



Inflation Outlook

Altamir Lopes

Inflation Report
March 2016

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- I. Introduction
- II. International Environment
- III. Domestic Macroeconomic Conditions
- IV. Inflation Developments

I. Introduction

***Banco Central do Brasil* – Institutional Mission**

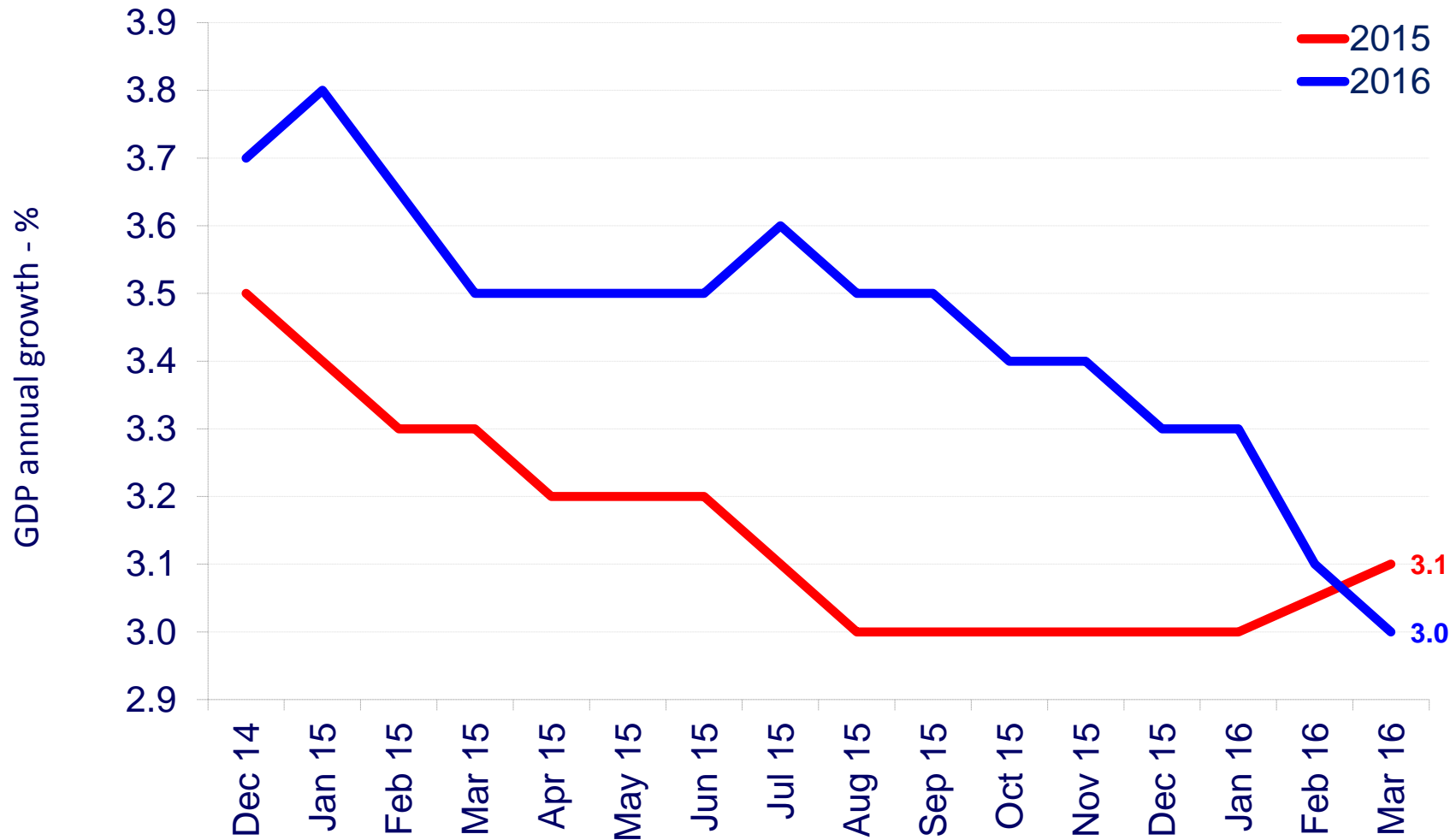
- **To ensure the stability of the currency's purchasing power and a solid and efficient financial system**

II. International Environment

General View

- Expectation of lower global growth, with heterogeneous patterns
- Increase in the deflation risk in the main advanced economies, resulting in accommodative monetary stance
- Process of normalization of monetary conditions in the US, started in December, with prospects of higher gradualism
- Deceleration of China (and emerging economies) higher than forecast
- Moderation in the commodities prices, especially oil

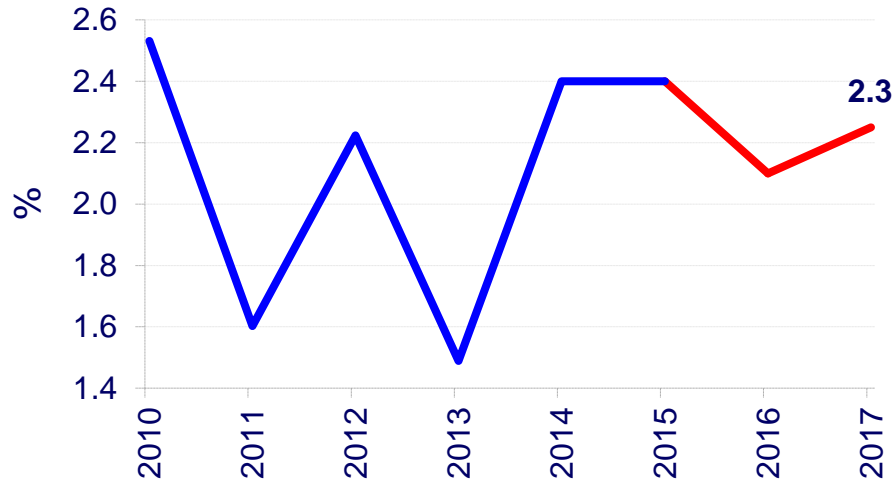
Prospect of Global Growth Deceleration



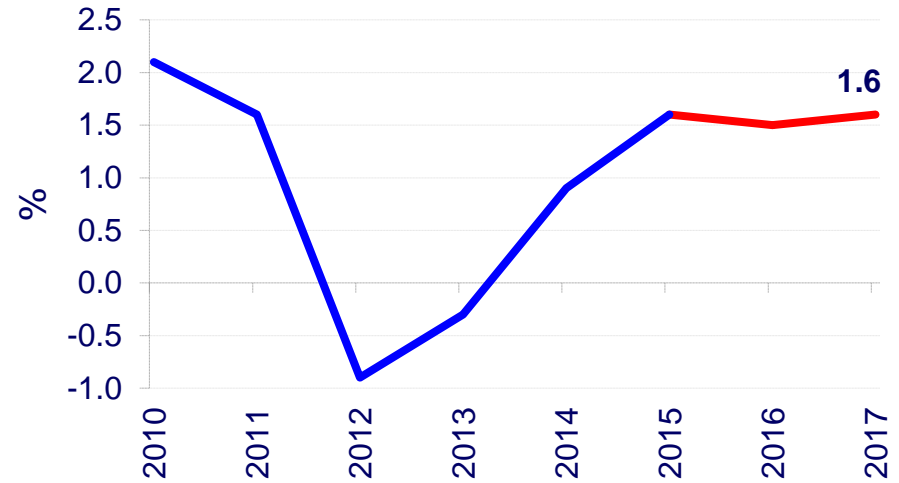
Source: Bloomberg (Mar 16: as of Mar 28th)

