

Inflation rates rose in the quarter ending November, after registering a downward trend in the quarter ending August, both episodes largely due to the impact of changing food prices.

Developments over recent months of the general and consumer indices, core inflation and the diffusion index of the Extended National Consumer Price Index (IPCA) resulted from a combination of both domestic and external pressures. Domestically, apart from the exceptionally unfavorable seasonal contribution of agricultural prices, causing significant rises in food prices, there were important pressures from the service sector, reflecting the imbalance between the growth rates of supply and of demand for goods and services.

On the external front, it is worth noting the pressure associated with rising international prices of the principal agricultural and metallic commodities.

2.1 General indices

The FGV’s General Price Index – Domestic Supply (IGP-DI), increased 3.75% in the quarter ending November, compared to 1.67% for that ending August. The increase registered in the period reflected the impact of rises in the levels of the Broad Producer Price Index (PPI), of 2.49% to 4.85% and the Consumer Price Index (IPC) of -0.50 % to 2.07%, offset in part by a slowdown, of 1.68%, to 0.78%, seen in the variable of the National Cost of Construction Index (INCC).

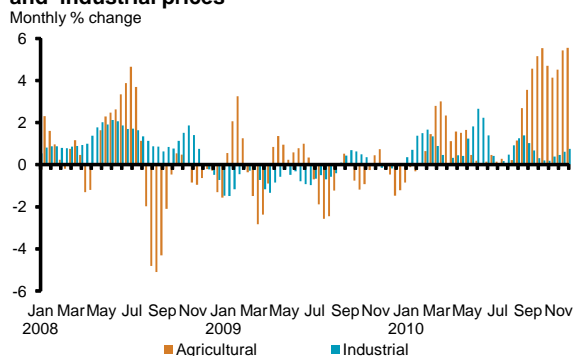
The changes in IPA resulted, in particular, in growth of 3.05% to 15.58% – the highest quarterly rate since November 2002 – registered in the level of agricultural prices, with emphasis on rises in the prices of corn, wheat, beans, soybeans, white potatoes, tomatoes, sugar cane, cattle, pork and poultry. The

Table 2.1 – General price indices

	% monthly variation				
	2010				
	Jul	Aug	Sep	Oct	Nov
IGP-DI	0.22	1.10	1.10	1.03	1.58
IPA	0.34	1.70	1.47	1.32	1.98
IPC-Br	-0.21	-0.08	0.46	0.59	1.00
INCC	0.44	0.14	0.21	0.20	0.37

Source: FGV

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



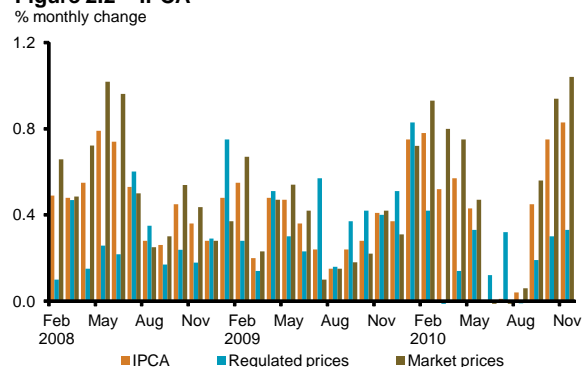
Source: FGV

Table 2.2 – Consumer prices

	% monthly change				
	2010				
	Jul	Aug	Sep	Oct	Nov
IPCA	0.01	0.04	0.45	0.75	0.83
Non-regulated prices	-0.12	0.06	0.56	0.94	1.04
Tradables	-0.21	0.12	0.88	1.00	1.53
Nontradables	-0.04	0.01	0.28	0.88	0.60
Services	0.35	0.41	0.41	0.49	0.46
Regulated prices	0.32	-0.01	0.19	0.30	0.33

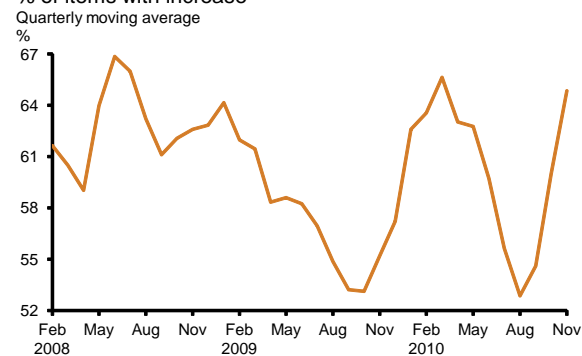
Sources: IBGE, Banco Central and FGV

Figure 2.2 – IPCA



Source: IBGE

Figure 2.3 – IPCA
% of items with increase



Source: IBGE

quarterly variation of industrial prices reached 1.45%, down from 2.31% in the quarter ending August, a slowdown partly associated to falls in the prices of metallic minerals, base metallurgy and computer equipment.

