

Consumer price index variation showed acceleration in the quarter ended in February 2009, impacted by seasonal pressures over the prices of unprocessed foodstuffs and by tariff readjustment, especially public transportation and by the hike in education-related costs.

Conversely, variation of general price indices registered a downturn in the period, evincing, essentially, the falloff in wholesale industrial prices, which had grown sharply in the quarter ended in November. Farming prices, translating the recovery of international prices of the principal *commodities*, expanded in the period, mirroring the behavior observed, specifically, in January.

One should also highlight the inconsistency between the behavior of the diffusion index, which registered the strengthening of the dissemination process of price increases, and the performance of inflation core measures, which registered, in general, smaller price variations in the quarter ended in February, as compared to that ended in November 2008. In this environment, considering the exhaustion, in the next months, of seasonal pressures observed at the beginning of the year, variation of consumer prices is forecasted to gradually converge towards the target established by the National Monetary Council (CMN).

## 2.1 General indices

Accumulated variation of the FGV's General Price Index – Internal Availability (IGP-DI) reached -0.55% in the quarter ended in February, against 1.53% in the quarter ended in November. This behavior reflected both the cutback registered in wholesale prices, in line with the price reduction of industrial products, and the lesser variation of construction prices.

The Wholesale Price Index (IPA-DI), weighting 60% in IGP-DI, fell off by 1.51% in the quarter ended in February,

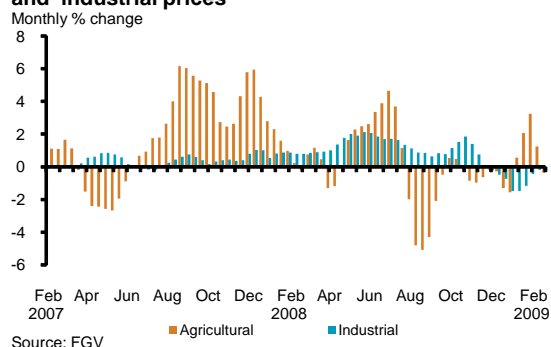
**Table 2.1 – General price indices**

	Monthly % change				
	2008			2009	
	Oct	Nov	Dec	Jan	Feb
IGP-DI	1.09	0.07	-0.44	0.01	-0.13
IPA	1.36	-0.17	-0.88	-0.33	-0.31
IPC-Br	0.47	0.56	0.52	0.83	0.21
INCC	0.77	0.50	0.17	0.33	0.27

Source: FGV

against a 1.63% increase in the period from September to November 2008. The reduction was associated, fundamentally, with the deceleration, from 2.63% to -2.16%, registered in the variation of prices of industrial products, a movement consistent with the cutbacks registered in the prices of metallic and non-metallic minerals, leather and footwear, cellulose, chemicals, iron and steel and petroleum derivatives. The twelve-month cumulative industrial price variation reached 9.49% in February, 14.93% in November, a development which tends to exert a benign effect over the evolution of the consumer prices in the following months.

**Figure 2.1 – IPA-10, IPA-M and IPA-DI – Agricultural and industrial prices**



Farming prices expanded by 0.37% in the quarter ended in February, against -1.12% in the quarter ended in November. This acceleration reflected the pressures exerted by the prices of products originated from seasonal crops, such as corn, wheat, soybeans, potatoes and pineapple, as well as by the prices of those originating in permanent crops such as cocoa, banana, coffee and orange. Prices related to livestock continued to drop, in the quarter.

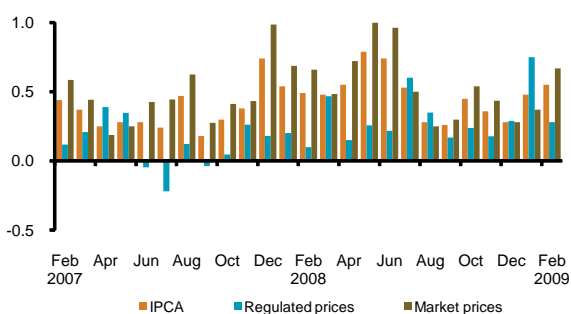
Variations in the Consumer Price Index – Brazil (IPC-Br) and in the National Cost of Construction Index (INCC), with respective weights of 30% and 10% in IGP-DI, in the order, stood at 1.57% and 0.77%, in the quarter ended in February, against 0.94% and 2.24%, in the quarter ended in November 2008. The acceleration registered by IPC-Br resulted in pressures associated to the items education, recreation and food, while the smallest variation of INCC translated the lower pressures exerted by the items labor and materials and services.