Activity

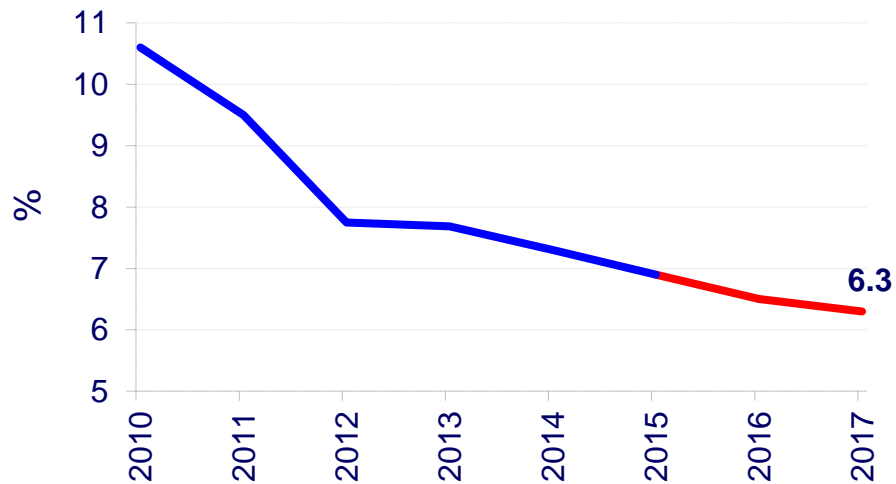
United States



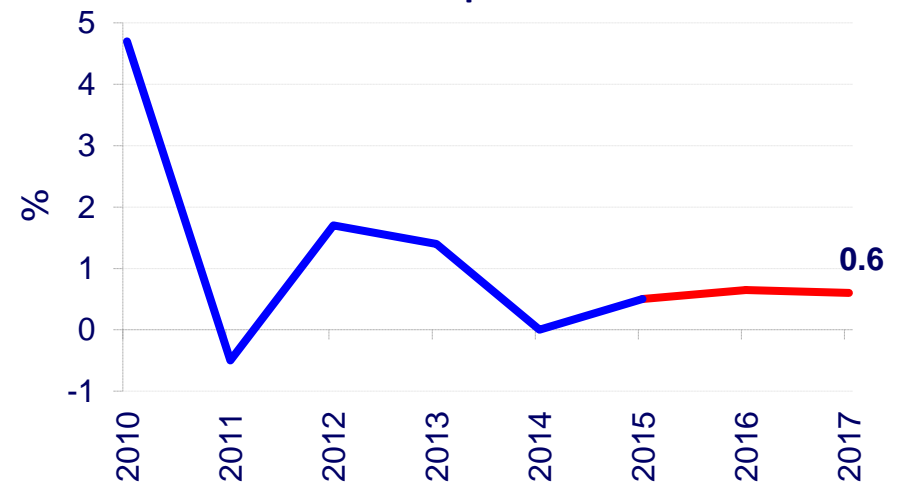
Euro Area



China



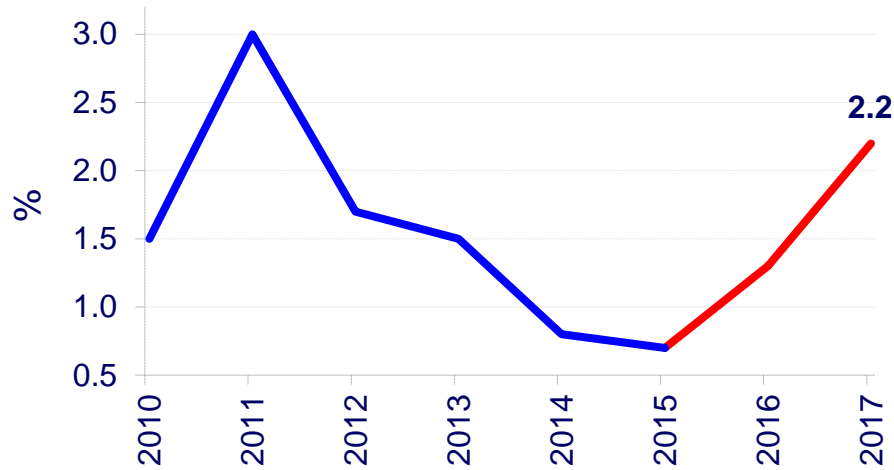
Japan



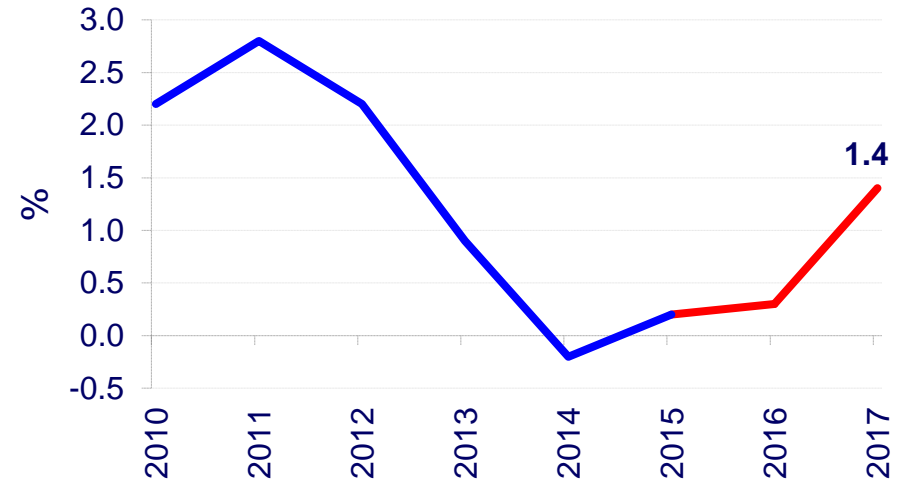
2016/17: projection

Inflation

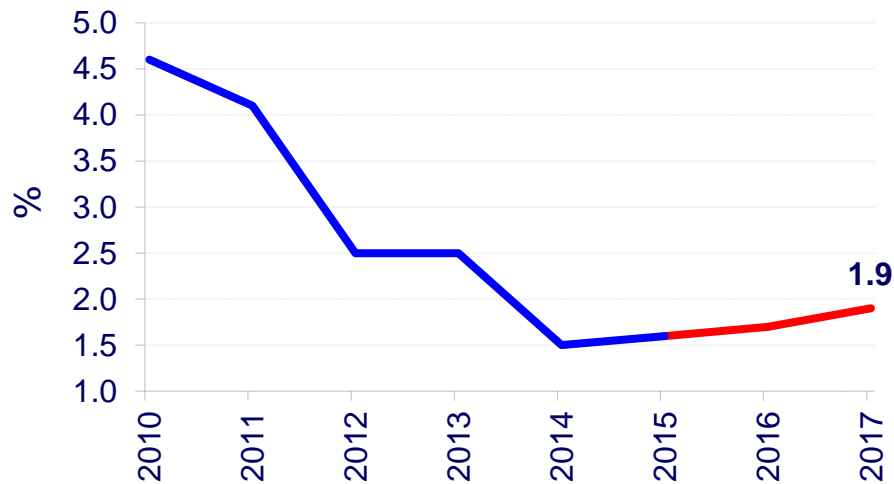
United States



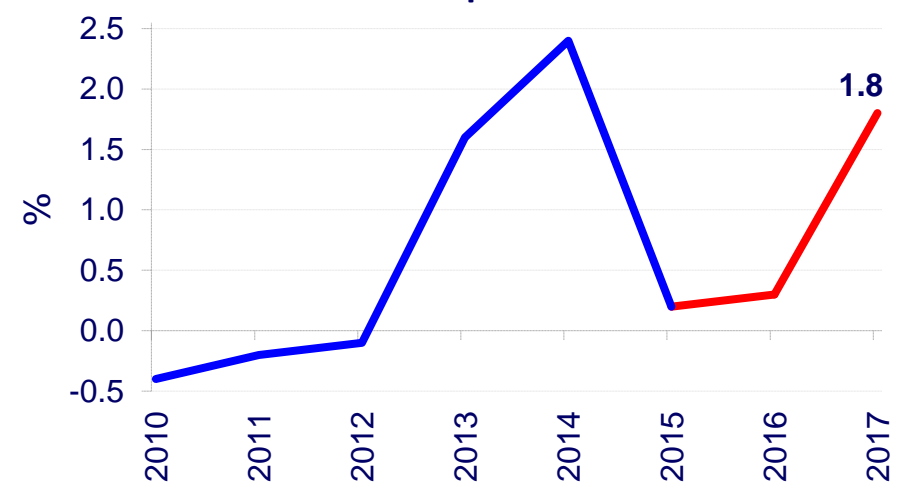
Euro Area



China

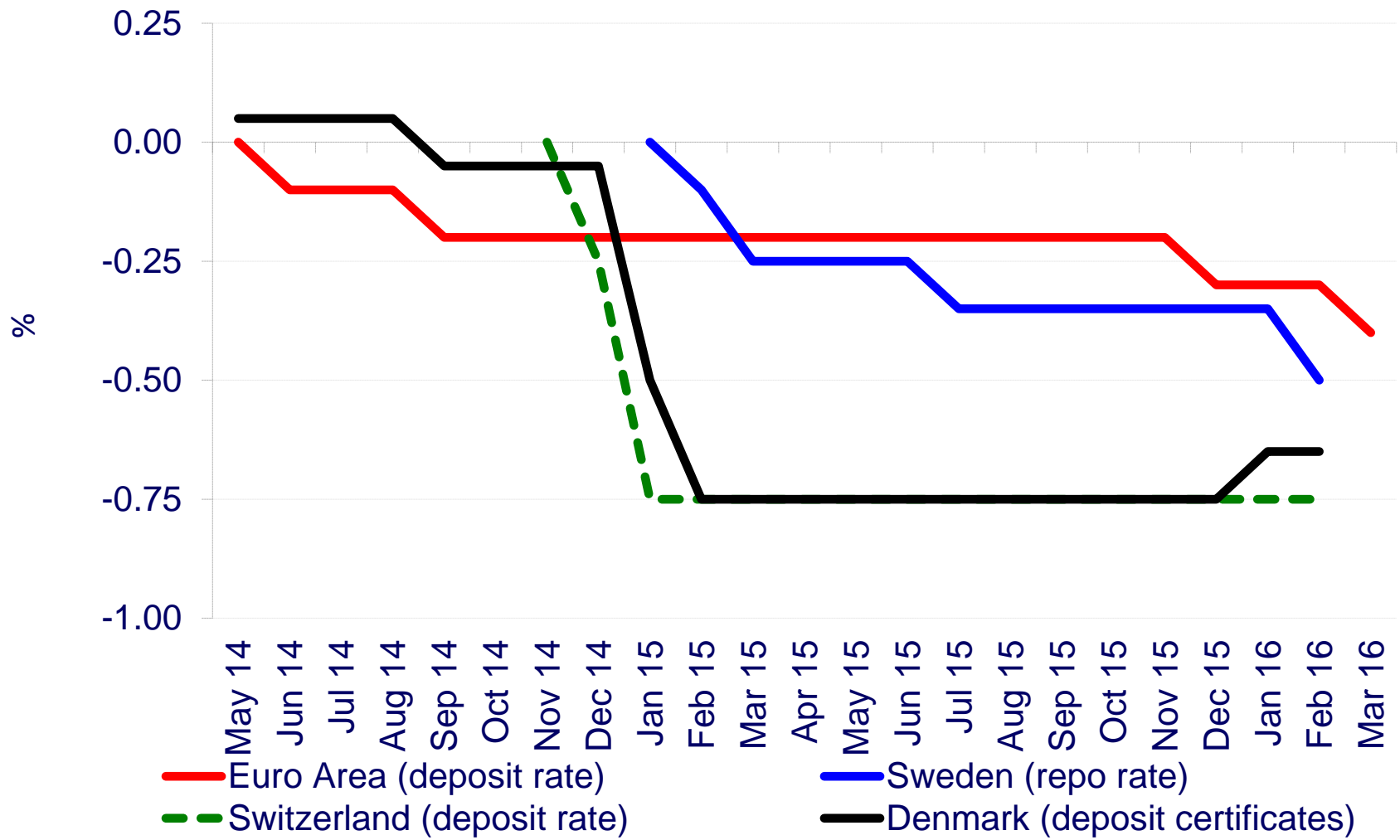


Japan

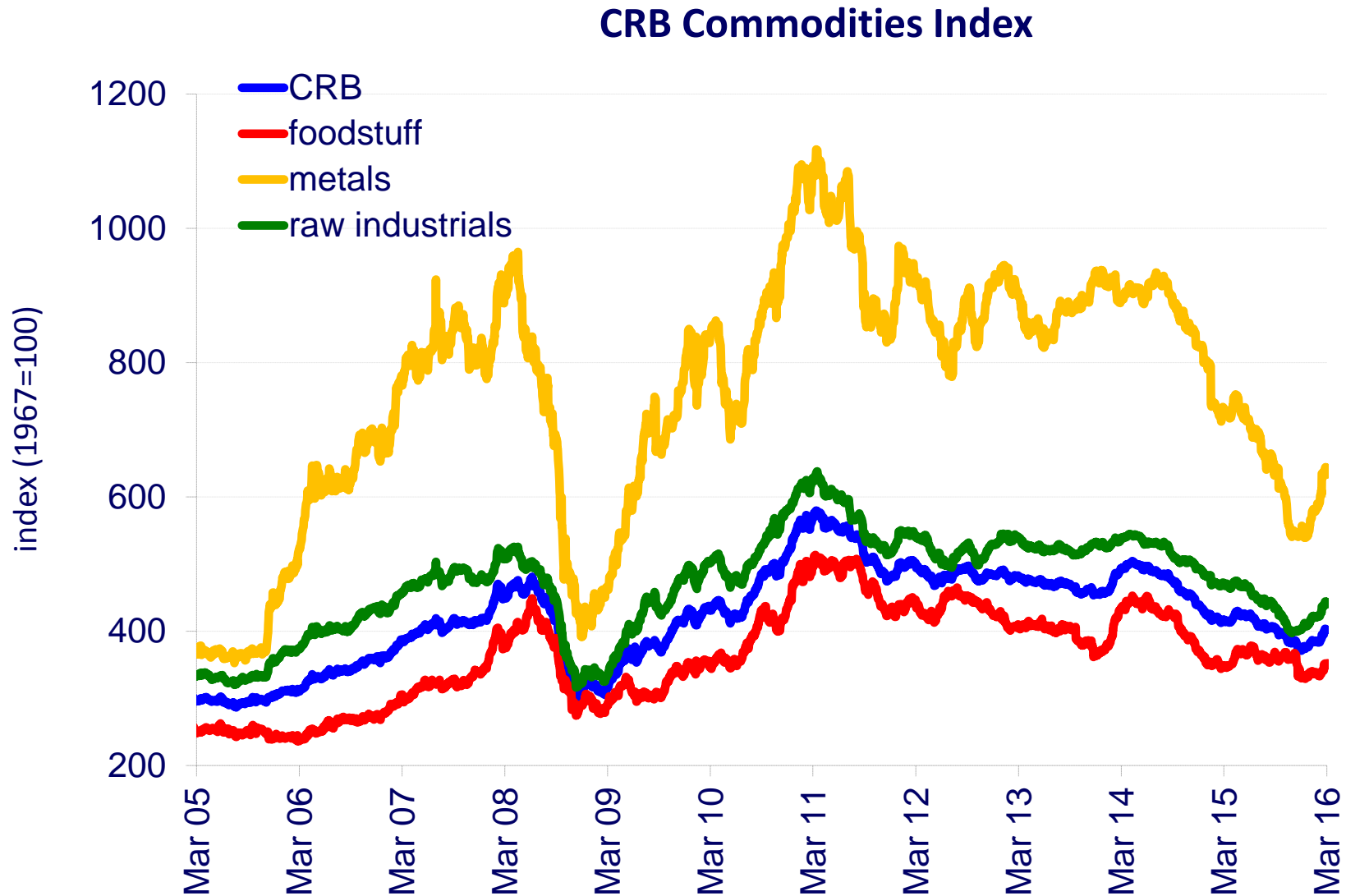


2016/17: projection

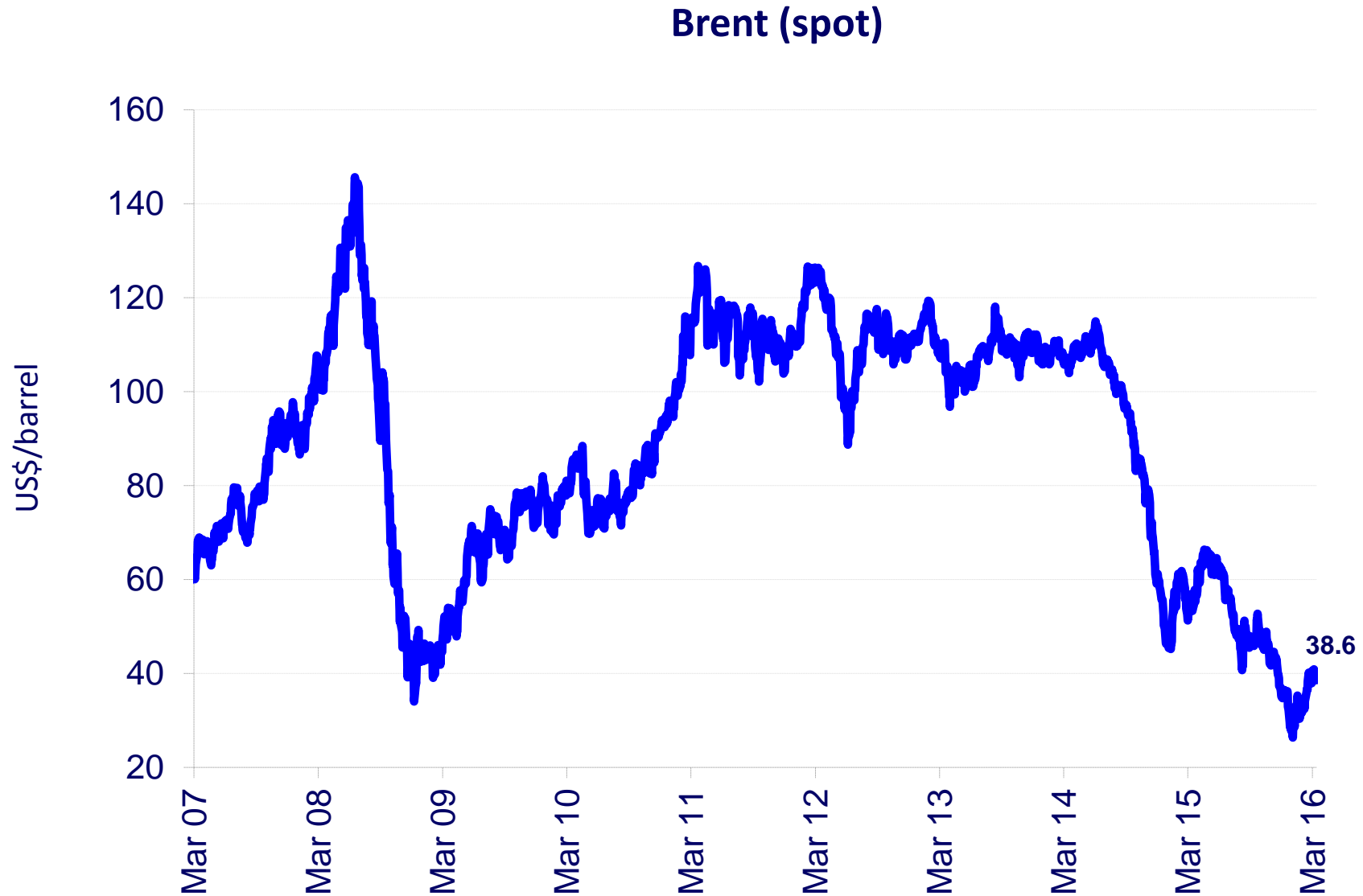
Interest Rates at Negative Levels (Box)



Commodities Prices

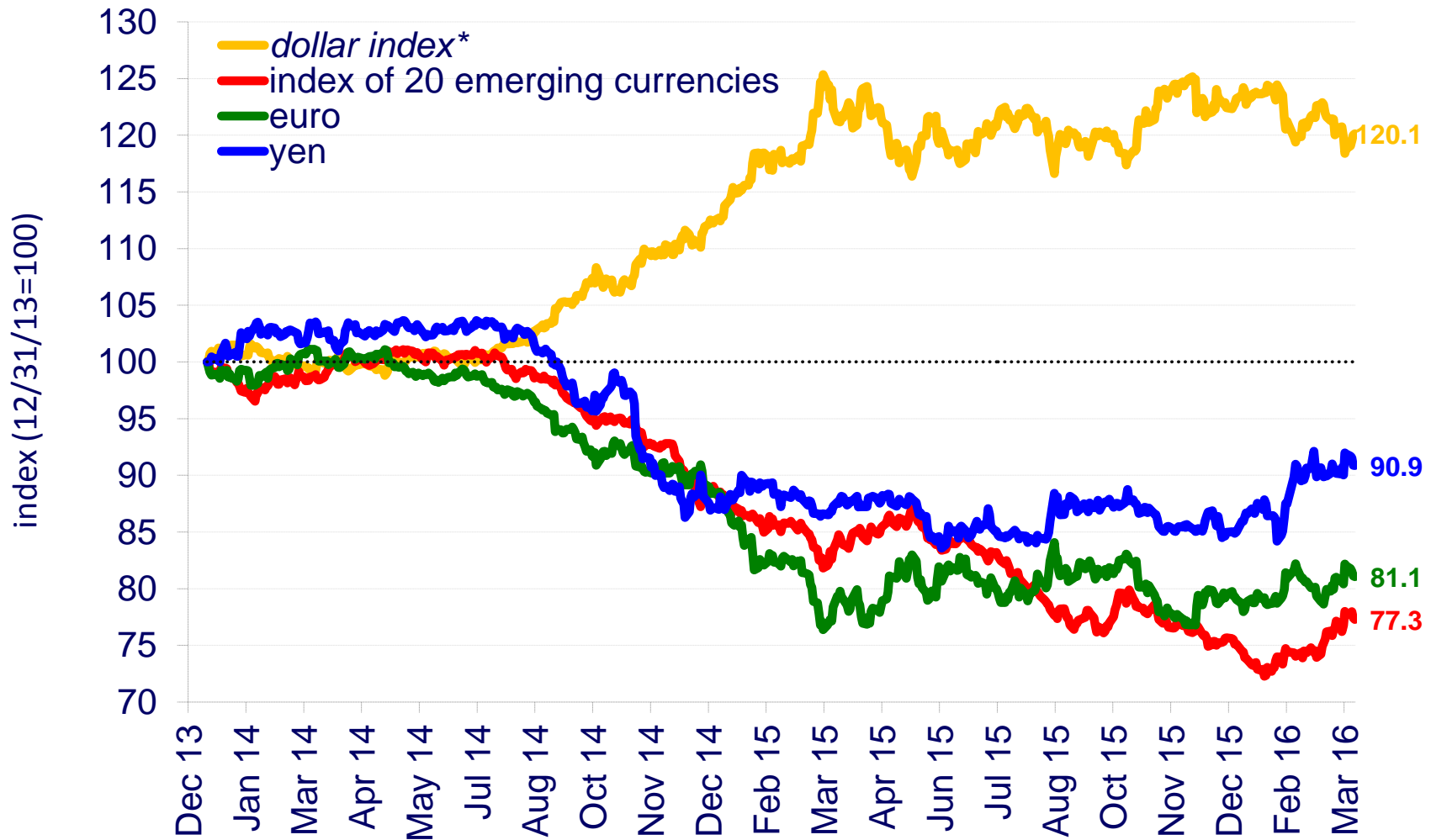


Oil Prices



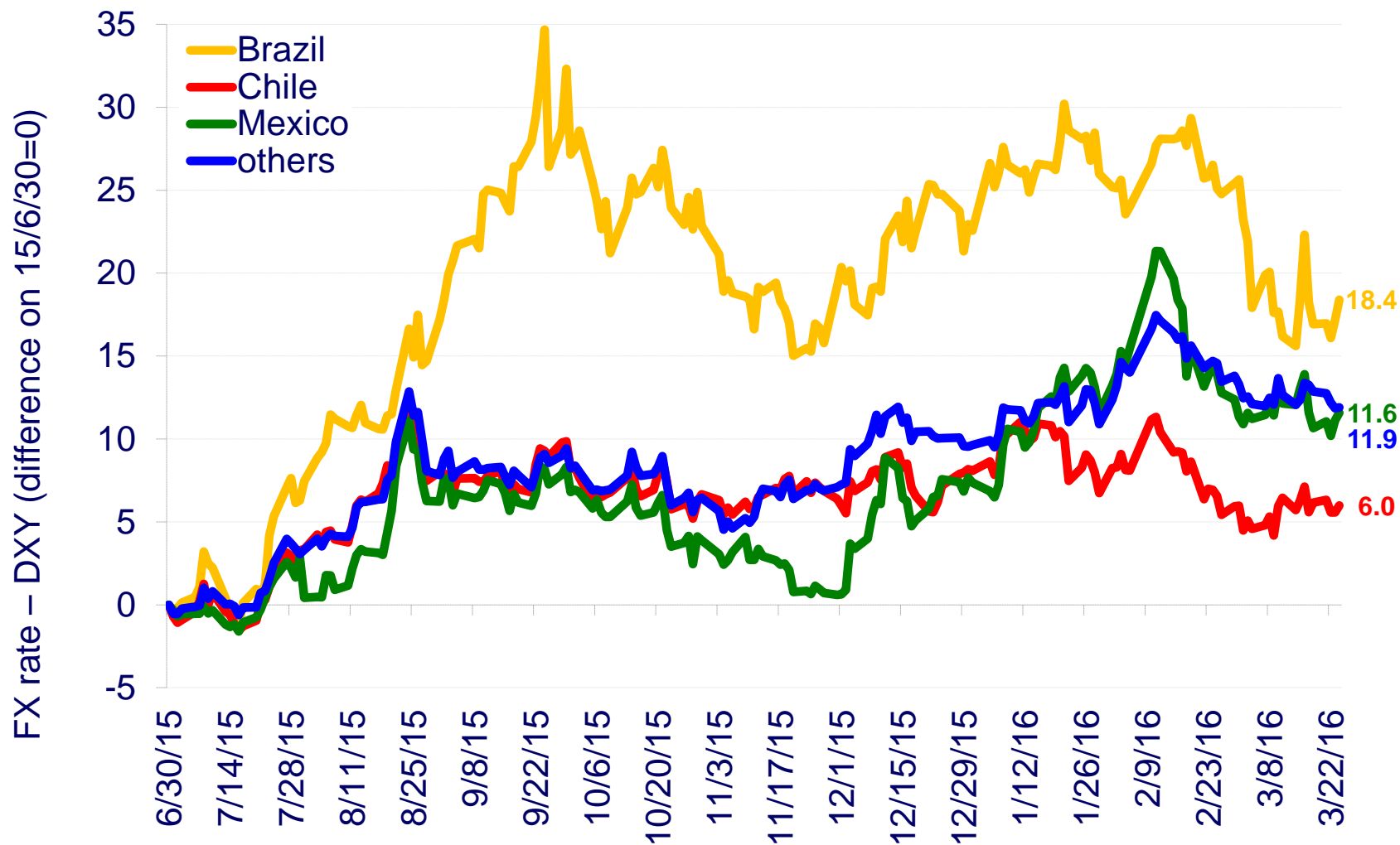
Source: Bloomberg (through Mar 29th)

US Dollar – Stability



*measures the value of the dollar against a basket of the six main reserve currencies (Swiss franc, Canadian dollar, Japanese yen, sterling pound, euro and Swedish krona); data through Mar 24th

Exchange Rate (US\$) in Latin America above Dollar Index



others = avg. (Argentina, Peru, Colombia and Uruguay), data through Mar 24th

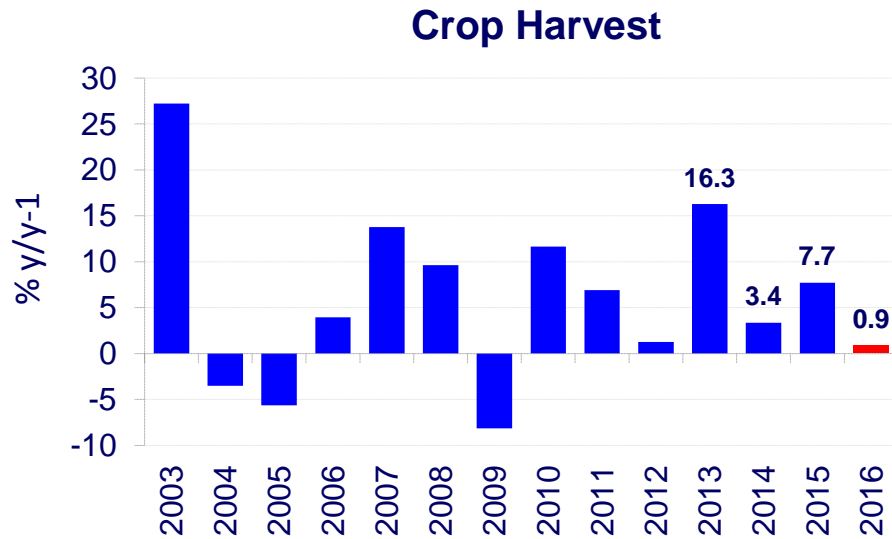
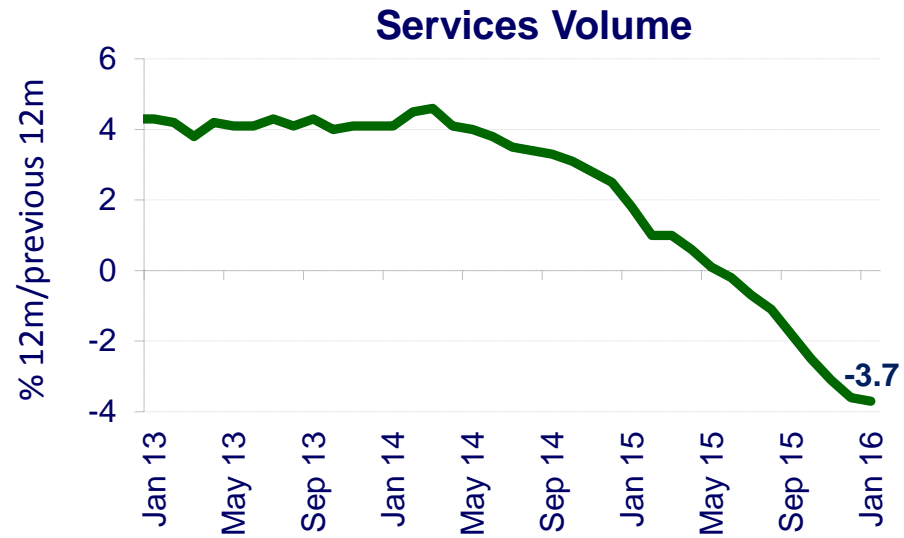
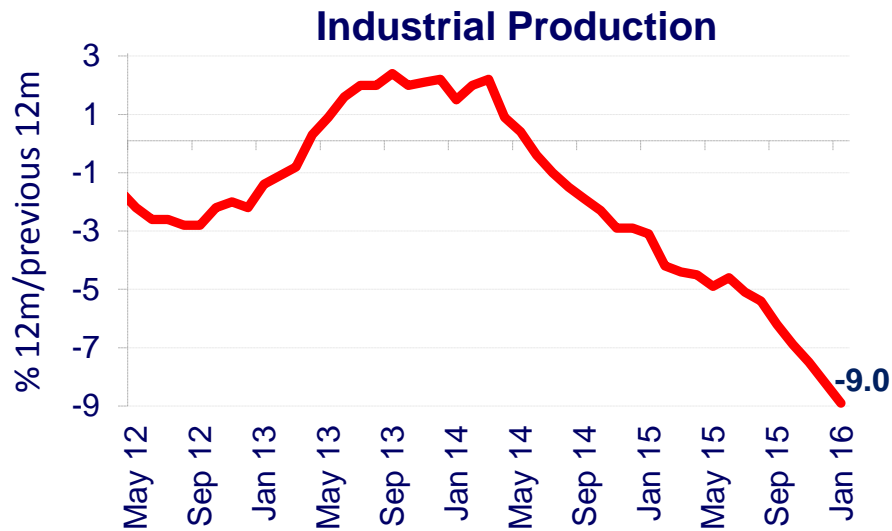
III. Domestic Macroeconomic Conditions

