

# Inflation Report

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December 19<sup>th</sup>, 2024

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BCB's Deputy Governor for Economic Policy





INFLATION REPORT (IR)

# Reference scenario

# Reference scenario

## External scenario

- The global environment remains challenging, due mainly to the economic outlook in the United States, which poses questions about the pace of economic deceleration, disinflation and, consequently, about the Fed's monetary policy stance.
- The central banks of major economies remain committed to bringing inflation back to its targets in a context characterized by labor market pressures.
- The Committee judges that the external environment continues to require caution from emerging market economies.

## Economic activity

- Regarding the domestic scenario, the set of indicators on economic activity and labor market continues to exhibit strength, as observed in the recent release of GDP, which suggests a further widening of the output gap.

## Inflation

- Headline inflation and measures of underlying inflation are above the inflation target and have increased in recent releases.
- Inflation expectations for 2024 and 2025 collected by the Focus survey increased significantly and hover around 4.8% and 4.6%, respectively.
- Copom's inflation projections for the second quarter of 2026, current relevant horizon for monetary policy, stand at 4.0% in the reference scenario.



INFLATION REPORT (IR)

# Economic outlook

External scenario

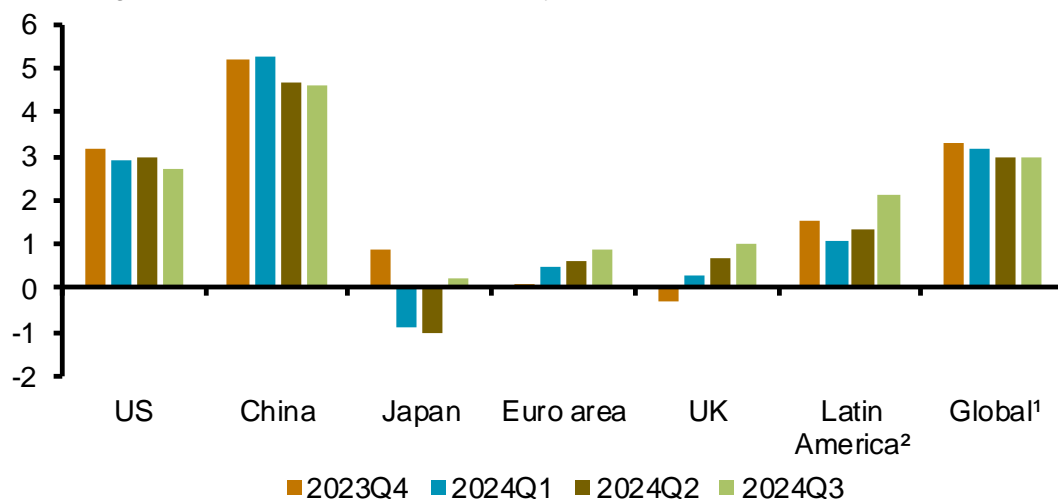
# External outlook – Activity

Global economic activity continues to show resilience notwithstanding the restrictive monetary policy stance. The labor market has shown clearer signs of accommodation in recent months, with a progressive rebalancing between supply and demand.

## GDP growth

from 2023Q4 to 2024Q3

% change over same quarter in previous year

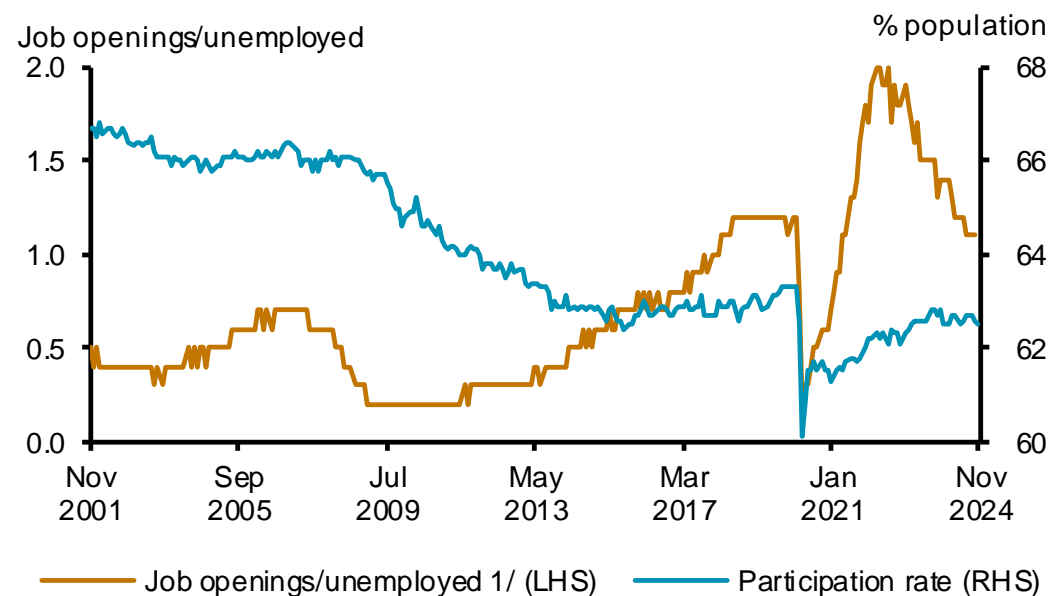


Sources: Bloomberg, BCB

1/ Calculated as described in the box "Projections and macroeconomic analysis model of the global economy" in the September 2022 IR.

