



Inflation Outlook

Altamir Lopes

Inflation Report
June 2016

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- I. Introduction
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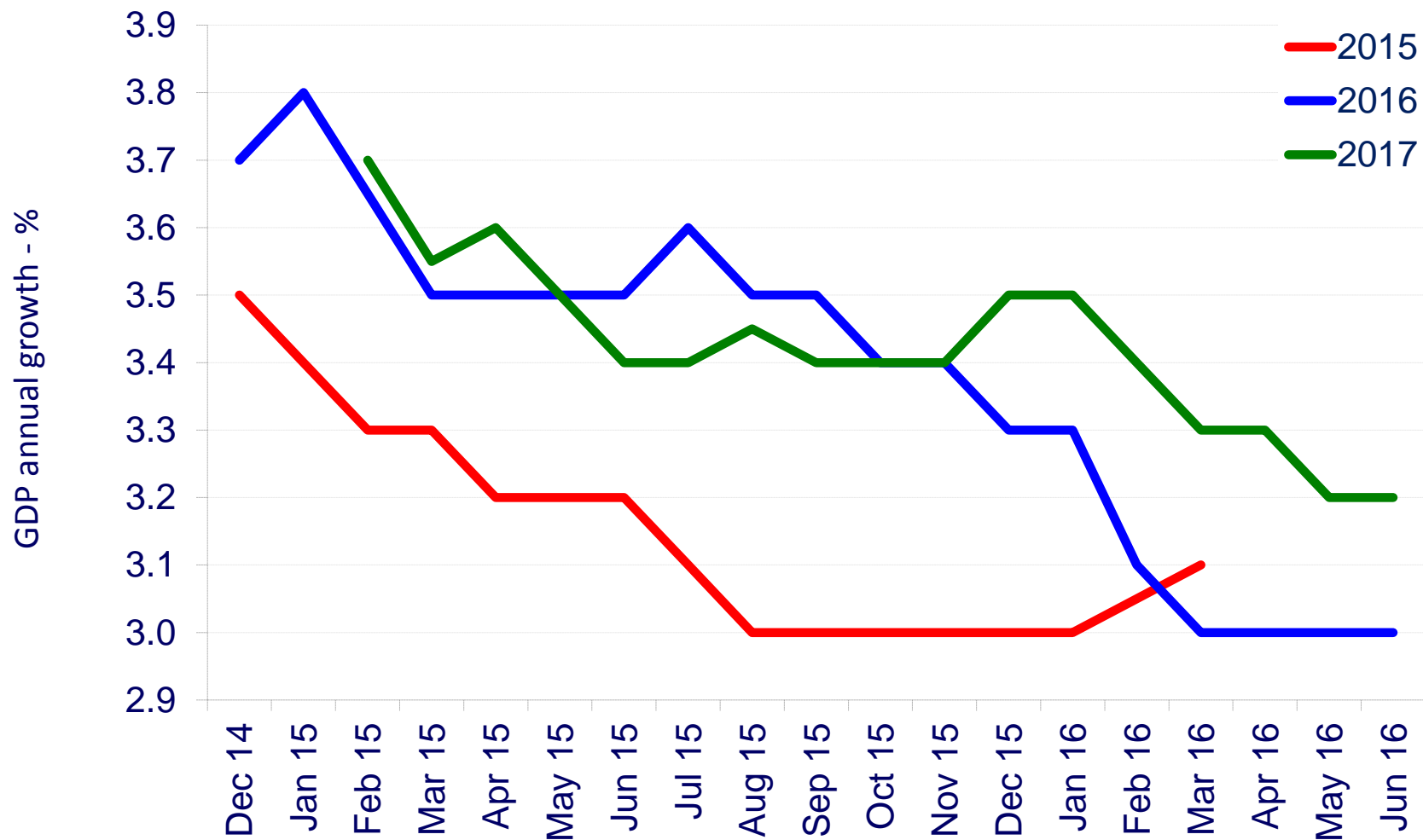
I. Introduction

***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

Prospect of Moderate Global Growth

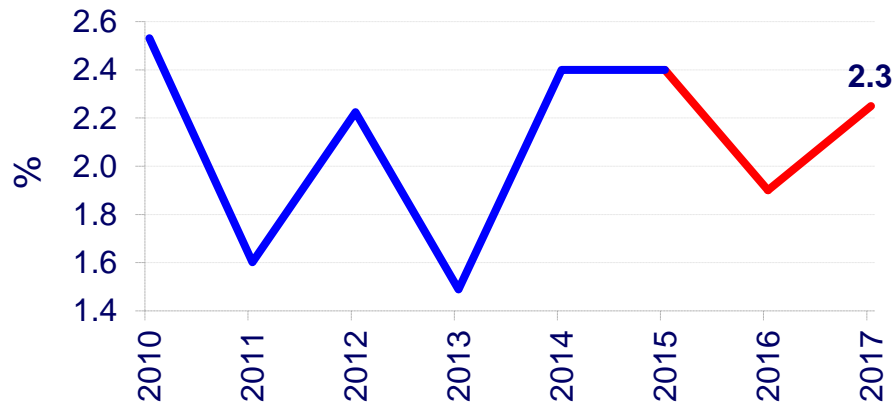


Source: Bloomberg (Jun 16: as of Jun 24th)

