



Inflation Outlook

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I. International Environment

II. Financial Conditions

III. Activity

IV. Inflation Developments

V. Boxes

Retrospective - Abroad

Since the last Report release:

- Both volatility and risk aversion cooled down (lower probability of extreme events in the international financial markets);
- Global activity remains at moderate pace with recession in some mature economies;
- Evidences suggest moderation (and reversion in some cases) of punctual pressures in prices of agricultural commodities; and
- Accomodative monetary policy in emerging and mature economies (in the last ones, where new unconventional actions have been implemented).

Retrospective - Brazil

Since the last Report release:

- Economy growth in the third quarter was lower than expected;
- Some stability in the foreign exchange rate;
- In the factors market, the level of installed capacity utilization remained below the long-term level; the idleness in the labor market remained low, despite signs of moderation in this market;
- In the wholesale market, inflation moderated somewhat; and
- Consumer inflation accumulated in twelve months increased.

Prospective Scenario –Risks/Working Assumptions

Abroad:

- Risks for the global financial stability remain high;
- Prospects of low global growth, for a long period (factor for restraining aggregate demand); and
- Relative benign dynamics for the prices of commodities in the international markets.

Prospective Scenario – Risks/Working Assumptions

Domestically:

- Activity with more intense pace in the next semesters;
- Moderate credit expansion (consumption, especially);
- Moderation in the dynamics of both financial and real assets;
- Moderation in salaries (minimum wage, public and private);
- Impact of sectoral unburdening over consumer inflation;
- Primary surplus targets accomplishment, without adjustment;
- Effects of the easing in financial conditions, especially of the monetary policy actions recently implemented, which are lagged and cumulative; and
- Evidence of movement downwards of the neutral interest rate.

Prospective Scenario - Forecasts

GDP forecasts:

- The estimate rate for the 2012 GDP growth was revised to 1.0%, compared to 1.6% in the September Report;
- The estimate rate on a four-quarter accumulated basis up to the third quarter of 2013 reaches 3.3%.

Inflation forecasts:

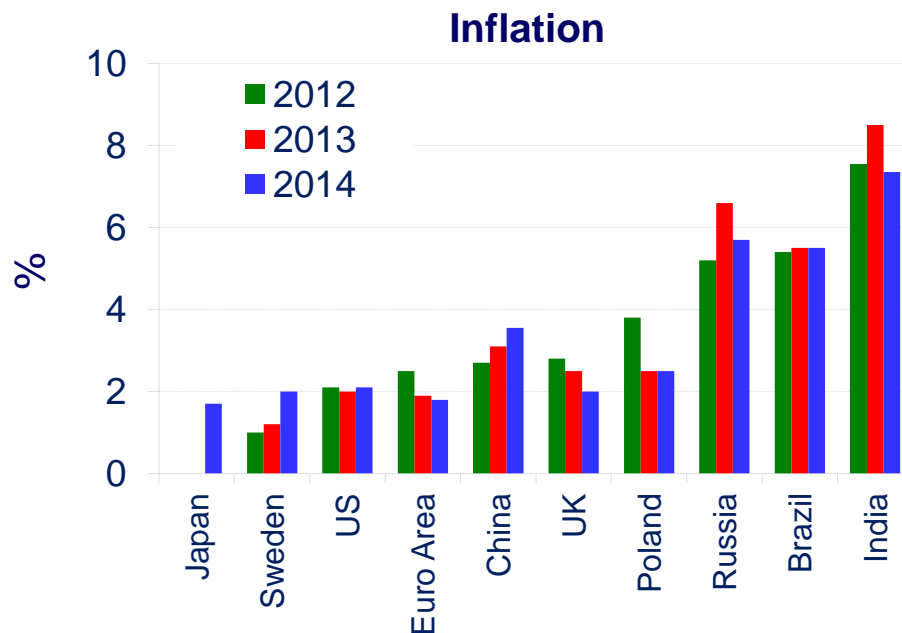
- Baseline scenario: 5.7% for 2012; 4.8% for 2013; 4.9% for 2014; and
- Market scenario: 5.7% for 2012; 4.9% for 2013; 4.8% for 2014.

Prospective Scenario – Monetary Policy

- In light of this scenario, considering the balance of risks to inflation, the domestic activity recovery, and the complexity involved in the international environment, the Copom believes that the stability of monetary conditions for a sufficiently long period of time is the most appropriate strategy to ensure the convergence of inflation toward the target, even in a non-linear way.