2/ Argentina, Brazil, Chile, Colombia, Mexico, and Peru.

## U.S. – Job openings and participation rate



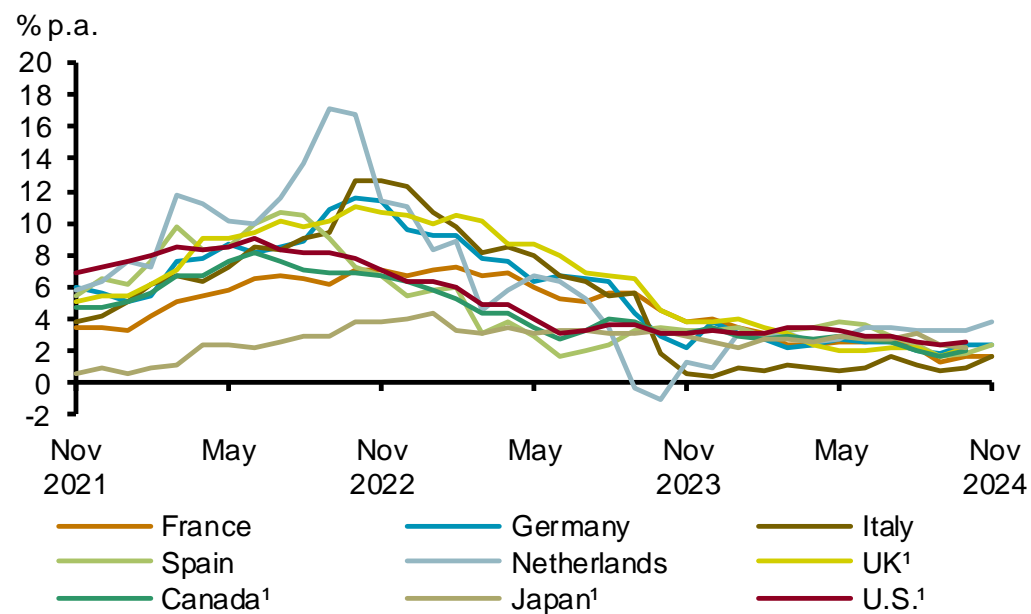
Source: Bloomberg

1/ Until October 2024.

# External scenario – Inflation

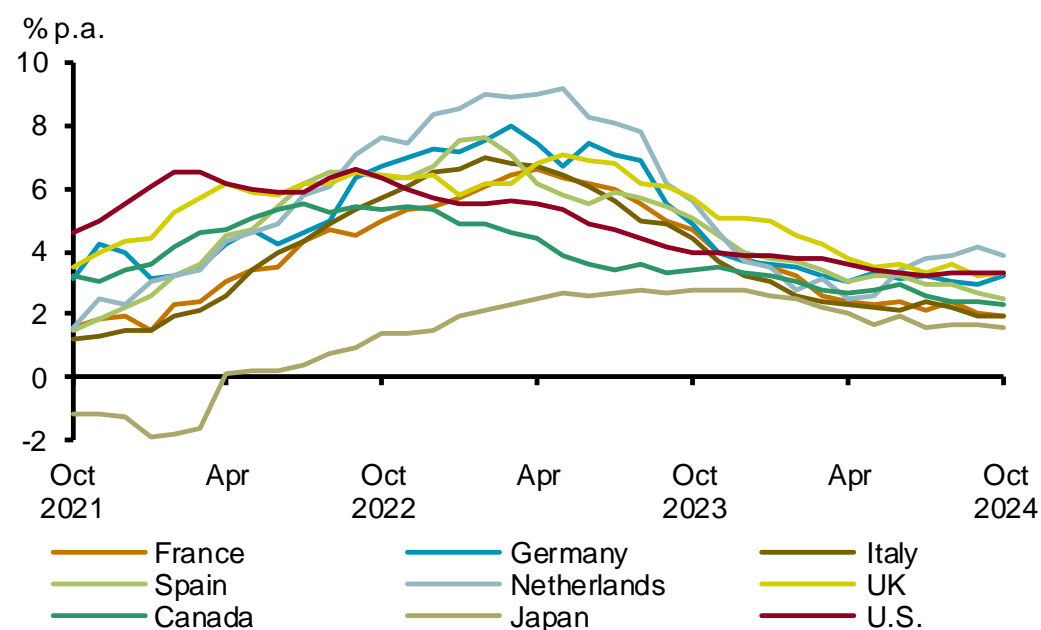
In advanced economies, despite the decline in headline inflation indexes, cores are still at high levels, above the target in many economies, and their pace of convergence has decelerated at the margin.

## CPI – Advanced economies



Source: Bloomberg  
1/ Until October 2024.