Current Conditions

- Brazilian economy: important and necessary adjustments in the external, fiscal and monetary areas, with time mismatch of their effects
 - External sector: progresses are occurring fast and with great benefits for the economy
 - Fiscal: need of structural reforms that forward the process of fiscal consolidation
 - Monetary: significant ongoing disinflation process
- The success of the adjustments depends on perseverance and determination, also to reduce their economic costs and duration

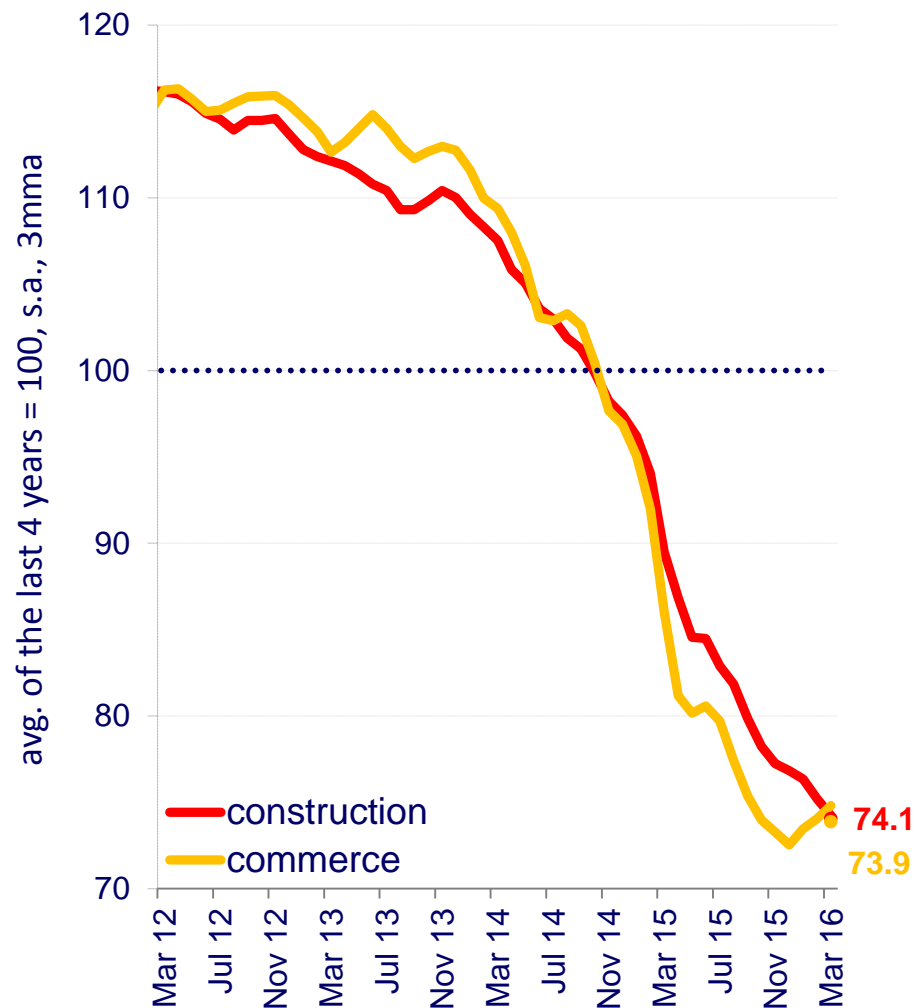
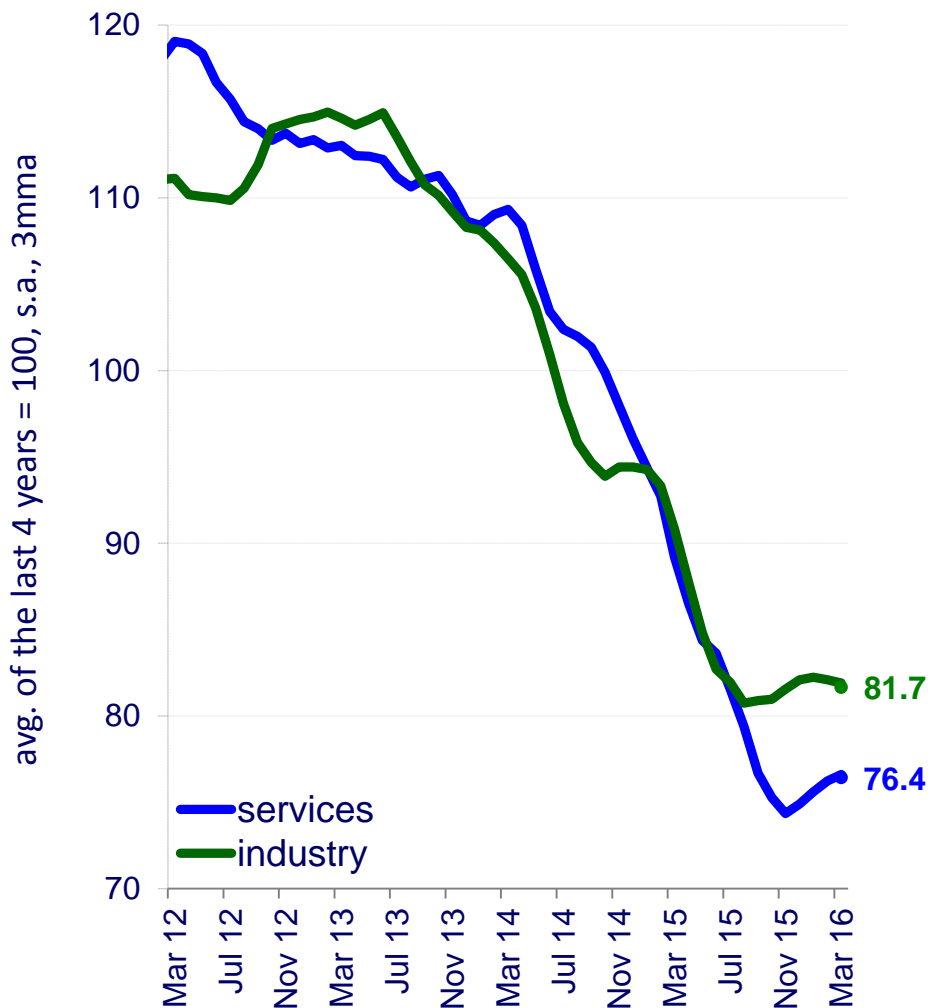
Activity

Supply: Low Dynamism



2015-16: IBGE estimates in Feb/16

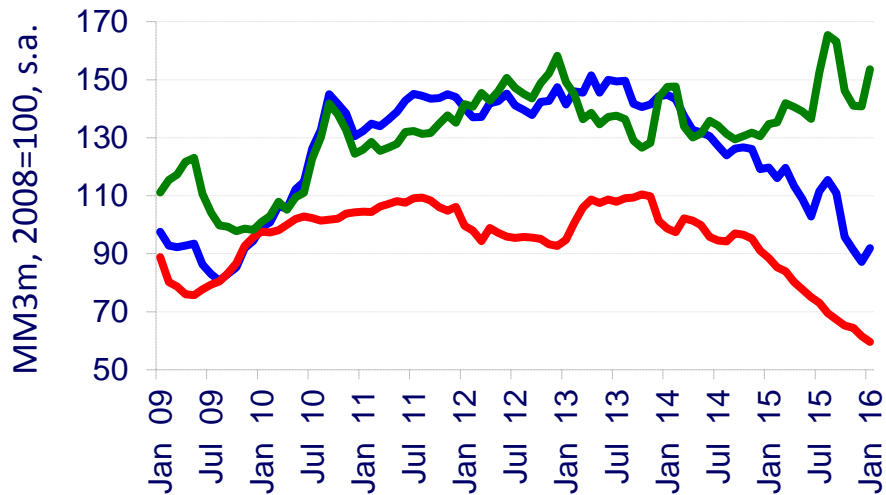
Confidence



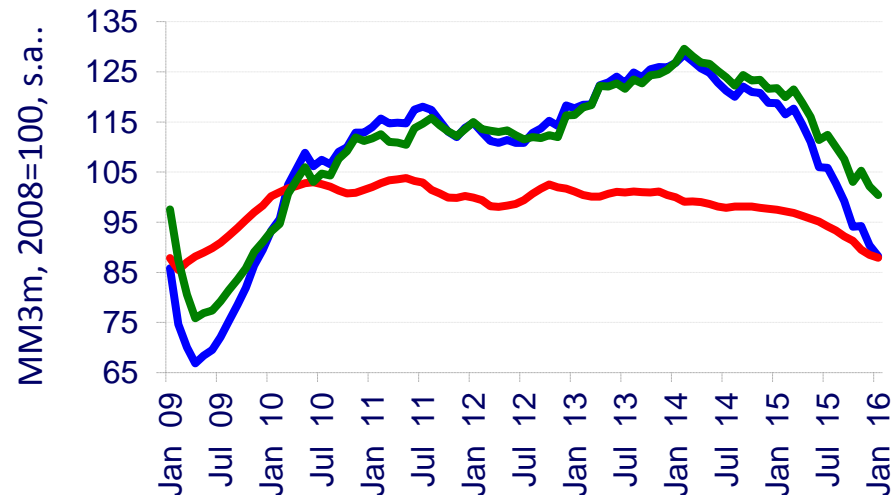
Obs.: proportion of favorable answers – proportion of unfavorable answers + 100 (100=neutral)

Production and Imports

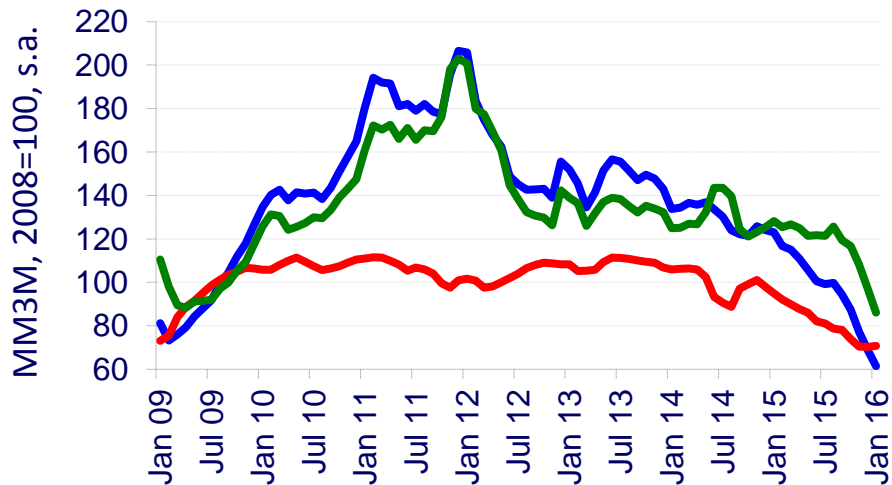
Capital Goods



Intermediate Goods



Durable Consumer Goods

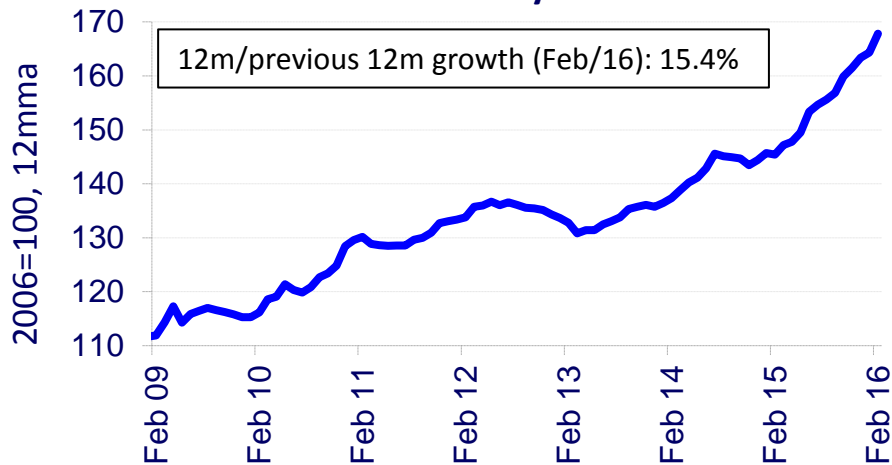


■ Imports (M)
 ■ Production (P)
 ■ M/P ratio

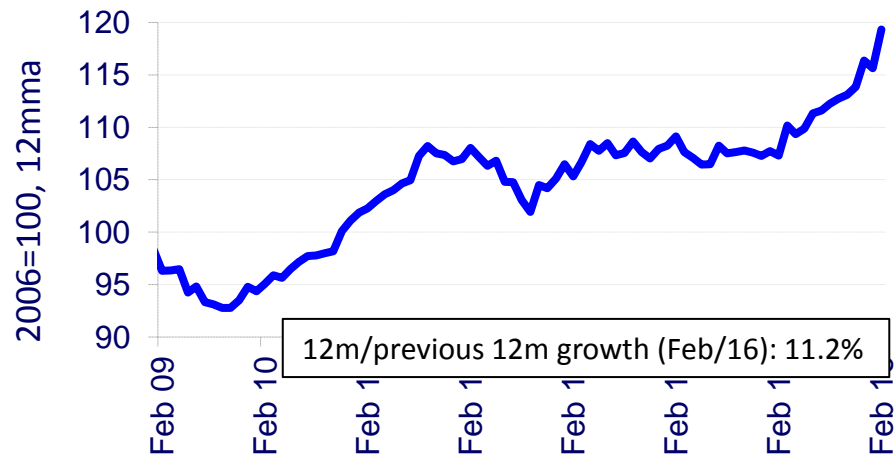
| | % Q/Q-1 (Jan/16) | | |
|---------------------|------------------|-------|-------|
| | Imp. | Prod. | M/P |
| Capital Goods | -3.7 | -8.7 | 5.5 |
| Interm. Goods | -6.4 | -3.7 | -2.7 |
| Durable Cons. Goods | -29.2 | -4.2 | -25.7 |