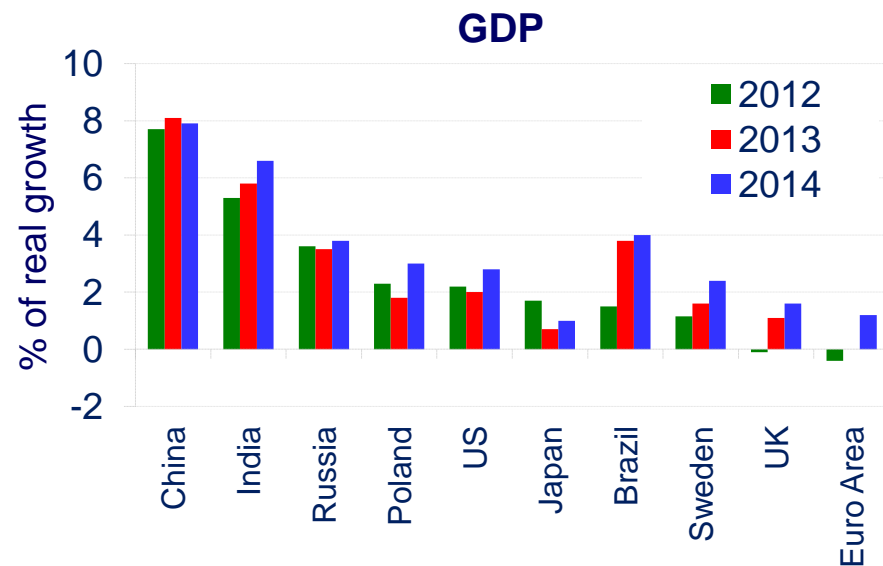
I. International Environment

Activity and Inflation – Expectations



2013 Inflation (%)

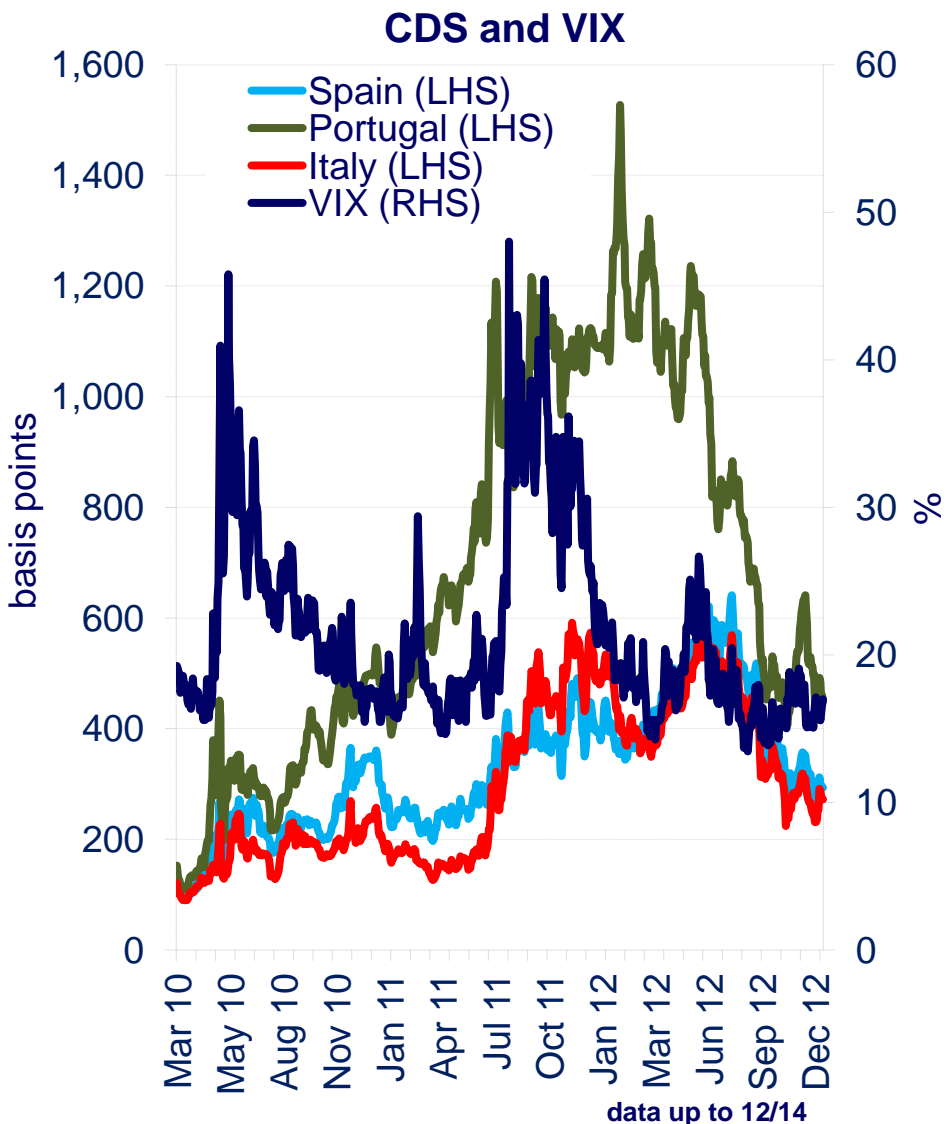
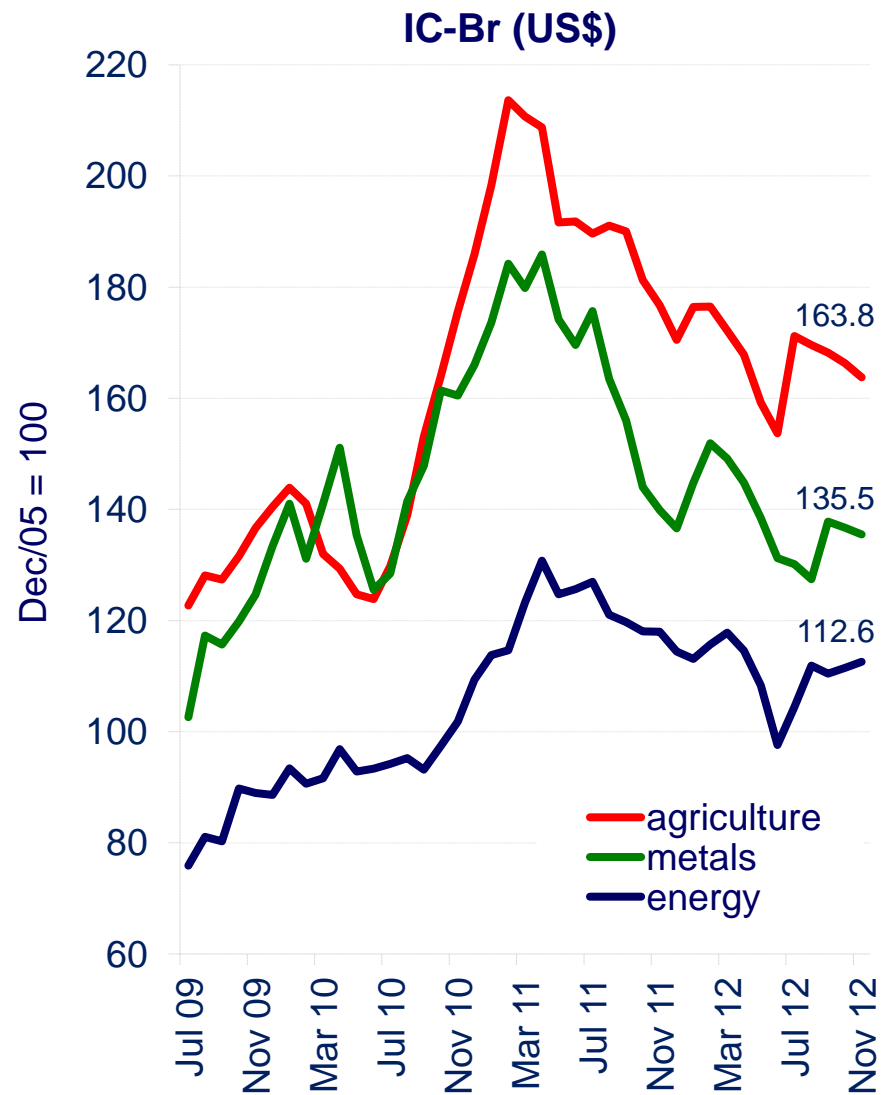
	2012			
	Mar	Jun	Sep	Dec
US	2.0	2.0	2.0	2.0
Euro Area	1.7	1.7	1.8	1.9
Japan	0.0	0.0	0.0	-0.2
UK	2.1	2.1	2.1	2.5
China	3.7	3.6	3.4	3.2