## CPI core – Advanced economies<sup>1</sup>



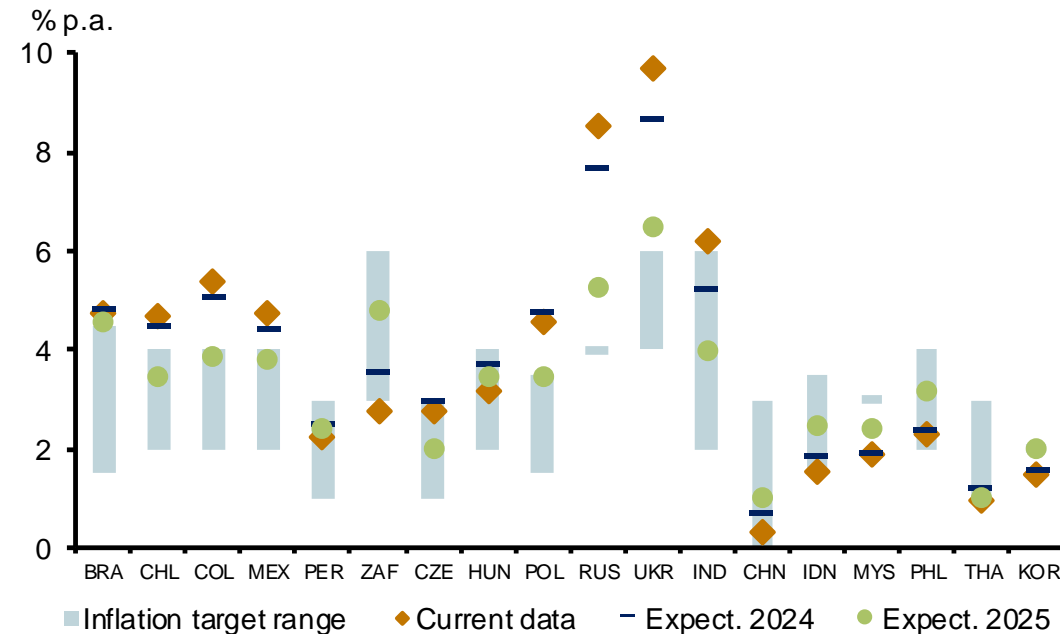
Source: Bloomberg  
1/ Until October 2024.



# External scenario – Inflation expectations in EME

Expectations indicate inflation within the interval around the target by the end of 2025 in major emerging market economies.

## Inflation expectations<sup>1</sup>



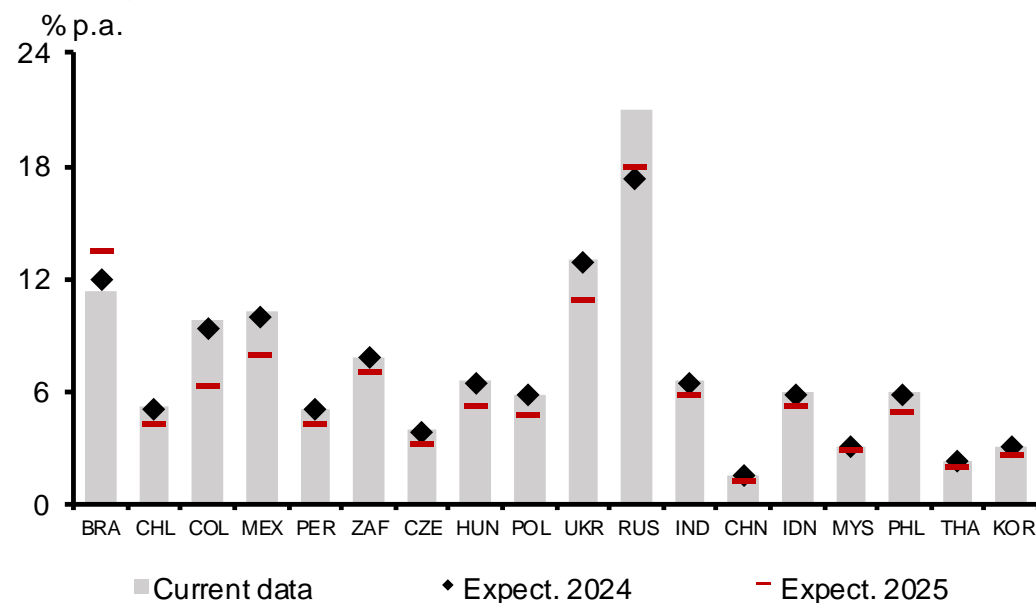
Sources: Bloomberg and central banks' surveys

1/ Until December 6.

# External scenario – Monetary policy in EME

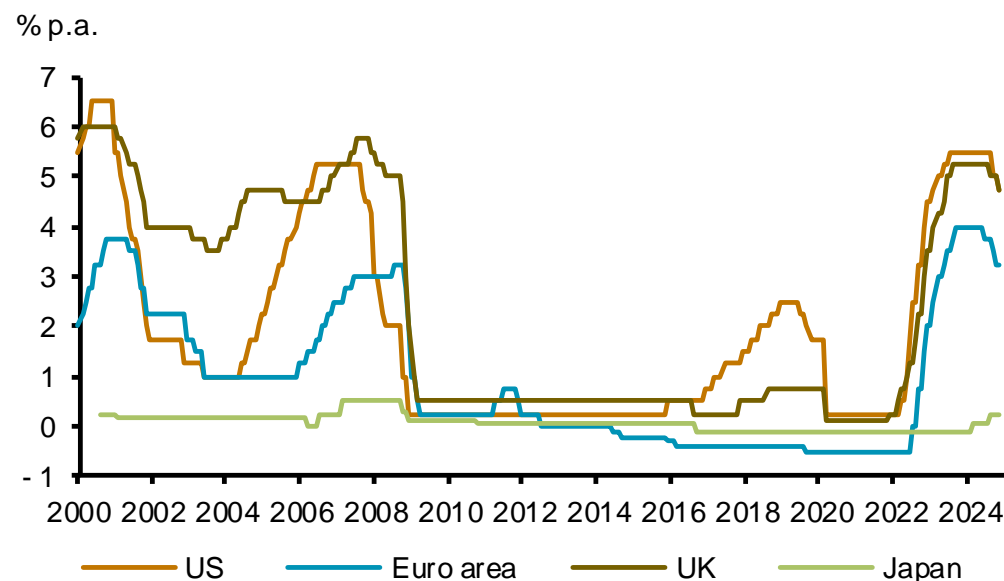
Expectations indicate, in general, lower interest rates than the current ones by the end of 2025 in major emerging market economies. Most central banks in advanced economies continue to ease their restrictive monetary policy stance.