Exports Volume

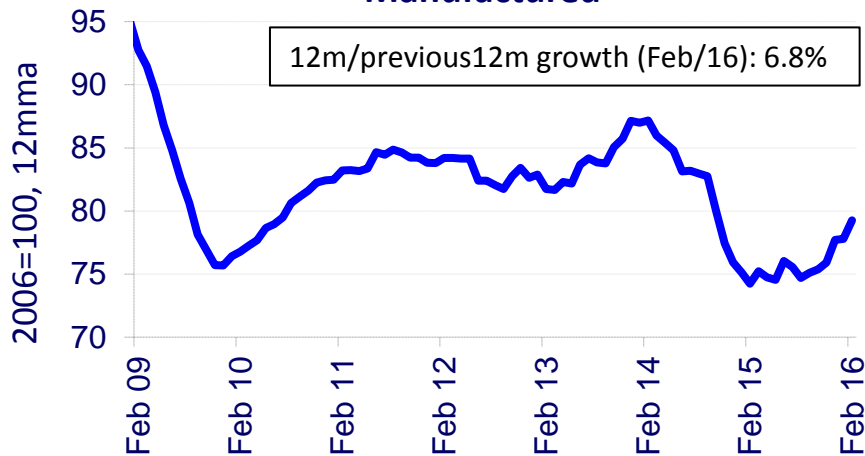
Primary



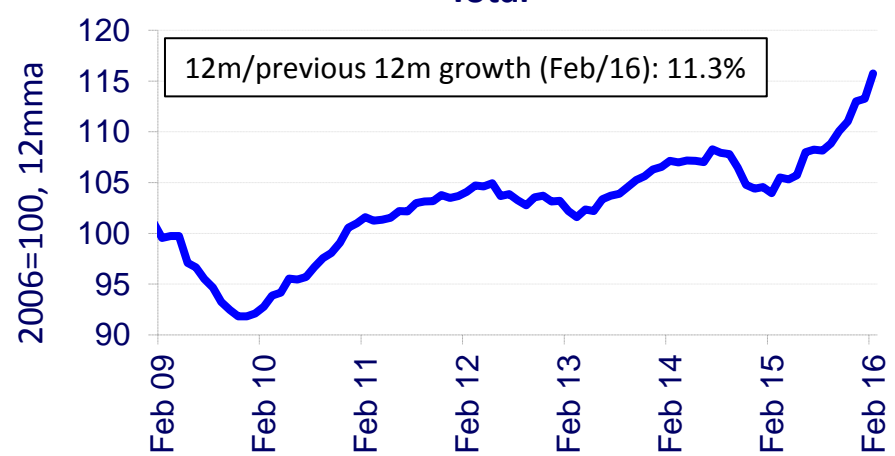
Semi-Manufactured



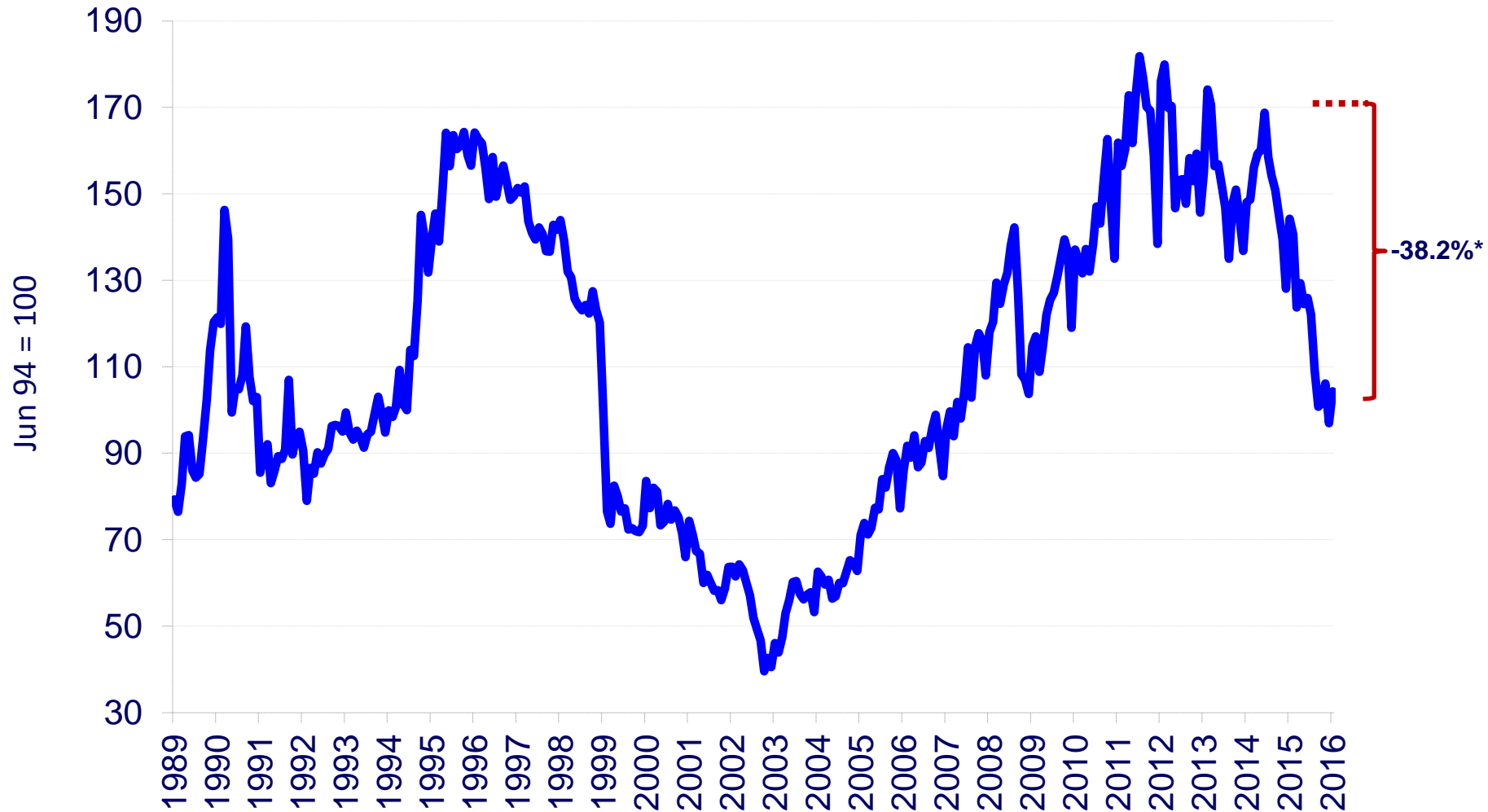
Manufactured



Total

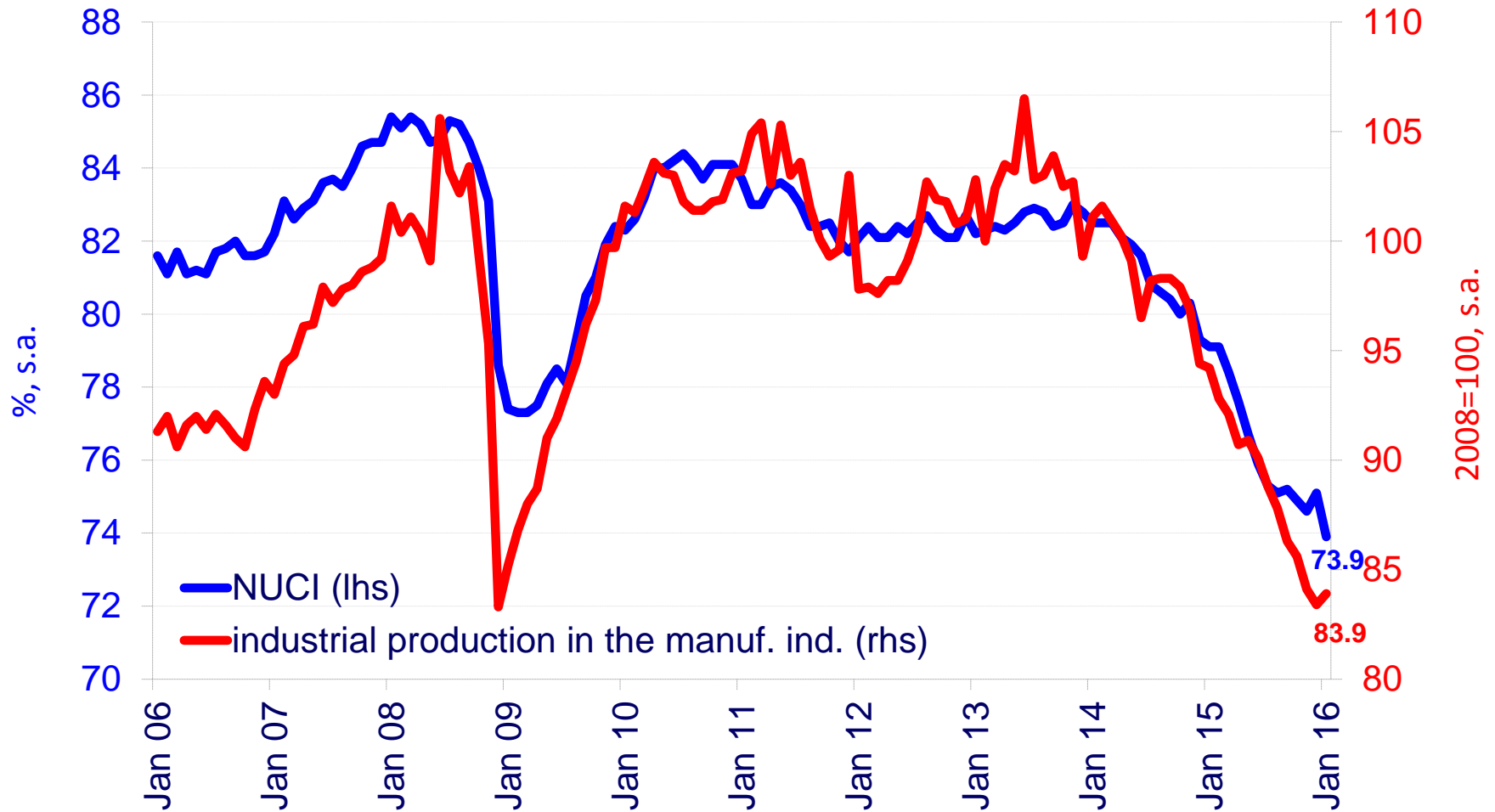


Unit Cost of Labor (in US\$)

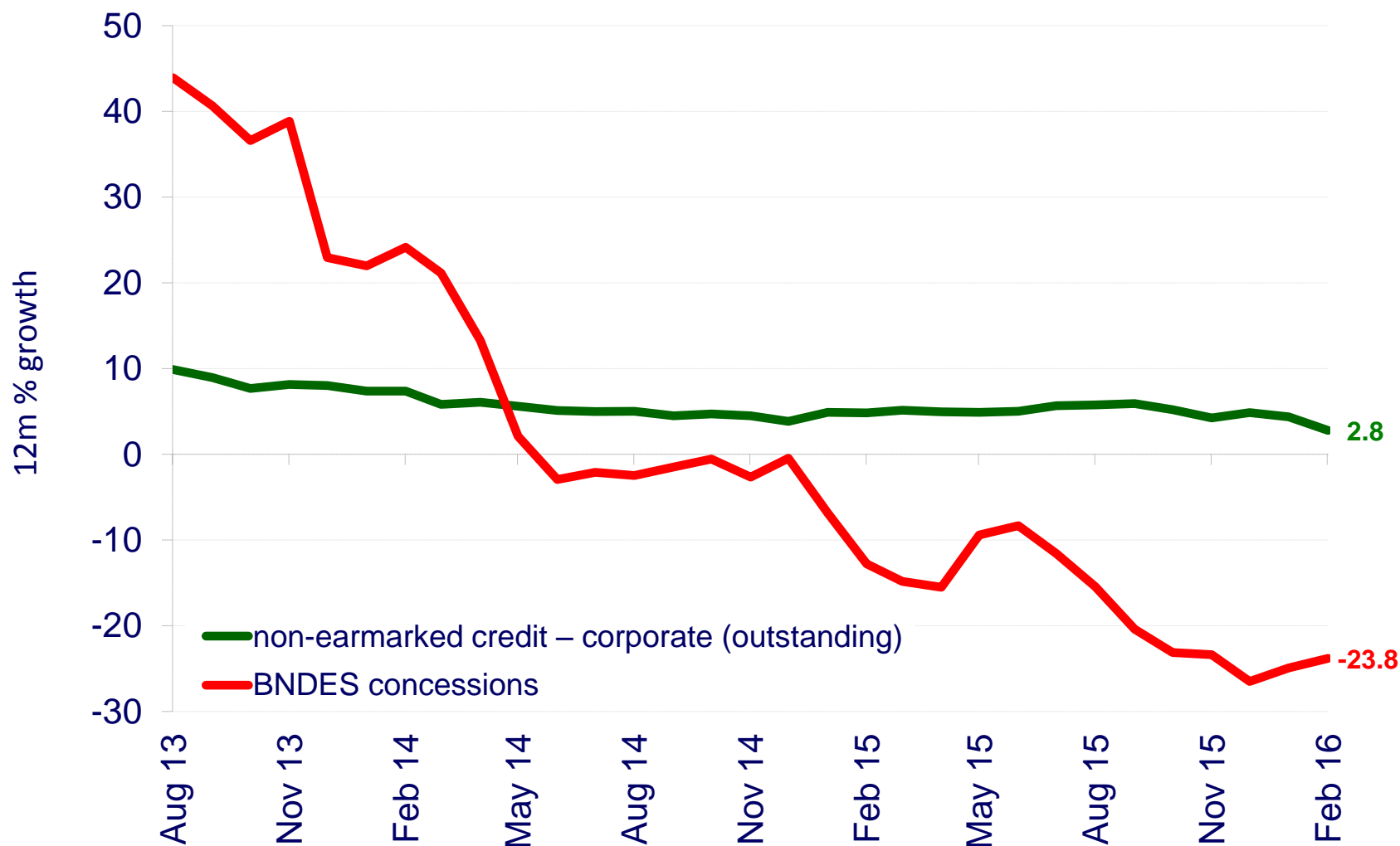


*Jun/14 to Jan/16

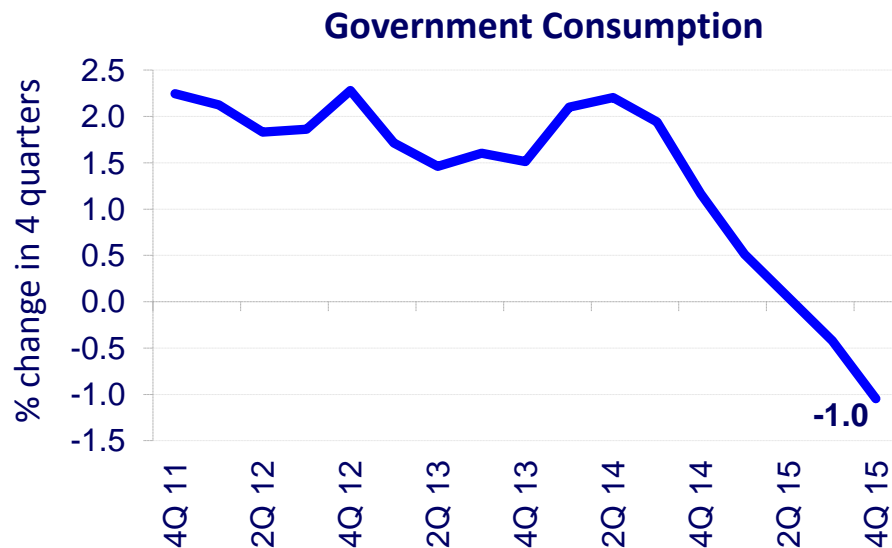
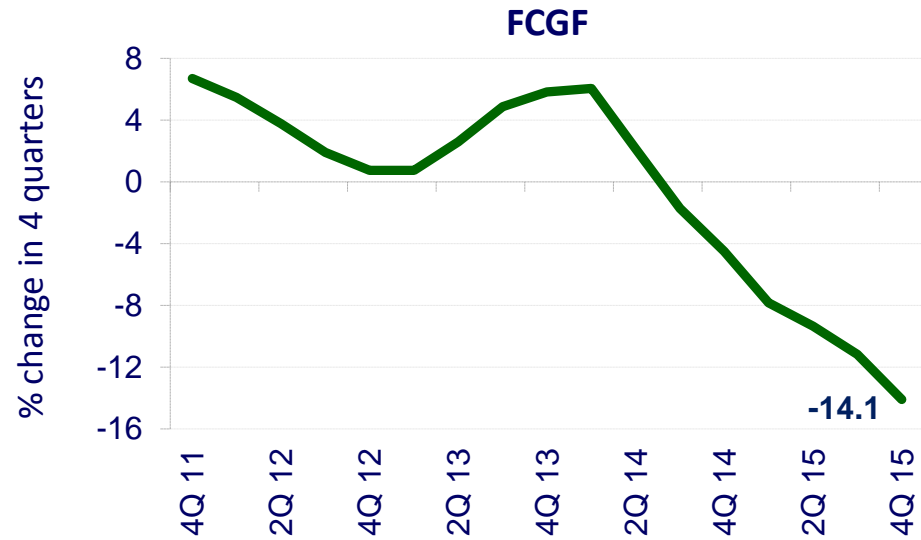
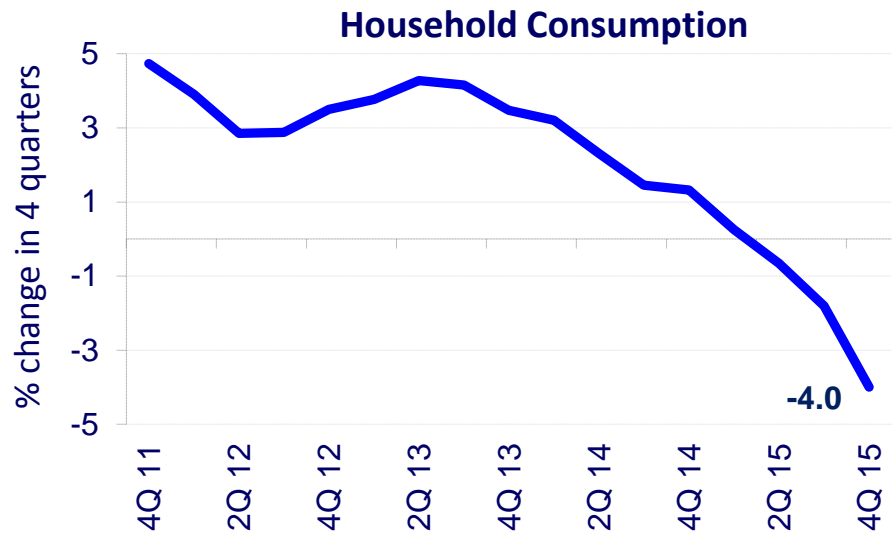
Inst. Cap. Utiliz. Level (NUCI) and Industrial Prod. in the Manuf. Ind.



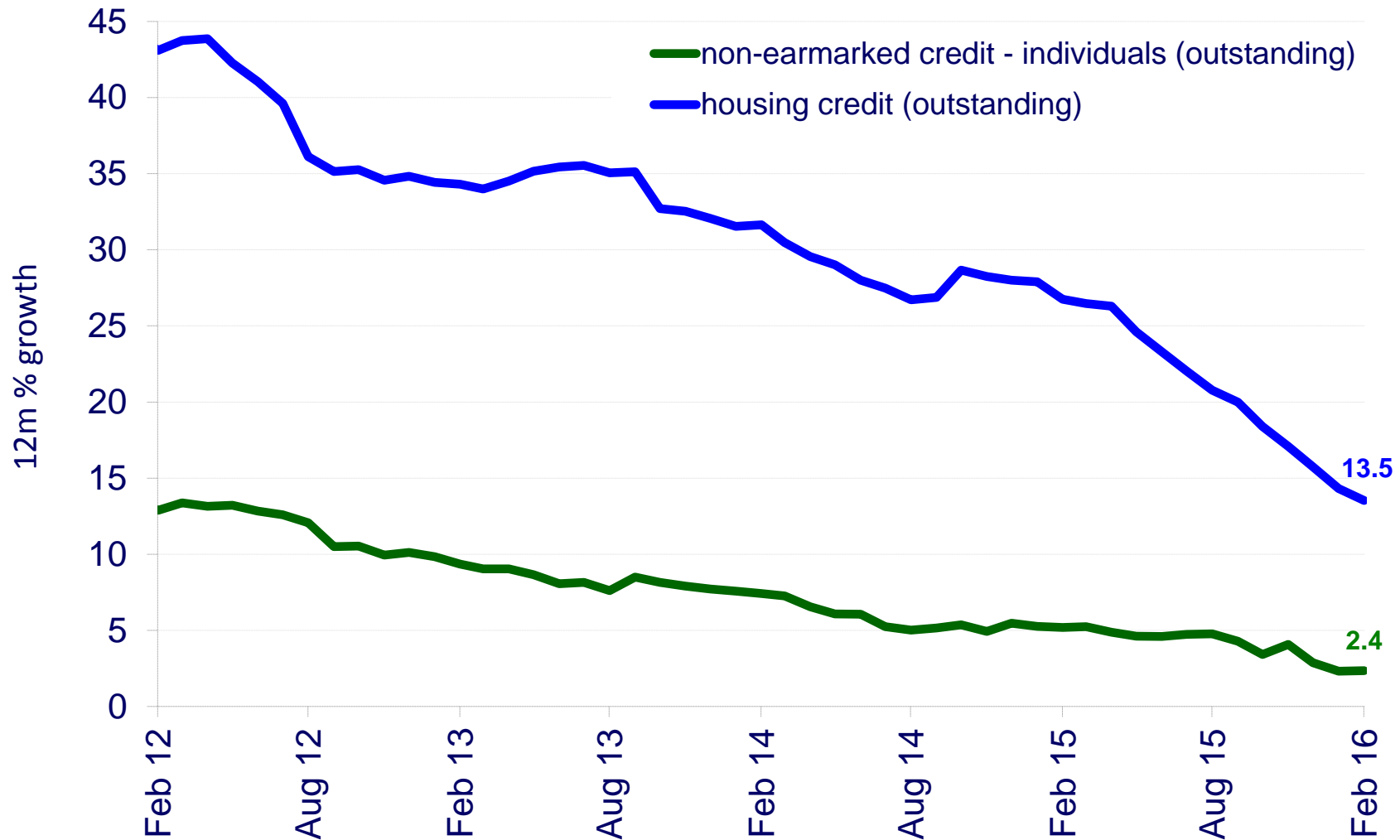
Credit to Corporates



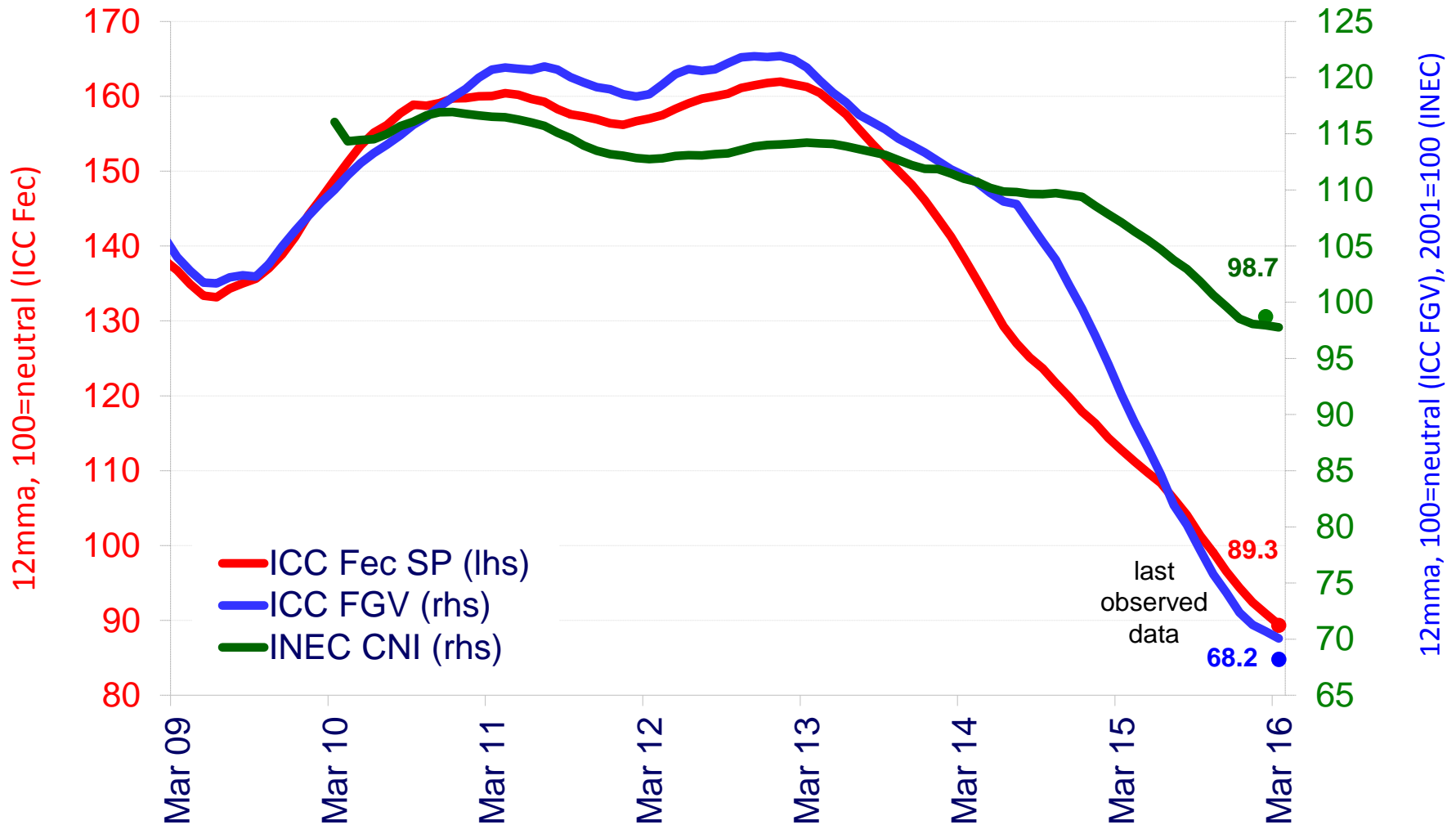
Demand: Moderation in Line with Adjustment



