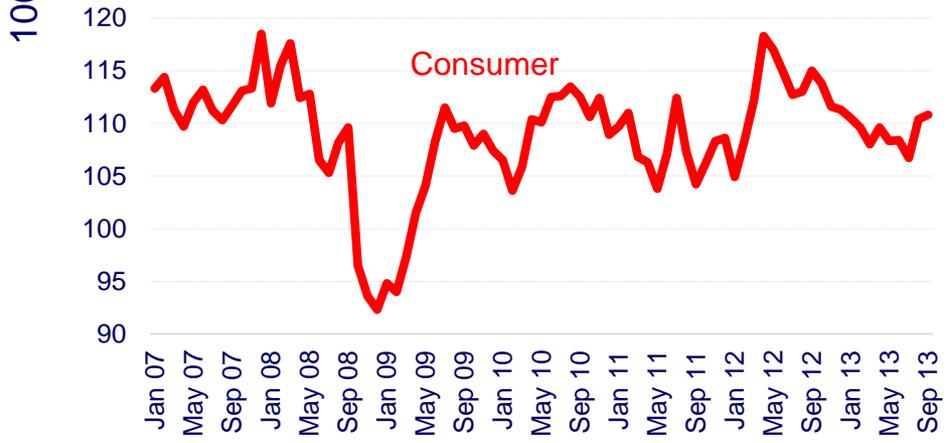


# Firms' and Households' Confidence and Expectations

## Confidence



## Expectations



Obs.: ICC: Proportion of favorable answers – proportion of unfavorable answers + 100 (100=neutral)

# Box: GDP Growth Forecasts

**Increase of 2.5% for 2013 (domestic demand: 3.5 p.p. and net exports -1.0 p.p.);**

## **Supply**

- Agriculture and livestock: 10.5% (-2.3% in 2012);
- Industry: 1.1% (-0.8% in 2012); and
- Services: 2.3% (1.7% in 2012).