**Policy interest rates<sup>1</sup>**



Sources: Bloomberg and central banks' surveys  
1/ Until December 6.

**Monetary policy rates<sup>1</sup>**



Source: Bloomberg  
1/ Until December 6.

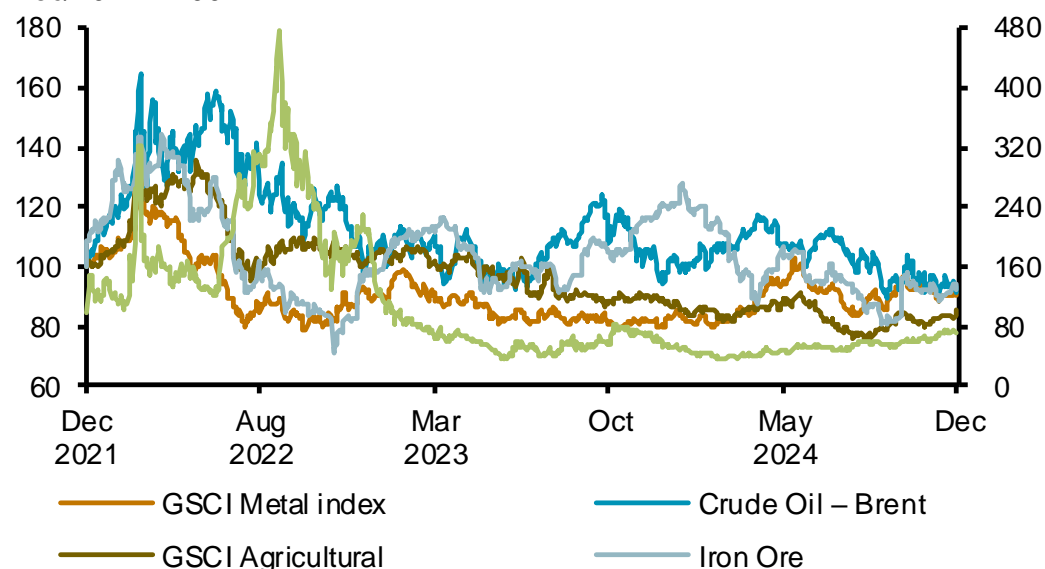


# External scenario – Commodities and pressure indicators

Energy commodity prices registered a positive change in the quarter, with a slight increase in oil and a strong rise in natural gas.

## Commodity prices<sup>1</sup>

Dec/2021 = 100

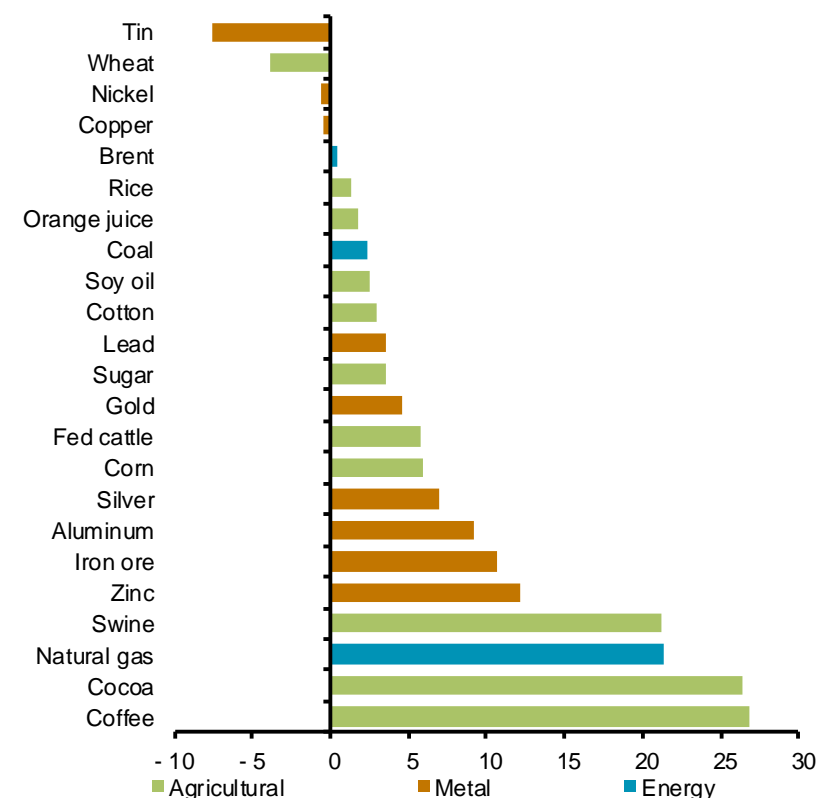


Source: Bloomberg

1/ Until December 6.