Credit to Households



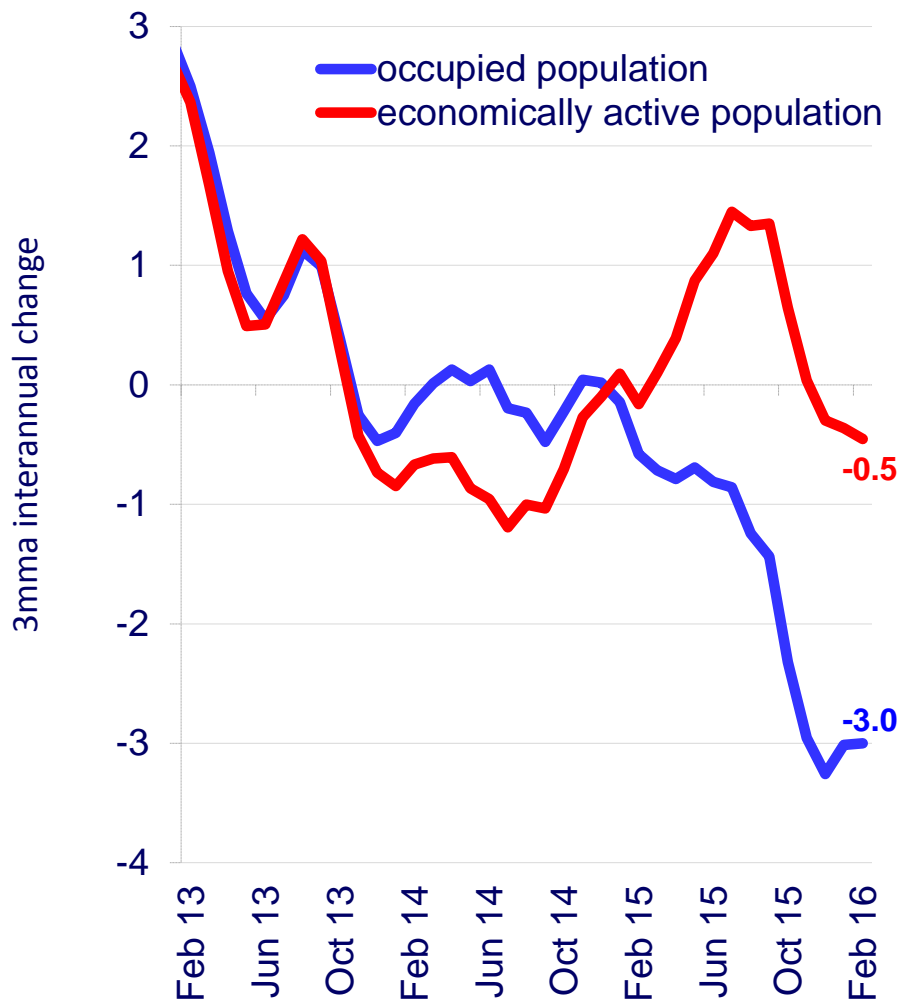
Consumer Confidence



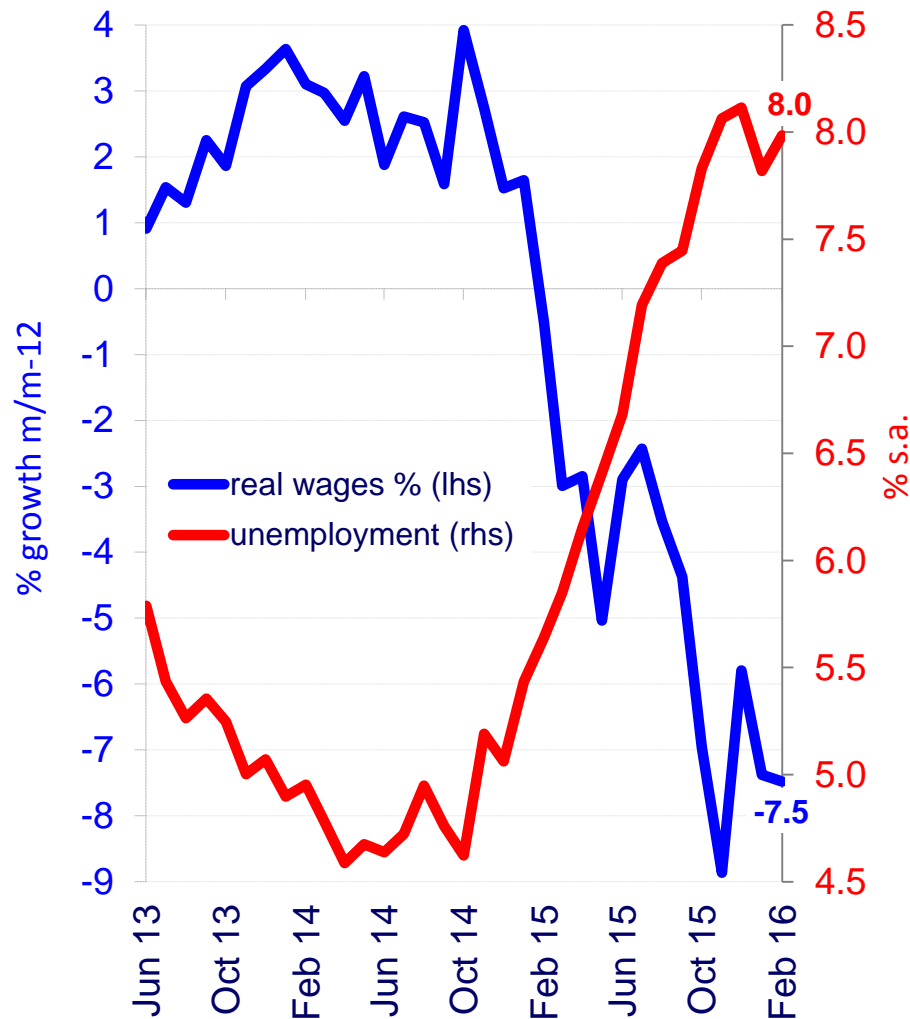
Obs.: ICCs: share of favorable responses – share of unfavorable responses + 100 (100=neutral); INEC: 2001=100

Labor Market: Distension

Population

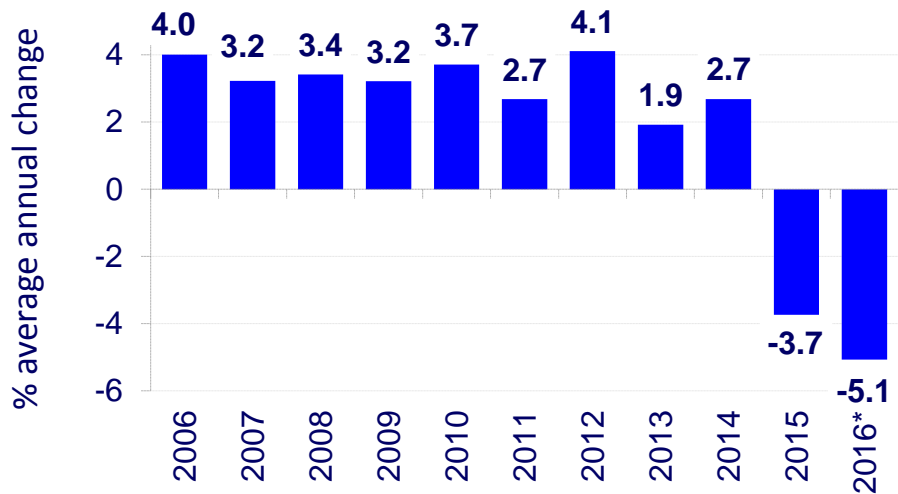


Real Wages and Unemployment

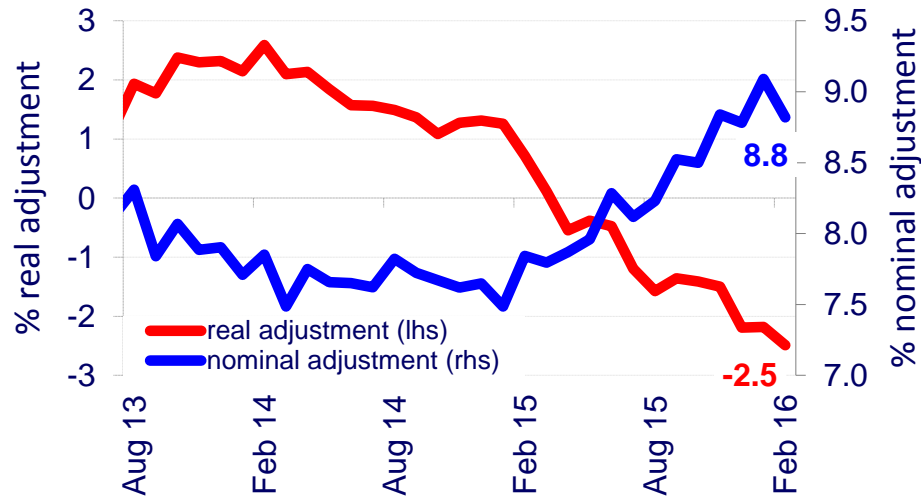


Wages

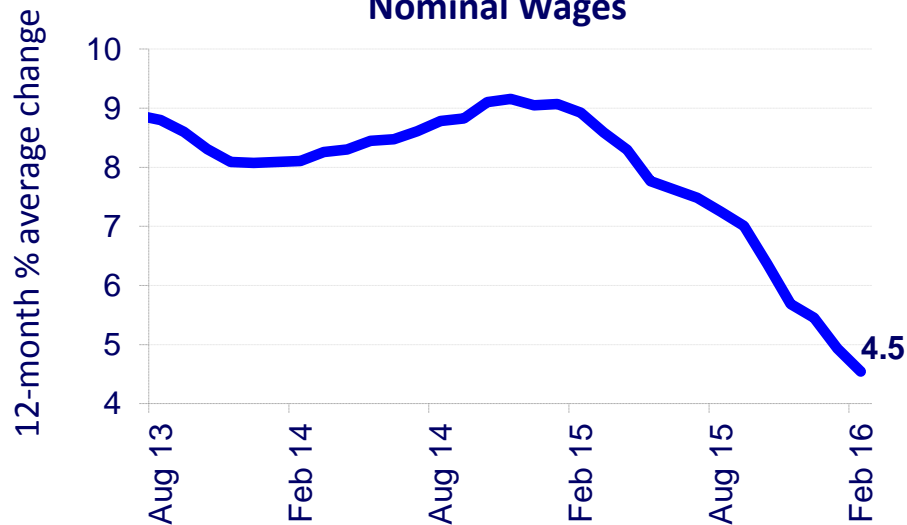
Real Wages



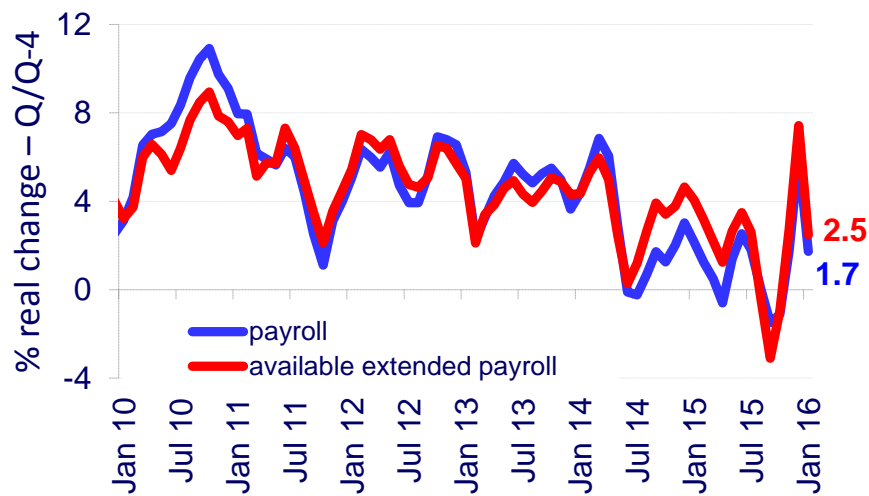
Labor Collective Conventions



Nominal Wages



Payroll and Available Extended Payroll (MSAD)**



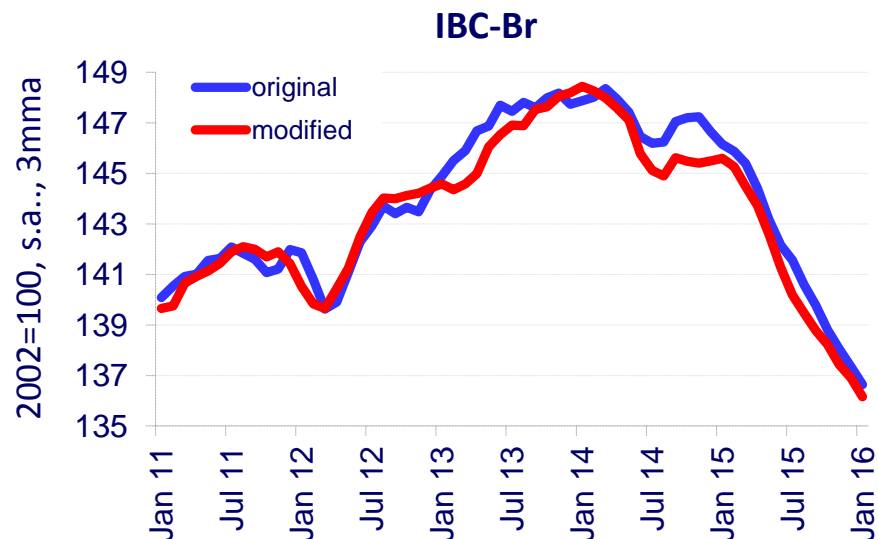
*12m through February; ** Data from the effective payroll from PNADC and Available Extended Payroll

Box: GDP Projections

- **GDP growth revision for 2016, from -1.9% to -3.5% (domestic absorption, -6.4 p.p.; and net exports, 2.9 p.p.);**
 - **Supply**
 - Agriculture and livestock: 0.2% (1.8% in 2015)
 - Industry: -5.8% (-6.2% in 2015)
 - Services: -2.4% (-2.7% in 2015)
 - **Demand**
 - Investment: -13.0% (-14.1% in 2015)
 - Household Consumption: -3.3% (-4.0% in 2015)
 - Government Consumption: -0.7% (-1.0% in 2015)

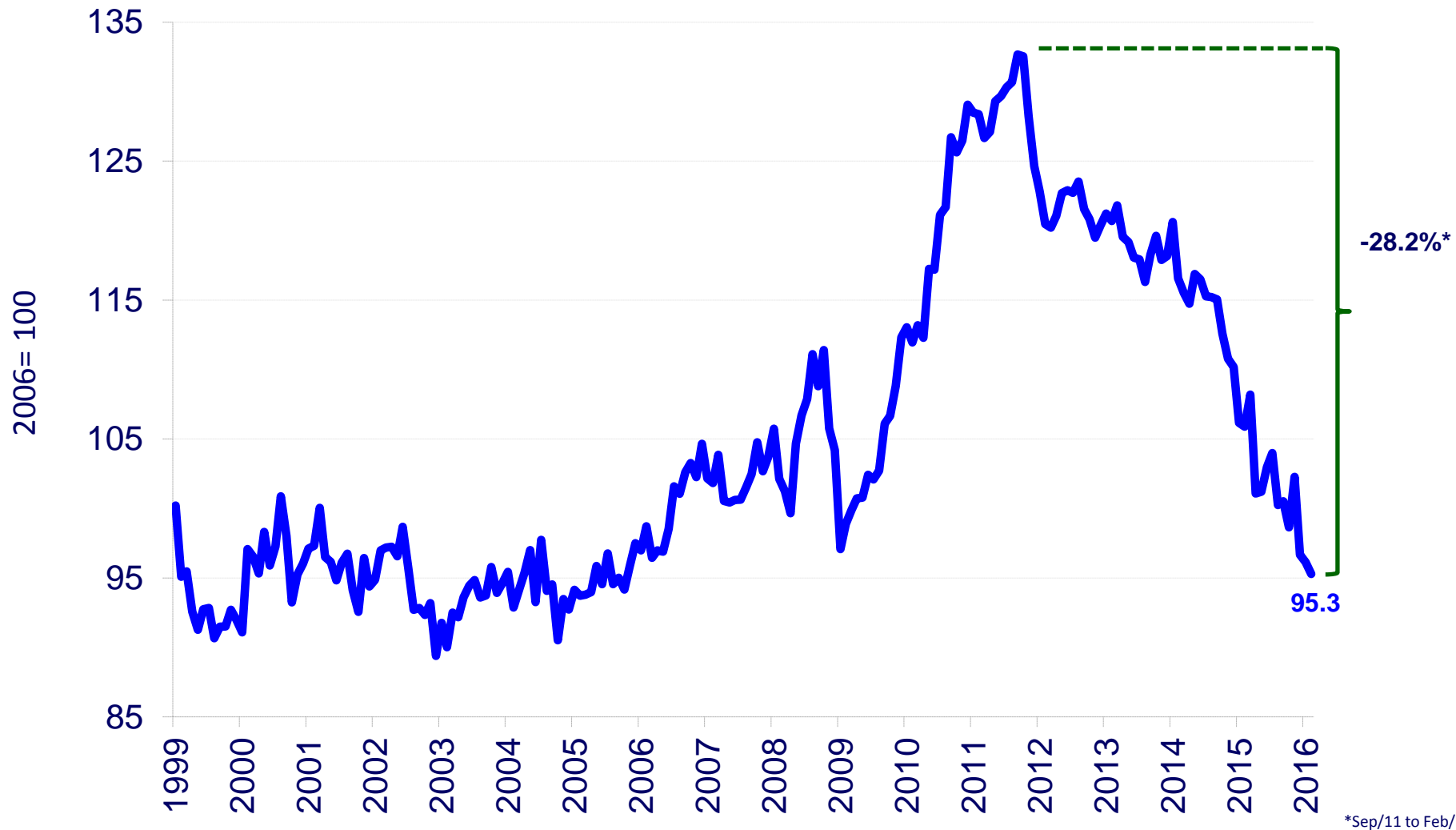
IBC-Br: Methodological Update

- Incorporates the structure of products and methodological updates of the National Accounts System – 2010 Reference (SCN 2010-IBGE). It also bears highlighting the inclusion of the Continuous PNAD in substitution to the Employment Monthly Survey (PME) and the inclusion of the Services Monthly Survey (PMS)
- Despite the changes implemented, the IBC-Br series both prior to and after the described changes present similar evolution