IGP-DI expanded 9.10% in 2008, against 7.89% in the previous year, registering acceleration in the annual variation of its three components. IPA-DI varied 9.80%, against 9.44% in 2007, while IPC-Br and INCC rose by 6.07% and 11.87%, respectively, against 4.60% and 6.15%, in the previous year. One should highlight that the variation of IPA-DI in 2008 reflected rises of 1.64% in the prices of farming products and of 12.96% in the prices of industrial products.

## 2.2 Consumer price indices

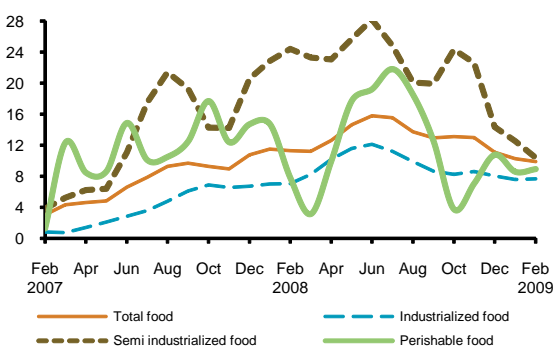
Changes in consumer price indices, impacted by seasonal pressures on the prices of perishable foodstuffs, increases in city bus fees and education-related costs, accelerated in the quarter ended in February, compared to that ended in November 2008.

**Figure 2.2 – IPCA**  
Monthly % change



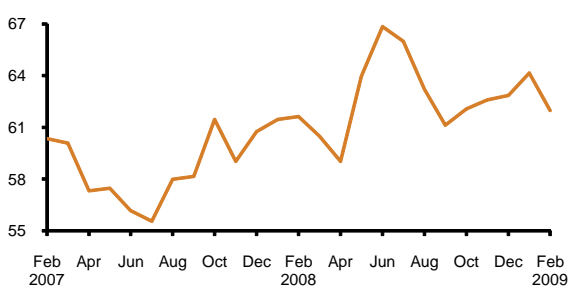
Source: IBGE

**Figure 2.3 – IPCA – Food**  
12-month % change



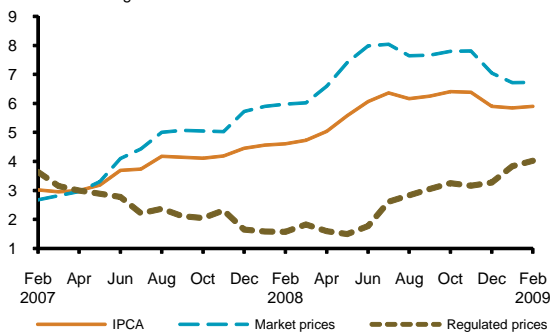
Source: IBGE

**Figure 2.4 – IPCA**  
% of items with increase  
Quarterly moving average



Sources: IBGE and Bacen

**Figure 2.5 – IPCA**  
12 month % change



Sources: IBGE and Bacen

IPCA, released by IBGE, expanded 5.90% in 2008, against 4.46% in the previous year, registering rises of 3.27% in prices of government-regulated goods and services and of 7.05% in free prices, against 1.65% and 5.73%, respectively, in the previous year.

IPCA variation reached 1.32% in the quarter ended in February 2009, against 1.07% in that ended in November, a result of an upturn from 0.59% to 1.32%, in regulated prices, and from 1.28% to 1.31% in free prices. This behavior, consistent with the seasonality of the period and with the less vigorous domestic demand, reflected, to a large extent, price elevations of city bus fees, recreation, health plans, meals, *in natura* foodstuffs and training courses.