India	...	6.9	7.4	7.7
Brazil	5.5	5.5	5.5	5.4



2013 GDP (%)

	2012			
	Mar	Jun	Sep	Dec
US	2.6	2.4	2.1	1.9
Euro Area	0.9	0.7	0.2	-0.1
Japan	1.5	1.3	1.3	0.6
UK	1.8	1.8	1.3	1.1
China	8.6	8.4	8.1	8.1
India	...	7.3	6.9	6.5
Brazil	4.2	4.2	4.0	3.4

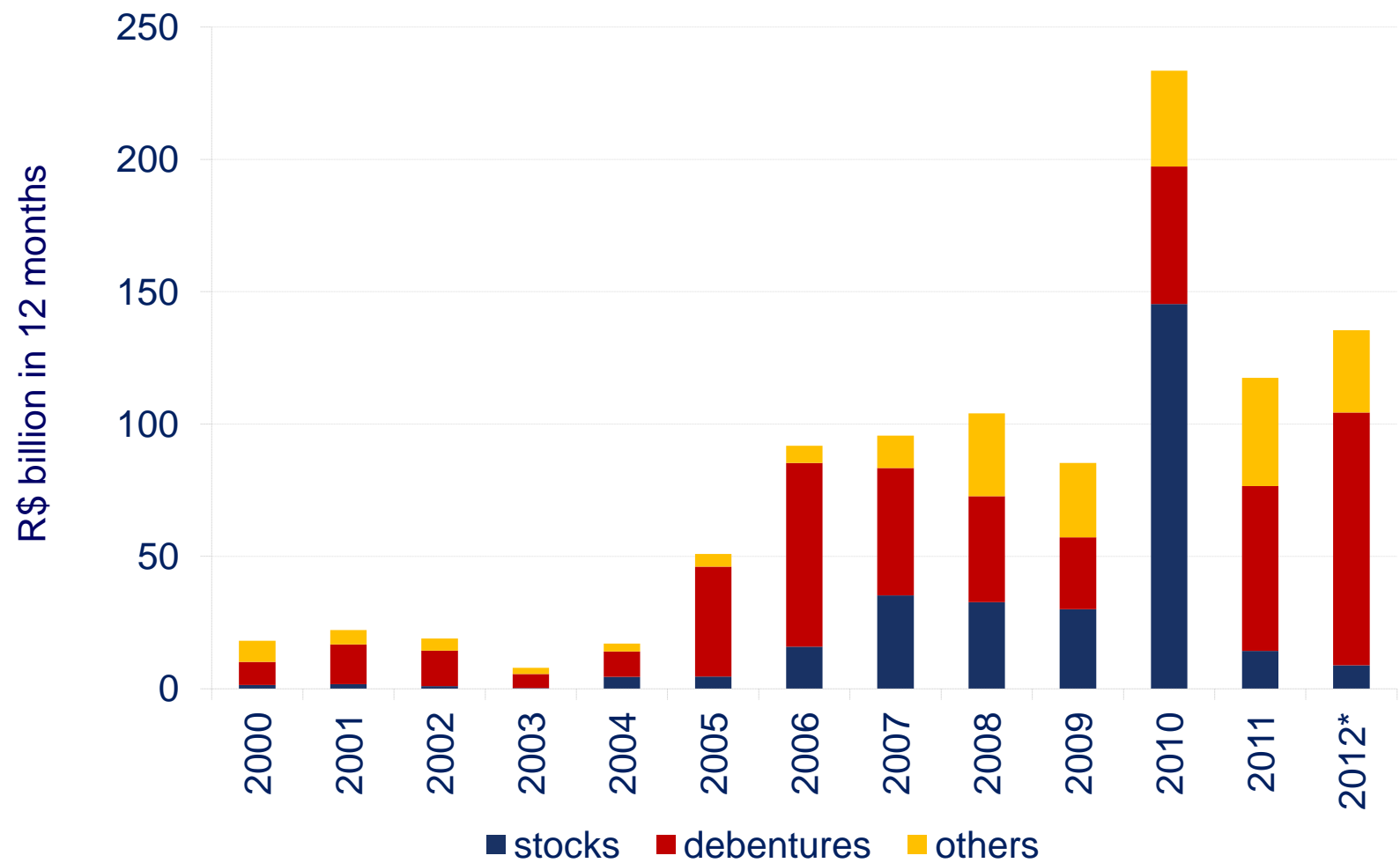
Commodities, Volatility and Risk Aversion