External Sector

Terms of Trade



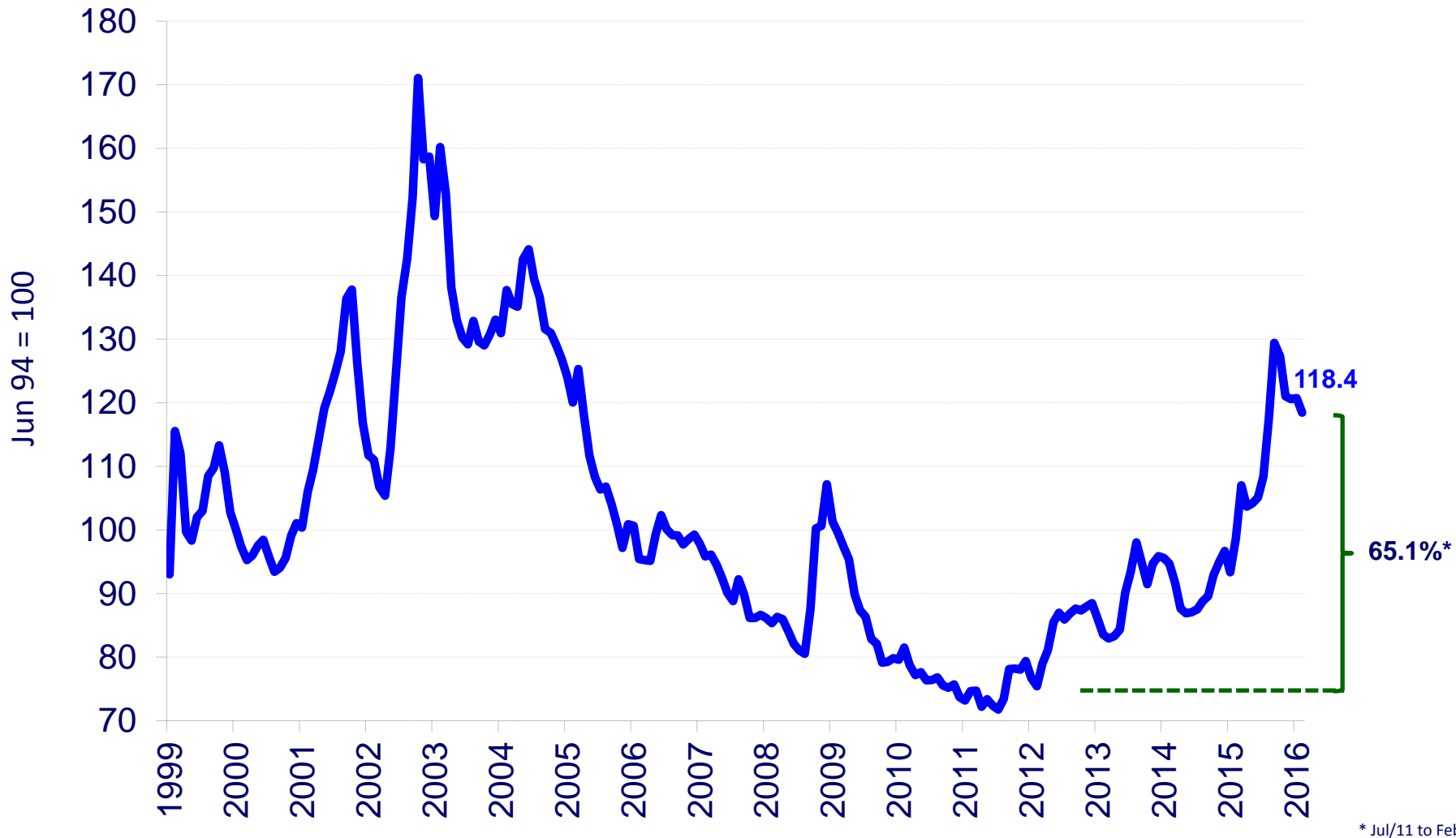
-28.2%*

95.3

*Sep/11 to Feb/16

Real Exchange Rate

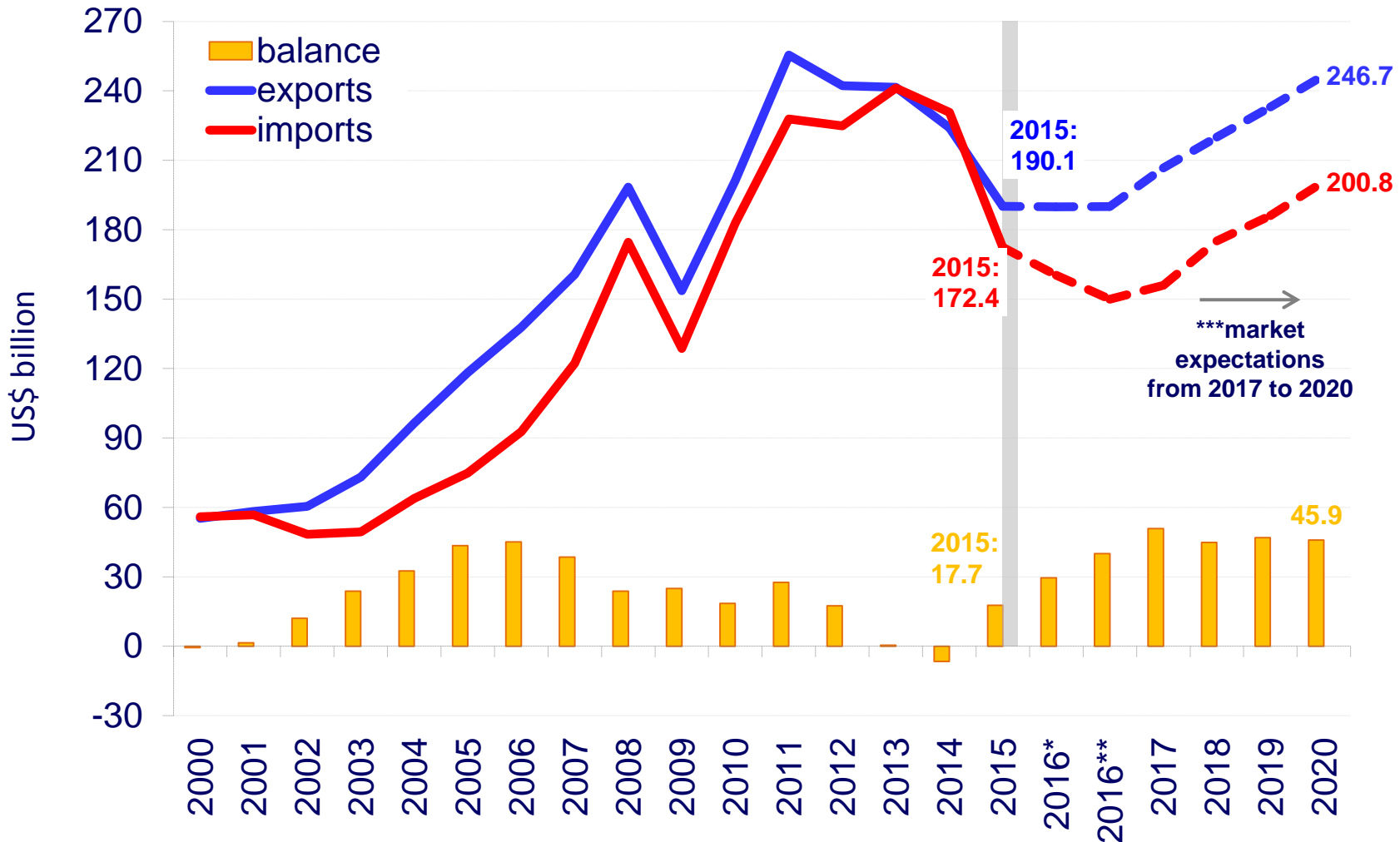
Effective Real Exchange Rate



* Jul/11 to Feb/16

Trade Balance – Exports and Imports

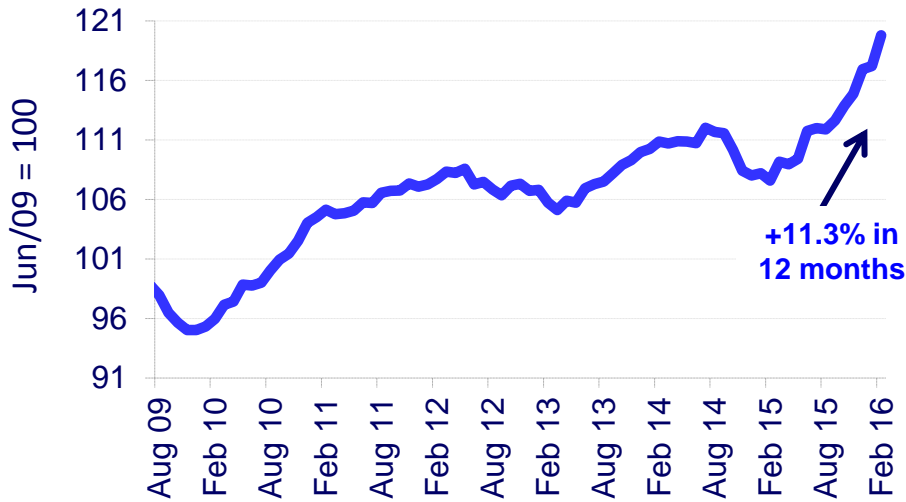
BCB projection for the 2016 trade balance: US\$ 40 billion



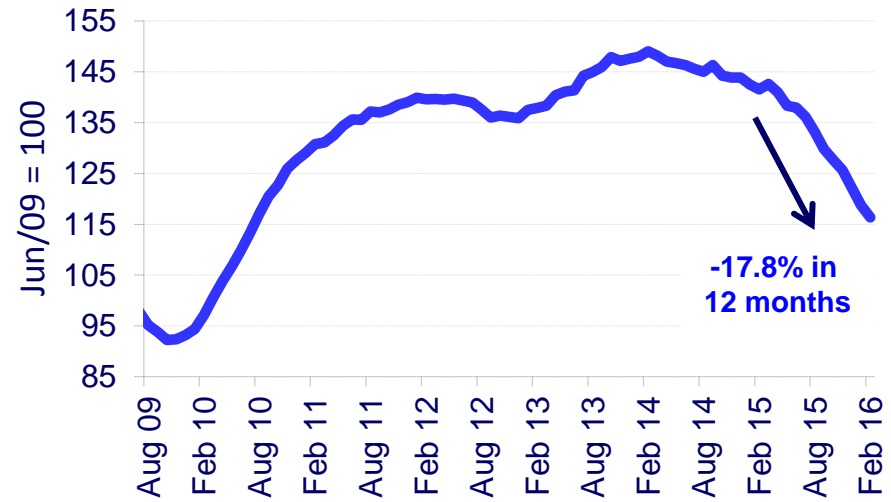
* 12 months through Feb/16; ** BCB projection; *** medians as of Mar 24th (balance calculated by difference)

External Adjustment

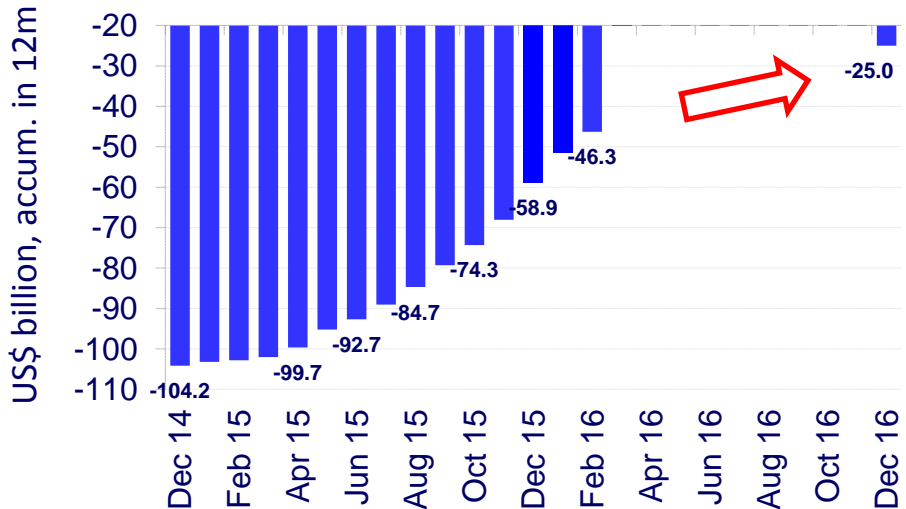
Exports Volume – 12mma



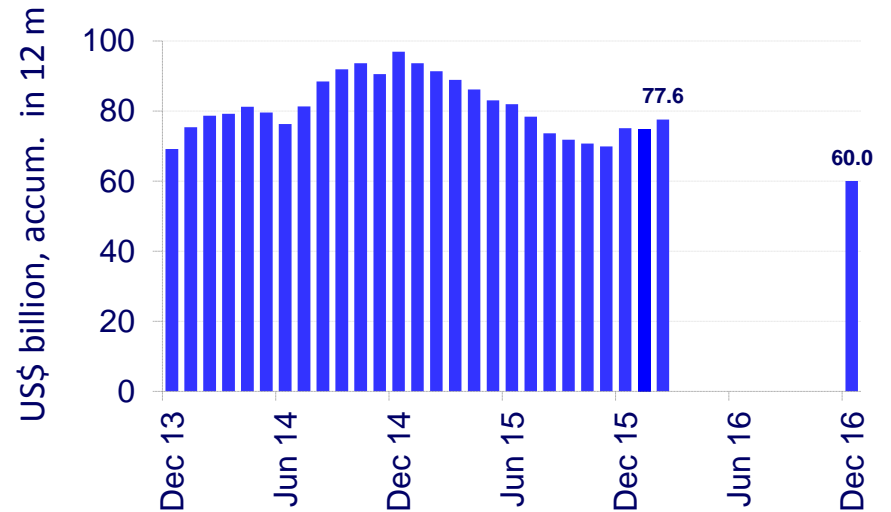
Imports Volume – 12mma



Current Account Balance

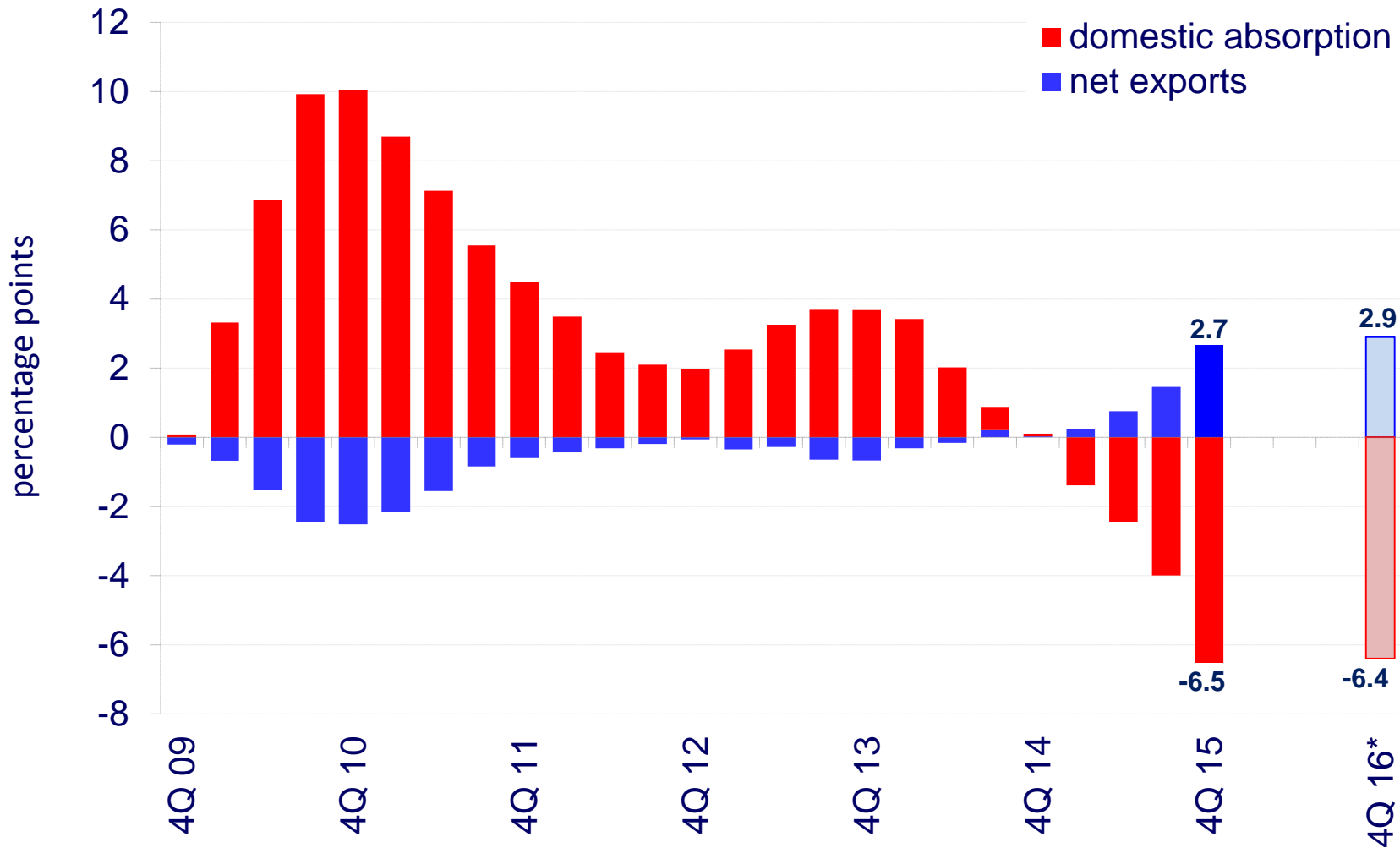


Direct Investment Liabilities (DIL)



Contribution of the External Sector for the GDP

Contribution for the GDP Growth (in 4 quarters)