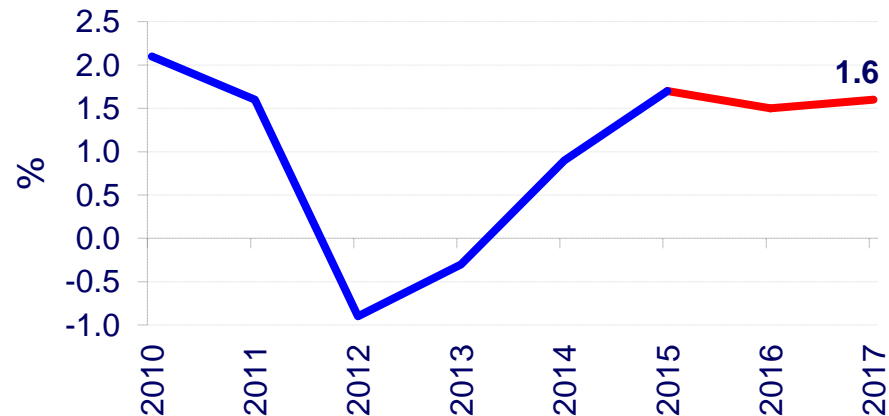
Activity

GDP annual growth

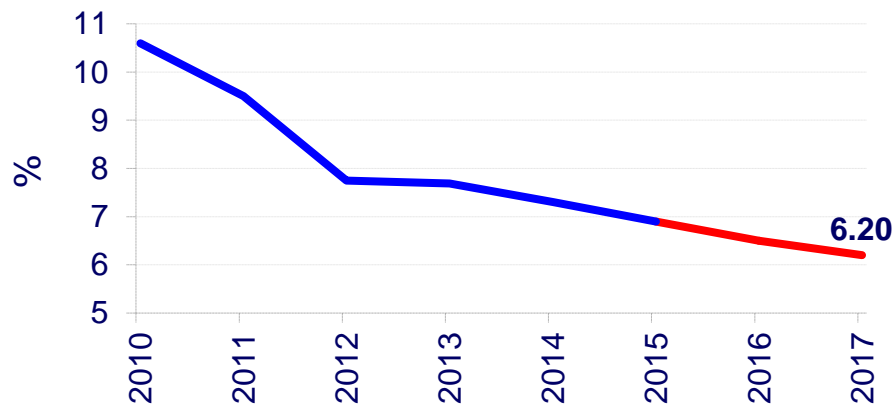
United States



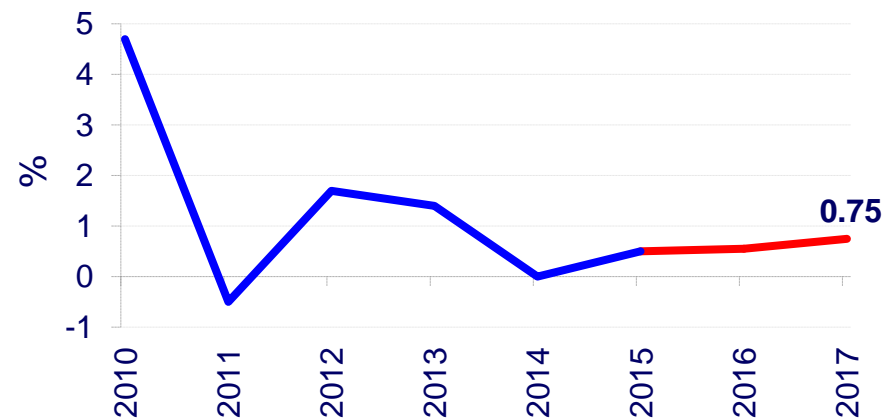
Euro Area



China



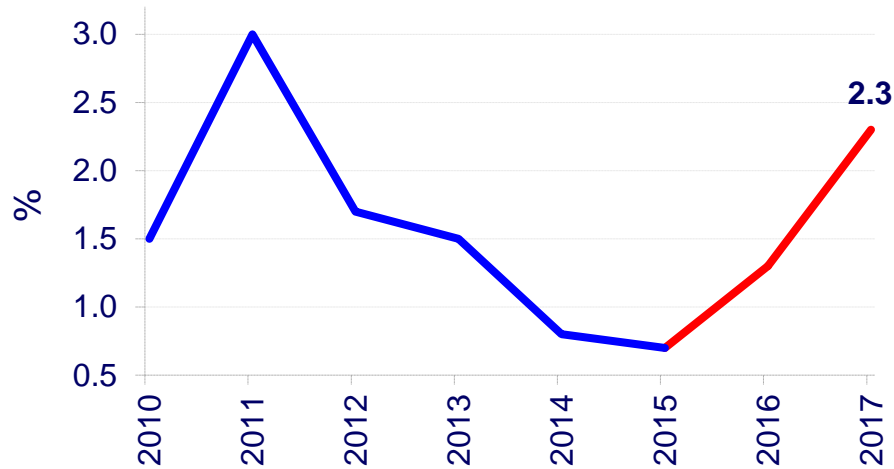
Japan



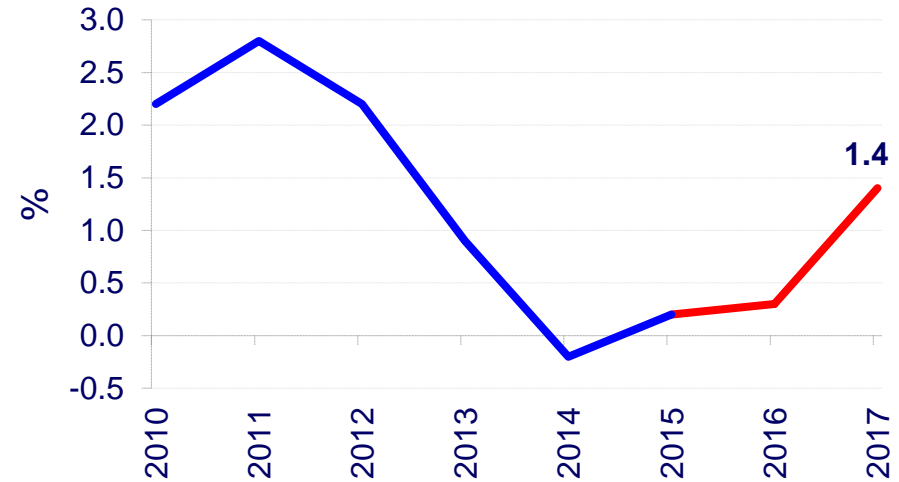
2016/17: projection

Inflation

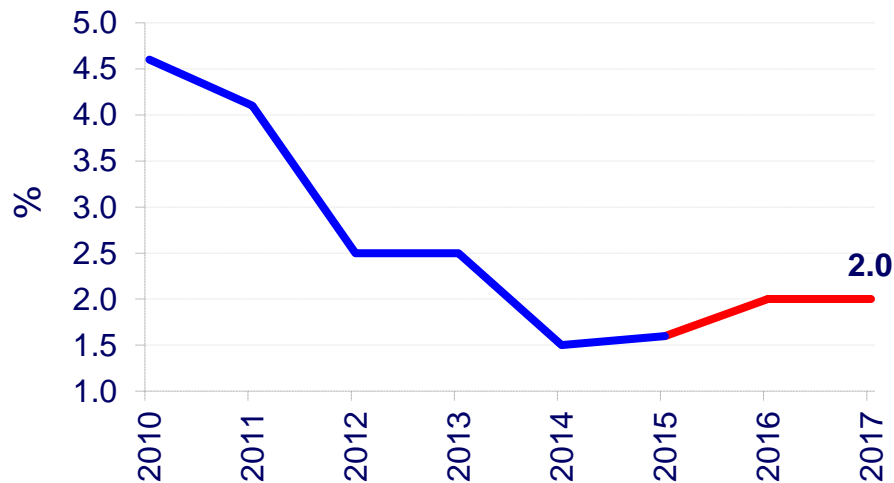
United States



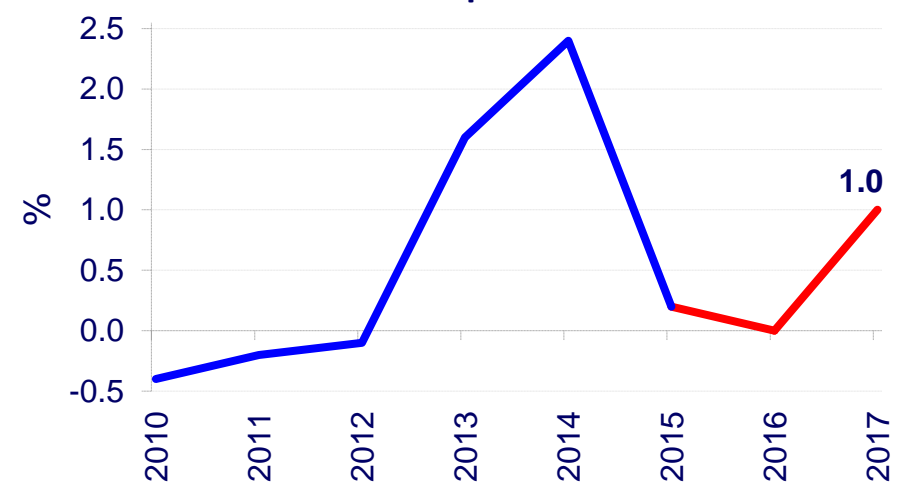
Euro Area



China

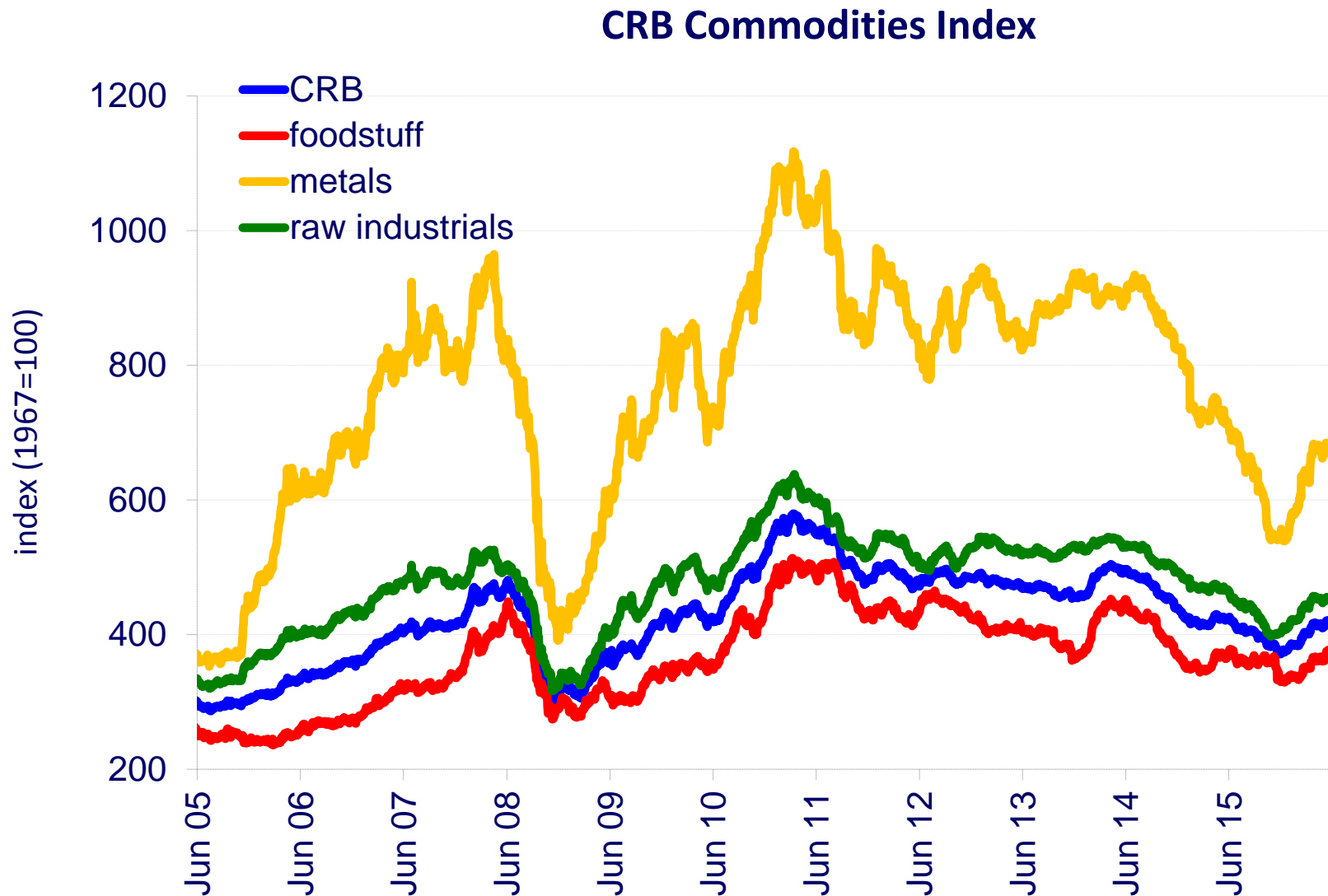


Japan



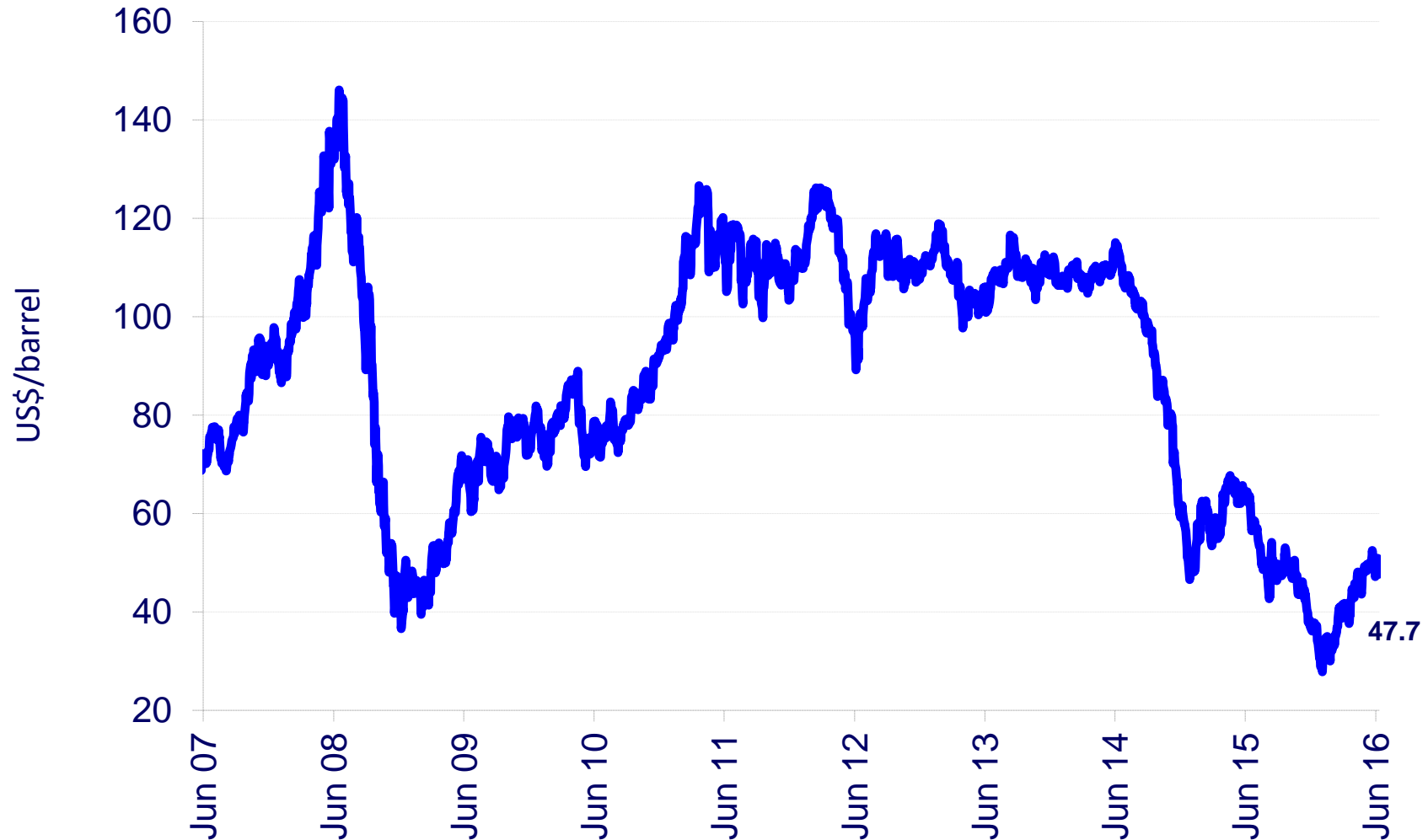
2016/17: projection

Commodities Prices



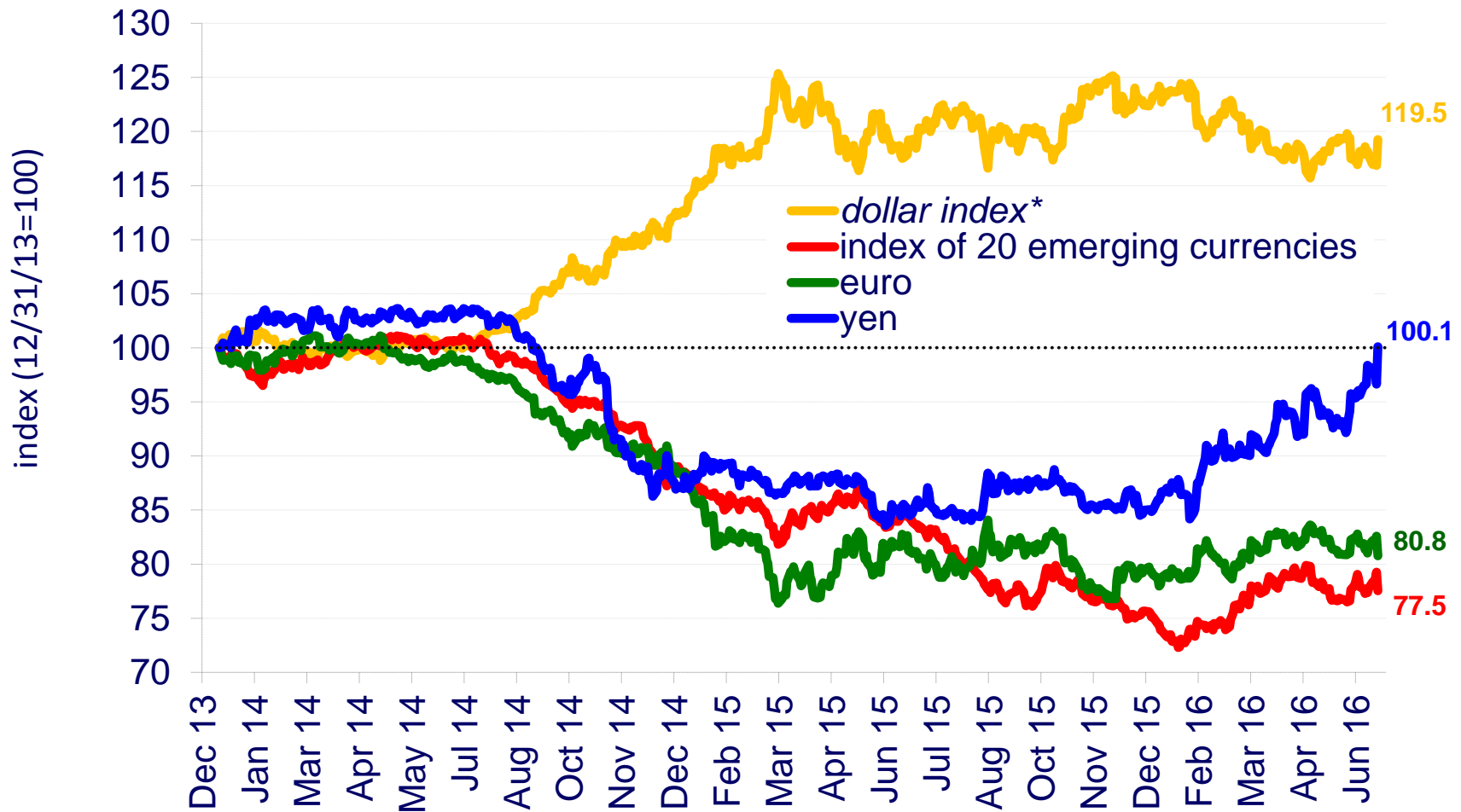
Oil Prices

Brent (1st generic future)



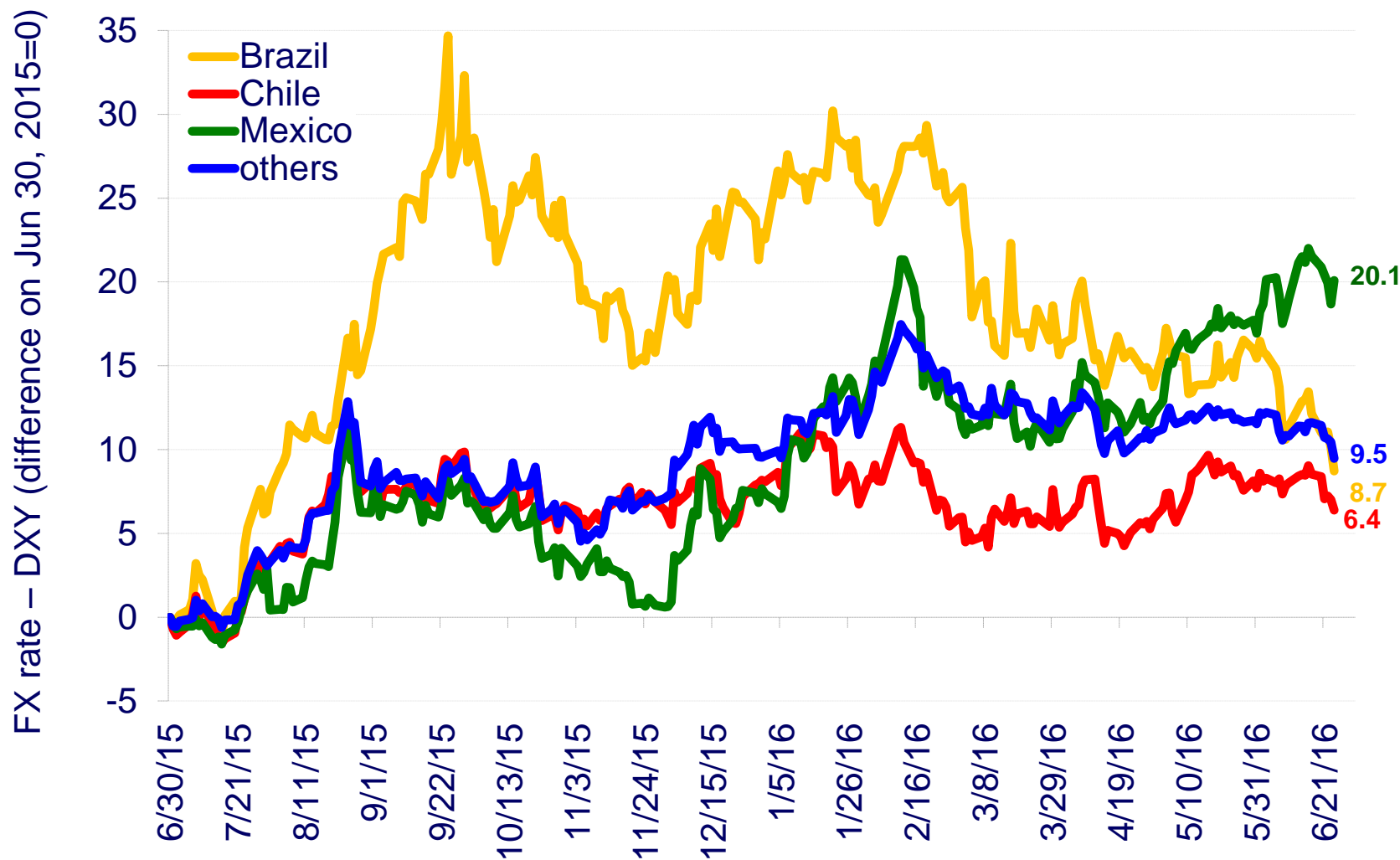
Source: Bloomberg (through Jun 27th)

US Dollar



*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 kron); data through Jun 24th