The prices of services, driven by the impact of education, expanded 2.96% in the quarter up to February, the greatest hike since February 2004, when expansion reached 3% in the same type of comparison. Considering twelve-month periods, the prices of services rose 7.09%, against 6.48% in November. It should be highlighted that the process of price formation in this segment is based on readjustment rules which incorporate past inflation, thus turning the inflationary trajectory of services more persistent and less sensitive to fluctuations of aggregated demand at the margin. In summary, prices of this segment should account for the lag in the pace of activity, showing gradual deceleration during the second half of the year.

The diffusion index – an indicator of the proportion of the number of items which displayed a positive variation in the IPCA, evincing the continuity of dissemination of price increases, registered an average of 61.98% in the quarter ended in February, against 62.59% in that ended in November.

The seasonal pressure over the price indices by the segment of courses tends to exhaust in the next months. This factor and the cutback in prices of important segments of the industrial sector should contribute to the deceleration of IPCA variation. One should highlight, however, that this movement may be partially neutralized by the effects on consumer prices of the increases observed in the prices of wholesale farming products in the latest months.

## 2.3 Regulated prices

The regulated prices rose by 3.27% in 2008, and accounted for 0.98 p.p. of the total IPCA variation in the

**Table 2.2 – IPCA**

	Weights	% change				
		2008		Year	2009	
		Nov	Dec		Jan	Feb
IPCA	100.00	0.36	0.28	5.90	0.48	0.55
Market prices	70.36	0.44	0.28	7.05	0.37	0.67
Regulated prices	29.64	0.18	0.29	3.27	0.75	0.28
<b>Main items</b>						
Electricity	3.24	0.16	0.14	0.97	-0.14	-0.36
Natural gas vehicle	0.13	2.43	1.69	21.39	4.13	-1.12
Pipeline gas	0.10	-2.26	-0.18	14.17	4.47	-1.10
Diesel fuel	0.09	0.12	-0.21	13.19	0.33	-0.34
Electricity	0.14	0.12	1.87	9.82	0.94	0.05
Tolls	1.35	0.00	0.00	-2.82	0.00	0.13
Water and sewage	1.62	0.00	0.00	7.09	0.00	0.00
Urban bus	3.77	0.00	0.89	2.16	3.24	1.03
Air ticket	0.30	0.73	1.31	10.73	0.87	0.82
Gasoline	4.20	0.21	-0.09	-0.17	0.42	-0.04
Bottled cooking gas	1.11	0.23	-0.18	2.61	0.13	-0.41
Medicine	2.83	0.15	-0.11	4.09	0.61	0.34
Health plans	3.38	0.48	0.48	5.66	0.47	0.48

Source: IBGE

year. The greatest rising pressures occurred in the items vehicle fuel gas, 23.44%; piped gas, 13.96%; diesel oil, 12.95%; air fares, 12.18%, the latter reflecting the behavior of the prices of energy *commodities*; and toll, 11.88%; while, conversely, the mobile phone fees fell off 2.82% and the price of gasoline, 0.26%.

The groups of IPCA free and regulated prices showed variations of 1.31% and 1.32%, respectively, in the quarter ended in February, against 1.28% and 0.59% in that ended in November. Variation of regulated prices represented 0.39 p.p. of the 1.32% IPCA inflation, in this period.

The intermunicipal bus fees expanded 5.97% in the quarter, while those of urban buses, translating rises registered in Curitiba, 15.80%; Belém, 13.33%; Salvador, 10%; Belo Horizonte, 9.53%; Porto Alegre, 7.62%; and Rio de Janeiro, 4.76%, expanded 5.23%. The prices of medicines rose 0.84% in the quarter, contrasting with the cutback of 0.36% registered in the item electric energy.