* BCB projections

Box: Projections for the Balance of Payments

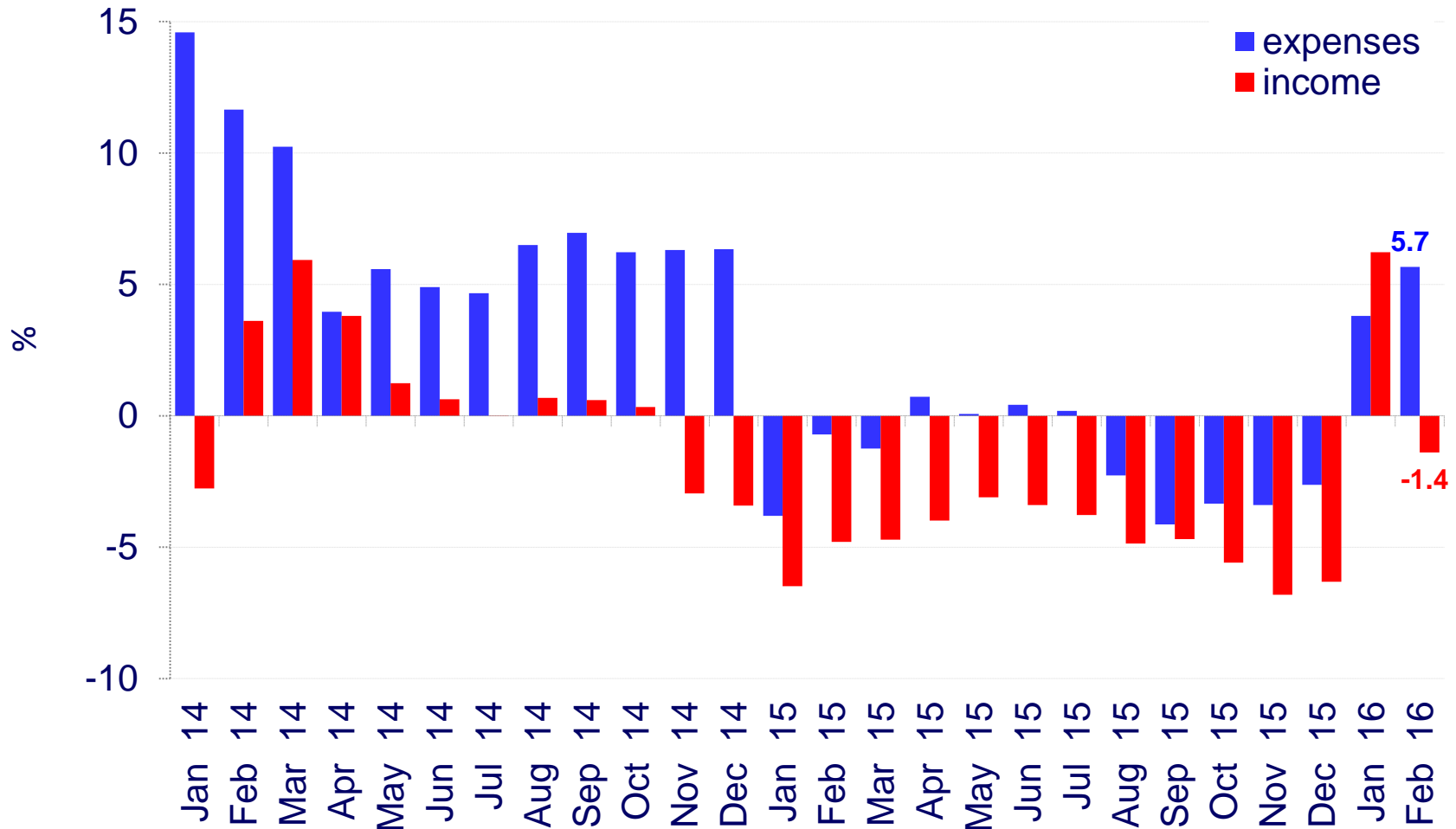
Projections for 2016:

- The adjustment process should intensify in 2016, with lower need of external funding
- DIL remains more than enough for the total funding of the current account deficit
- Current Account – US\$25 billion deficit, equivalent to 1.6% of the GDP (previous: US\$41 billion, equivalent to 2.6% of the GDP)
- Trade Surplus – US\$40 billion surplus (previous: US\$30 billion)
- Services – US\$28.6 billion deficit (previous: US\$33.4 billion)
- DIL – US\$60 billion inflow, unchanged
- Portfolio investment (stocks and fixed income) – US\$4 billion inflow (previous: US\$12 billion)
- Rollover rate for loans and bonds abroad unchanged at 100%
- Financial gap: increase in the FX Market surplus projection, from US\$13.4 billion to US\$20.1 billion

Fiscal

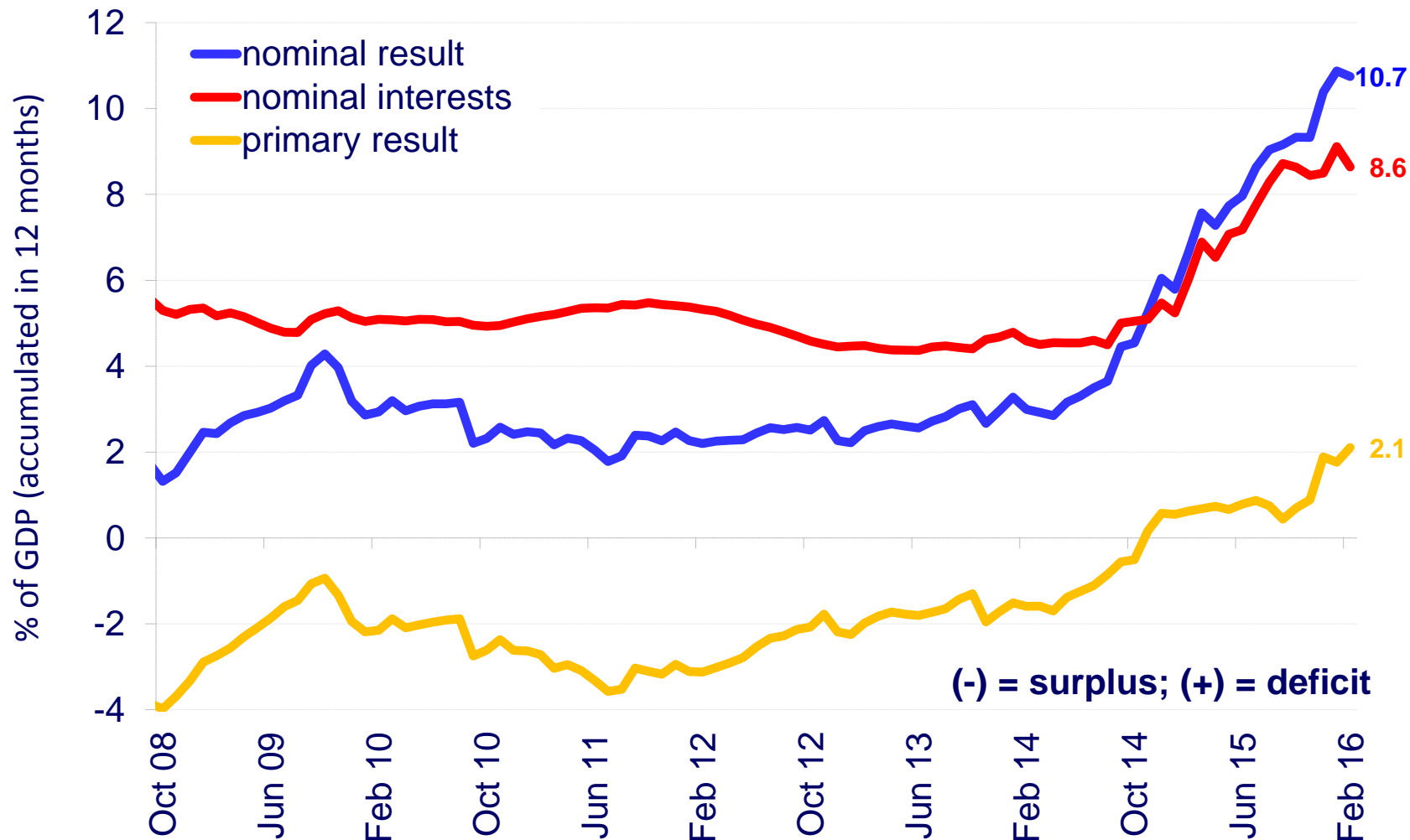
Real Growth (IPCA deflated) of Income and Expenses of the Central Government

Accumulated in the Year through the Reference Month

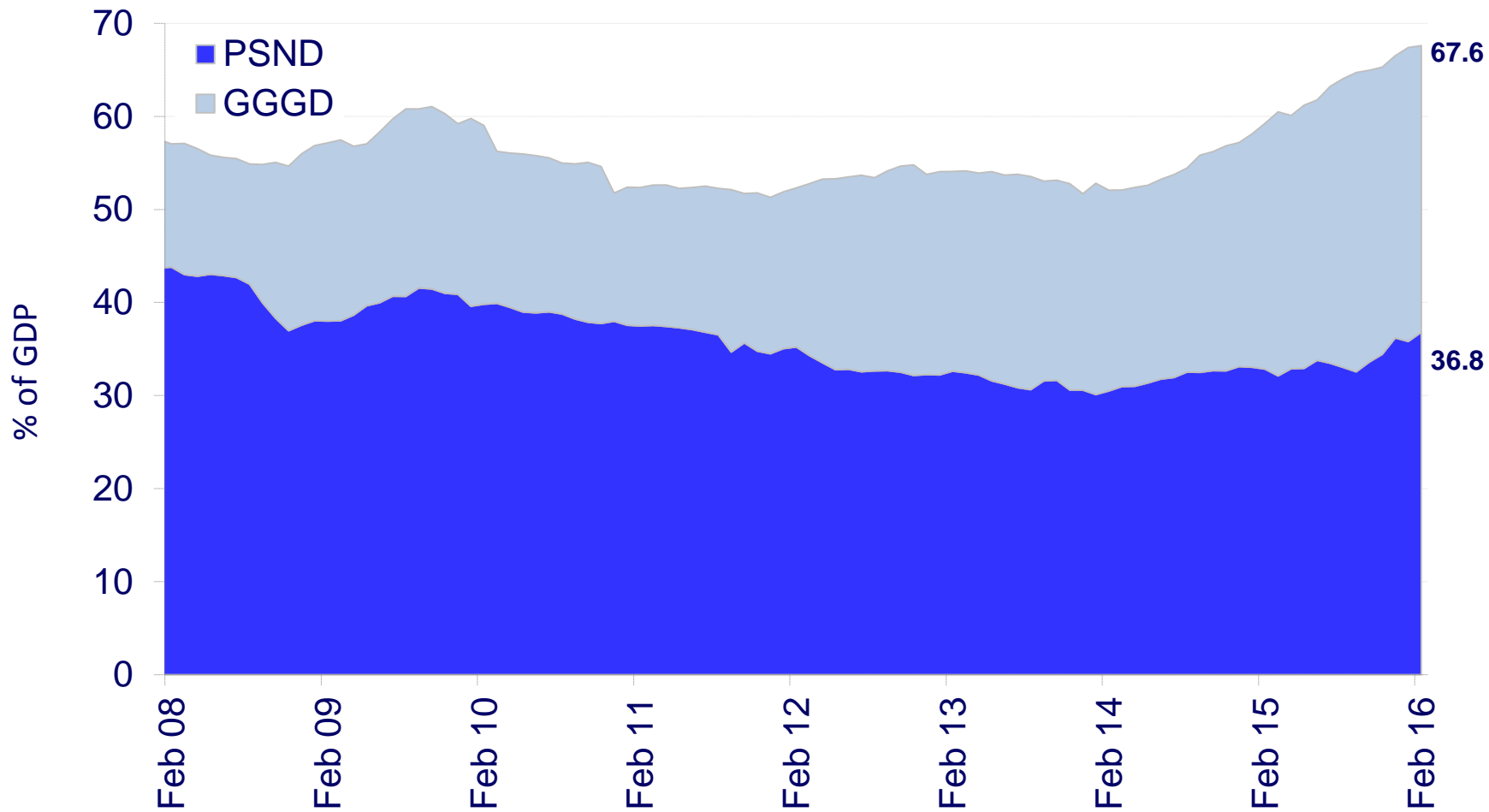


December 2015: excludes payment of liabilities (R\$55.6 billion paid under Federal Court of accounts (TCU) ruling (acórdãos 825/15 and 3297/15)