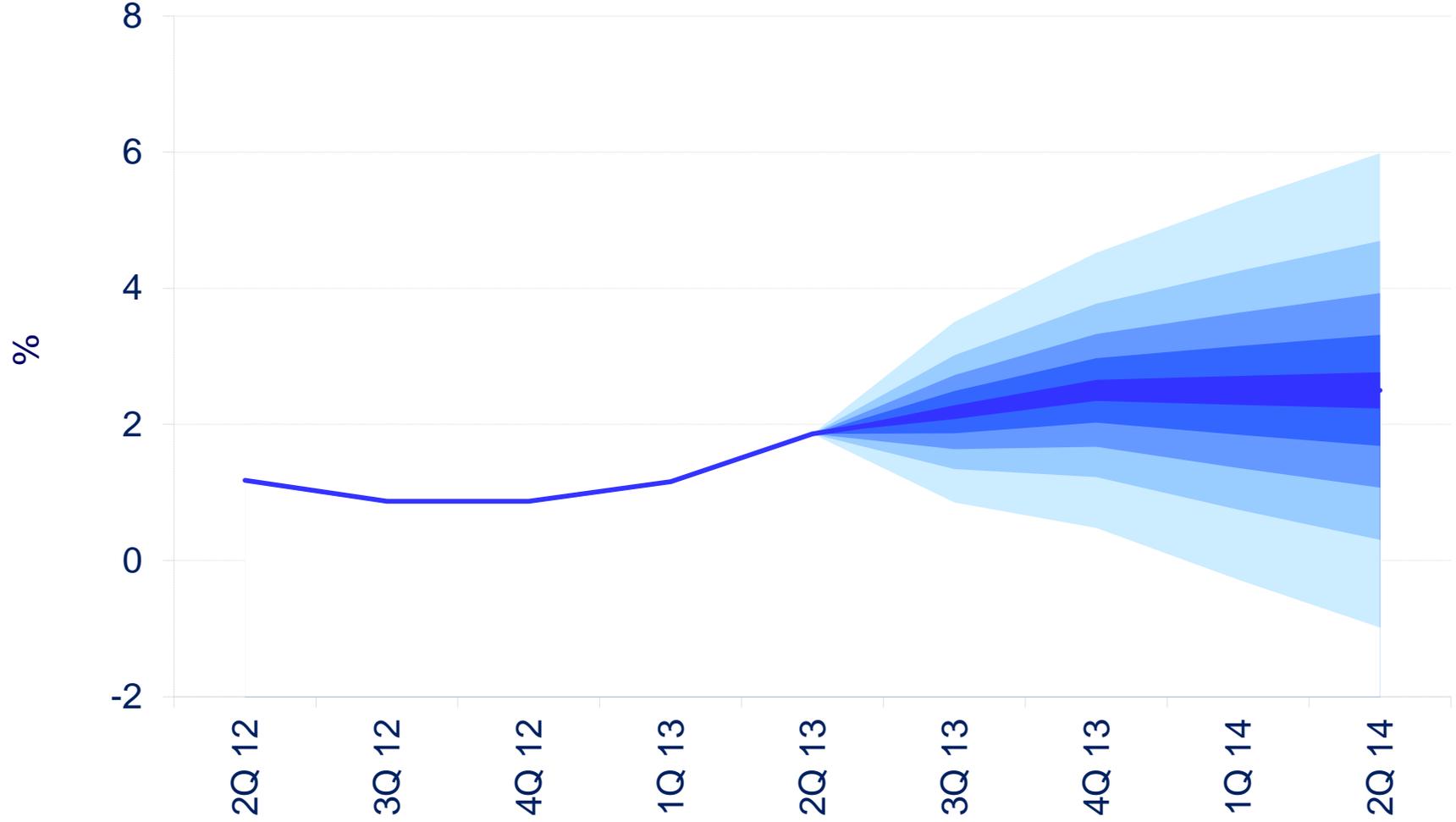
## **Demand**

- Investments: 6.5% (-4% in 2012);
- Household Consumption: 1.9% (3.1% in 2012);
- Government Consumption: 1.8% (3.2% in 2012).

**For the accumulated in four quarters up to the 2<sup>nd</sup> quarter of 2014: 2.5% growth.**

# GDP Forecast

## Baseline Scenario\*



\* Interest constant at 9.0% p.y.

## Services Sector Monthly Survey

- Services sector conjunctural monthly survey, which started to be released by the IBGE as of July, with data since January 2012;
- Results indicate moderation of the growth in the sector.

## Alternative Indicators of the Labor Market

- Deals with the recent evolution of the labor market considering a segmented assessment of the unemployed set;
- The evidences indicate the subset of recently unemployed as the most sensitive to unfavorable shocks in the demand for labor force; and
- It suggests accommodation in the labor market.

## 2013 Balance of Payments Projection

- Current account deficit maintained at US\$75 billion, 3.3% of the GDP (trade balance surplus changes from US\$7 billion to US\$2 billion; and profits remittances, from US\$30 billion to US\$24 billion);
- Rollover rate of long-term securities and loans adjusted from 139% to 100%;
- Net inflow to fixed income securities in the country was increased from US\$12 billion to US\$30 billion; and
- FDI reduced to US\$60 billion, from US\$65 billion.

## Exchange Rate and the Brazilian Trade Balance

- Effects of the exchange rate change over the trade balance (and the output) derive, in a first moment, from changes in the imports; and
- Exports are sensitive, overall, to global demand (the exchange rate affects mainly the exports of manufactured goods).

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# V. Inflation Developments

# Inflation Developments

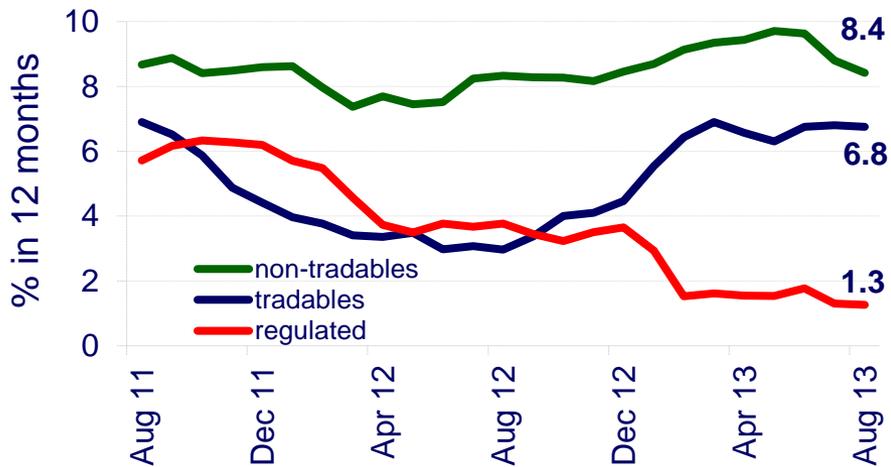
## Prices Indices

Change in 12 months (%)