II. Financial Conditions

Capital Market Domestic Operations

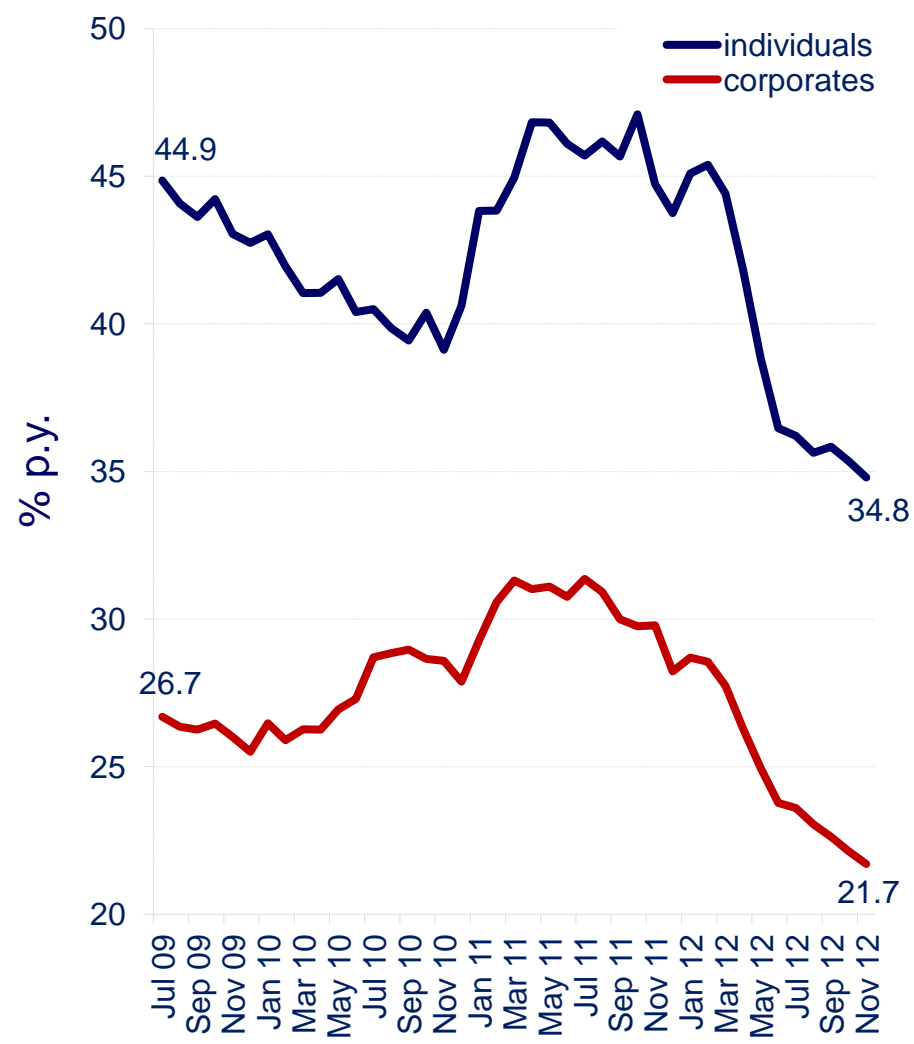
Primary Issues



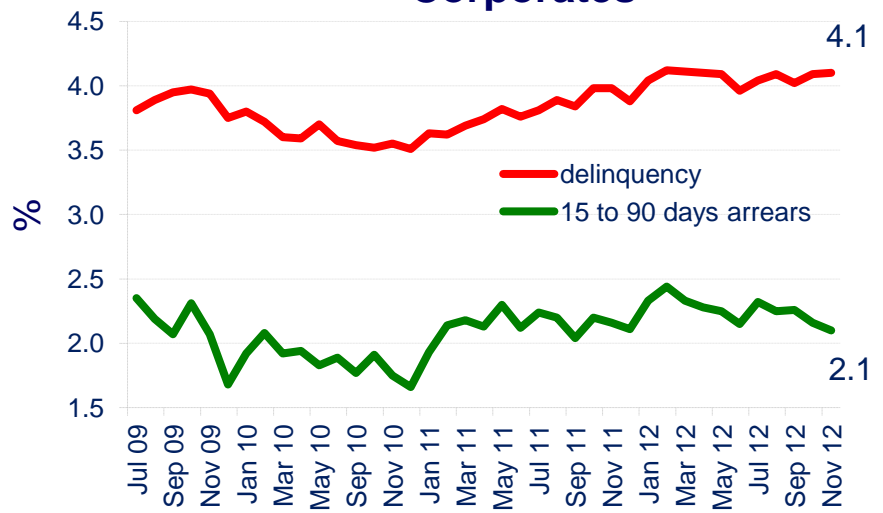
*Oct/12

Reference Credit: Cost, Delinquency and Arrears

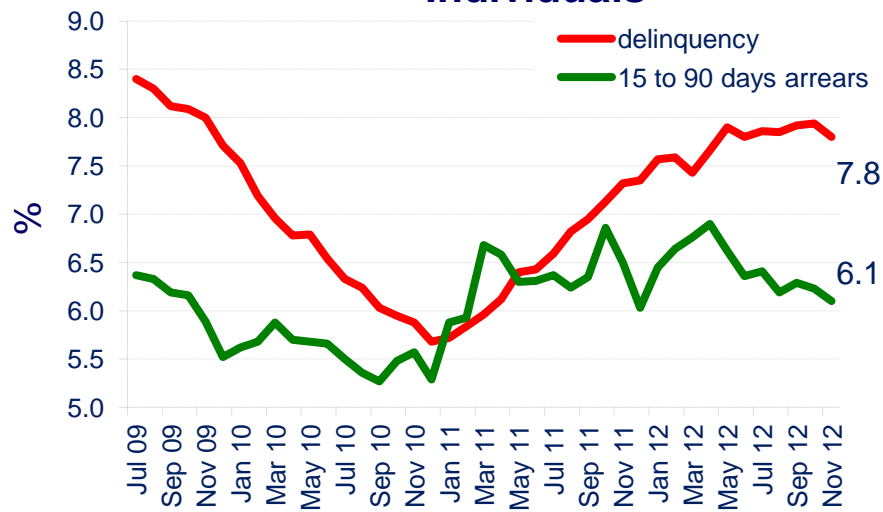
Interest Rate



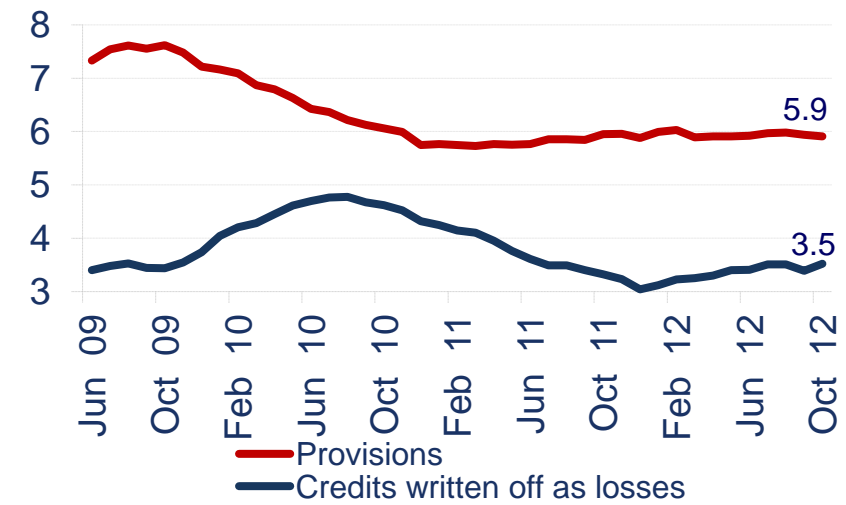
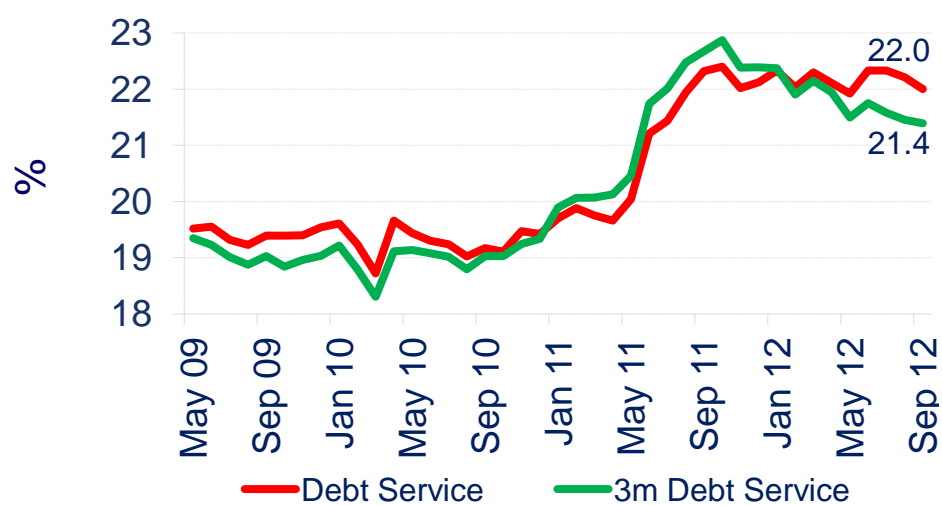
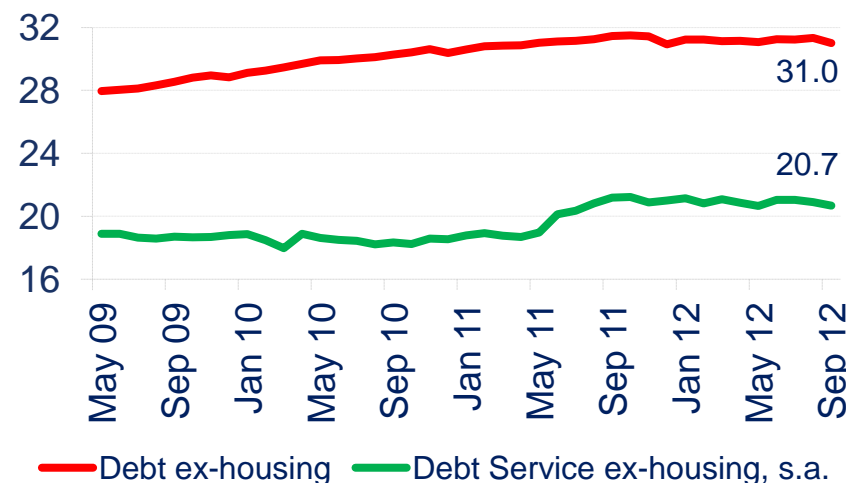
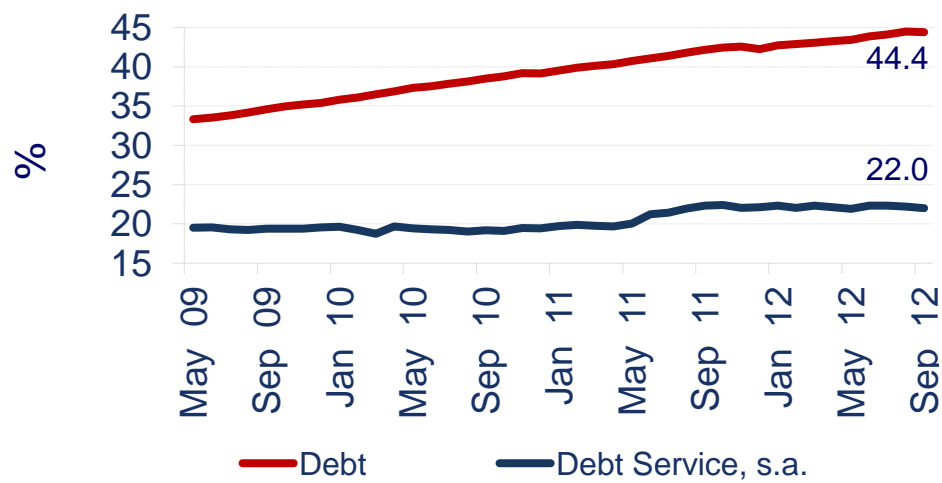
Corporates