Fiscal Data



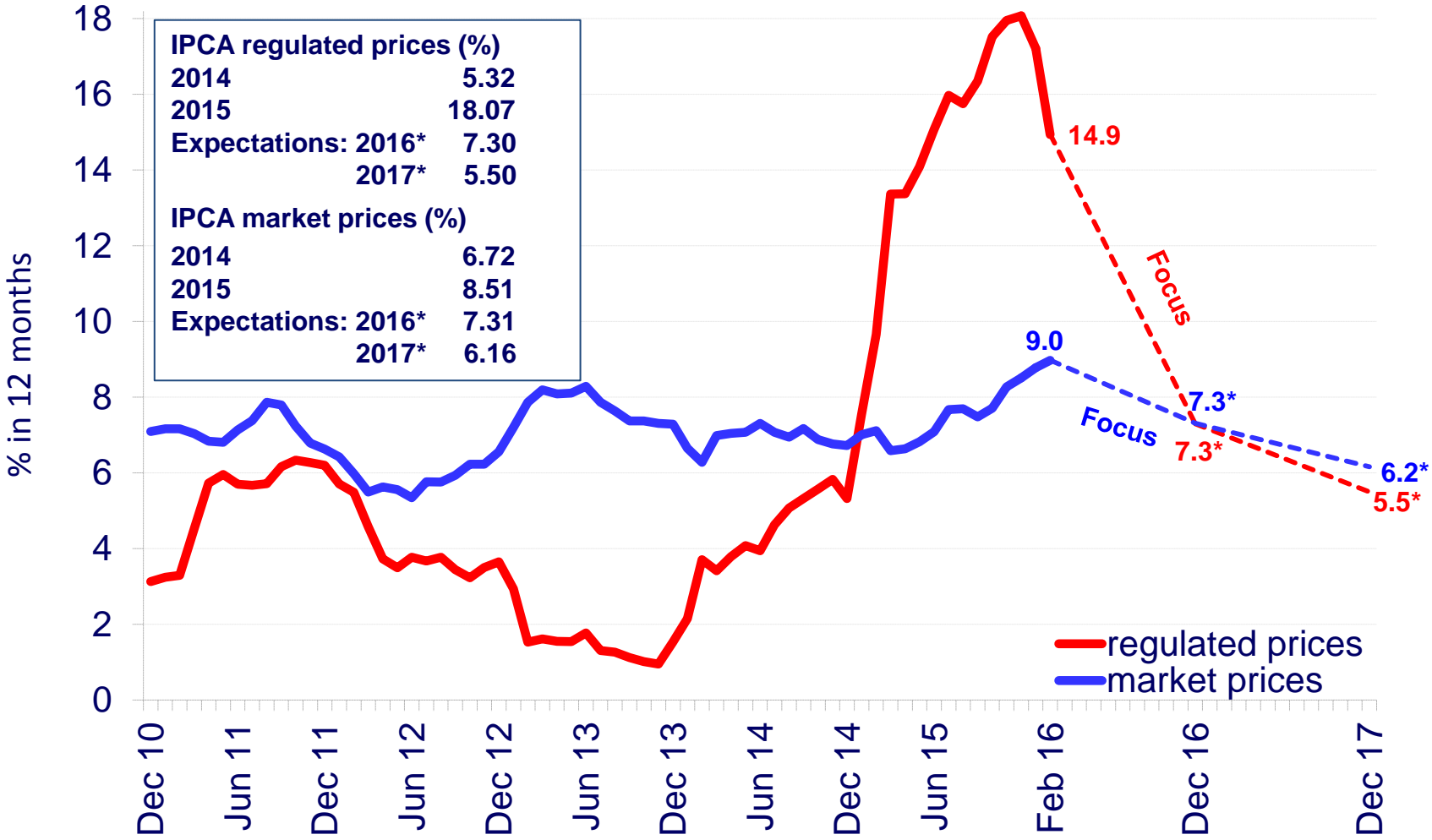
Fiscal Data



PSND: Public Sector Net Debt; GGGD: General Government Gross Debt

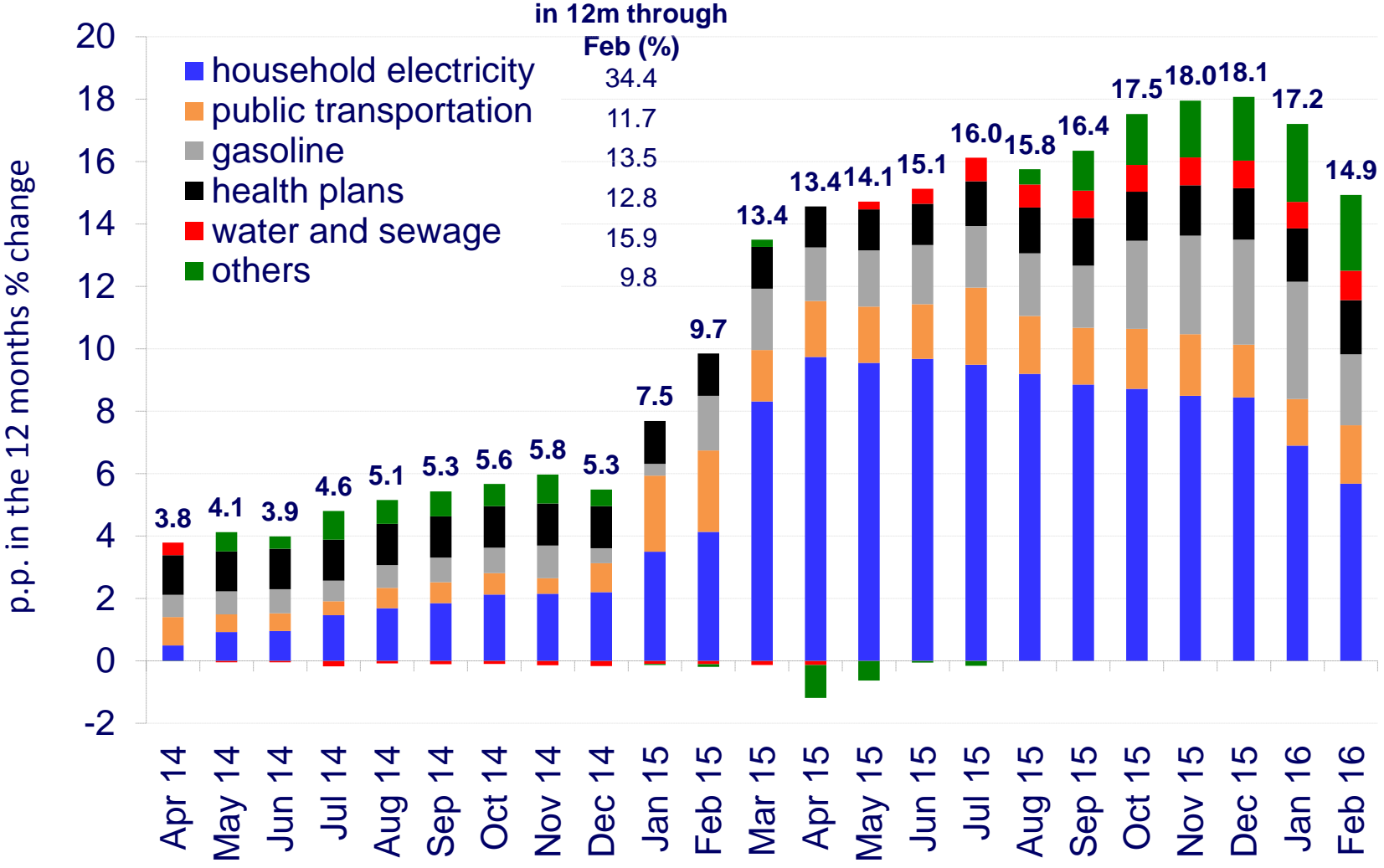
IV. Inflation Developments

Market Prices and Regulated Prices



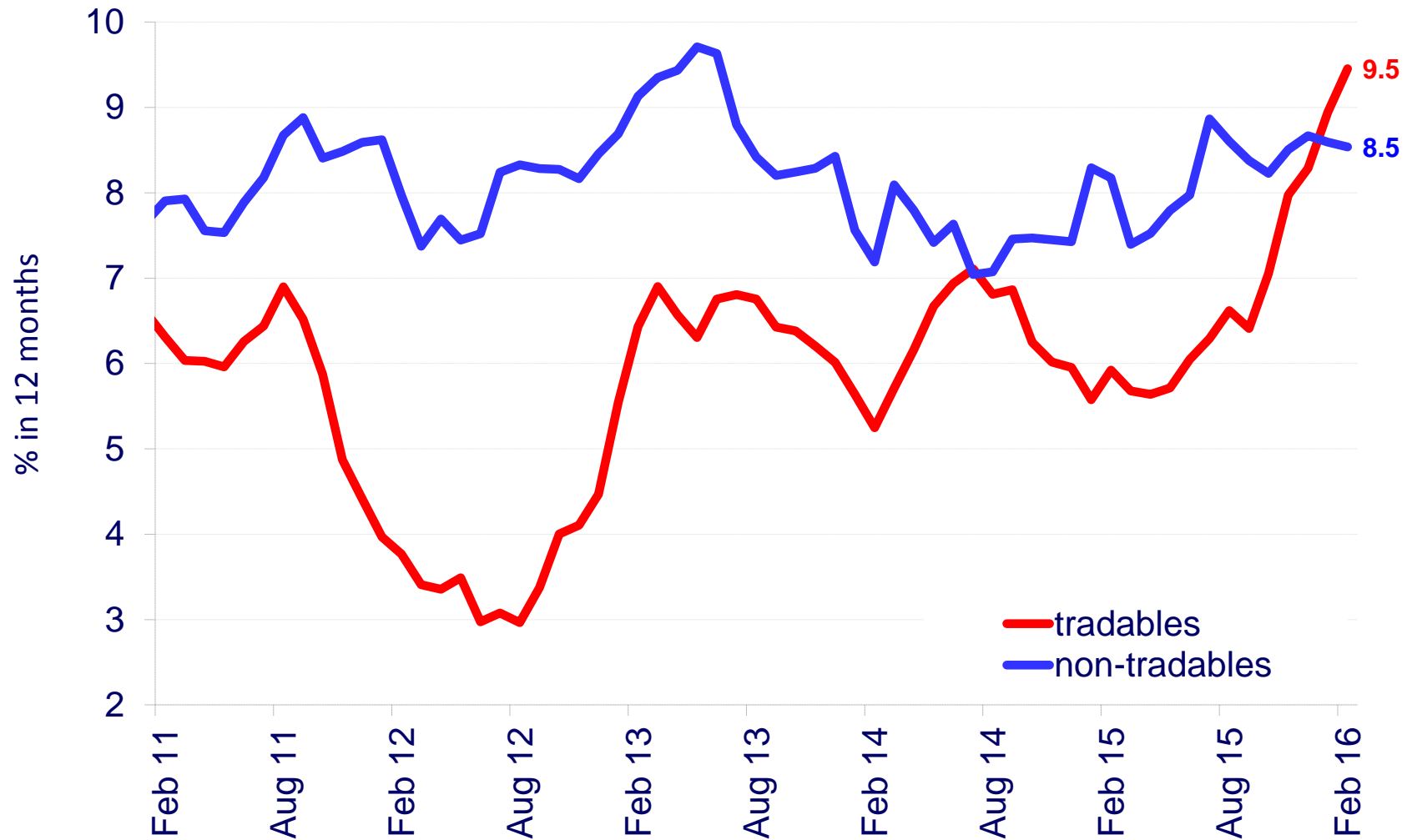
*expectations as on Mar 24th

Contribution to Regulated Prices

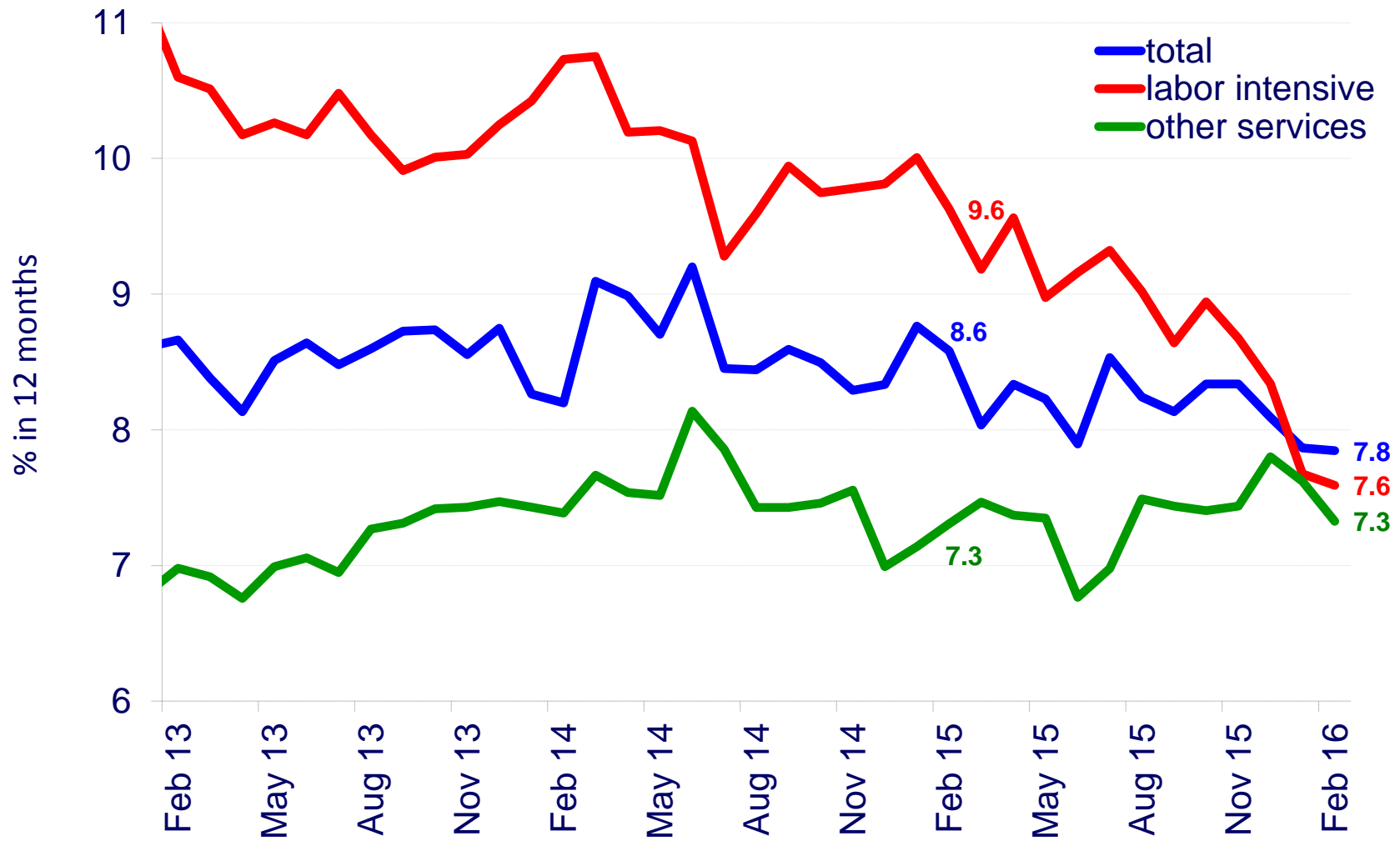


Source: BCB

Tradables and Non-Tradables



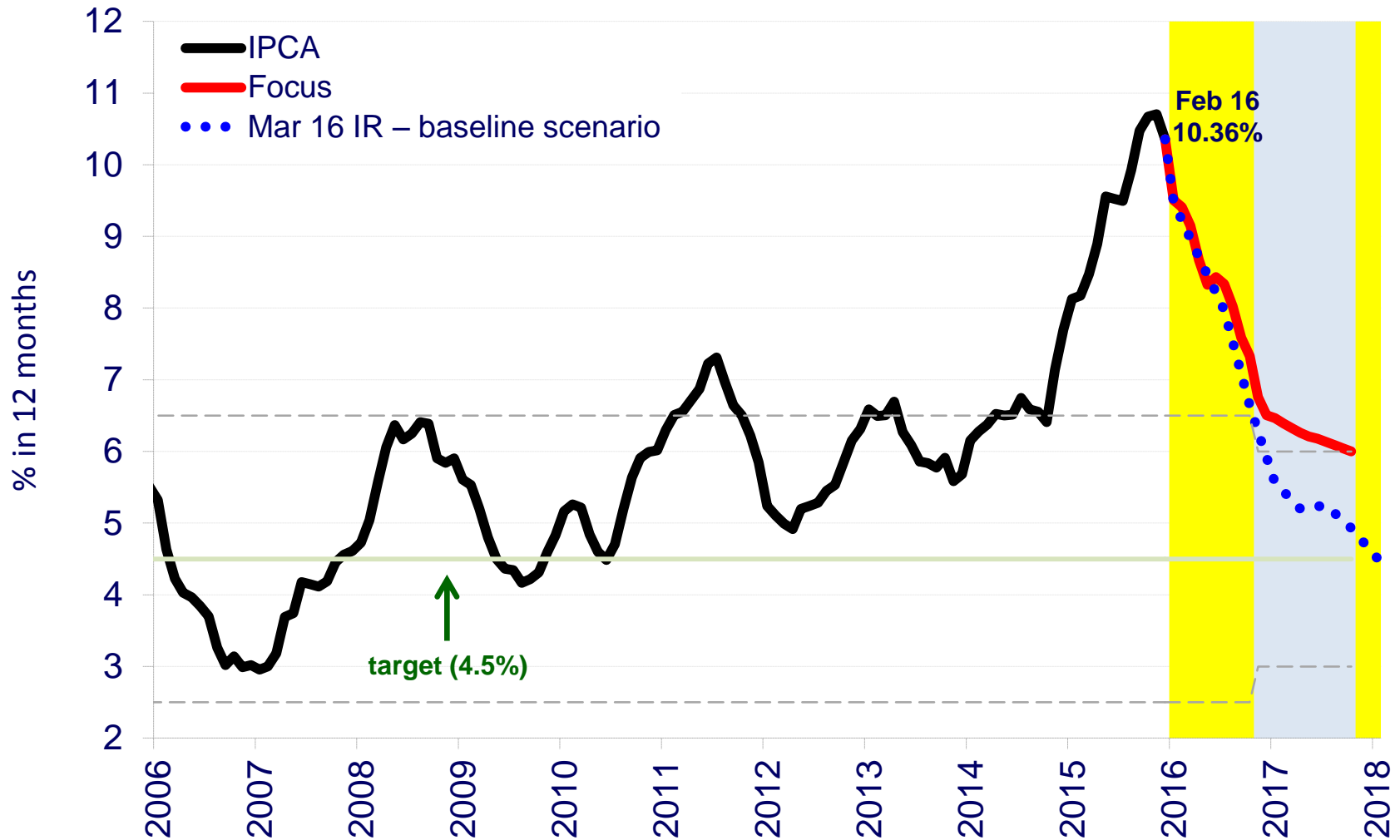
Services Inflation



Imports Prices of Manufactured Goods, Exchange Rate and Impacts on IPCA Tradable Prices

- The exchange rate passthrough to imports prices of manufactured goods has been partial and decreasing in the recent years
- Besides the lower passthrough, global inflation decrease and domestic activity slowdown explain lower manufactured prices in dollar (8.4% from Jun/14 through Dec/15)
- This movement contributed for mitigating the FX impact on IPCA tradables prices along 2015

Consumer Price Inflation



Obs.: Focus: expectations as of Mar 24th

BCB Inflation Forecasts

Baseline Scenario* and Market Scenario

| Period | | Baseline | Market |
|--------|---|----------|--------|
| 2016 | 1 | 9.5 | 9.5 |
| 2016 | 2 | 8.7 | 8.7 |
| 2016 | 3 | 8.0 | 8.1 |
| 2016 | 4 | 6.6 | 6.9 |
| 2017 | 1 | 5.6 | 6.0 |
| 2017 | 2 | 5.2 | 5.7 |
| 2017 | 3 | 5.2 | 5.7 |
| 2017 | 4 | 4.9 | 5.4 |
| 2018 | 1 | 4.5 | 5.0 |

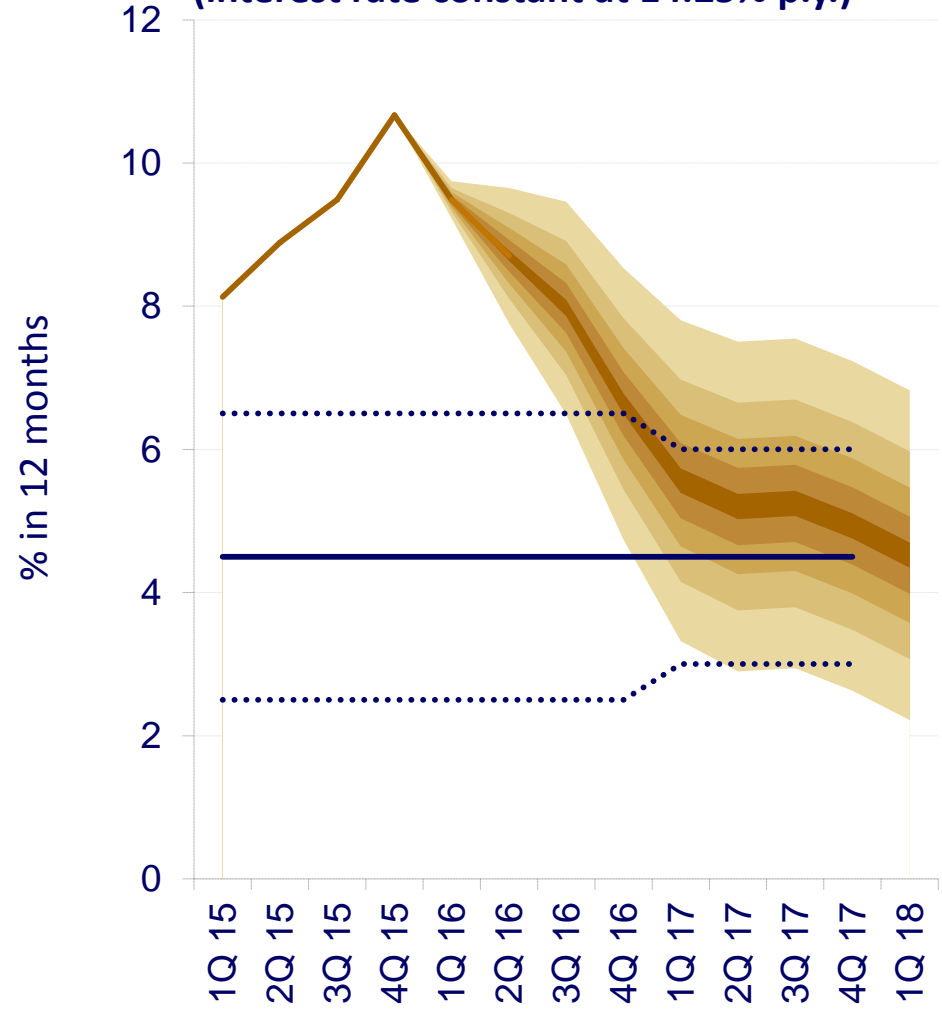
Obs.: 12-month accumulated inflation (%)

* interest rate constant at 14.25% p.y.

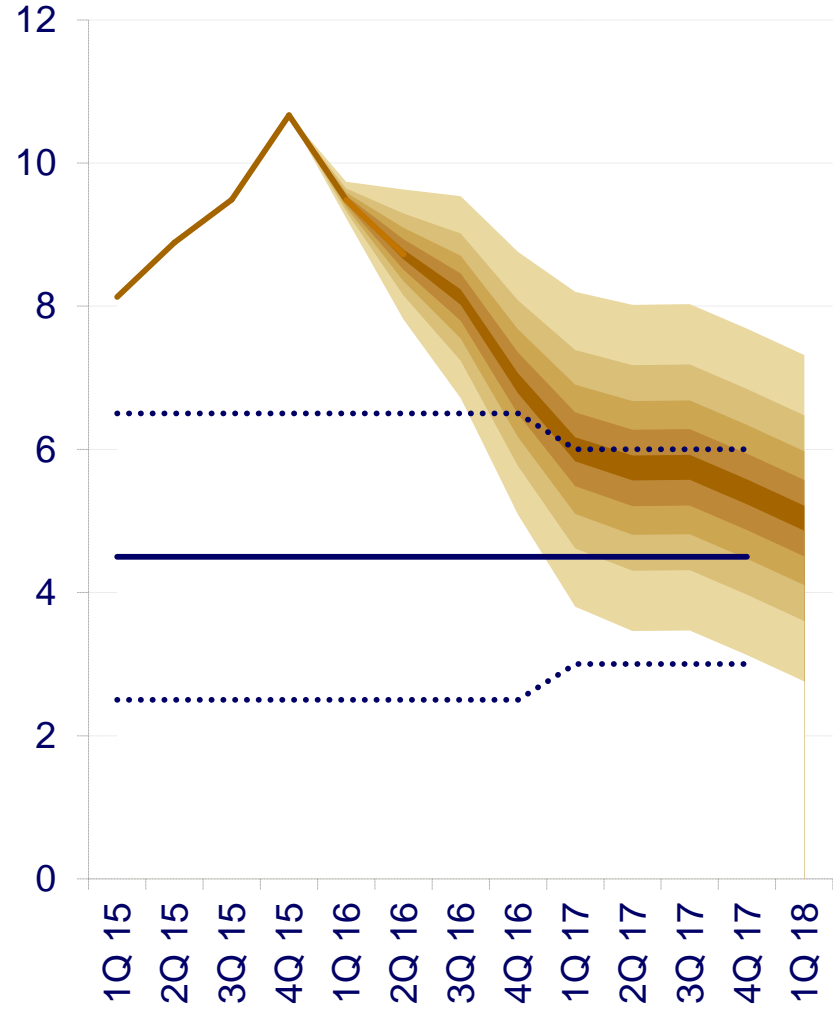
BCB Inflation Forecasts

Baseline Scenario

(interest rate constant at 14.25% p.y.)



Market Scenario



The Banco Central do Brasil reaffirms that uncertainties associated with the balance of risks for inflation do not allow to work with the hypothesis of monetary policy easing and it will take the necessary measures in order to ensure the compliance with the objectives of the inflation targeting regime, i.e., to circumscribe inflation to the limits established by the CMN, in 2016, and to make inflation converge to the 4.5% target, in 2017.

Inflation Outlook

Altamir Lopes

Inflation Report
March 2016