## Change in commodity prices

% change of the 10-day moving-average in USD between previous and current IR cut-off dates



Source: Bloomberg

INFLATION REPORT (IR)

# Economic outlook

Domestic outlook

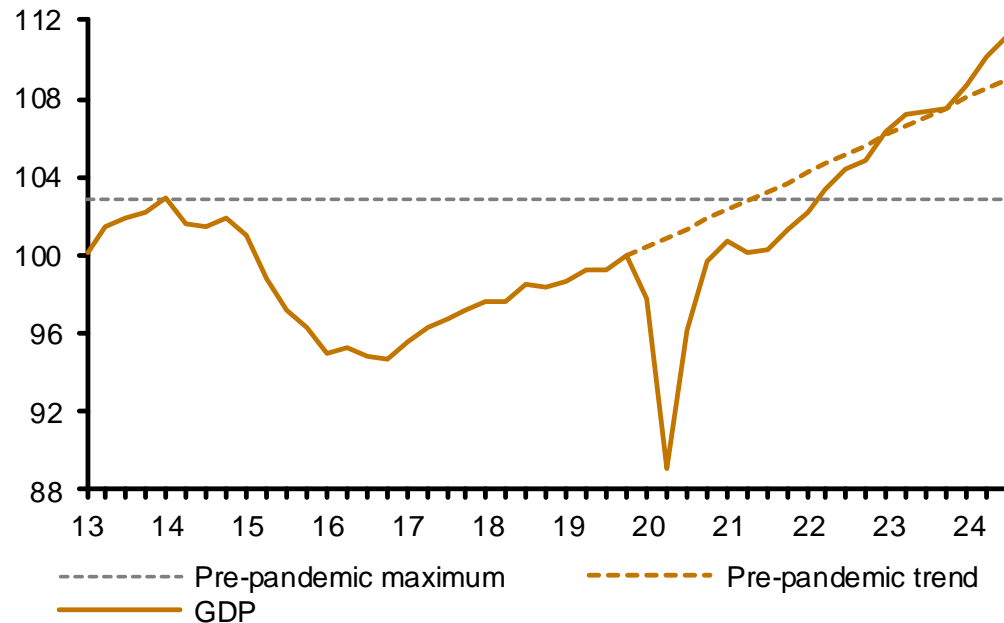


# Economic activity

Economic activity in Brazil remained dynamic in 2024Q3, leading to a new round of upward revisions to growth projections for the year.

## Gross Domestic Product

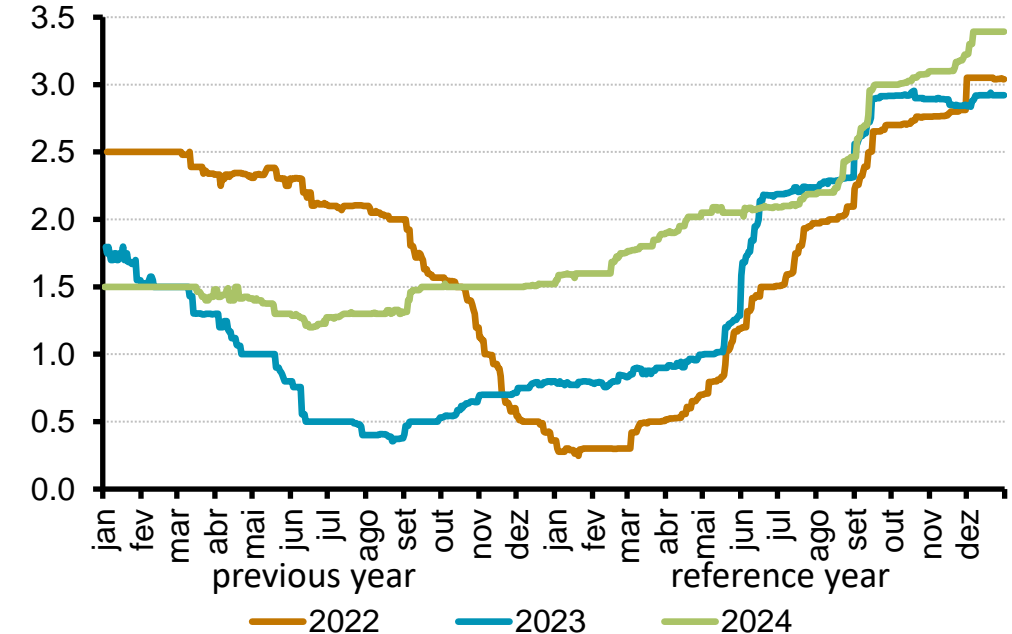
2019Q4 = 100, s.a.



Source: IBGE

## Expectations for GDP growth

annual change since previous year (%)