CPI growth principally reflected price increases in food, 4.55%, and clothing, 2.61%. In turn, the slowdown in the INCC was favored by slower variations of materials and services, of 1.57% to 0.78% and manpower, of 1.80% to 0.76%.

2.2 Consumer price indices

Extended National Consumer Price Index

The IPCA rose 2.04% in the quarter ending November, compared to 0.05% in that ending August, a result of market price contributions, 1.82 p.p. and regulated prices, 0.22 p.p.

The variable of market prices recorded a reversal of -0.11% to 2.56% in the period, the result of respective increases of 3.45% and 1.77% in the segments of tradables and nontradables, which had experienced decreases of 0.18% and 0.04% respectively in the quarter ending August. It is worth mentioning, in the segment of nontradables, increases in the prices of perishable foodstuff items, 1.45%, and domestic help, 3.13%, which had varied -16.78% and 1.02% in the quarter ending August. The acceleration observed in tradables was attributed, in particular, to increased prices of apparel and items such as wheat flour, beef, processed meats and farmed fish, poultry, bakery goods, oil and fats and alcohol.

The IPCA with the exclusion of food and beverages recorded a high of 1.10% in the quarter from 0.63% in the quarter ending August. The cumulative variation of this indicator, over 12 months, remained stable, reaching 4.59% in November from 4.60% in August.

Considering all market prices together, those referring to the food group rose 5.28% in the quarter ending November, with emphasis on rises in the segments of semi-processed products, 11.87%; processed products, 4.33%; and perishable foodstuffs, 1.45%, compared to respective reductions of 1.76%, 1.11% and 16.78% for the quarter ending August. Moreover, the variation in service prices, reflecting increased pressure from domestic help, increased from 1.17% to 1.37% in the period. Market prices excluding the group food and beverages varied 1.26% against 0.75% in the quarter ending August, while

Table 2.3 – IPCA

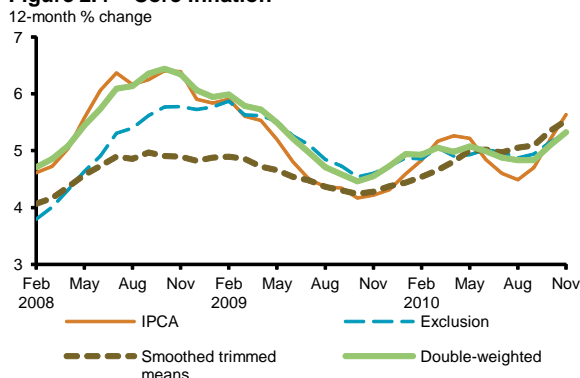
	% monthly change						
	Weights 2010	Jul	Aug	Sep	Oct	Nov	Year
IPCA	100.00	0.01	0.04	0.45	0.75	0.83	5.25
Market prices	70.85	-0.12	0.06	0.55	0.93	1.04	6.24
Regulated prices	29.15	0.32	-0.01	0.20	0.30	0.33	2.89
Main items							
Electricity	3.22	1.17	0.11	-0.06	0.13	0.48	3.03
Natural gas vehicle	0.10	-0.43	-0.03	0.53	0.07	0.05	0.47
Pipeline gas	0.10	-0.01	0.36	0.04	0.00	-0.34	1.51
Diesel fuel	0.08	0.04	-0.01	0.04	0.03	-0.21	-0.20
Electricity	0.12	2.47	0.52	0.23	0.06	0.09	-6.10
Tolls	1.29	0.00	0.03	0.05	0.71	0.63	1.74
Water and sewage	1.62	0.13	0.23	0.70	0.52	0.00	3.34
Urban bus	3.81	0.38	-0.38	0.00	0.00	0.30	7.46
Air ticket	0.35	9.15	-10.32	7.58	3.69	-1.26	-4.14
Gasoline	3.96	-0.13	0.75	-0.14	1.13	0.81	1.42
Bottled cooking gas	1.19	-0.04	-0.16	0.20	0.23	0.10	1.84
Medicine	2.83	-0.16	0.07	0.15	-0.44	0.09	3.25
Health plans	3.49	0.53	0.62	0.58	0.59	0.58	6.25