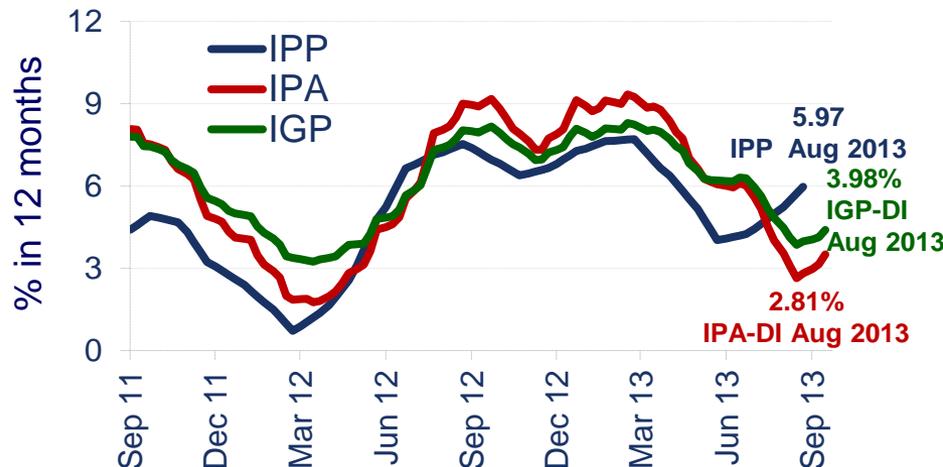
	Aug/12	Aug/13
<b>IPCA</b>	<b>5.24</b>	<b>6.09</b>
<b>INPC</b>	<b>5.39</b>	<b>6.07</b>
<b>IPC-Fipe</b>	<b>4.10</b>	<b>4.88</b>
<b>IPC-C1</b>	<b>6.57</b>	<b>5.36</b>
<b>IGP-DI</b>	<b>8.04</b>	<b>3.98</b>
<b>IPA-DI</b>	<b>9.00</b>	<b>2.81</b>
<b>Agricultural</b>	<b>17.92</b>	<b>-2.41</b>
<b>Industrial</b>	<b>5.83</b>	<b>4.93</b>
<b>IPC-DI</b>	<b>5.69</b>	<b>5.54</b>
<b>INCC-DI</b>	<b>7.41</b>	<b>7.86</b>

# Prices

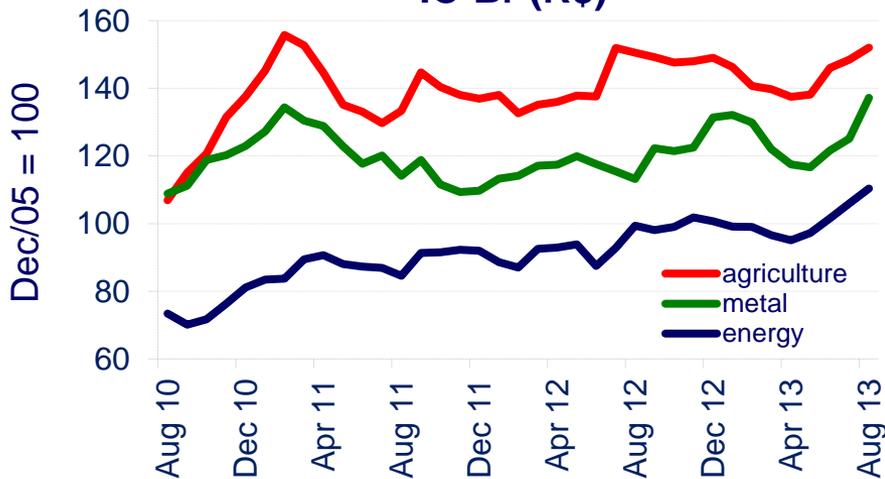
## Inflation (IPCA)