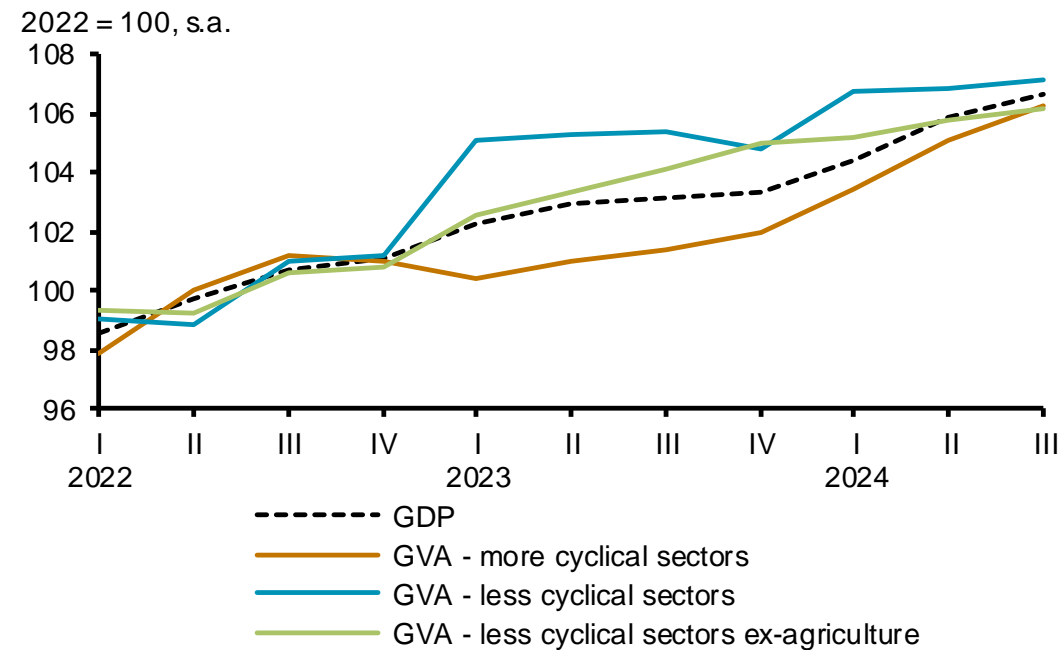
Source: BCB (Focus)

# Economic activity

The group of activities more sensitive to the economic cycle once again showed strong growth despite some deceleration.

Household consumption maintained robust growth in 2024Q3.

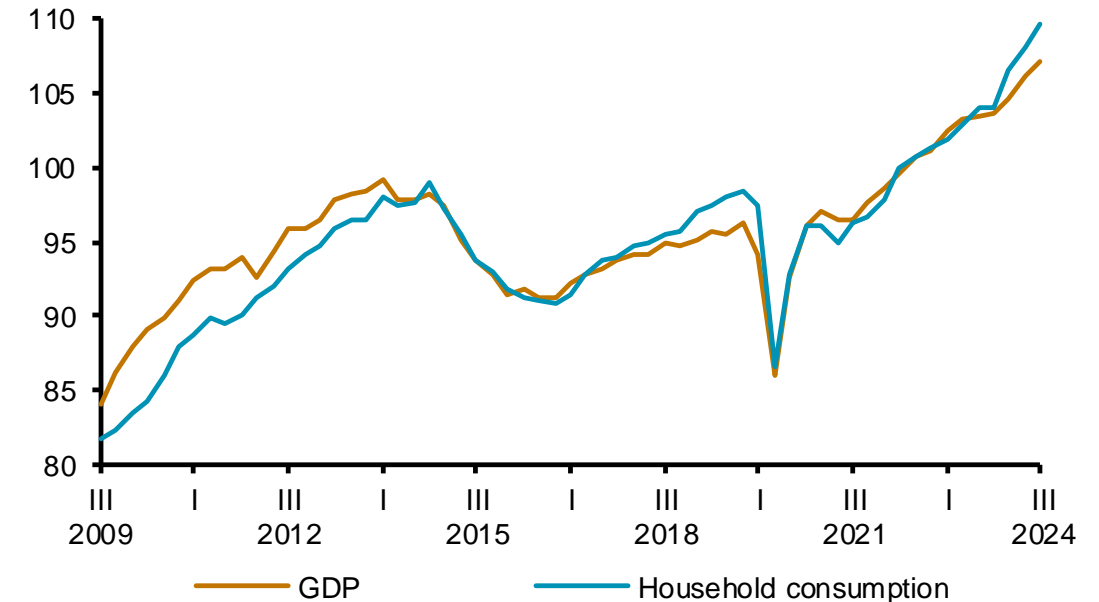
## GDP – More and less cyclical sectors



Sources: IBGE and BCB

## GDP and household consumption

2022 = 100, s.a.



Source: IBGE

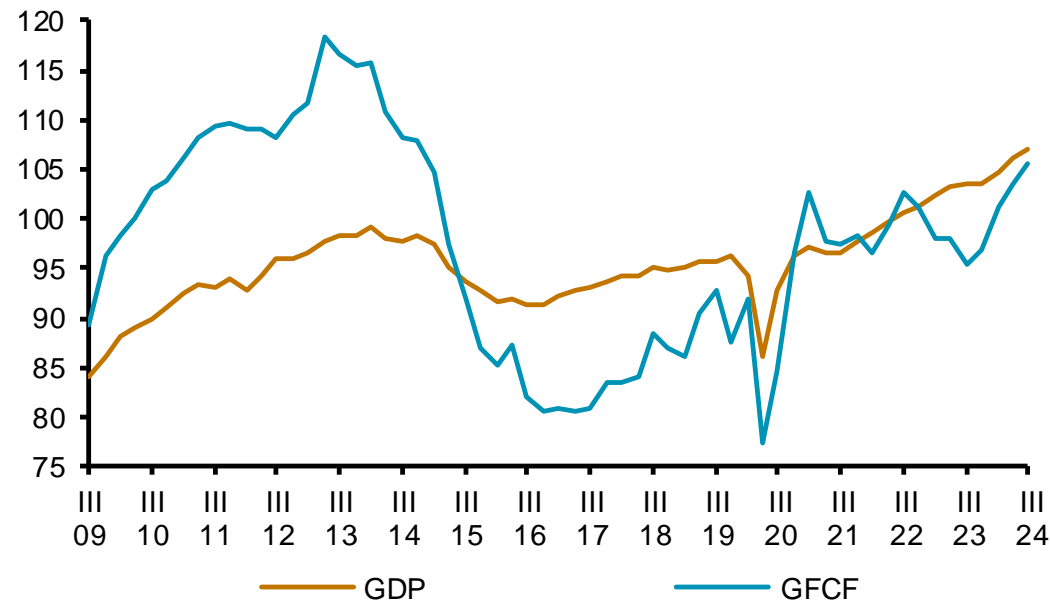


# Economic activity

Gross Fixed Capital Formation (GFCF) continued to grow at a strong pace. The investment rate increased, but remains below the average level since 1996.