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



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

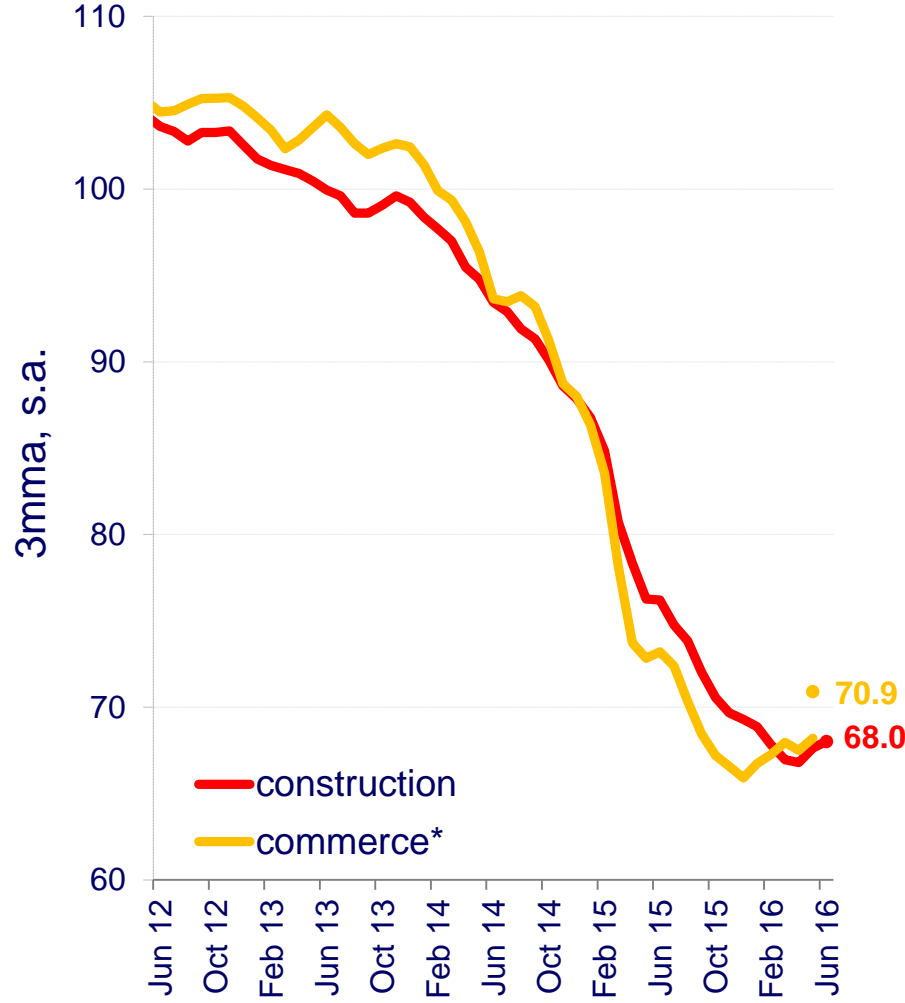
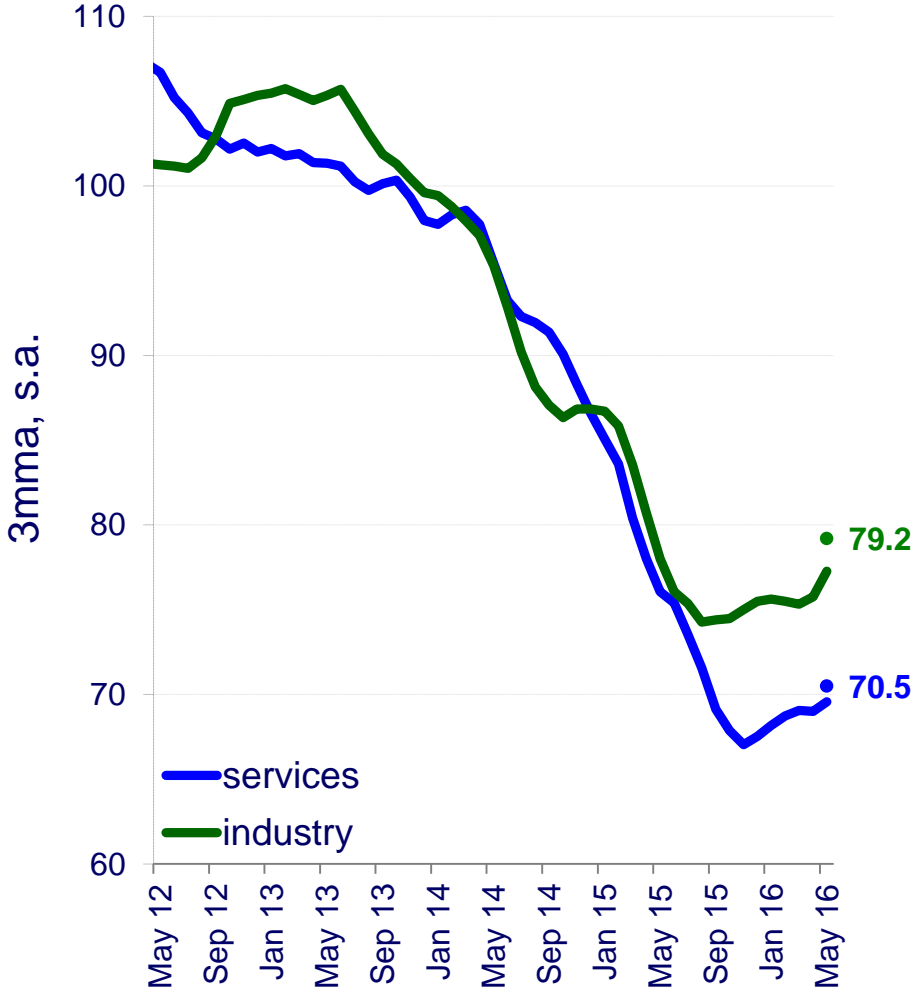
III. Domestic Macroeconomic Conditions

Current Conditions

- The speed of materialization of the ongoing adjustments, especially the fiscal, and of the gains stemming from them:
 - will reinforce the positive perception regarding the economic outlook
 - will improve the agents' confidence
 - will contribute for the anchoring of inflation expectations

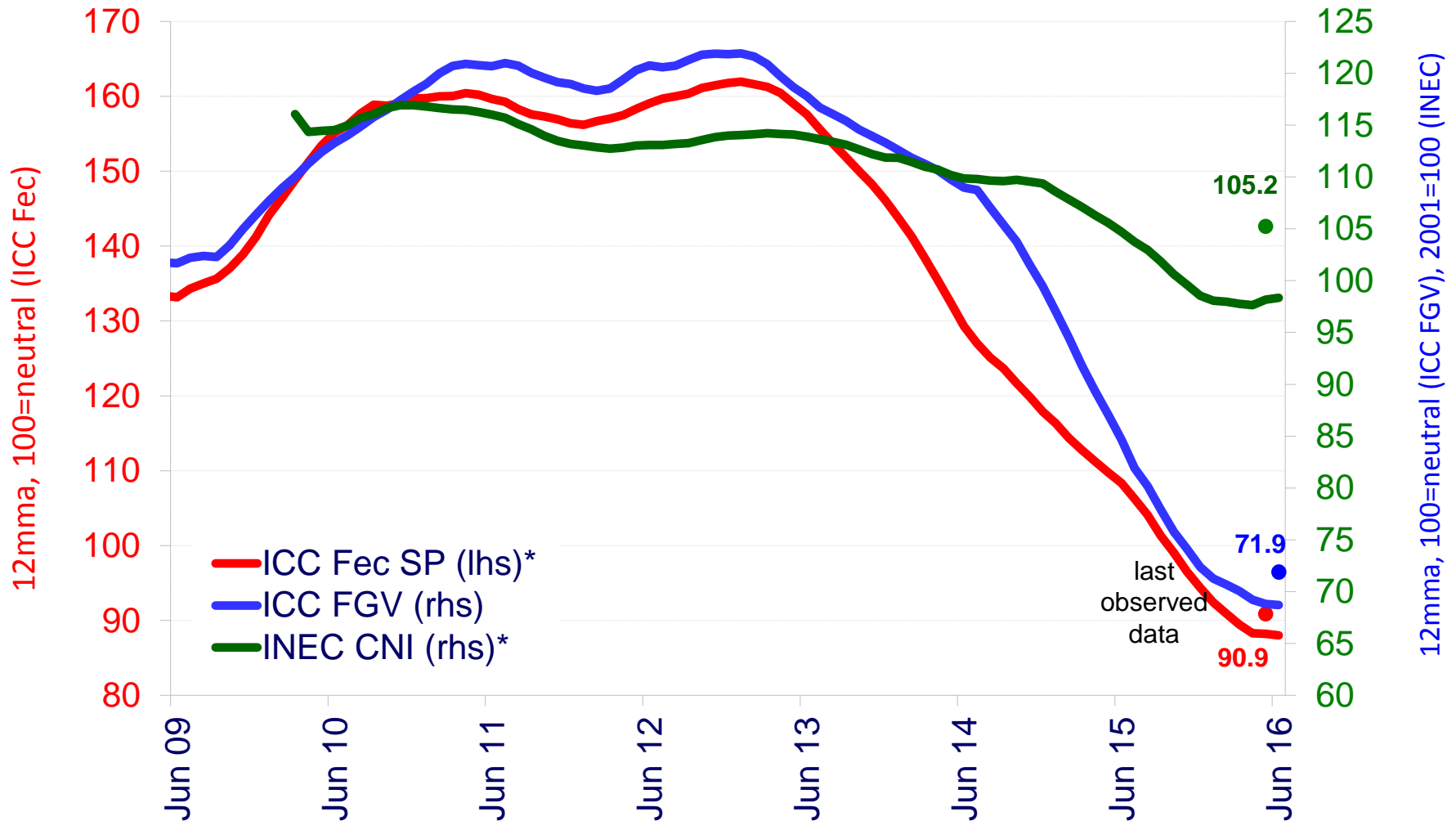
Activity

Businessmen Confidence



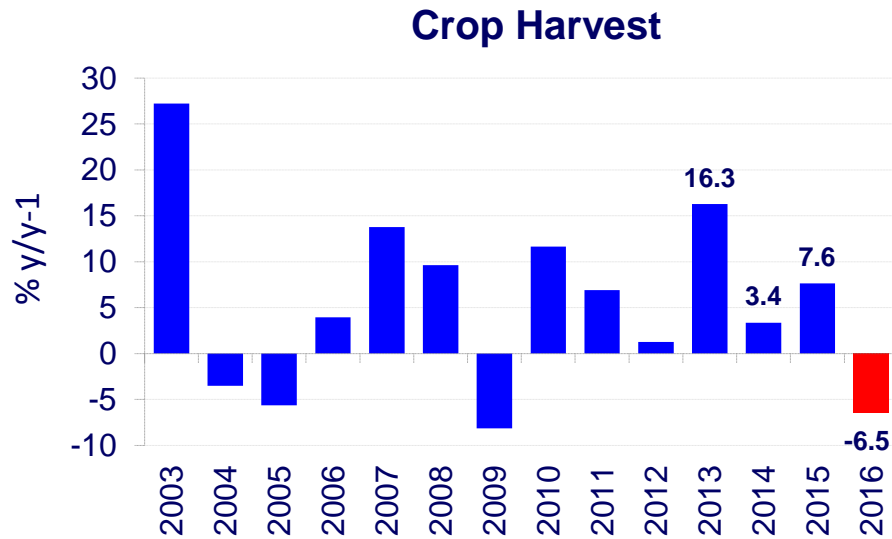
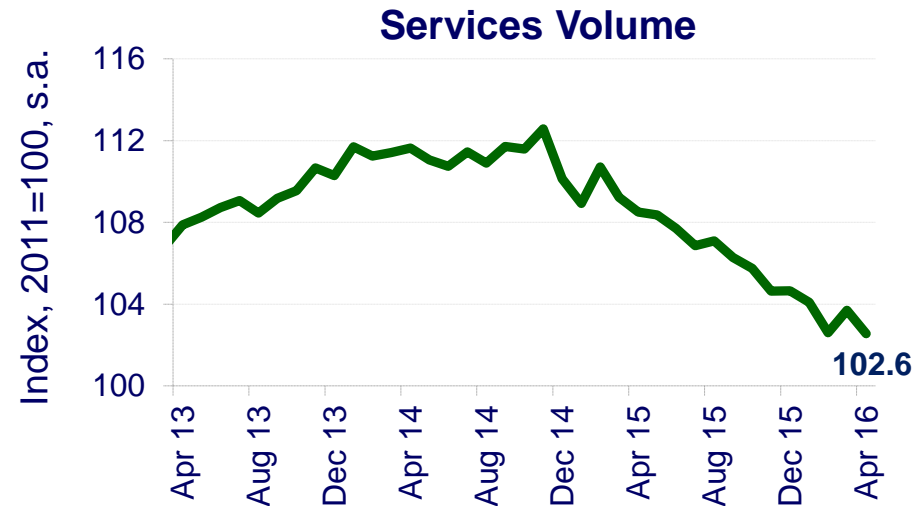
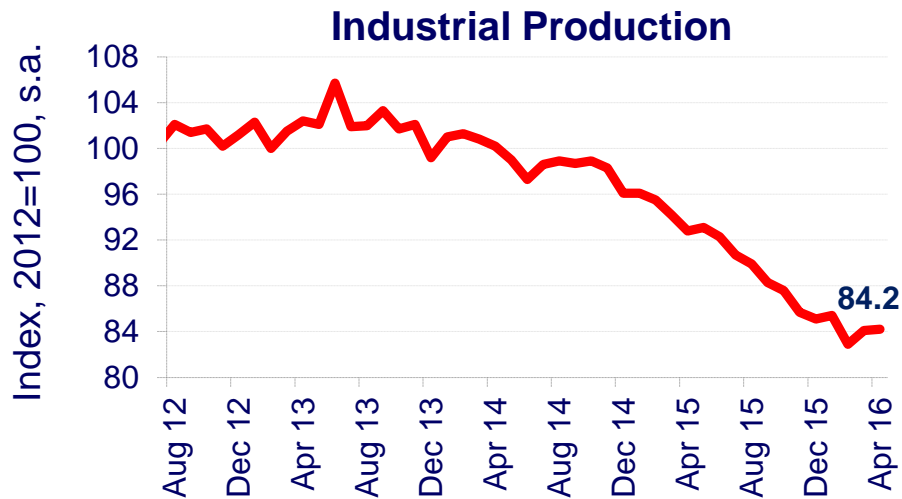
Obs.: proportion of favorable answers – proportion of unfavorable answers + 100 (100=neutral); * through May 16

Consumer Confidence



Obs.: ICCs: share of favorable responses – share of unfavorable responses + 100 (100=neutral); INEC: 2001=100; *through May 2016