## Producer Prices and IGP



## IC-Br (R\$)

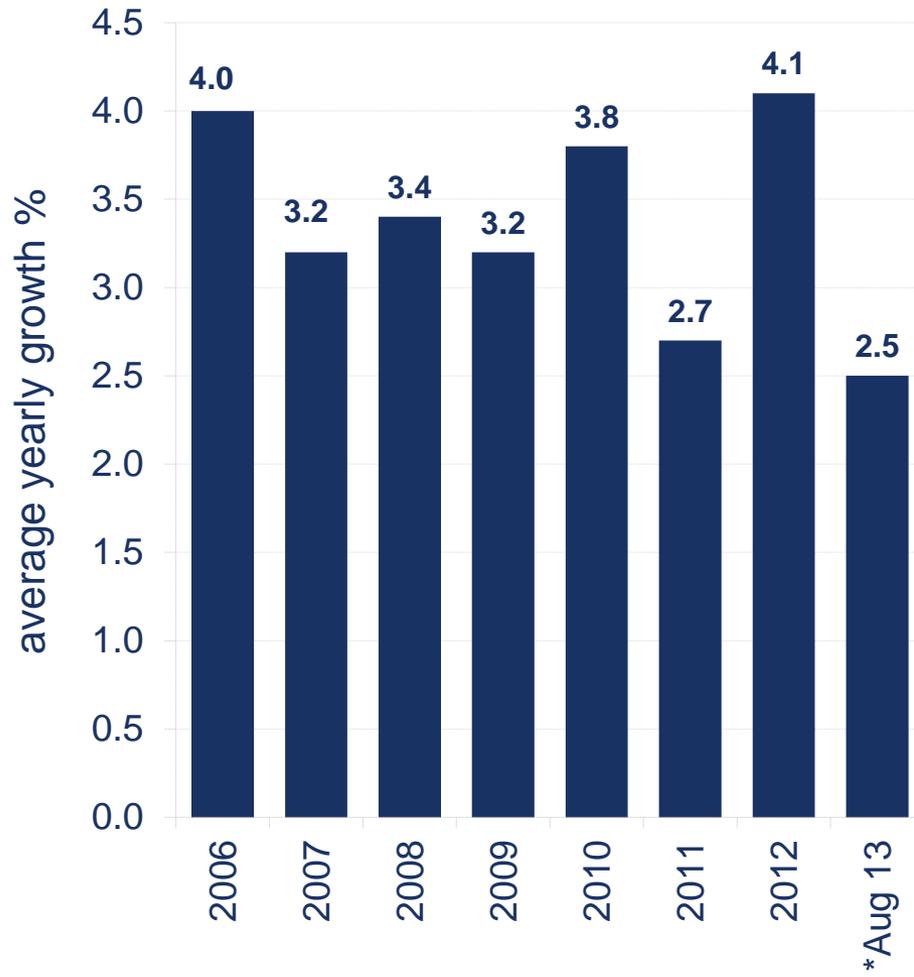


## In Natura Food Prices



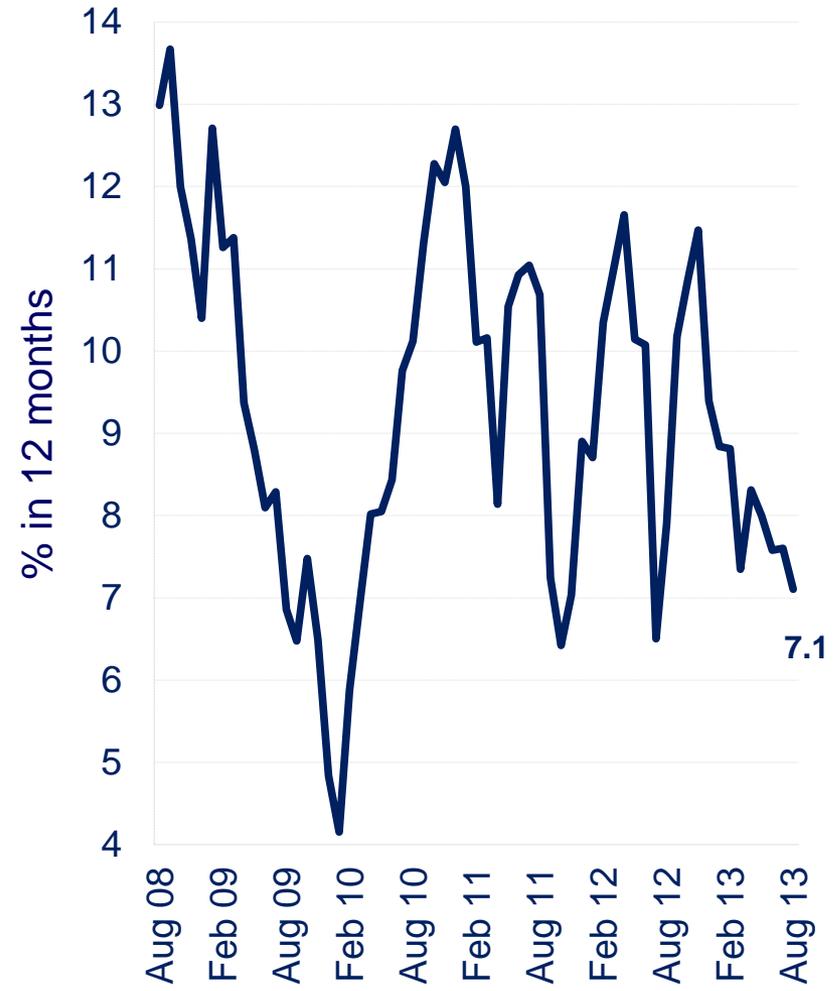
# Wages

## Real Wages



\* 12m

## Nominal Wages



# BCB Inflation Forecasts

## Baseline Scenario\* and