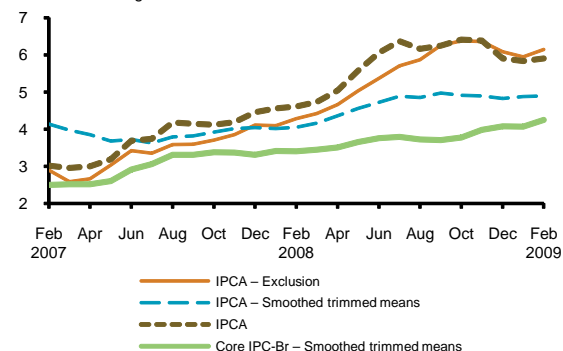
**Table 2.3 – Consumer prices and core inflation**

	Monthly % change				
	2008			2009	
	Oct	Nov	Dec	Jan	Feb
IPCA	0.45	0.36	0.28	0.48	0.55
Exclusion	0.51	0.36	0.33	0.27	0.88
<b>Trimmed means</b>					
Smoothed	0.37	0.35	0.33	0.42	0.29
Non smoothed	0.32	0.28	0.33	0.44	0.27
IPC-Br	0.47	0.56	0.52	0.83	0.21
Core IPC-Br	0.31	0.45	0.34	0.35	0.33

Source: IBGE, Bacen and FGV

**Figure 2.6 – Core inflation**

12-month % change



Source: IBGE, Bacen and FGV

## 2.4 Inflation core

The inflation core measures showed, on average, less intensive variation in the quarter ended in February than in that ended in November 2008, registering cutbacks in the respective variations in twelve months, which, however, stand above the central value for the inflation target.

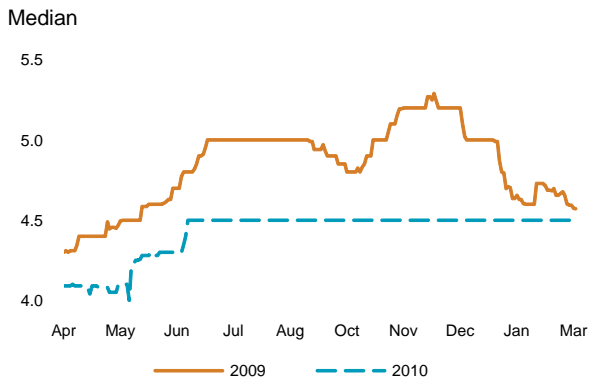
IPCA core, calculated by the exclusion of regulated prices and foodstuffs in the household, grew 1.49% in the quarter ended in February, same variation registered in that ended in November. The twelve-month variation of the indicator, moved from 6.36%, in November, to 6.14% in February.

The core, calculated by smoothed trimmed averages showed an increase of 1.04%, against 1.18% in the September to November 2008 period, accumulating, 12-month expansions of 4.89% in February and 4.90% in November. The quarterly variation of inflation core by trimmed averages without smoothing reached 1.04%, against 1.02% in the quarter ended in November, accumulating 12-month variation of 4.85% in February, against 5.05% in November.

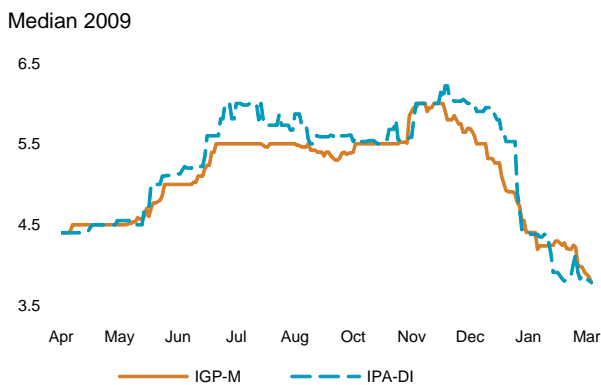
The inflation core for FGV's IPC-Br, calculated by the method of trimmed averages, showed a rising trend in the quarter ended in February, expanding 1.02%, against 0.98% in the quarter ended in November.