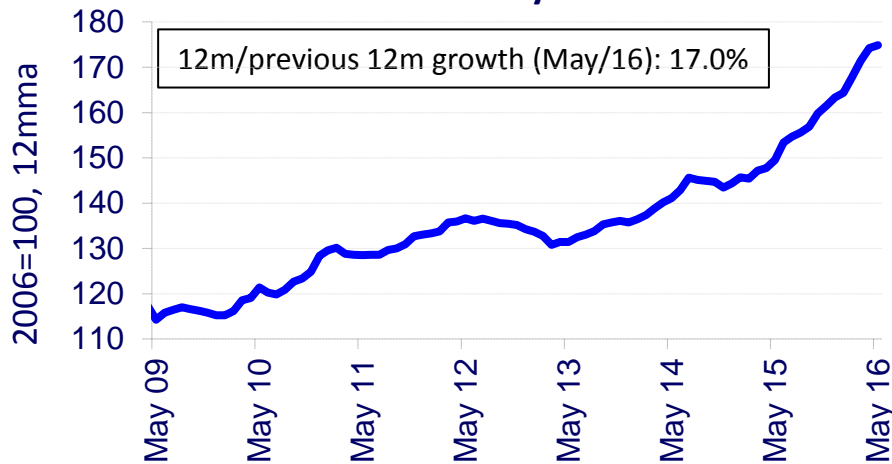
Supply: Signs of Stabilization



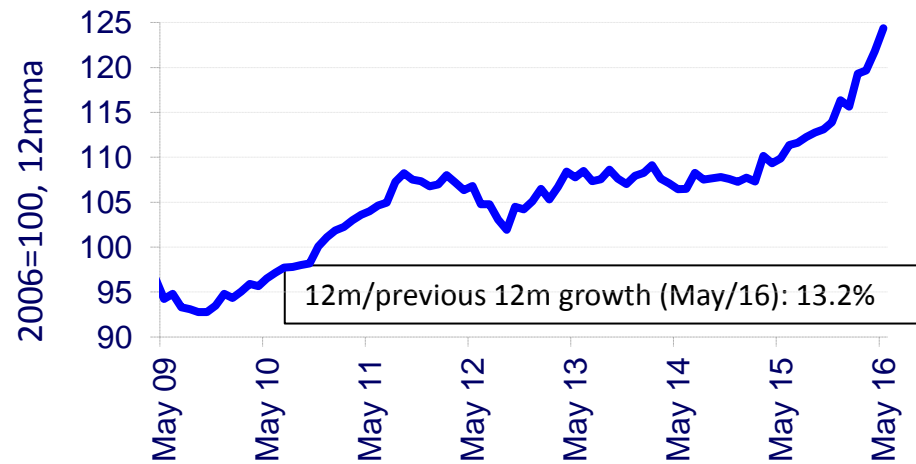
2015-16: IBGE estimates in Jun/16

Exports Volume

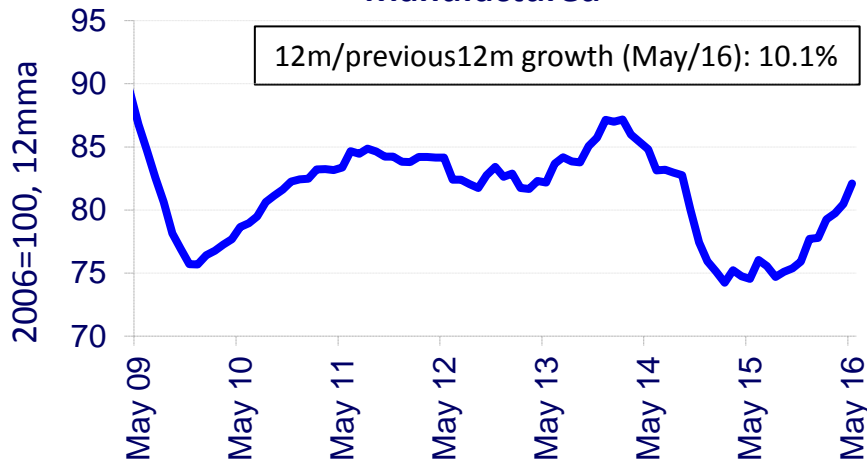
Primary



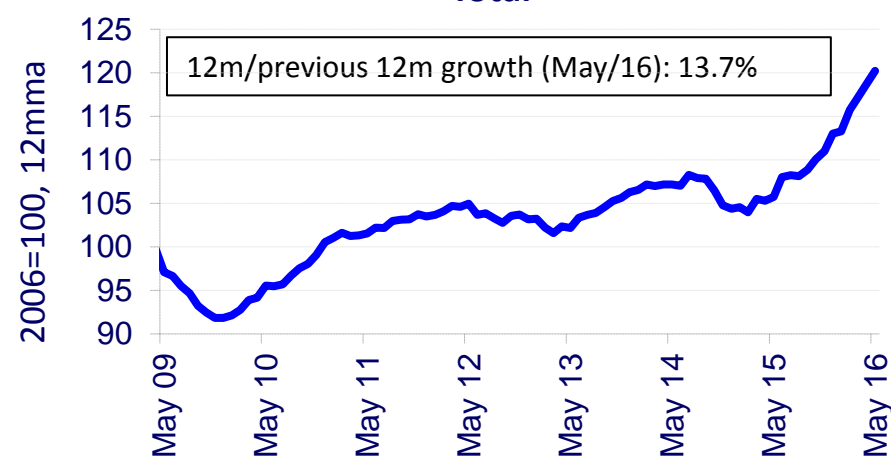
Semi-Manufactured



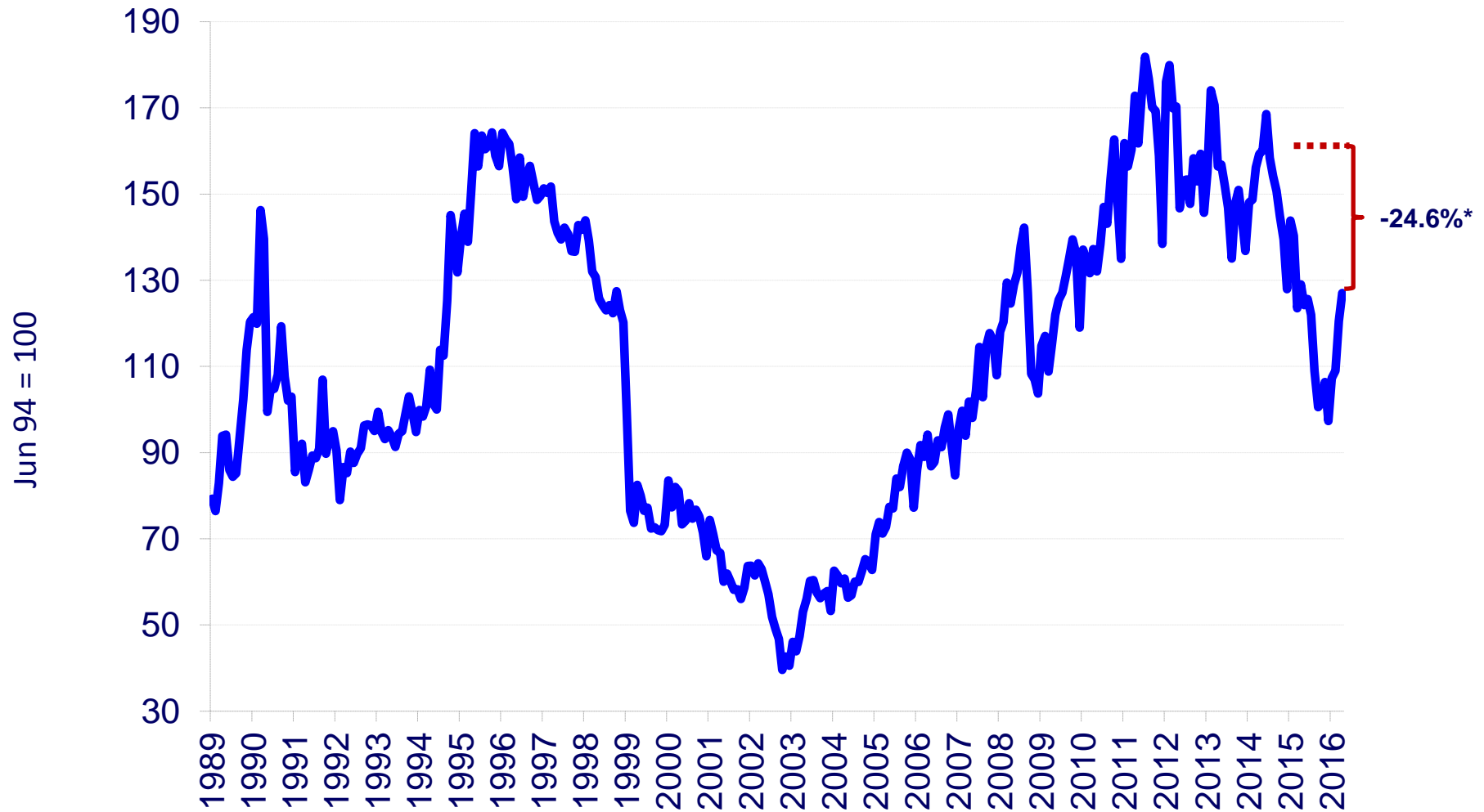
Manufactured



Total

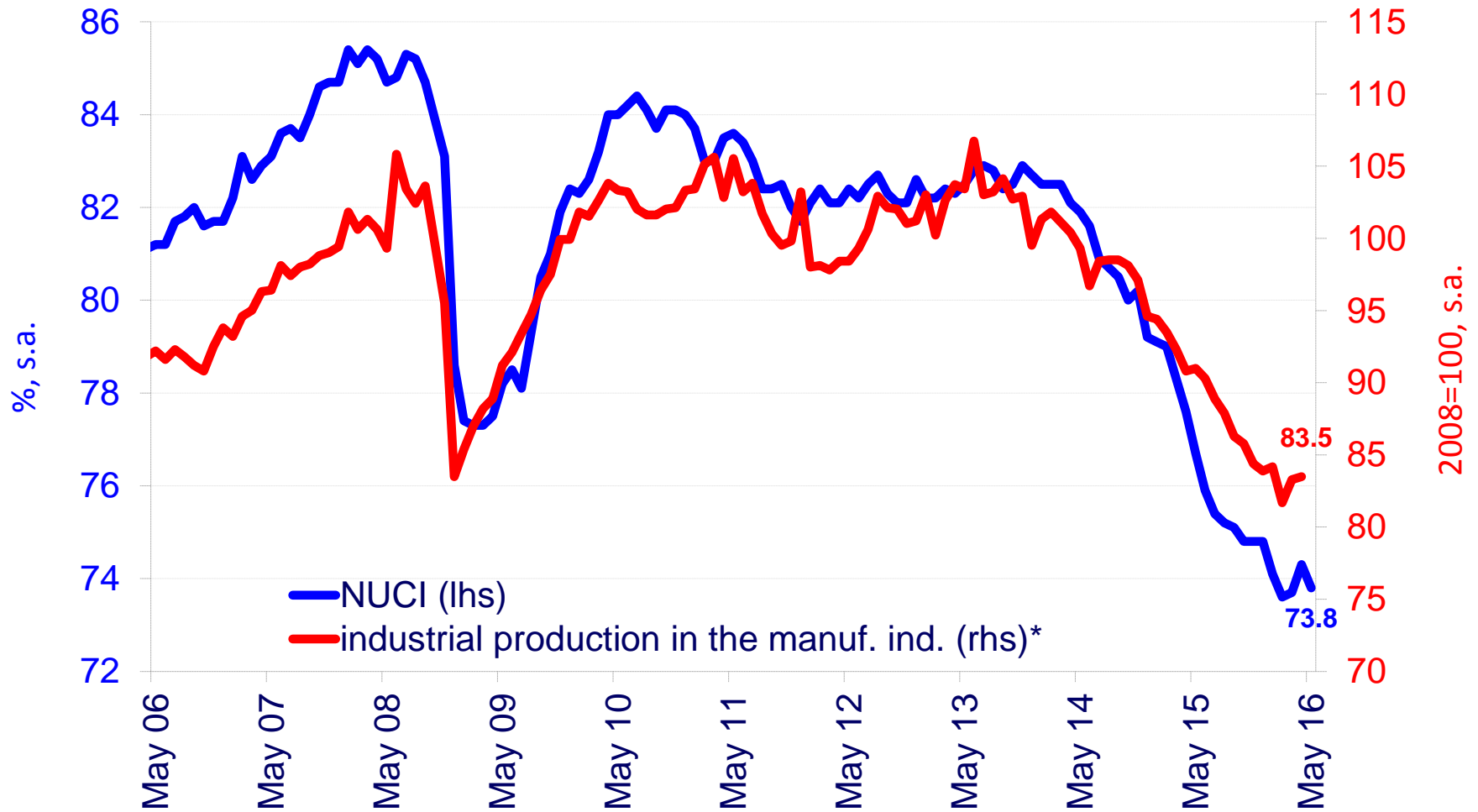


Unit Labor Cost (in US\$)



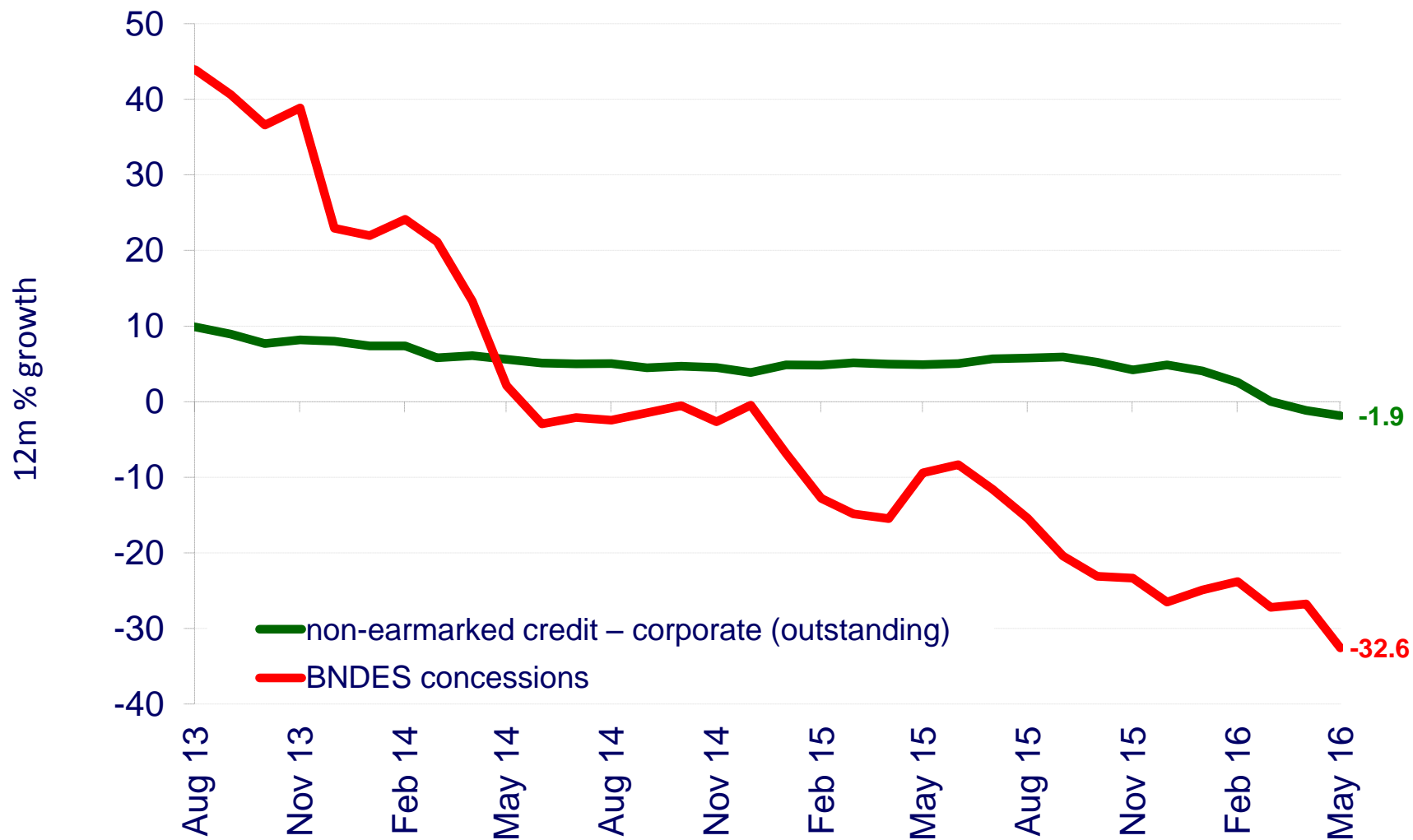
*from Jun/14 through Apr/16

Installed Capacity Utilization (NUCI) and Industrial Production - Manufacturing

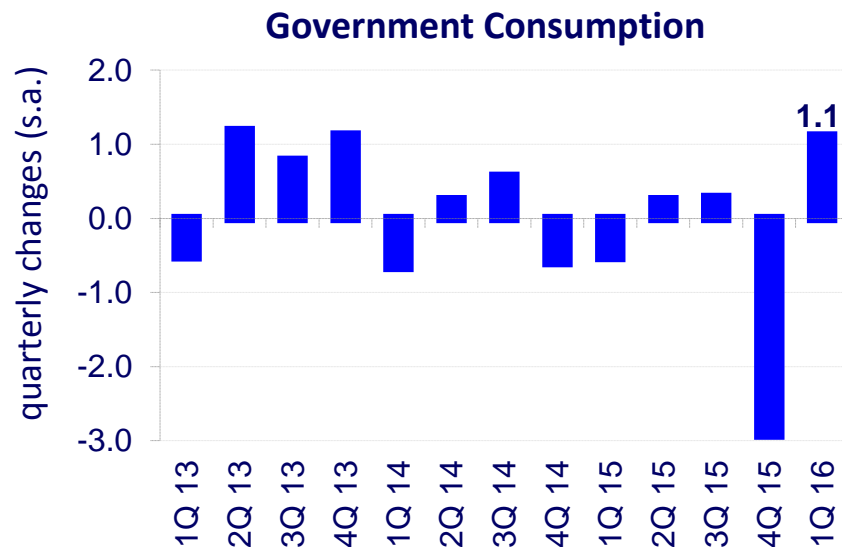
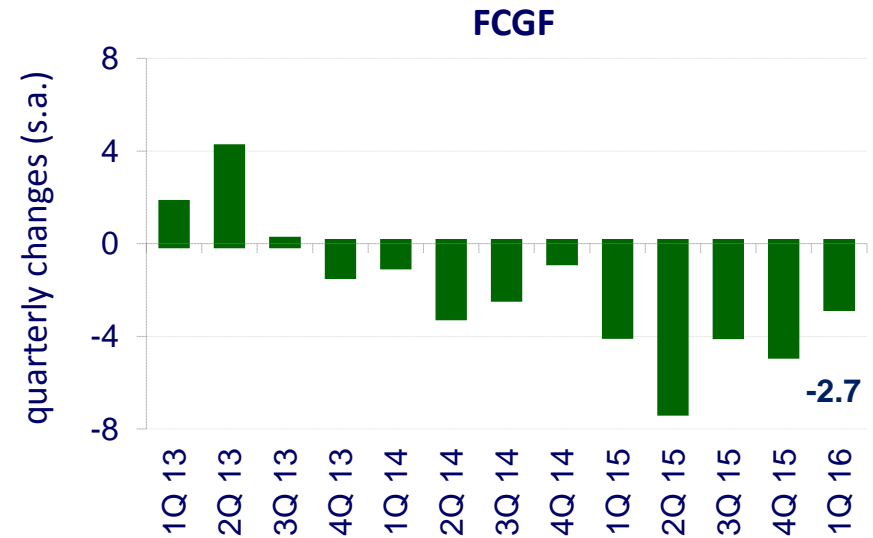
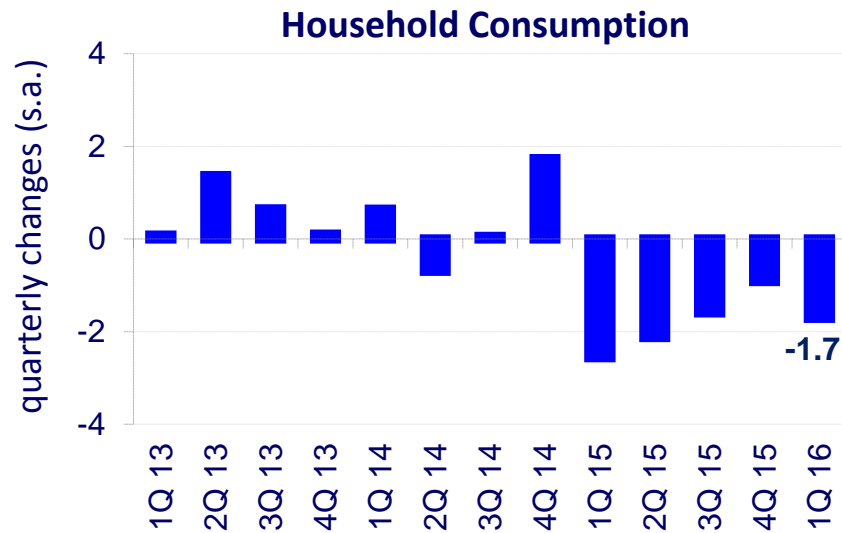