Market Scenario

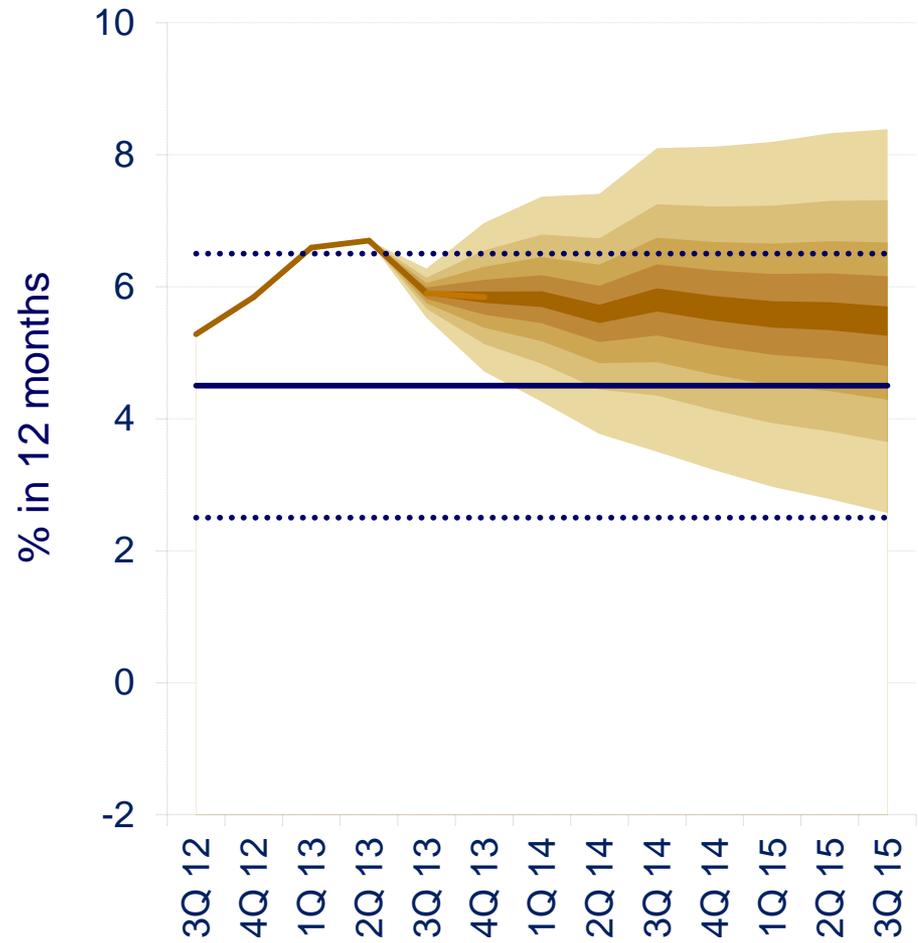
Period		Baseline	Market
2013	3	5.9	5.9
2013	4	5.8	5.8
2014	1	5.8	5.8
2014	2	5.6	5.6
2014	3	5.8	5.8
2014	4	5.7	5.7
2015	1	5.6	5.6
2015	2	5.6	5.5
2015	3	5.5	5.4

Obs.: 12-month accumulated inflation (% p.y.)