Individuals



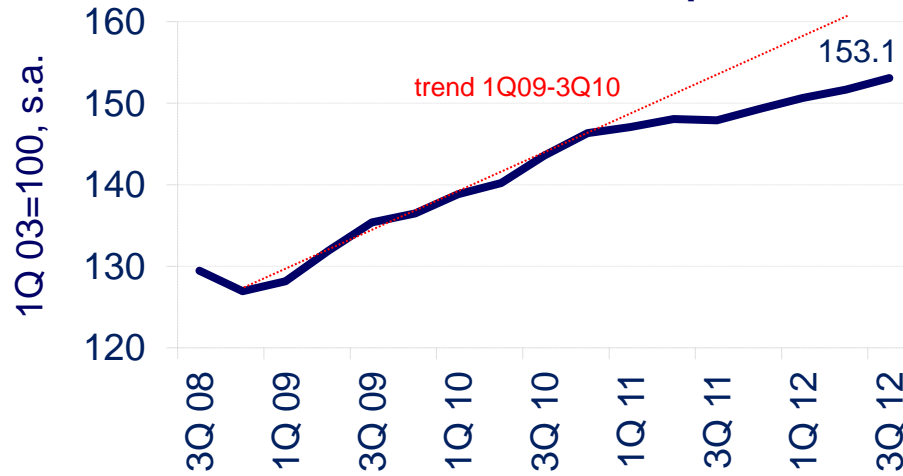
Household Debt and Provisions



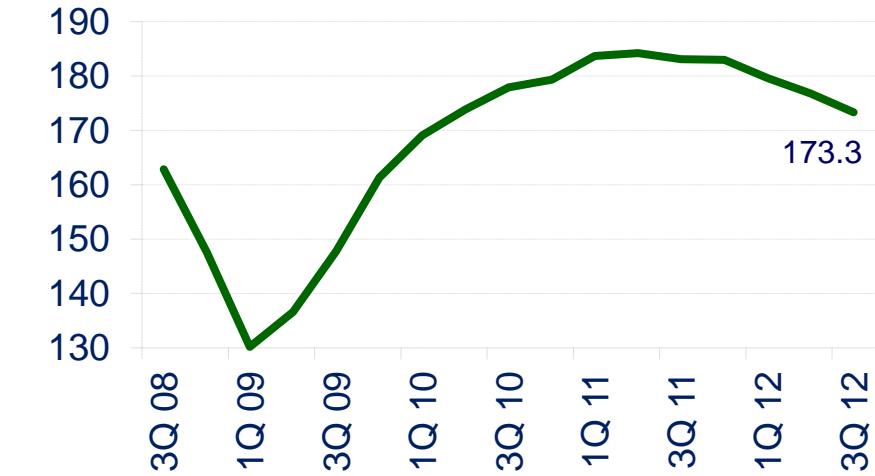
III. Activity

Demand

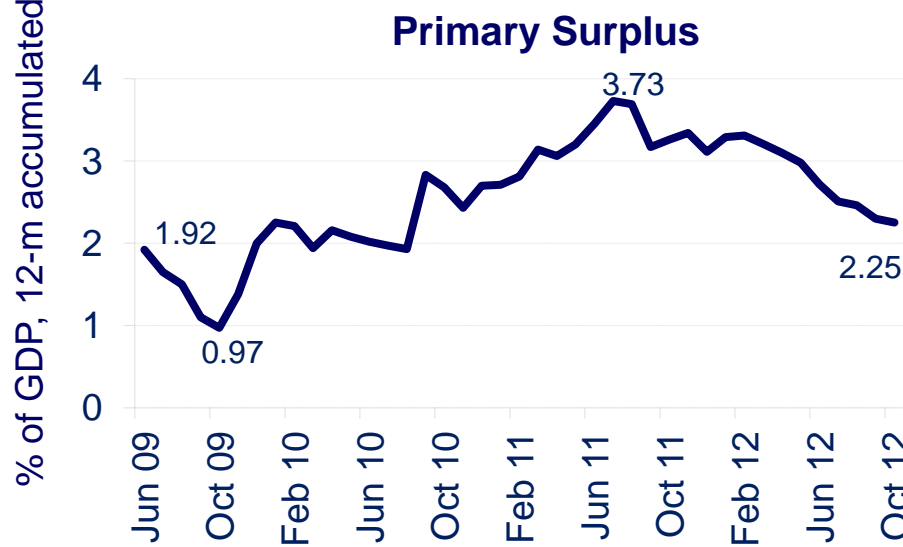
Household Consumption



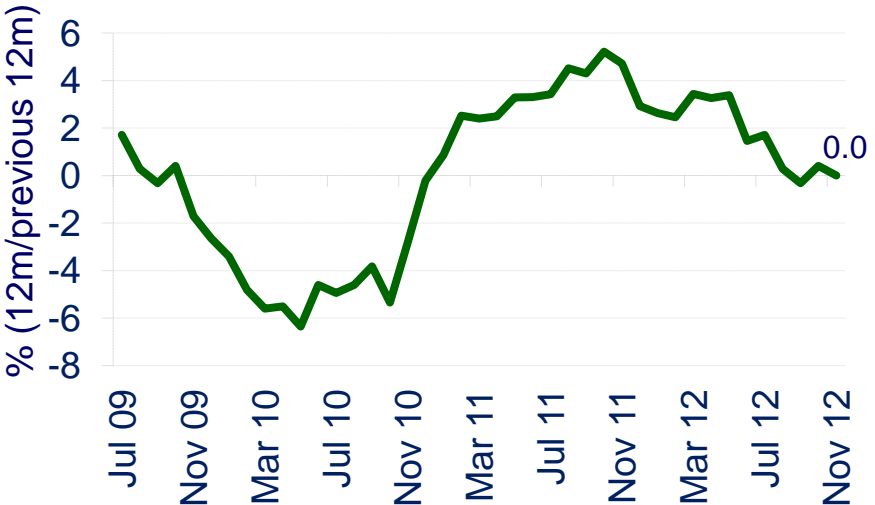
FCGF



Primary Surplus

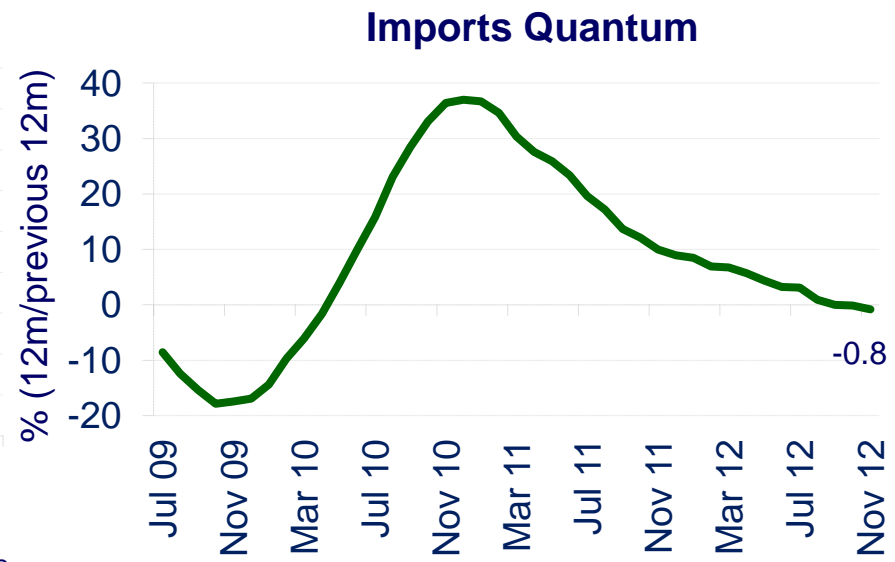
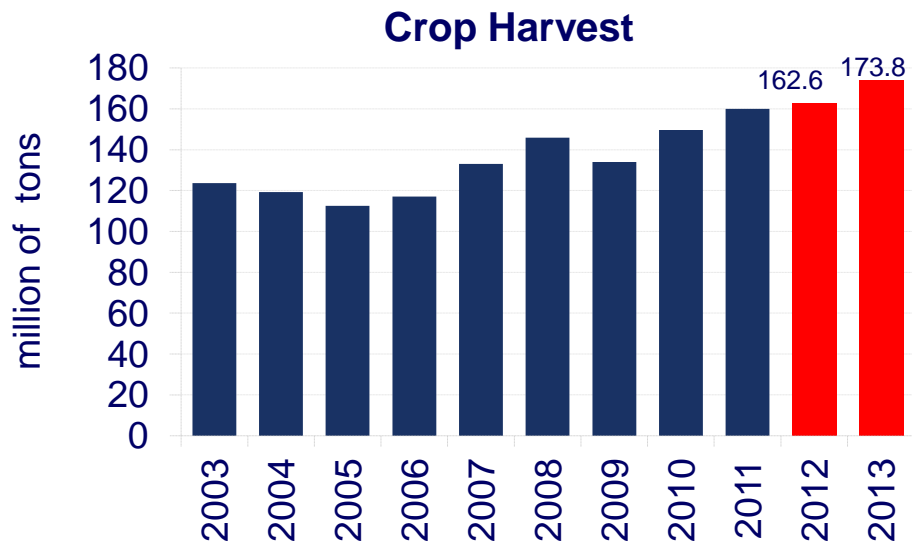
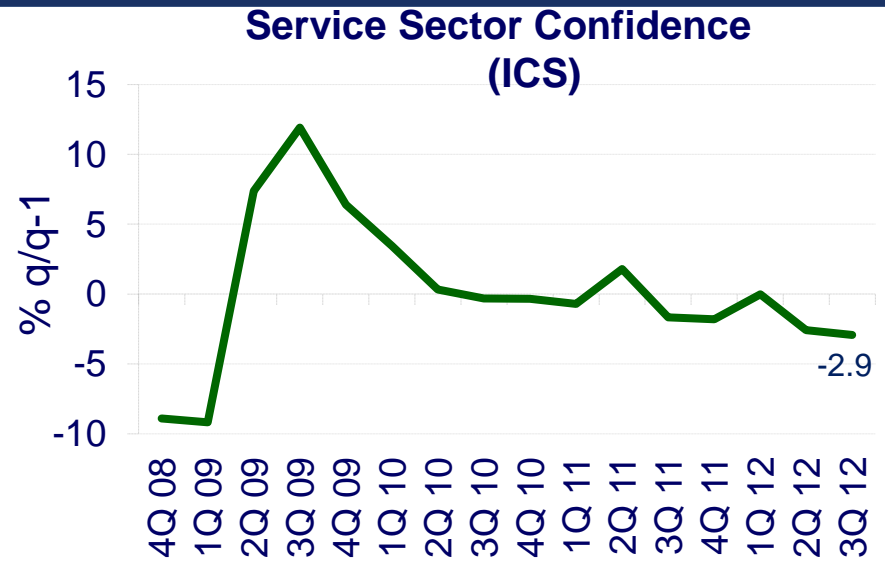
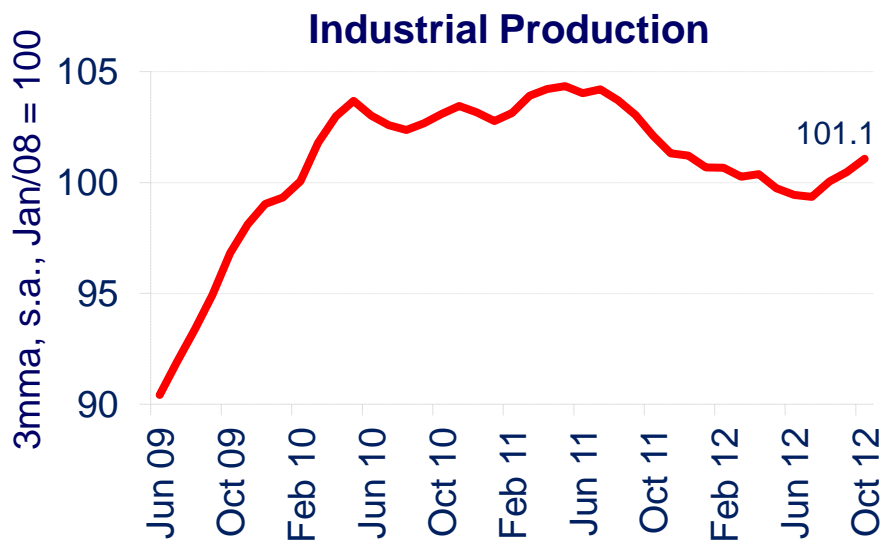