## GDP and GFCF

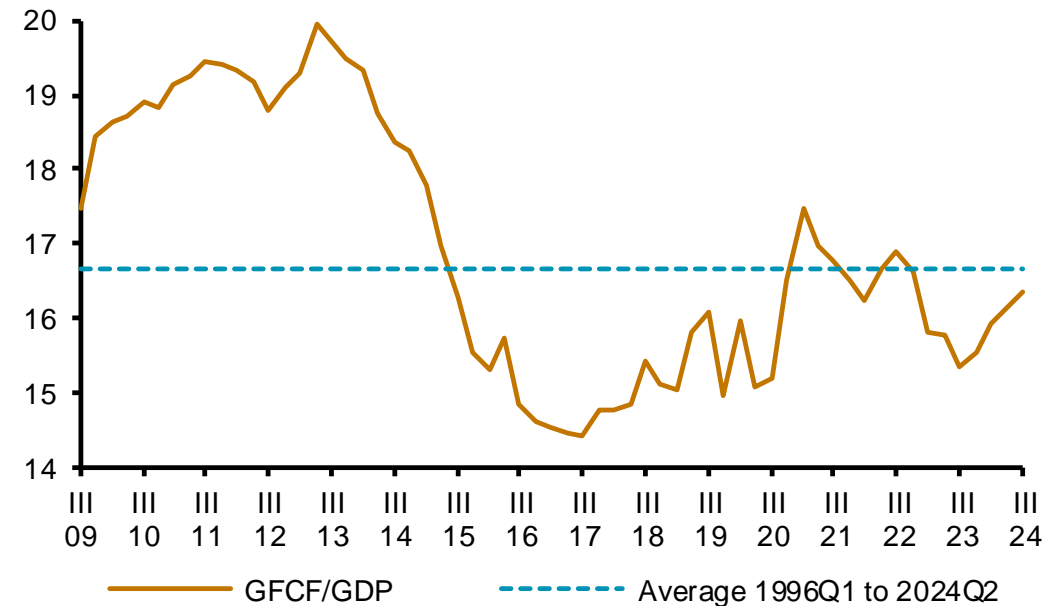
2022 = 100, s.a.



Source: IBGE

## GFCF/GDP at 2019 prices

%, s.a.



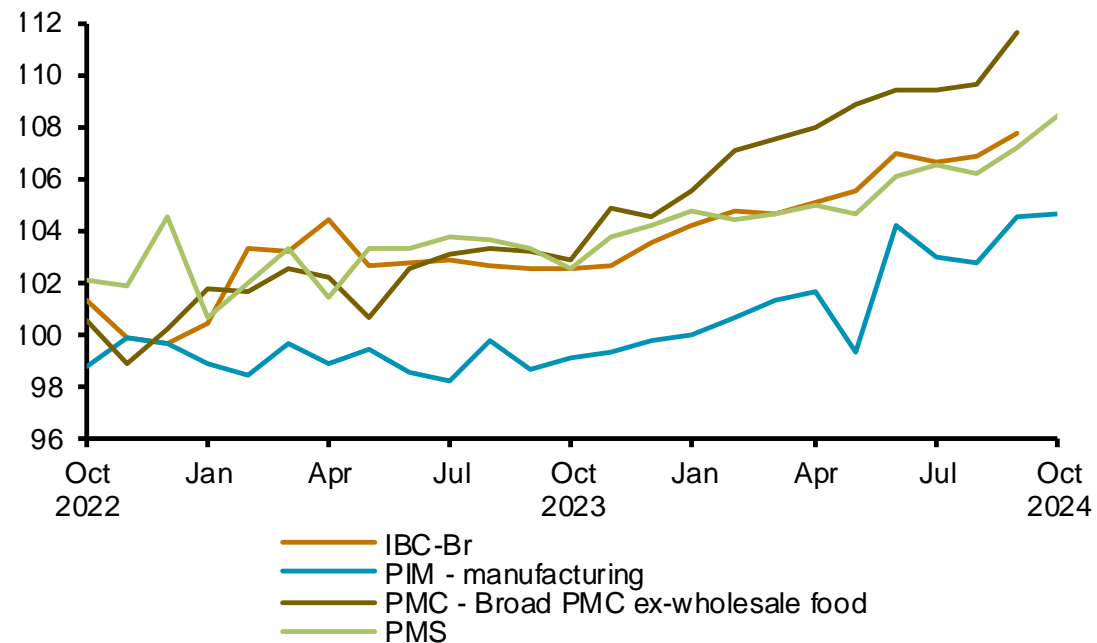
Source: IBGE

# Economic activity

Available data suggest a new expansion in economic activity in 2024Q4, with no clear signs of a significant slowdown.