* through Apr/16

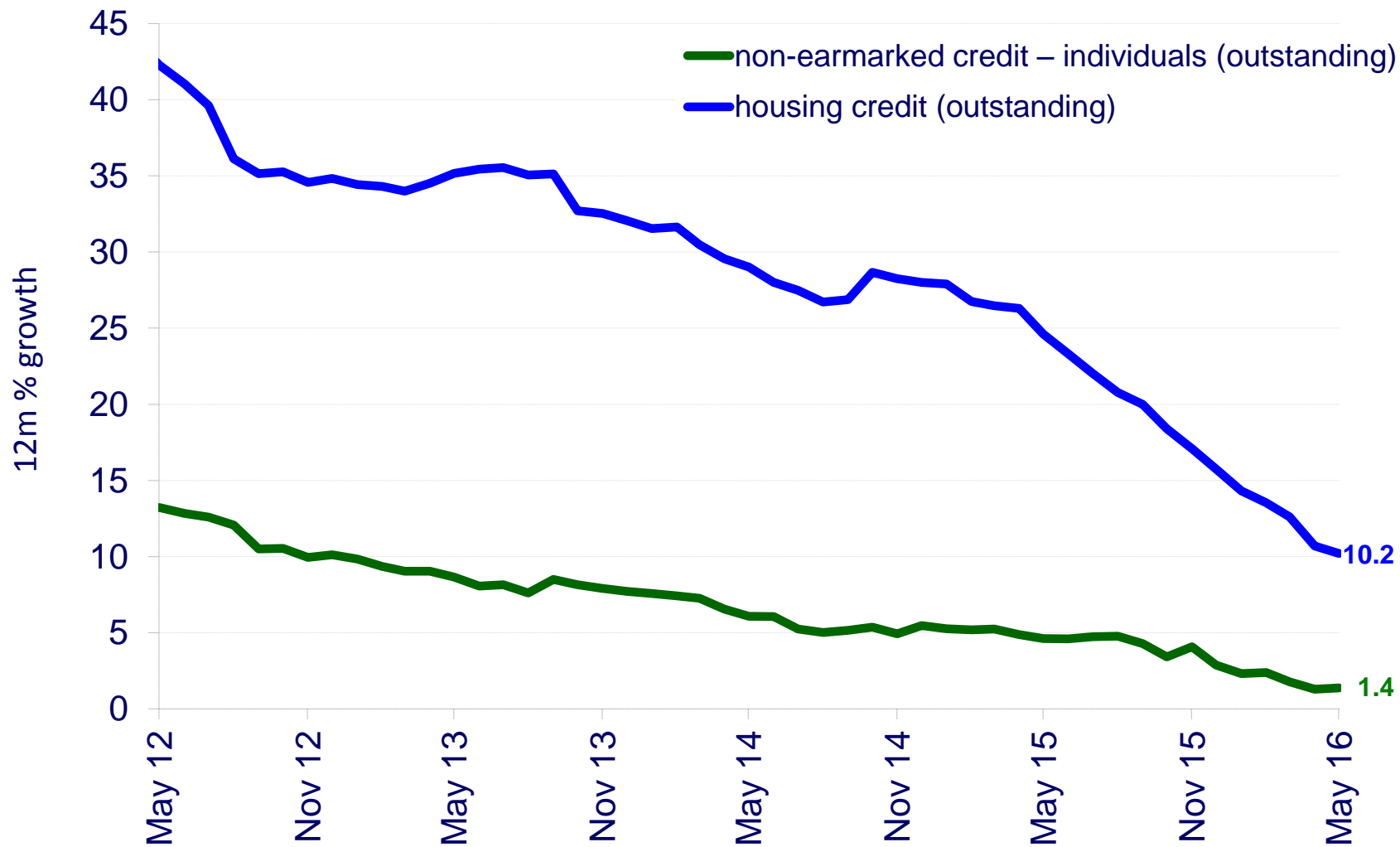
Credit to Corporates



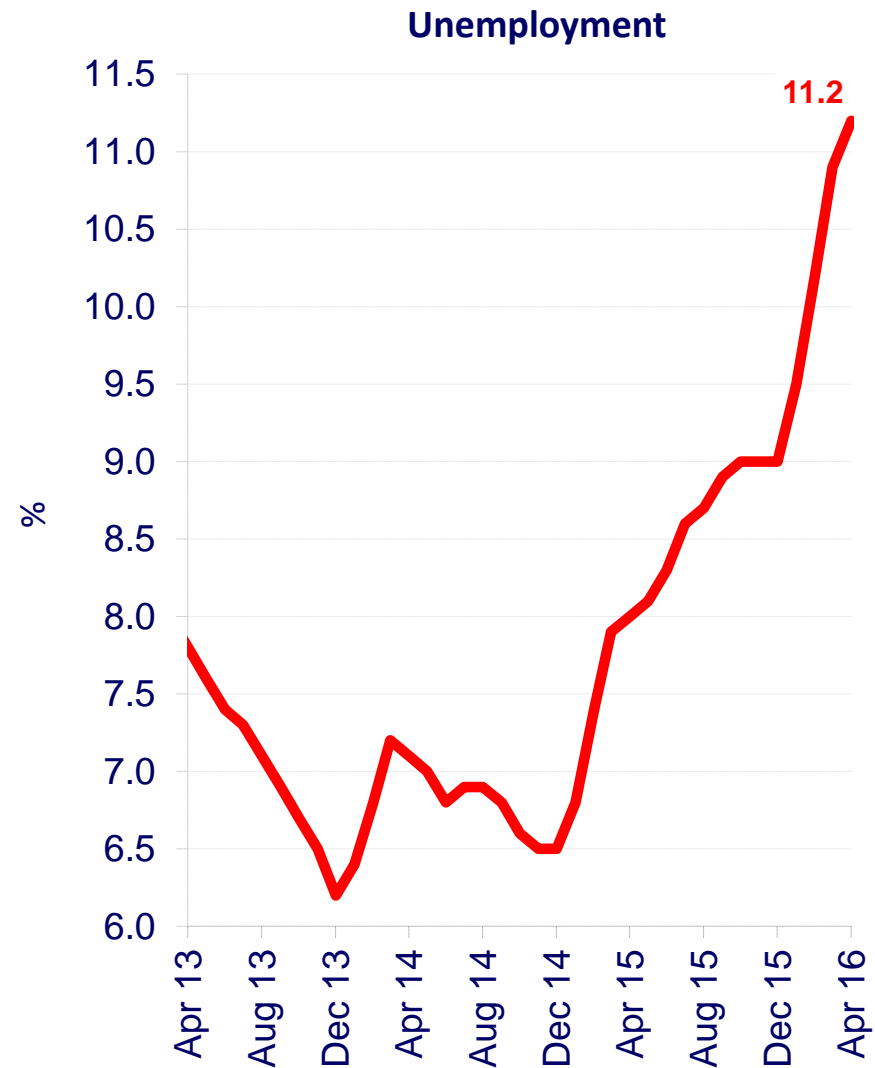
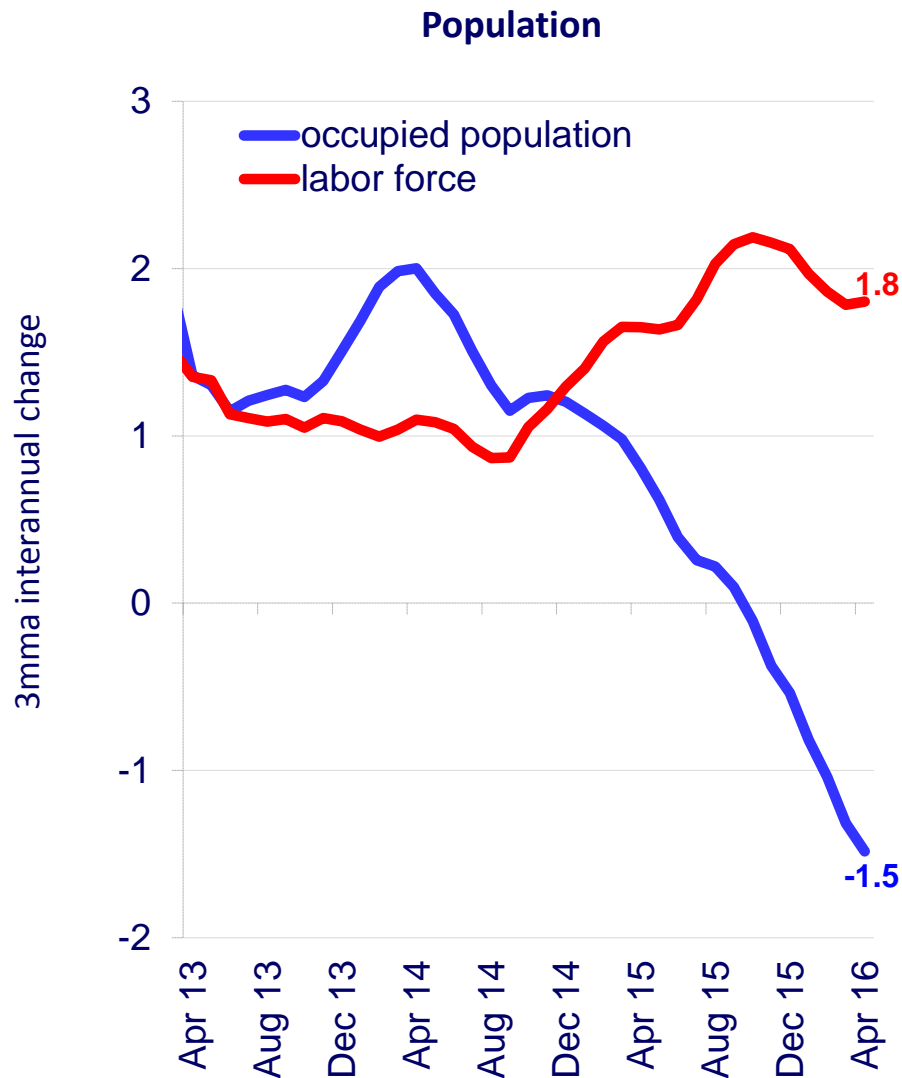
Demand: Moderation in Line with Adjustment



Credit to Households

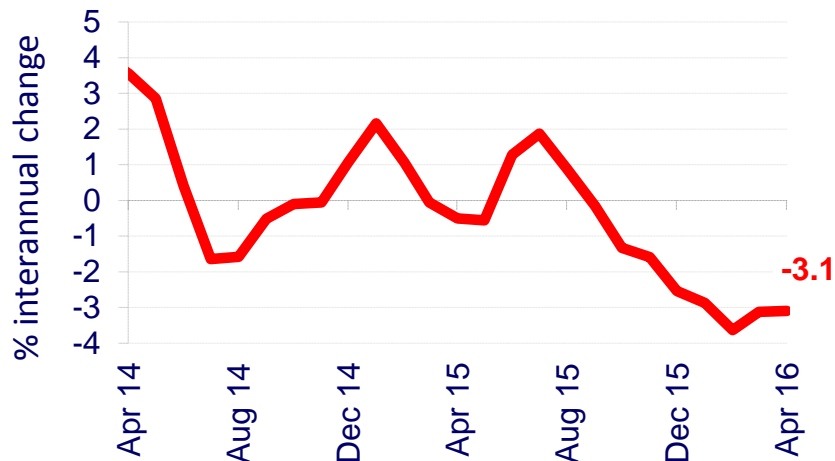


Labor Market: Distension

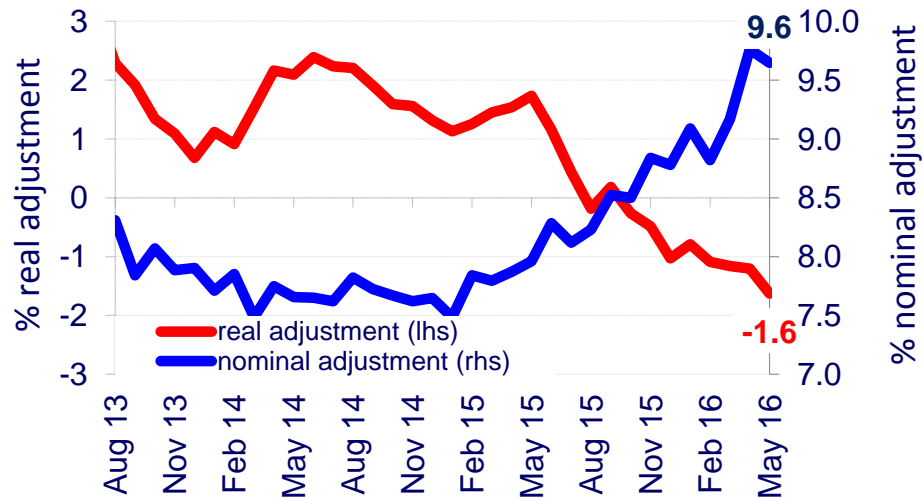


Wages

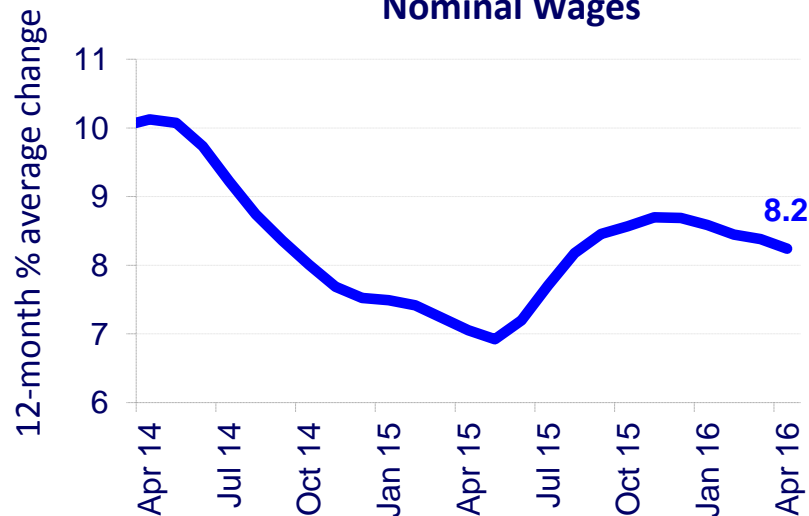
Real Wages



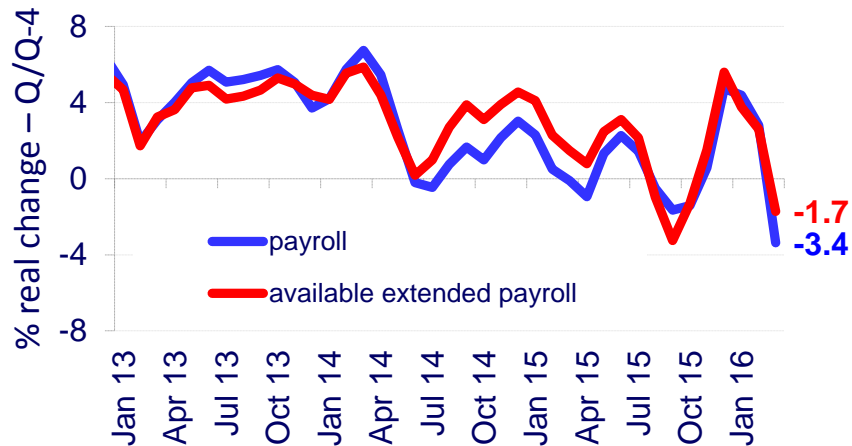
Labor Collective Conventions – SP and RJ