Exports Quantum



Target for 2012: R\$139.8 billion

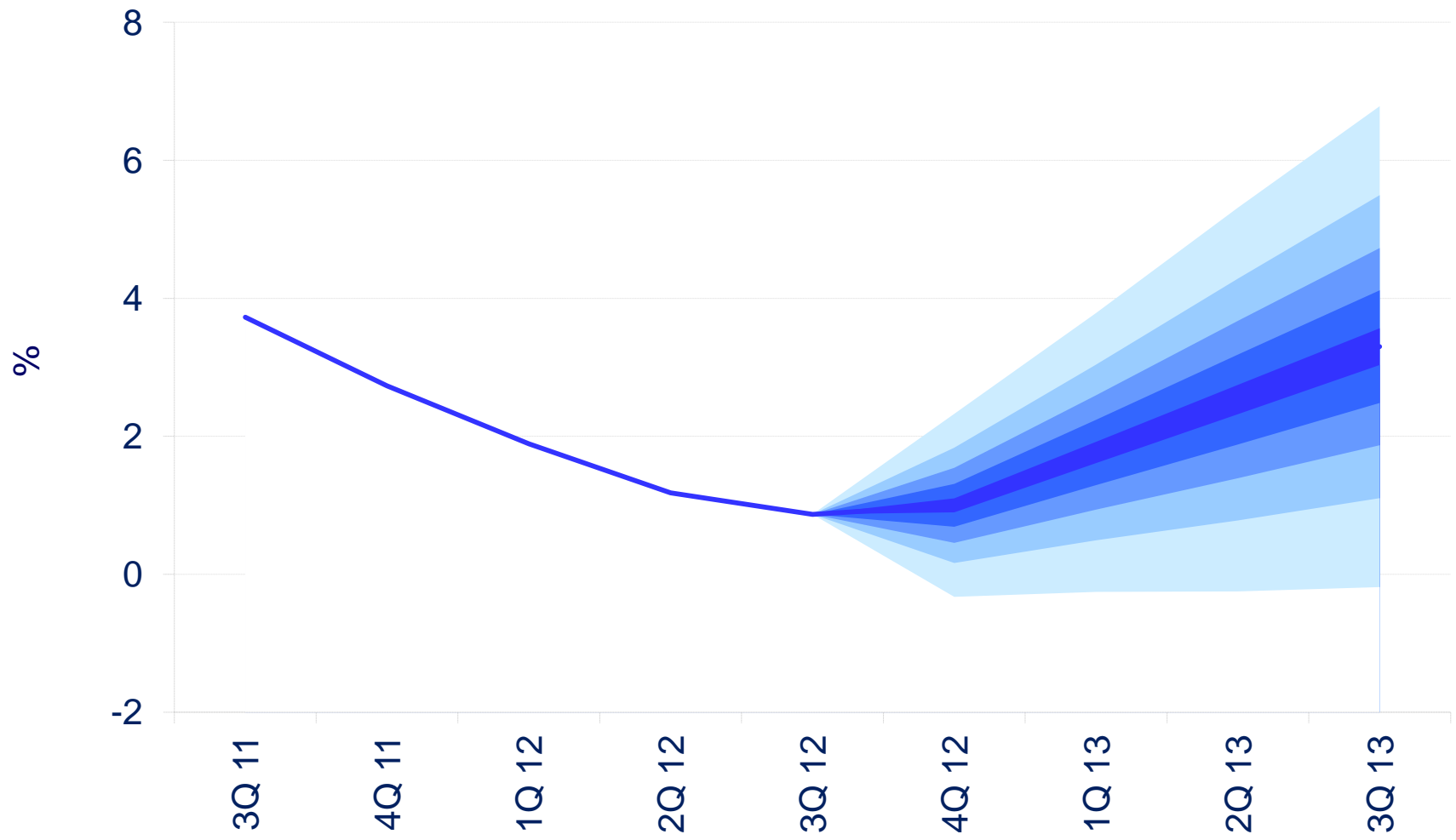
Supply



2012/13 IBGE estimates in Nov/12

GDP Forecast

Baseline Scenario*



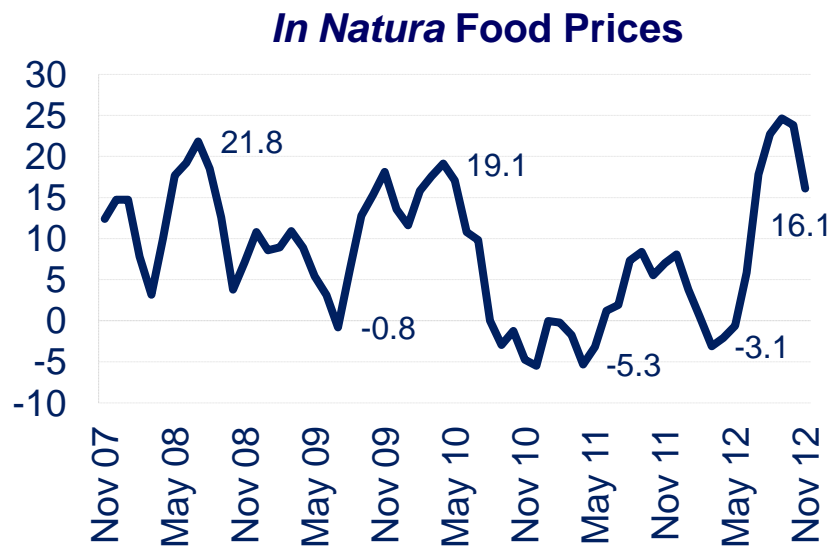
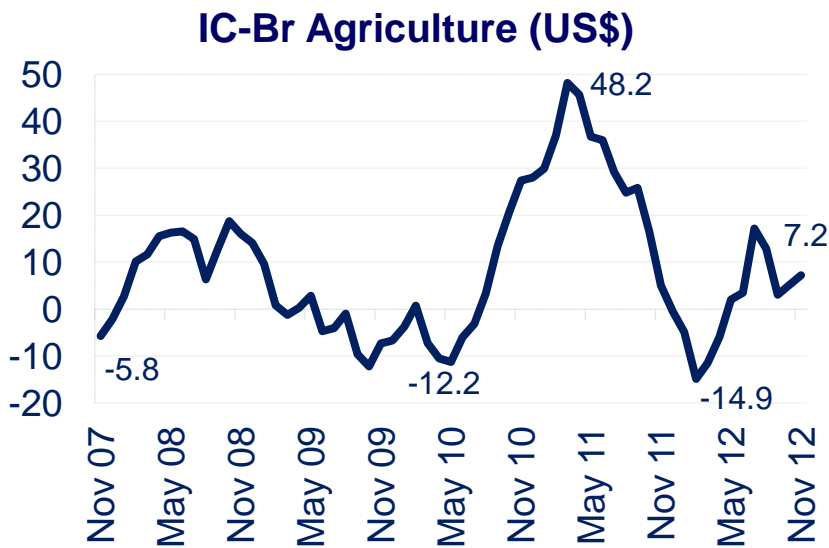
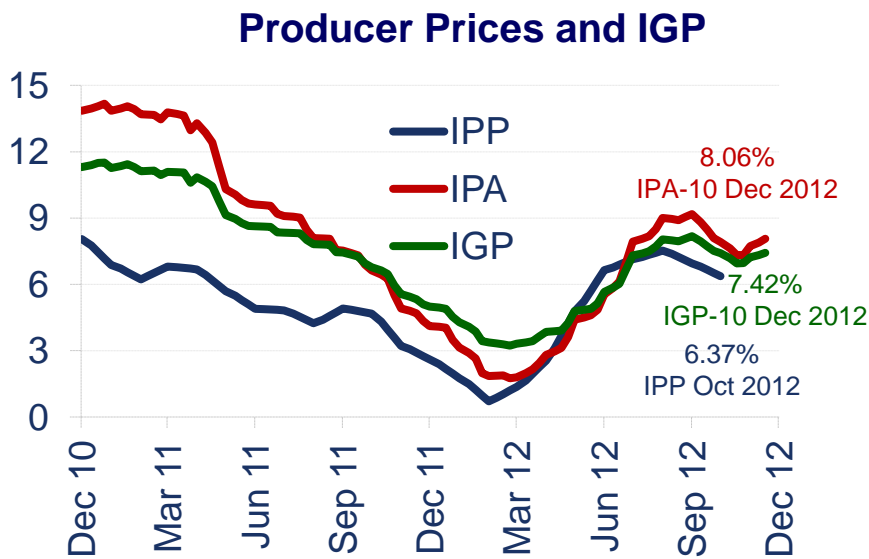
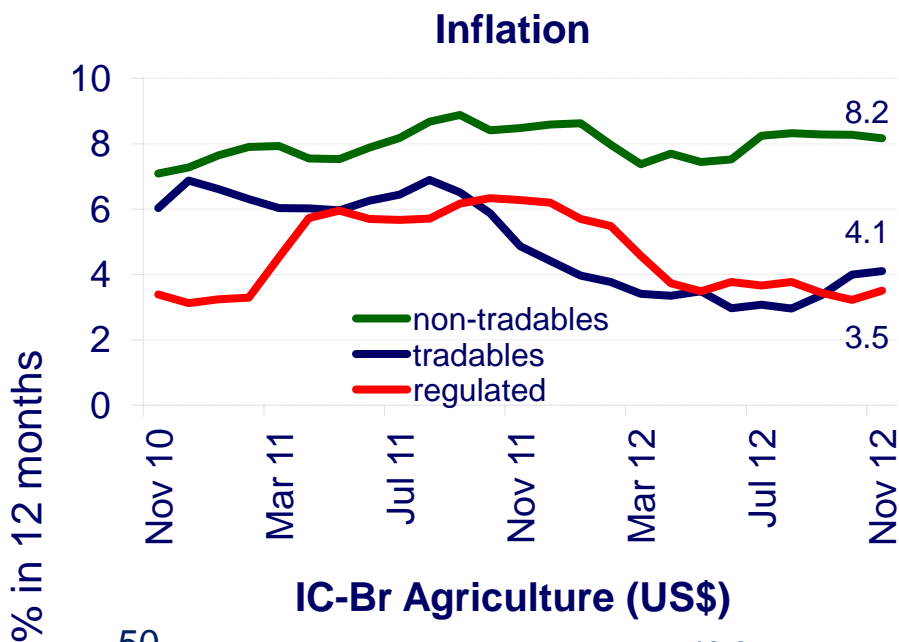
* Interest constant at 7.25% p.y.