## 2.5 Market expectations

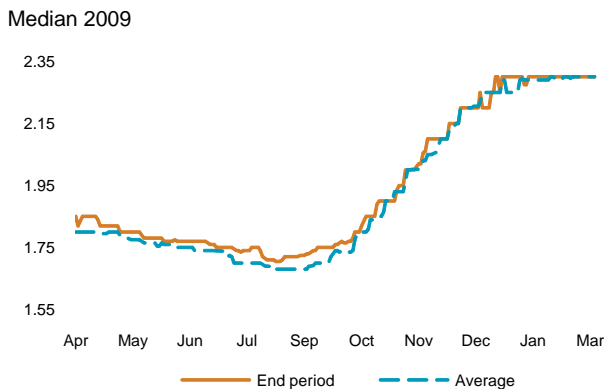
**Figure 2.7 – IPCA**



**Figure 2.8 – IGP-M e IPA-DI**



**Figure 2.9 – Exchange**



**Table 2.4 – Summary of market expectations**

	9.30.2008		12.31.2008		3.6.2009	
	2009	2010	2009	2010	2009	2010
IPCA	4.9	4.5	5.0	4.5	4.6	4.5
IGP-M	5.4	4.5	5.3	4.5	3.8	4.5
IPA-DI	5.6	4.7	6.0	4.7	3.8	4.6
Regulated Prices	5.1	4.5	5.1	4.5	4.7	4.5
Selic (end-of-period)*	13.8	12.0	12.0	11.5	10.3	10.3
Selic (average)*	14.2	12.4	12.4	12.0	10.8	10.2
Exchange rate (end-of-period)	1.80	1.89	2.30	2.25	2.30	2.28
Exchange rate (average)	1.78	1.85	2.25	2.22	2.30	2.25
GDP growth	3.5	4.2	2.4	3.9	1.2	3.5

The 2009 inflation expectations, gathered by the Executive Investors Relations Group (Gerin), retroactive to the end of the final quarter of 2008, situated near the official target of 4.5%, established by the National Monetary Council (CMN) for the IPCA. On March 6, the median of forecasts estimated a 4.6% variation for the IPCA in 2009, against 5% at the end of 2008. For 2010, inflation expectations remained anchored at the target center of 4.50%. The median of inflation expectations for twelve months ahead – smoothed – reached 4.50% in the first week of March, as compared to 5% at the end of December.

The medians related to General Price Index – Market (IGP-M) and to IPA-DI for 2009 fell back to 3.80% in the first week of March, against 5.30% and 6%, at the end of December, in the same order. For 2010, the forecasted median for IGP-M remained at 4.50%, while that related to IPA-DI was revised from 4.70% to 4.60%.

The median of expectations of regulated price variation for 2009 was reduced from 5.10%, at the end of December, to 4.70%, at the beginning of March, remaining unaltered at 4.50% for 2010.

In spite of intense volatility and risk aversion experienced by the international markets in the latest months, the median of the forecasted exchange rate for the market to end of this year remained stable at R\$2.30 since the end of December 2008, reproducing somehow the behavior observed in the latest months in the spot market. The median for the foreseen average rate of exchange for 2009 moved from R\$2.25/US\$, at the end of December, to R\$2.30/US\$, at the beginning of March, while those related to the average and end of period rates for 2010 rose, respectively, from R\$2.22/US\$ to R\$2.25/US\$, and from R\$2.25/US\$ to R\$2.28/US\$, in the considered periods.

The worsening of the economic crisis resulted in strong adjustments in the growth forecasts for the Brazilian economy in 2009. In the first week of March, the median of forecasts for the GDP growth in the year reached 1.2%, against 2.4% at the end of 2008. The median of forecasts for GDP growth in 2010 was reduced, though in a less intense fashion, falling from 3.9%, at the end of December, to 3.5%

With the economic slowdown, the expectations survey participants started forecasting, also, a greater cutback in the

basic interest rate. In this sense, the median related to Selic rate forecasted for the end of 2009 moved from 12% p.y., at the end of December, to 10.25% p.y., in the first week of March. For 2010, the median related to 2010 retroacted from 11.5% p.y. to 10.25% p.y., in the period.

## 2.6 Conclusion

The rise in consumer inflation rates at the beginning of 2009 reflected the readjustments in public transportation fees, the annual increase of education costs, and seasonal factors, such as the rise in the prices of perishable foodstuffs. The behavior of these prices should start reflecting, in the coming months, the cutbacks in the wholesale prices of relevant industrial prices in the productive chain. In this scenario, the expectation, that the annual IPCA variation will meet the inflation target established by CMN, assumes neater contours.