Nominal Wages



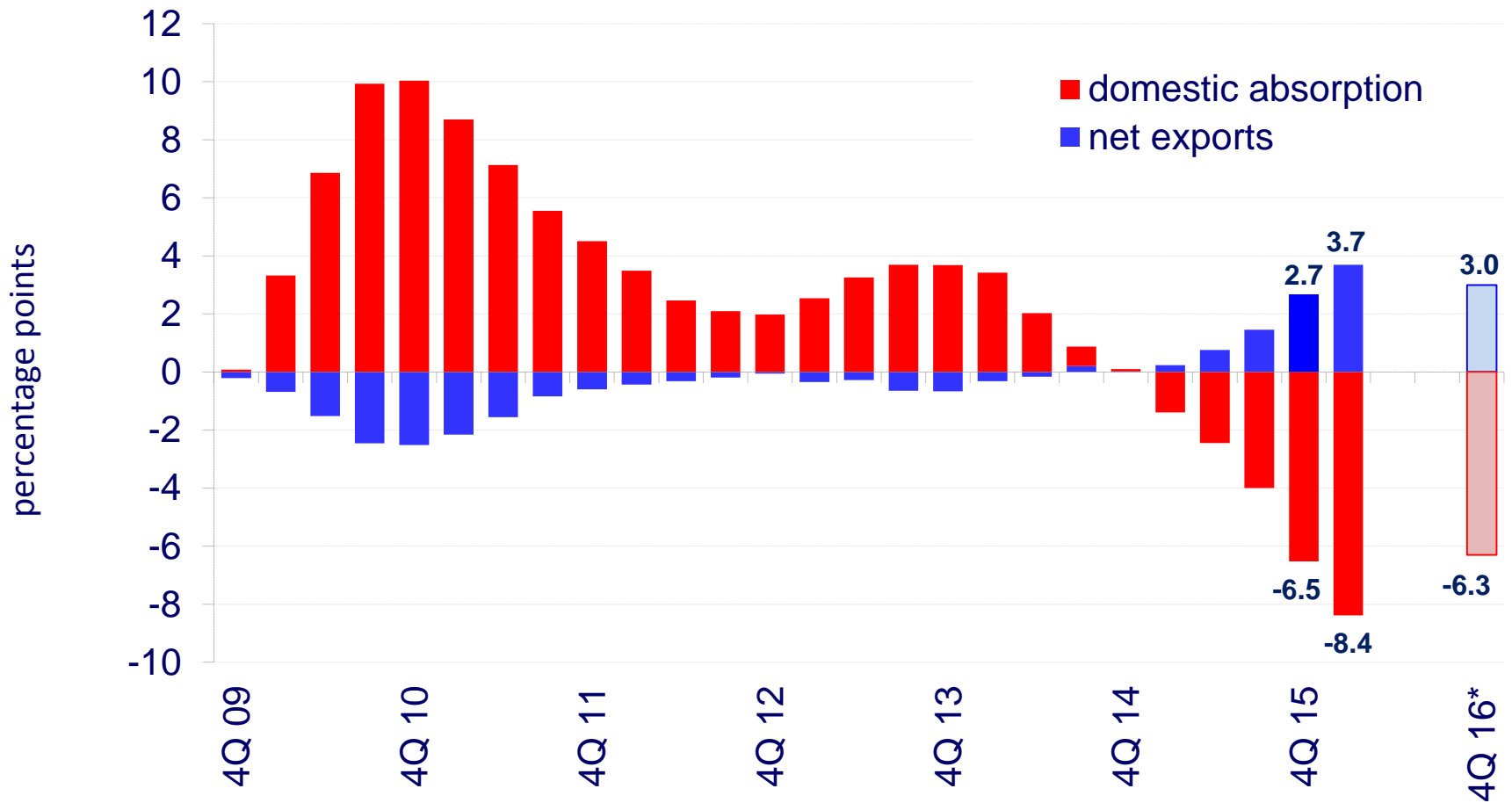
Payroll and Available Extended Payroll (MSAD)**



*12m through April/16; ** Data from the effective payroll from PNADC and Available Extended Payroll; includes pension and social protection benefits

Contribution of the External Sector for the GDP

Contribution for the GDP Growth (in 4 quarters)



* BCB projections

Evolution of export and import coefficients of the Manufacturing Industry (IT)

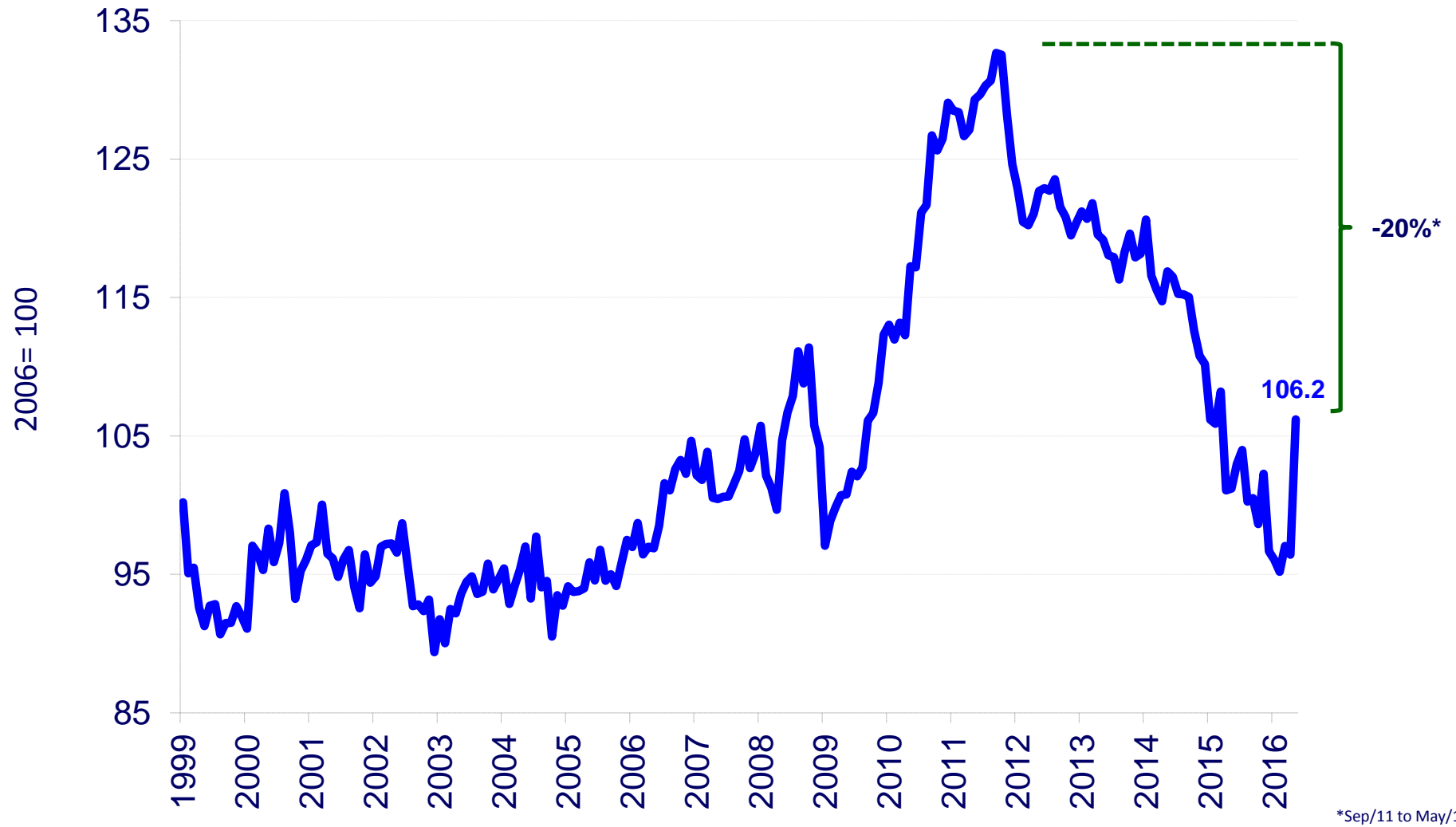
- Analyses the impact of the evolution of the export coefficient and of the imports' penetration ratio on the recent performance of the segment
- External sector has been characterized as positive vector for the evolution of the IT production, due to both the increase of its share destined to the exports, and the reduction of the imports' penetration ratio, with disseminated effects through roughly all sectors of the industry

Box: GDP Projections

- **GDP growth revision for 2016, from -3.5% to -3.3% (domestic absorption, -6.3 p.p.; and net exports, 3.0 p.p.)**
 - **Supply**
 - Agriculture and livestock: -1.1% (1.8% in 2015)
 - Industry: -4.6% (-6.2% in 2015)
 - Services: -2.4% (-2.7% in 2015)
 - **Demand**
 - Investment: -11.6% (-14.1% in 2015)
 - Household Consumption: -4.0% (-4.0% in 2015)
 - Government Consumption: -0.8% (-1.0% in 2015)

External Sector

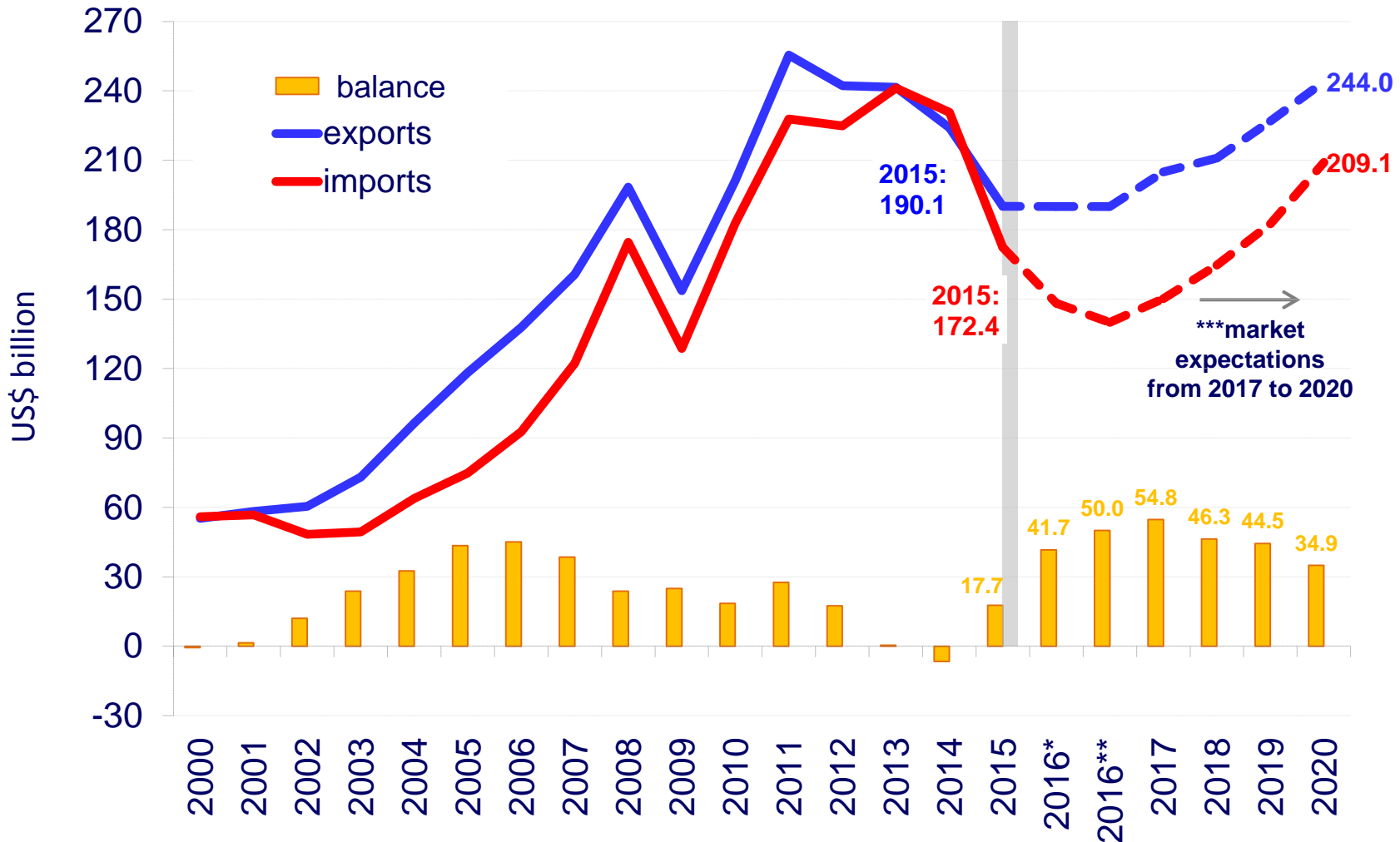
Terms of Trade



*Sep/11 to May/16

Trade Balance – Exports and Imports

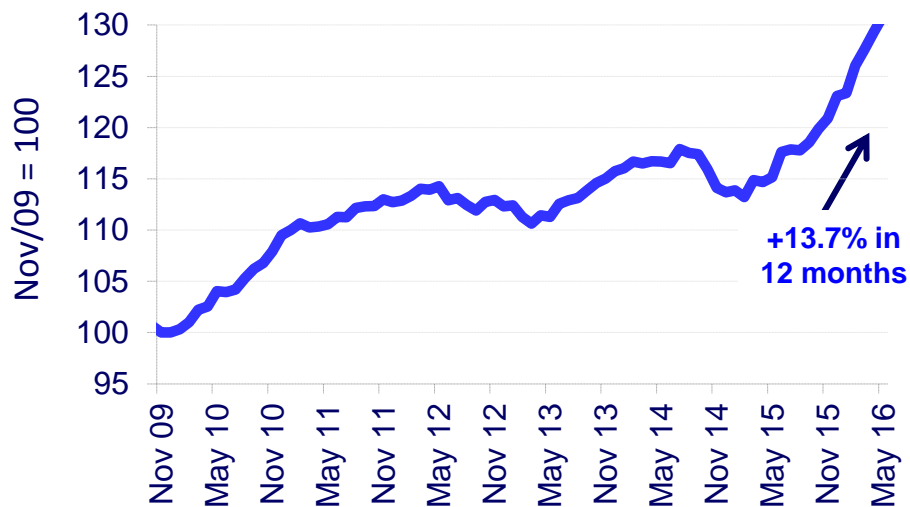
BCB projection for the 2016 trade balance: US\$ 50 billion