IV. Inflation Developments

Inflation Developments

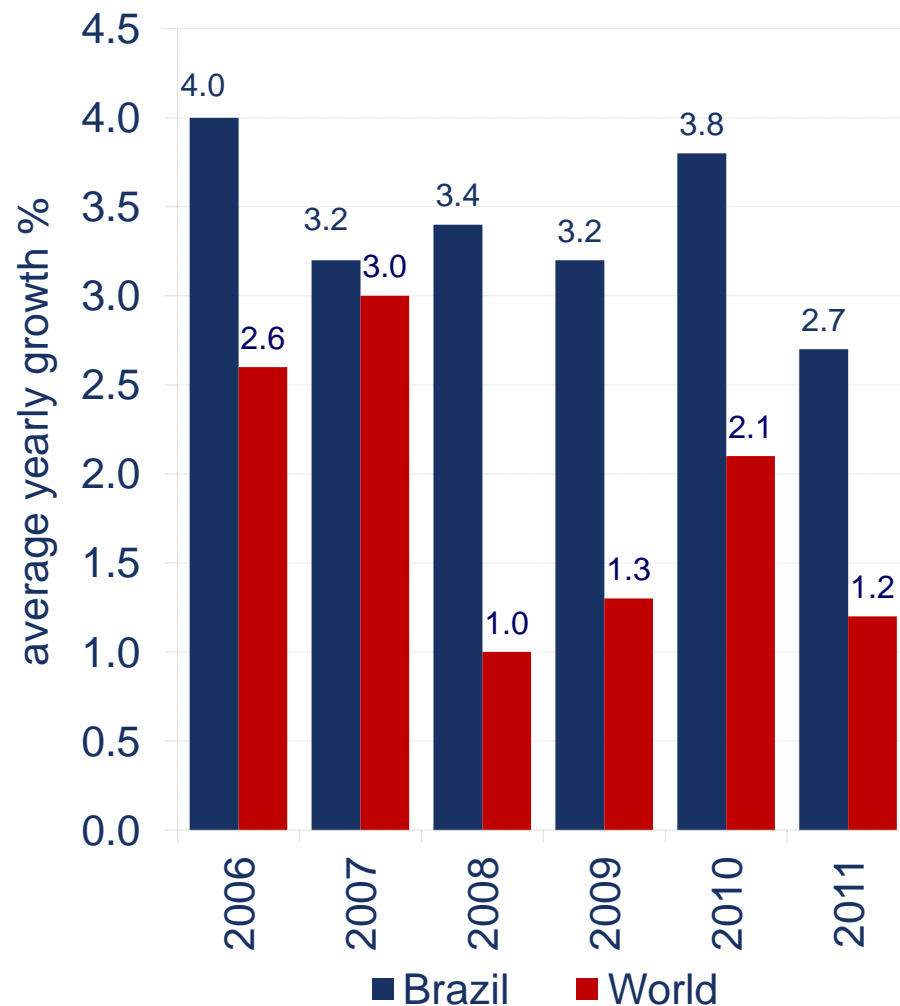
Price Indexes	change in 12 months (%)	
	Nov/11	Nov/12
IPCA	6.64	5.53
INPC	6.18	5.95
IPC-Fipe	5.73	4.92
IPC-C1	5.84	7.16
IGP-DI	5.56	7.22
IPA-DI	4.91	7.73
Agricultural	3.83	17.15
Industrial	5.30	4.38
IPC-DI	6.28	5.89
INCC-DI	8.09	7.06

Prices

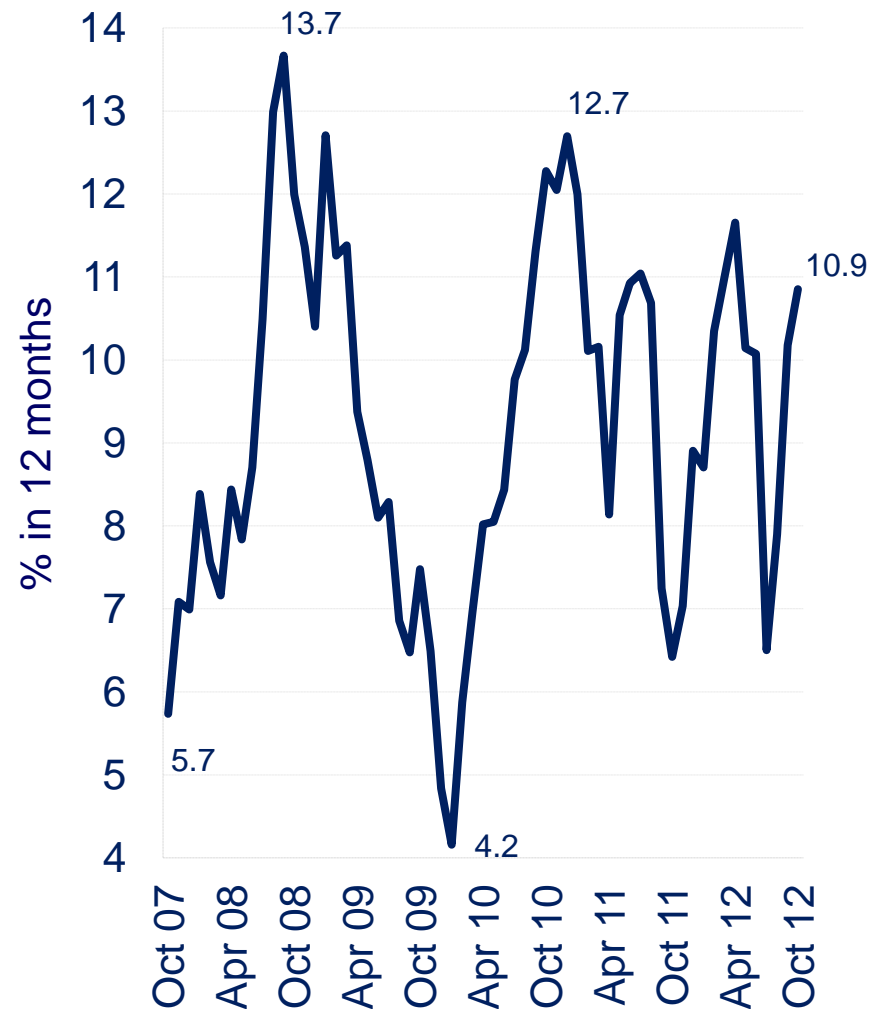


Wages

Real Wages



Nominal Wages



Market Estimates for 2013

	Jan 2 nd	Sep 29 th		Dec 14 th
IPCA	5.00	5.40	▲	5.42
Regulated Prices	4.50	3.50	=	3.50
IGP-M	4.82	5.12	▲	5.29
IPA-DI	4.90	5.02	▲	5.51
Selic (End-of-Period)	10.25	7.25	=	7.25
Exchange Rate (End-of-Period)	1.75	2.03	▲	2.08
GDP	4.25	3.85	▼	3.40
Industrial Production	4.00	4.05	▼	3.70
Trade Balance	11.60	15.52	▲	15.60
Foreign Direct Investment	55.00	59.50	▲	60.00
Primary Result	2.80	2.50	=	2.50

Market Estimates for 2014

	Jan 2 nd	Sep 29 th		Dec 14 th
IPCA	4.62	5.50	=	5.50
Regulated Prices	4.50	4.50	=	4.50
IGP-M	4.50	5.00	=	5.00
IPA-DI	4.50	5.00	=	5.00
Selic (End-of-Period)	10.00	8.75	▼	8.50
Exchange Rate (End-of-Period)	1.80	2.00	▲	2.05
GDP	4.50	3.89	▼	3.81
Industrial Production	4.40	4.00	▼	3.75
Trade Balance	11.50	15.50	▲	16.00
Foreign Direct Investment	50.00	60.00	=	60.00
Primary Result	2.78	2.50	=	2.50