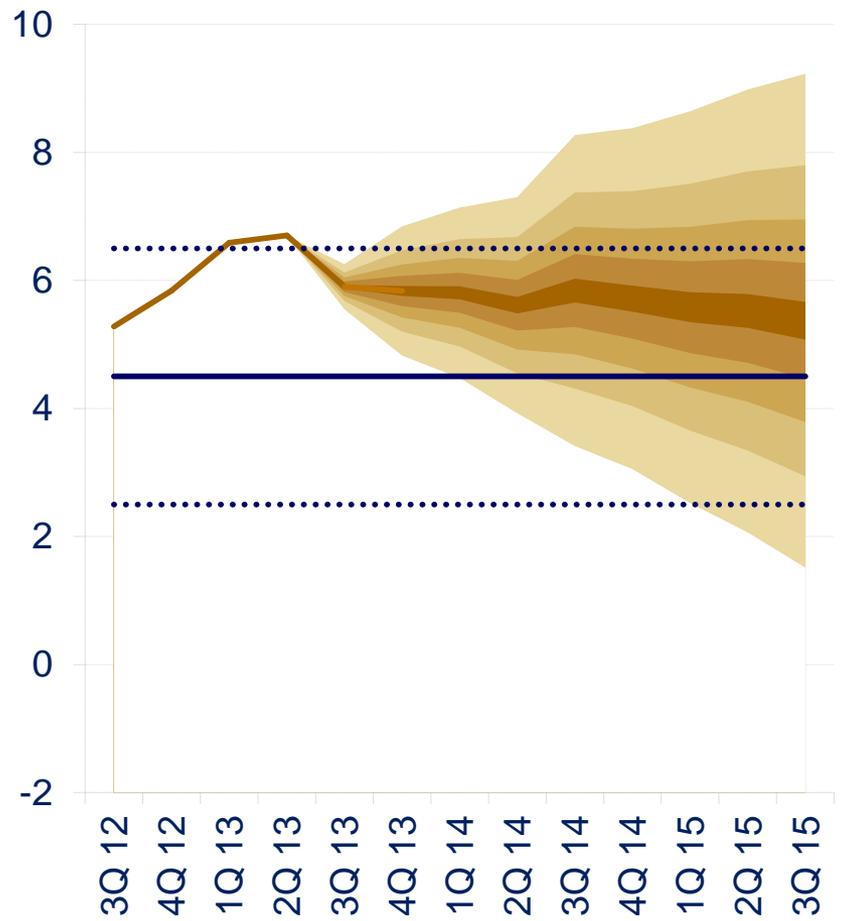
\* Interest constant at 9.0% p.y.

# BCB Inflation Forecasts

**Baseline Scenario**  
(interest constant at 9.0% p.y.)



**Market Scenario**



## **Pass-through of Wholesale Prices Shocks to Retail Prices**

- Pass-through of wholesale prices shocks to consumer prices occurs in relatively short time intervals;
- Tradables goods are more sensitive to wholesale prices' shocks than do non-tradable goods; and
- Shocks stemming from industrial prices have greater impact over consumer prices than do shocks stemming from agricultural prices.

# Market Estimates – Summary

	2013				2014		2015		
	6/30/13	9/26/13	6/30/13		9/26/13	6/30/13	9/26/13	9/26/13	
IPCA	5.87 ▼	5.82	5.88	▲	5.96	5.50 =	5.50		
Regulated Prices	2.50 ▼	1.80	4.35	▼	4.20	4.50 ▲	4.70		
IGP-M	4.84 ▲	5.24	5.26	▲	5.90	5.00 ▲	5.05		
IPA-DI	3.41 ▲	4.35	5.25	▲	5.84	5.00 =	5.00		
Selic (end-of-period)	9.25 ▲	9.75	9.25	▲	9.75	9.50 ▲	10.00		
Exchange rate (end-of-period)	2.15 ▲	2.32	2.20	▲	2.40	2.25 ▲	2.40		
GDP	2.40 =	2.40	3.00	▼	2.21	3.00 ▼	2.50		
Industrial Production	2.49 ▼	2.07	3.20	▼	2.40	3.53 ▼	3.25		
Trade Balance	6.00 ▼	2.00	7.35	▲	10.00	10.50 ▲	12.10		
Foreign Direct Investment	60.00 =	60.00	60.00	=	60.00	60.00 ▼	56.50		
Primary Result	1.80 ▼	1.70	1.58	▼	1.50	2.00 =	2.00		



# Inflation Outlook

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Carlos Hamilton Araújo

**September 2013**