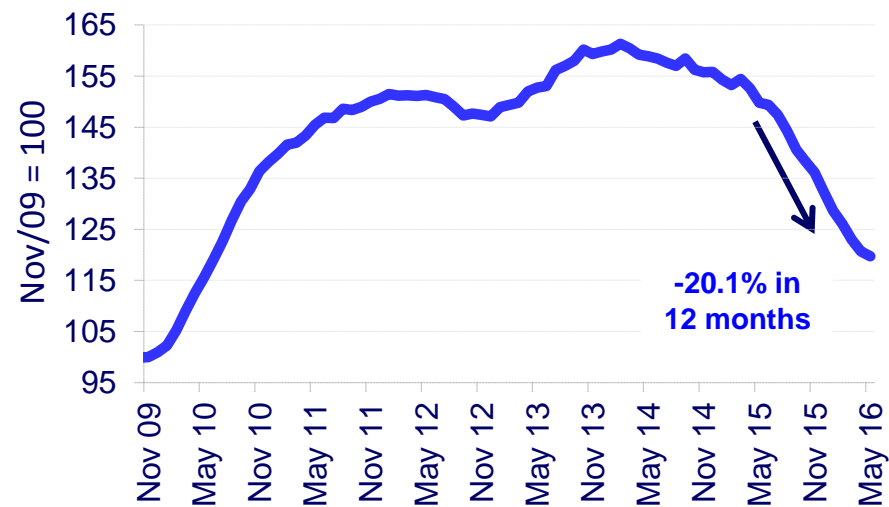
* 12 months through May/16; ** BCB projection; *** medians as of Jun 24th (balance calculated by difference)

External Adjustment

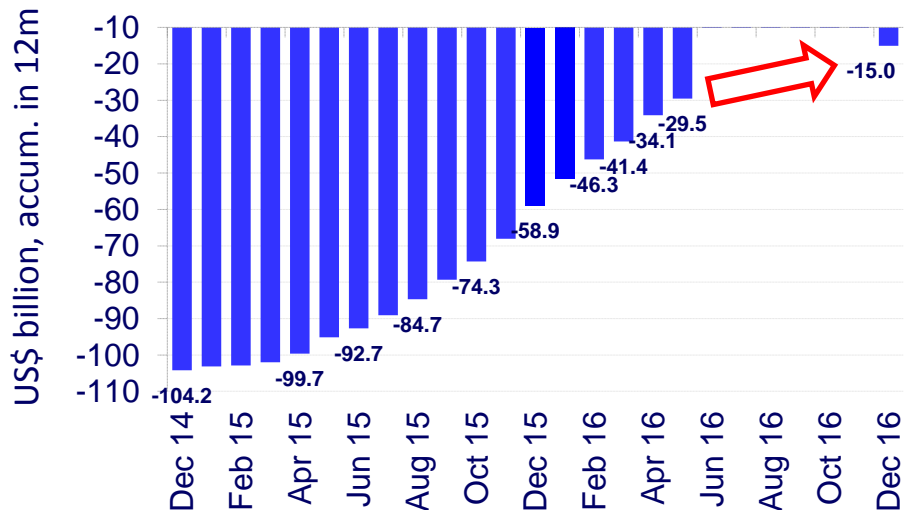
Exports Volume – 12mma



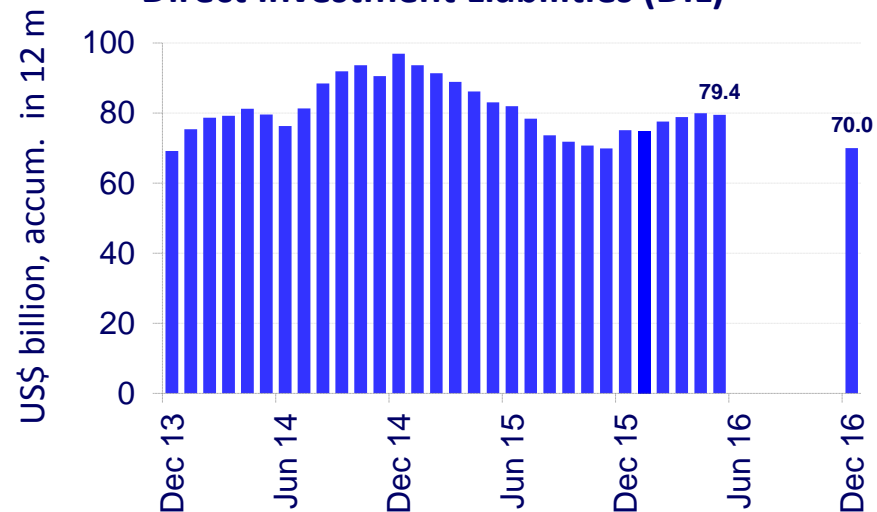
Imports Volume – 12mma



Current Account Balance



Direct Investment Liabilities (DIL)



Box: Projections for the Balance of Payments

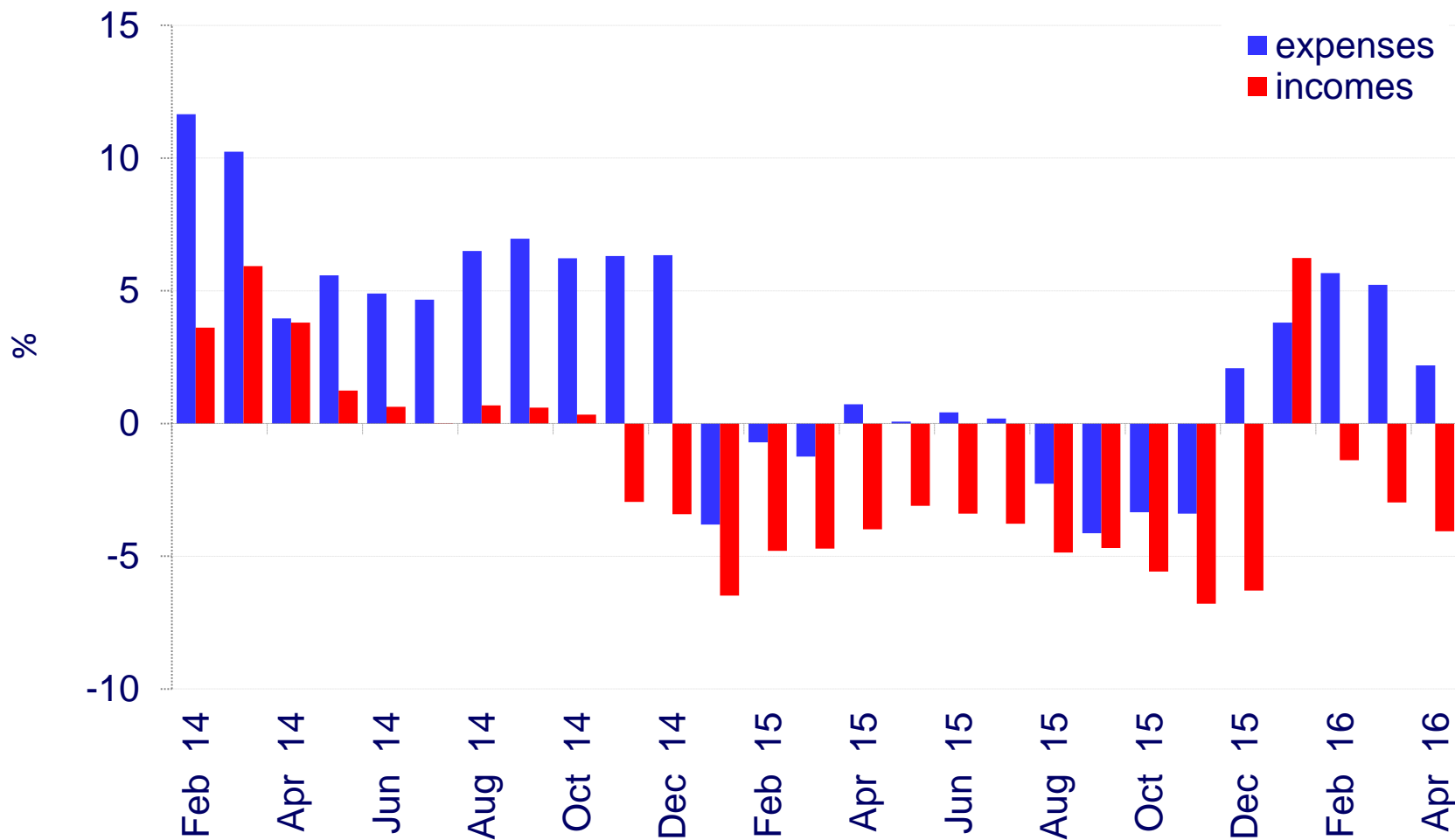
Projections for 2016:

- The adjustment process should intensify in 2016, with lower need for external funding
- DIL more than enough for the total funding of the current account deficit (excess of US\$55 billion);
- Current Account – US\$15 billion deficit, equivalent to 0.9% of the GDP (previous: US\$25 billion, equivalent to 1.5% of the GDP)
 - Trade Surplus – US\$50 billion surplus (previous: US\$40 billion)
- DIL – US\$70 billion inflow/ 4.1% of the GDP (previous: US\$60 billion/ 3.6% of the GDP)
- Fixed income in the country – outflow of US\$12.5 billion (previous: zero inflows)
- Rollover rate for loans and bonds abroad of 60% (previous: 100%)
- Financial gap: FX market surplus projection remains, now at US\$13.1 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 Measures

✓ *Limit for the expenses' growth:*

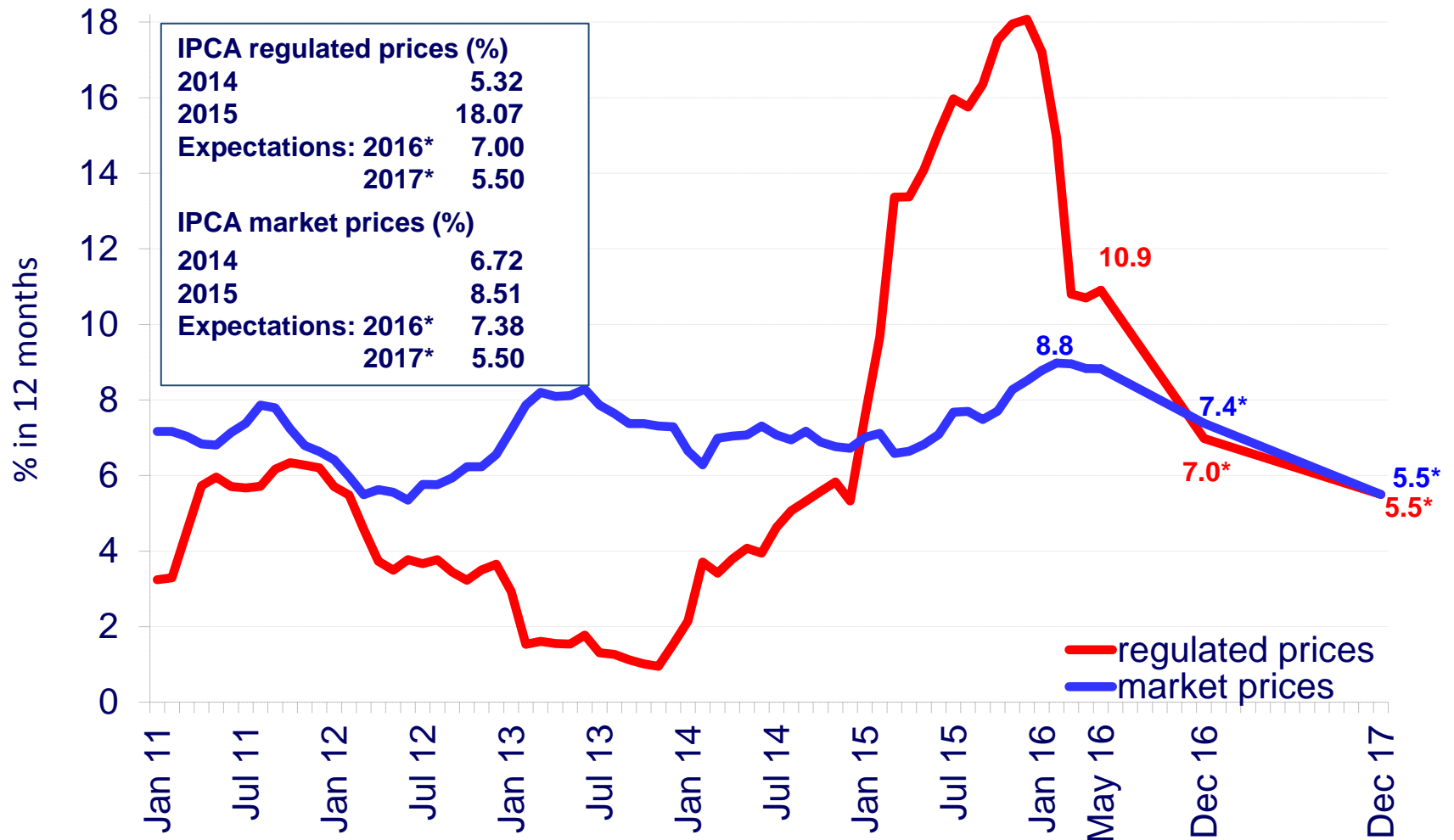
- yearly growth limited to previous year inflation
- Including expenses with health and education
- A fall of between 1.5 and 2.0 p.p. of expenses as a share of GDP is expected for the next three years. In 2015, expenses as a share of GDP totaled 19.6%

✓ *Devolution of BNDES resources:*

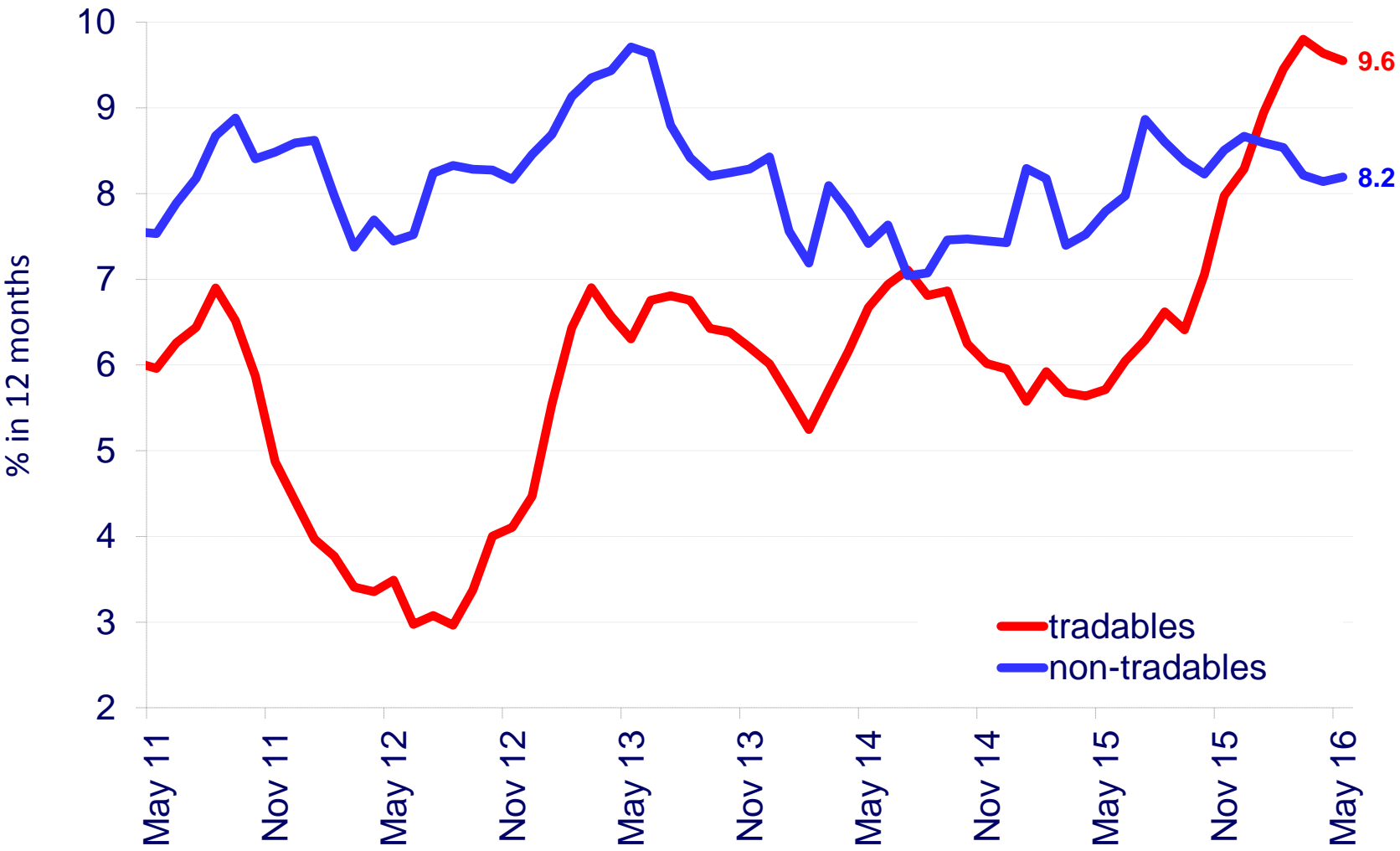
- R\$100 billion, including R\$40 billion immediately, R\$30 billion in one year and more R\$30 billion in 24 months
- Contributes to diminish the interest burden over the public sector (reduction of the implicit cost of public sector net debt)