Inflation Forecasts

Baseline Scenario* and Market Scenario

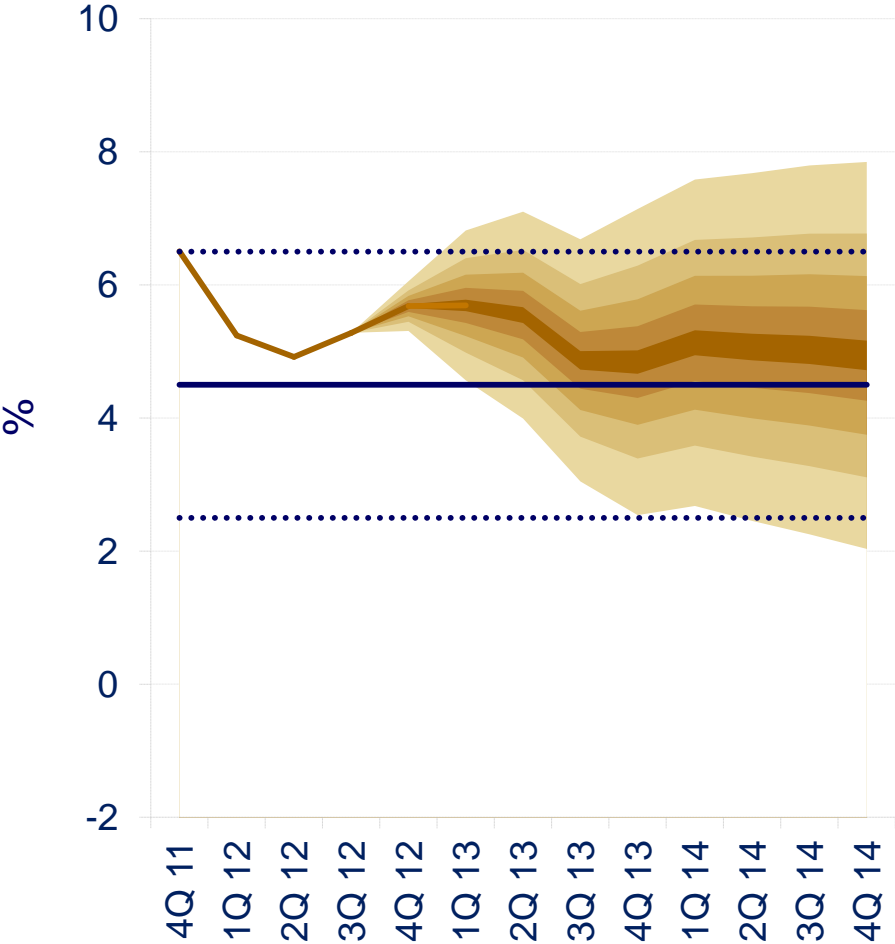
Period		Baseline	Market
2012	4	5.7	5.7
2013	1	5.7	5.7
2013	2	5.5	5.6
2013	3	4.9	4.9
2013	4	4.8	4.9
2014	1	5.1	5.2
2014	2	5.1	5.1
2014	3	5.0	5.0
2014	4	4.9	4.8

Note: 12-month cumulative inflation (%p.y.)

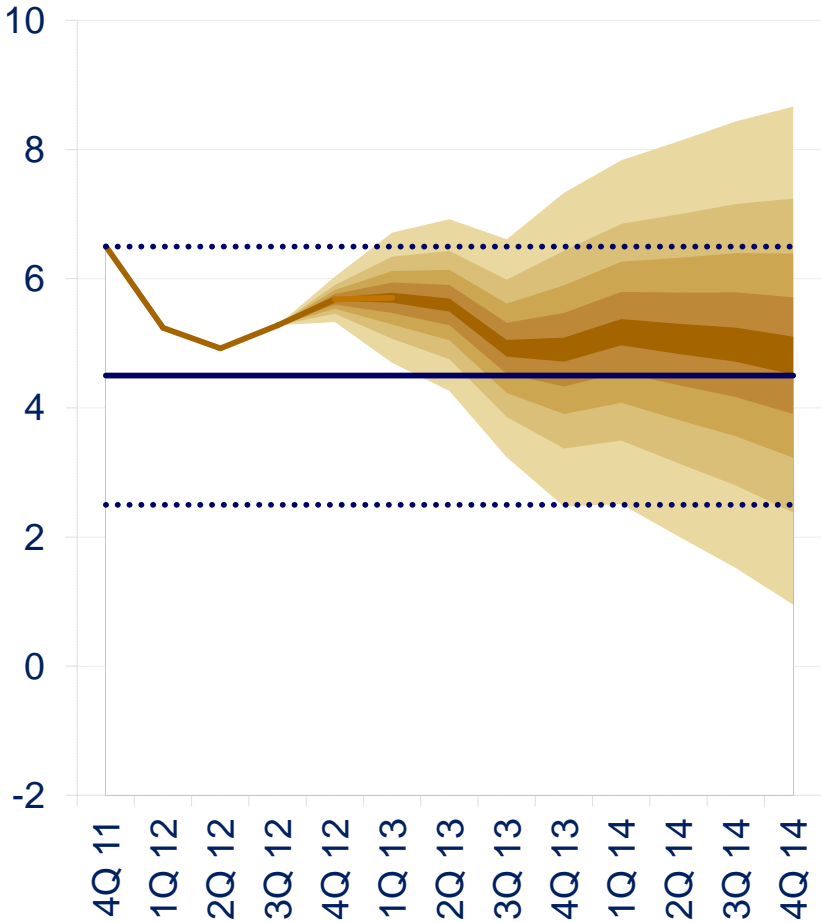
* Interest constant at 7.25% p.y.

Inflation Forecasts

Baseline Scenario
(interest constant at 7.25% p.y.)



Market Scenario



V. Boxes

Recent Evolution of International Trade of Goods

- After the 2008/2009 crisis, the recovery of the trade of goods has stemmed from the performance of emerging economies, mainly the Asian;
- In 2012, the international trade of goods decelerated, with increase of 2.1% in volume in the accumulated through September (historical average of 6.0% p.y. in the last 20 years).

Conjunctural Labour Market Indicators

- Employment Monthly Survey (PME) and General Records of Employed and Unemployed (Caged) do not diverge regarding the formal employment trajectory;
- The higher volatility in the PME data can be explained by its sample character;
- The deceleration in the pace of formal employment growth is not incompatible with the falling trajectory of the unemployment rate.

Recent Evolution of the Unit Labour Cost (ULC) in Brazil

- The recent growth of the ULC suggests inflationary pressures stemming from the labour market; and
- This behavior reflects both the increase in the average labour cost and the less favorable evolution of productivity.

An Assessment of Reserve Requirements

- The reserve requirements as a complementary tool to the basic interest rate may generate stability gains according both to product and inflation perspectives and to the macroprudential perspective;
- These stability gains tend to be greater when the shock stems from the financial sector.

Market Operations and Effect of the FX Flow over the Exchange Rate

- It compares effects of the FX flow over the exchange rate in the days that the BCB operates in the market, to the days there is no BCB operation;
 - The presence of the BCB in the market decreases the effect of the FX flow over the exchange rate; and
 - Sterilized interventions in the FX market constitute an effective policy tool in an inflation targeting regime.

Box: GDP Forecasts

- 2012 GDP forecast revised, from 1.6% to 1%;
- Forecast for the GDP accumulated in four quarters through the 2013 3rd quarter: 3.3%:
 - More intense activity pace in the next semesters;
 - Investment recovery;
 - Recovery of industry and agriculture in 2013.

Gross Domestic Product – 4-quarter cumulative change					
	2010	2011	2012 Previous	2012 New	2013 III
GDP at market prices	7.5	2.7	1.6	1.0	3.3
Agriculture and livestock	6.3	3.9	-1.4	-1.0	4.8
Industry	10.4	1.6	-0.1	-0.5	2.8
Services	5.5	2.7	2.2	1.6	3.2
Household consumption	6.9	4.1	3.3	3.0	4.0
Government consumption	4.2	1.9	3.7	3.2	2.9
FCGF	21.3	4.7	-2.2	-3.5	3.1
Exports	11.5	4.5	0.9	0.3	3.2
Imports	35.8	9.7	2.7	0.3	4.8

Box: Balance of Payments Forecast

- 2012: revision in the FDI flow, from \$60 billion to \$63 billion;
- 2013: increase in the current account deficit, with lower trade surplus and higher deficit in services and incomes, and reduction in the financial account, but still enough to finance current transactions.

	US\$ billion		
	2012		2013
	IR - Sep	IR - Dec	IR - Dec
Current account	-53.0	-52.5	-65.0
Trade balance	18.0	19.0	17.0
Exports	248.0	245.0	268.0
Imports	230.0	226.0	251.0
Services	-39.1	-39.7	-43.7
Incomes	-34.7	-34.6	-41.3
Transfers	2.8	2.8	3.0
Capital and financial account	75.7	75.0	70.0
FDI	60.0	63.0	65.0
Stocks and fixed income in the country	12.0	9.5	10.0
Loans and medium- and long-term securities	9.1	15.7	1.1
Loans and short-term securities	0.9	-0.2	-
Foreign commercial credits and others	12.2	16.8	13.0
Brazilian assets abroad (- = increase)	-18.5	-29.9	-19.1
Reserve Assets (- = increase)	-22.7	-22.6	-5.0



Inflation Outlook

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