Source: IBGE

Table 2.4 – Consumer prices and core inflation

	% monthly change				
	2010				
	Jul	Aug	Sep	Oct	Nov
IPCA	0.01	0.04	0.45	0.75	0.83
Exclusion	0.24	0.12	0.37	0.44	0.52
Smoothed trimmed means	0.25	0.33	0.43	0.55	0.56
Double-weighted	0.20	0.19	0.39	0.58	0.66
IPC-Br	-0.21	-0.08	0.46	0.59	1.00
Core IPC-Br	0.28	0.26	0.52	0.41	0.43

Sources: IBGE, Banco Central and FGV

Figure 2.4 – Core inflation

Sources: IBGE and Banco Central

the variation over 12 months was 5.33%, rising 0.22 p.p. in the period.

The IPCA diffusion index, demonstrating dissemination of price increases, reached an average of 64.84% in the quarter ending November, compared to 52.86% in that ending August and 55.21% in the same period in 2009. Excluding food and beverages, the index reached 61.19% compared to 54.67% and 57.33% respectively for the quarters ending August 2010 and November 2009.

The IPCA rose 5.25% in the first eleven months of the year, against 3.93% in the corresponding period of 2009. This acceleration was a result of the greater impact of the 2.45 p.p. rise, to 6.26% in the variation of market prices, over that caused by a 1.34 p.p. reduction to 2.86% in regulated prices. Considering the 12-month period, the IPCA rose 5.63% in November compared to 4.49% in August.

2.3 Regulated prices

The regulated price variable reached 0.82% in the quarter ending November, compared to 0.43% for that ending August, changes attributed in particular to price increases in airfares, 10.14%; gasoline, 1.81%, and rates for water and sewage, 1.22%. The cumulative 12-month change in regulated prices reached 3.39% in November, from 3.77% in August, whilst considering the first eleven months of the year, there were increases of 2.86% in 2010 and 4.21% in the previous year.

2.4 Core inflation

The core of the IPCA by exclusion registered a variation of 1.30% in the quarter ending November, compared to 0.72% for that ending August. Considering the twelve month period, the variation of the index reached 5.26% in November compared to 4.87% in August.

The core calculated by smoothed trimmed means⁴ grew 1.55% from 0.98% in the quarter ending August. The variation of the indicator over the last twelve months was 5.52% in November compared to 5.05% in August.

4/ The criterion used to calculate this indicator excluded those items whose monthly variation places them in the distribution above the 80th percentile or below the 20th percentile, and smoothed over twelve months the fluctuation of items whose variations are concentrated in short periods of the years.

The double weighting core⁵ registered a variation of 1.64% in the quarter ending November, compared to 0.68% for that ending August. The twelve month analysis reveals that the variance of the indicator accelerated from 4.83% in August to 5.37% in November.

Core inflation of the FGV's Consumer Price Index – Brazil (IPC-Br), calculated by the method of smoothed trimmed means and rose 1.37% against 0.91% in the quarter ending August. Considering the twelve-month periods, the index registered increases of 4.95% in November and 4.36% in August.