IV. Inflation Developments

Market Prices and Regulated Prices

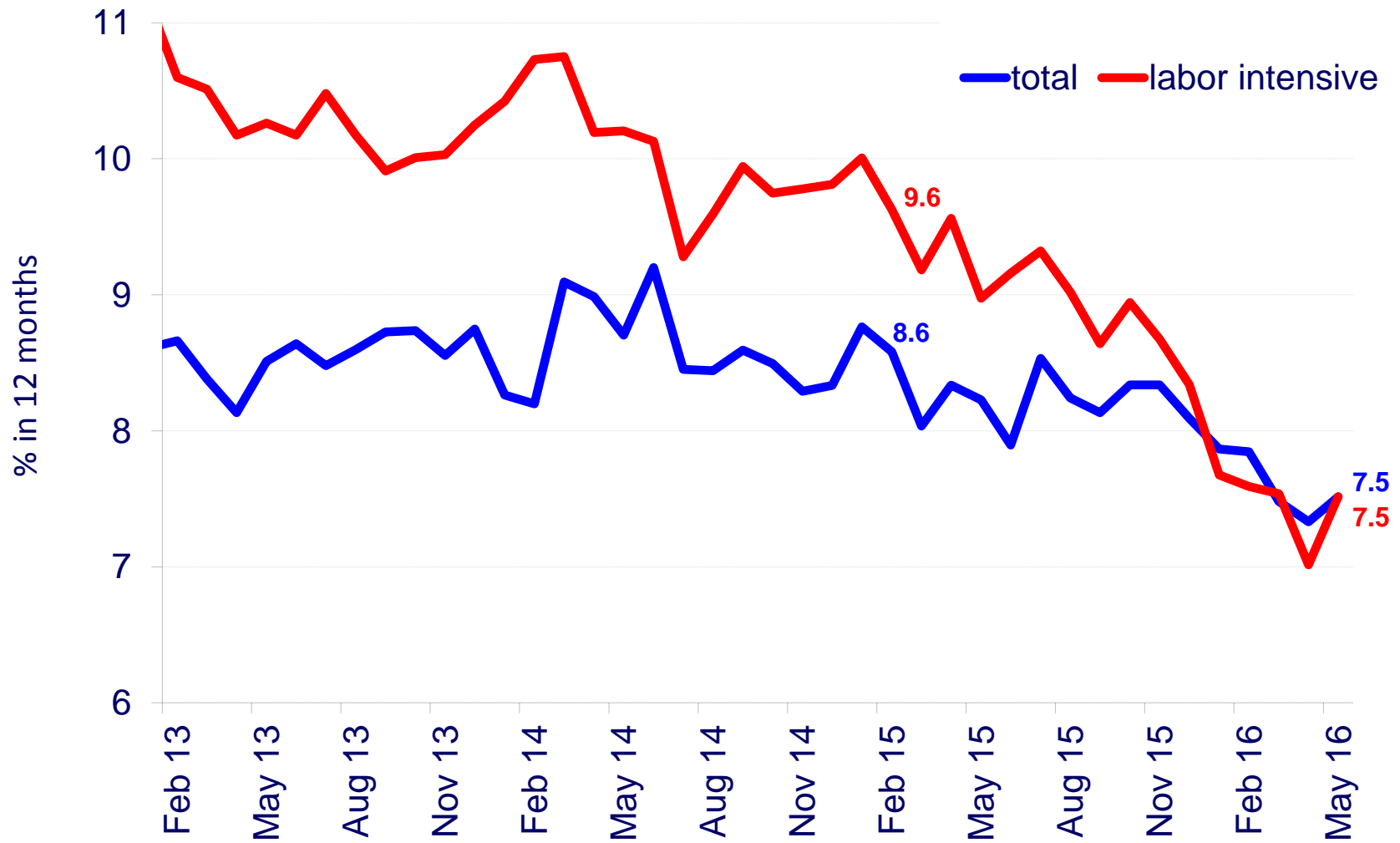
*expectations as on Jun 24th

Tradables and Non-Tradables



Source: BCB

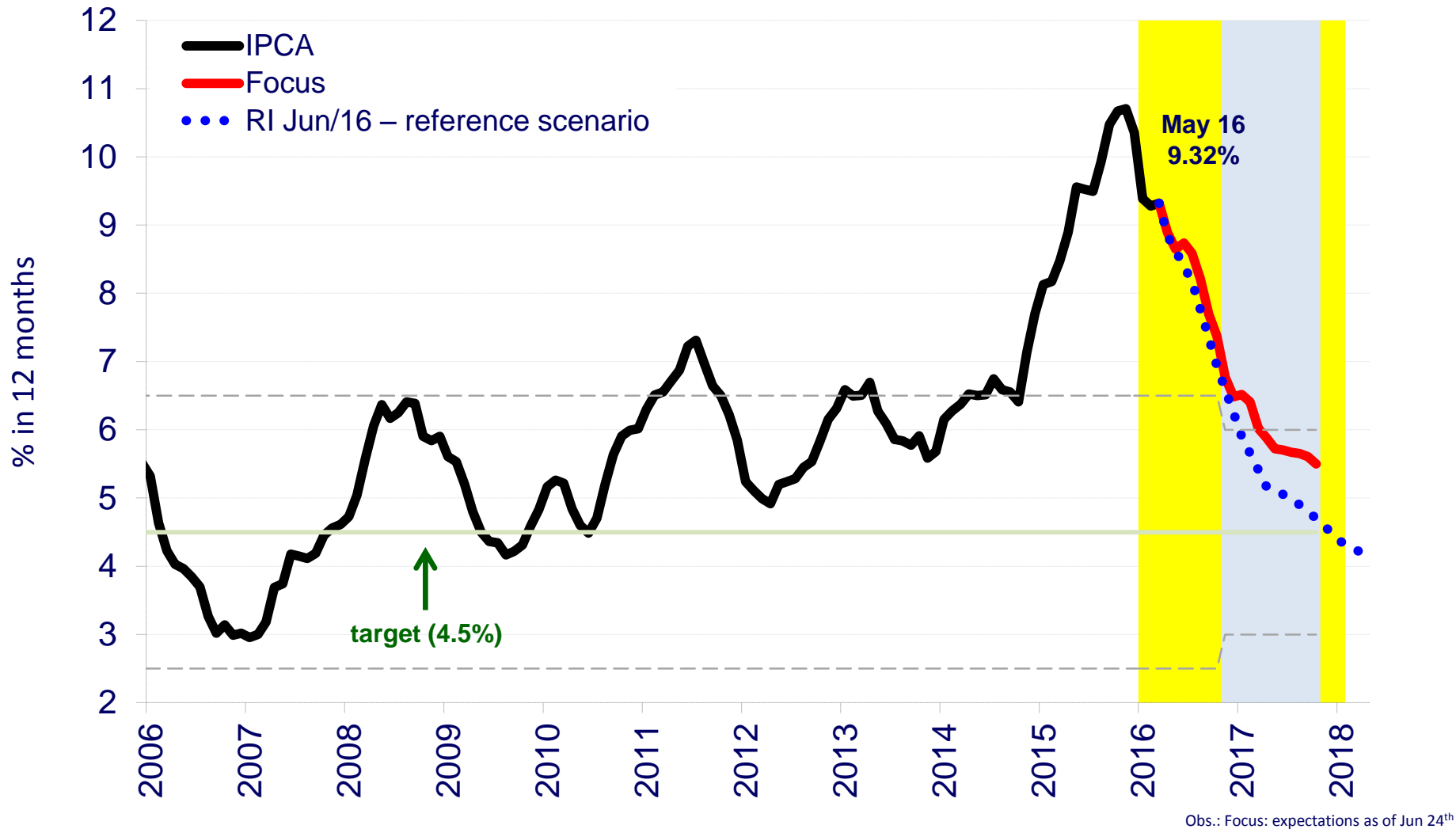
Services Inflation



Recent evolution of food inflation

- FX shock and occurrence of the climatic event *El Niño* were responsible for significant part of the acceleration of food prices in 2015 and in the first months of 2016
- The dissipation of the inflationary impact stemming from these shocks should benefit the reduction of food inflation in the second half of 2016, contributing to a more benign scenario for consumer inflation in the next quarters
- This scenario does not consider effects of the occasional occurrence of the phenomenon *La Niña*, which tends to affect the production of grains in the northern hemisphere, with developments over the prices of animal protein

Consumer Price Inflation



Obs.: Focus: expectations as of Jun 24th

BCB Inflation Forecasts

Baseline Scenario* and Market Scenario

Period		Baseline	Market
2016	2	8.8	8.8
2016	3	8.2	8.2
2016	4	6.9	7.0
2017	1	5.9	6.1
2017	2	5.2	5.6
2017	3	5.0	5.6
2017	4	4.7	5.5
2018	1	4.4	5.5
2018	2	4.2	5.5

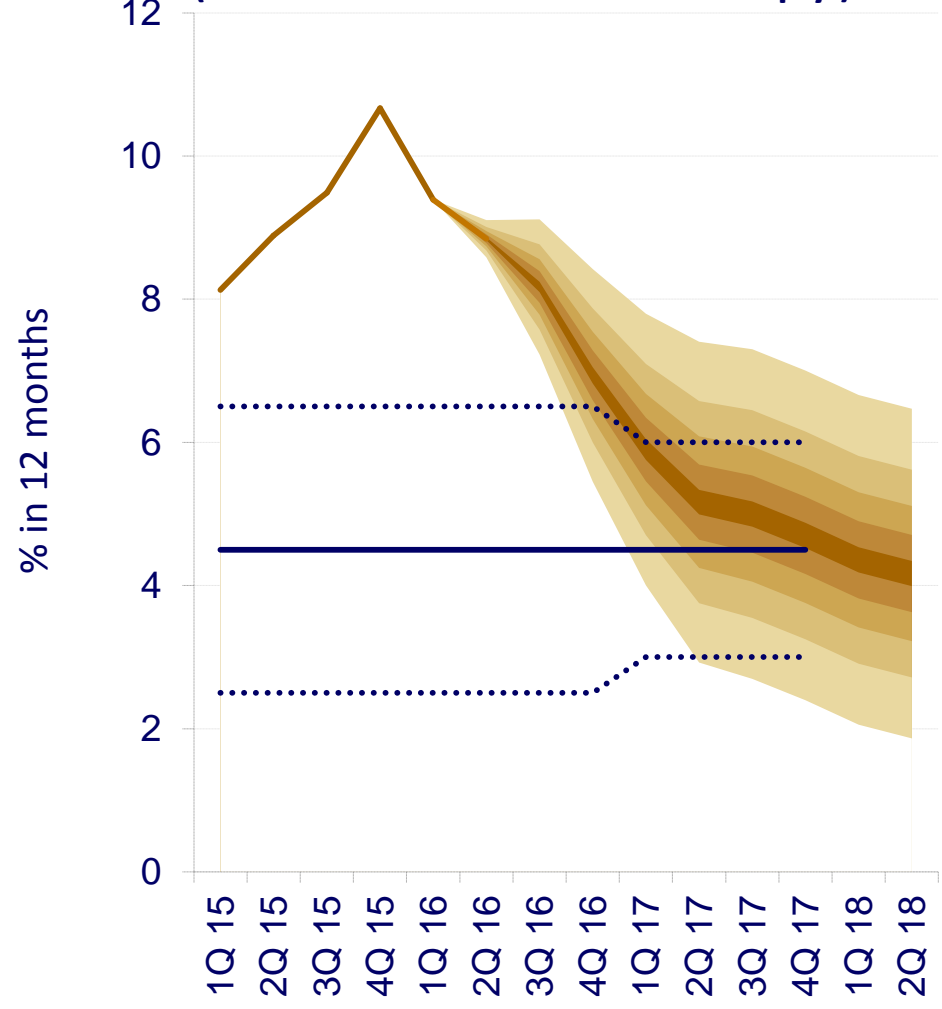
Obs.: 12-month accumulated inflation (%)

* interest rate constant at 14.25% p.y.

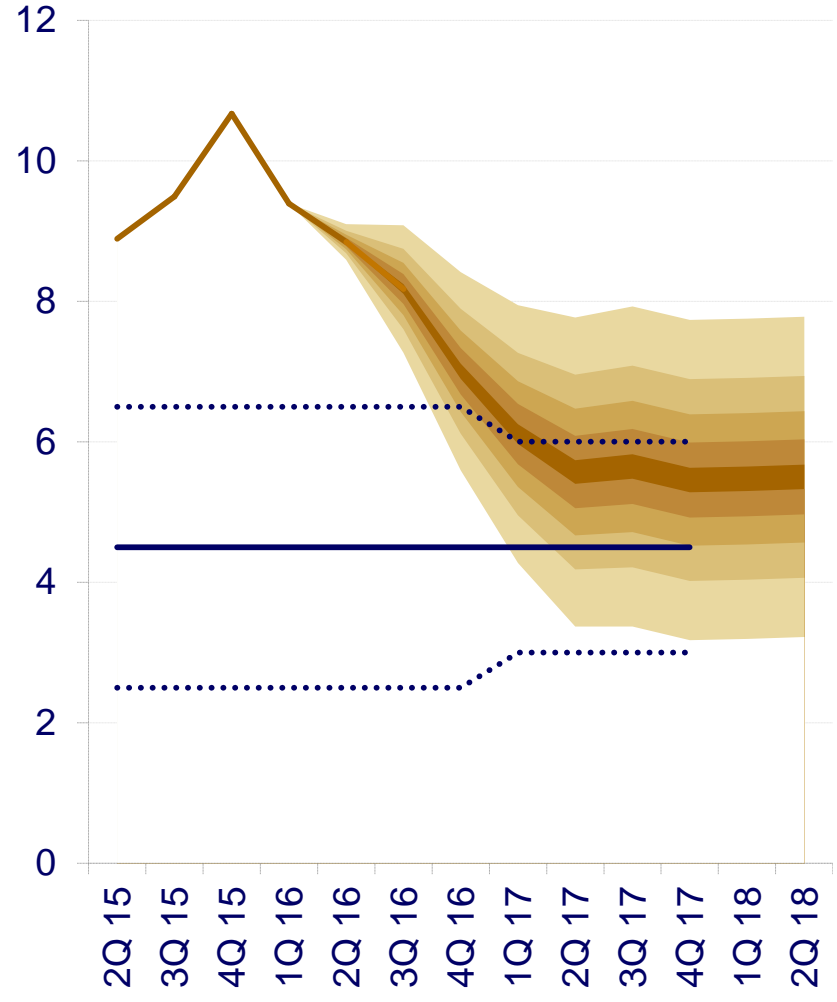
BCB Inflation Forecasts

Baseline Scenario

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



Market Scenario



-
- **Factors interfere in inflation control:**
 - **Inertia derived from the process of relative prices' realignment**
 - **Confluence of climatic phenomena over global food production and their effects over domestic prices**
 - **Uncertainties related to the global economy behavior**

The Committee will seek to circumscribe inflation to the limits established by the CMN in 2016 and it will adopt the necessary measures in order to ensure the convergence of inflation to the 4.5% target, in 2017

The central scenario does not allow considering the hypothesis of easing the monetary conditions

Improvements in inflation control depend on adjustments

Inflation Outlook

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