Figure 2.5 – IPCA

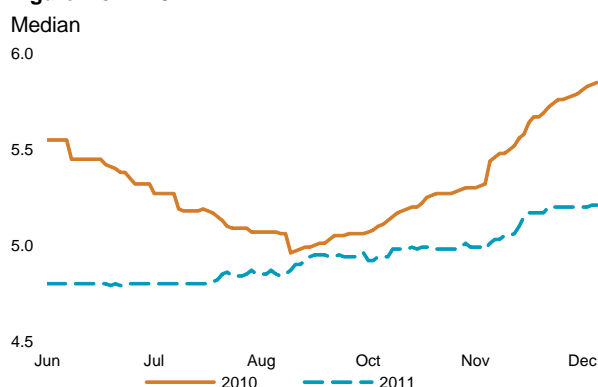


Figure 2.6 – IGP-M and IPA-DI

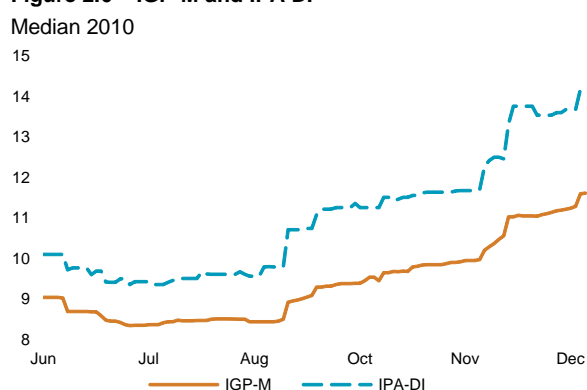
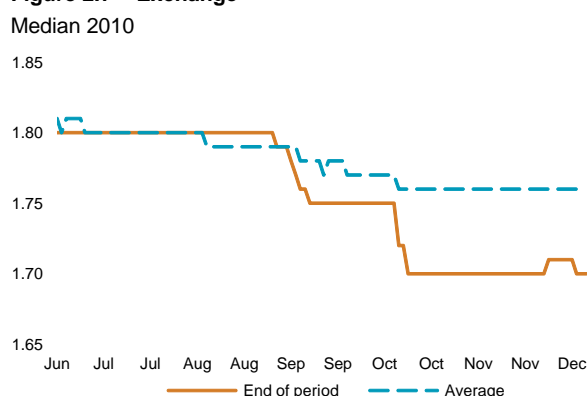


Figure 2.7 – Exchange



2.5 Market expectations

According to the Research Focus – Market Report for December 10th, the median forecasts for the IPCA's annual variations for 2010 and 2011 reached 5.85% and 5.21% respectively, compared to 5.1% and 5% at the end of September. The median expectations for the inflation twelve months ahead – smoothed – closed at 5.38% against 5.14% at the end of September.

The median with respect to the variation of the General Price Index – Market (IGP-M) for 2010 increased from 9.4% at the end of September to 11.43% at December 10th, whilst that for 2011 increased from 5.1% to 5.5%. In the same period, the medians associated with the variations of the Broad Producer Price Index – Domestic Availability (IPA-DI) for 2010 and 2011 registered, respectively, increases from of 11.4% to 14.18% and 5% to 5.16%.

The median of expectations concerning the 2010 developments of regulated prices remained unchanged at 3.5%, whilst for 2011; they fell from 4.7% to 4.5%.

The median exchange rate projected by the market towards the end of 2010 was adjusted from R\$1.75/US\$1.00 to R\$1.70/US\$1.00, between late September and December 10th, whilst the projection for the end of 2011 was revised from R\$1.80/US\$1.00 to R\$1.75/US\$1.00, in the same period. In the same interval, the medians of the projections for the average exchange rate for 2010 and 2011 decreased in order, from R\$1.77/US\$1.00 to R\$1.76/US\$1.00, and R\$1.79/US\$1.00 to R\$1.73/US\$1.00.

5/ The criterion used to calculate this indicator is the reweighting of the original weights – based on the importance of each item to the IPCA basket – by their respective relative degrees of volatility, a procedure that reduces the importance of the more volatile components.

Table 2.5 – Summary of market expectations

	6.30.2010		9.30.2010		12.10.2010	
	2010	2011	2010	2011	2010	2011
IPCA	5.6	4.8	5.1	5.0	5.9	5.2
IGP-M	9.0	5.0	9.4	5.1	11.4	5.5
IPA-DI	10.1	5.0	11.4	5.0	14.2	5.2
Regulated Prices	3.6	4.8	3.5	4.7	3.5	4.5
Selic (end-of-period)*	12.0	11.8	10.8	11.8		12.3
Selic (average)*	10.5	12.1	10.0	11.5		12.1
Exchange rate (end-of-period)	1.8	1.9	1.8	1.8	1.7	1.8
Exchange rate (average)	1.8	1.8	1.8	1.8	1.8	1.7
GDP growth	7.2	4.5	7.6	4.5	7.6	4.5

2.6 Conclusion

The rise in inflation in the quarter ending November was, largely, influenced as much by domestic seasonal factors, and related to food supply, especially of perishable foodstuffs, as by external factors relating to the supply of some agricultural commodities.