## Economic activity indicators

2022 = 100, s.a.



Sources: IBGE and BCB



# Projections for GDP growth in 2024 and 2025

## Gross domestic Product

% growth

	2023	2024 <sup>1/</sup>		2025 <sup>1/</sup>	
		IR Sep	IR Dez	IR Sep	IR Dec
<b>GDP at market prices</b>	<b>3,2</b>	<b>3,2</b>	<b>3,5</b>	<b>2,0</b>	<b>2,1</b>
Taxes on products	2,3	4,7	5,5	1,9	2,0
Value added at basic prices	3,4	2,9	3,3	2,0	2,2
<b>Supply</b>					
Agriculture and livestock	16,3	-1,6	-2,0	2,0	4,0
Industry	1,7	3,5	3,3	2,4	2,4
Services	2,8	3,2	3,8	1,9	1,9
<b>Demand</b>					
Household consumption	3,2	4,5	5,3	2,2	2,4
Government consumption	3,8	2,7	1,9	2,0	1,6
Gross fixed capital formation	-3,0	5,5	7,3	2,0	2,9
Exports	8,9	3,2	3,0	2,5	2,5
Imports	-1,2	11,3	13,7	2,5	2,5
Net trade contribution (p.p.)	2,0	-1,2	-1,6	0,0	0,0

Sources: IBGE and BCB

<sup>1/</sup> Estimates.

## 2024

- The GDP growth projection for 2024 grew from 3.2% to 3.5%.
- New positive surprise in 2024Q3 and the first indicators of 2024Q4 have led to a new round of upward revisions in the growth projection.
- The revision of the CNT series had little effect on the aggregate GDP, but it was important in changing the projection of some components.

## 2025

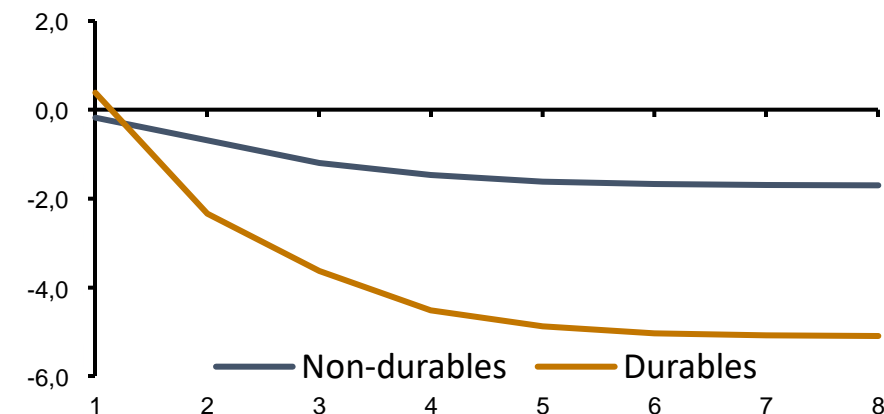
- Slight increase in the 2025 projection, from 2.0% to 2.1%.
- **Positive contributions:** higher expected growth for agriculture; and an increase in the statistical carry-over for 2025, mainly due to positive surprises in 2024Q3.
- **Negative contribution:** Expectation of a slower growth rate throughout the year, in a scenario of stronger monetary tightening.
- The perspective of lower growth in 2025 compared with 2024 remains.

# Interest, income, and consumption of durables and non-durables

- This box empirically evaluates the likely heterogeneity of the effects of interest rates and income on the consumption of durables and non-durables in the Brazilian economy.
- **Model:** Quarterly VAR at first difference estimate relating the real ex-ante Selic, restricted HGDNI, and consumption of non-durables and durables obtained by aggregating items from the PMC.
- **Results:**
  - The response of durables to interest rates is higher than that of non-durables.
  - The response to income is more alike between durables and non-durables, but still greater for durables.
  - The decomposition of the forecast error variance shows that **interest rate shocks are more important for the variance of durables**. In turn, **income shocks are more important for the consumption of non-durables**.

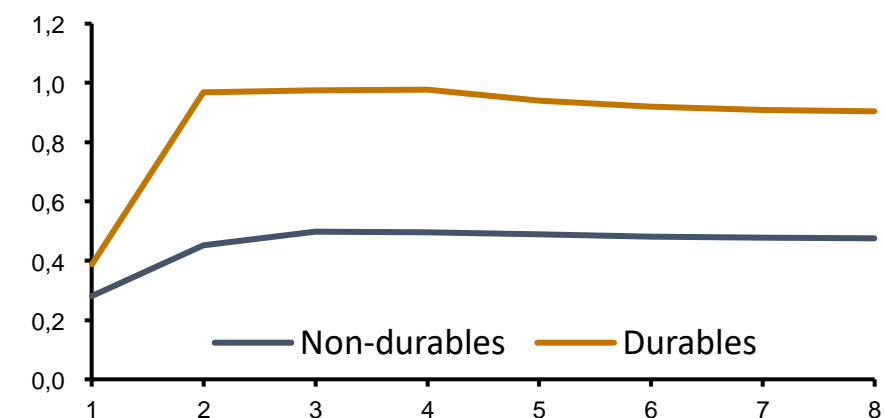
## Response to shock in interest rates

Response to a 1 p.p. shock in interest rates (%)



## Response to shock in income

Response to a 1 p.p. shock in income (%)



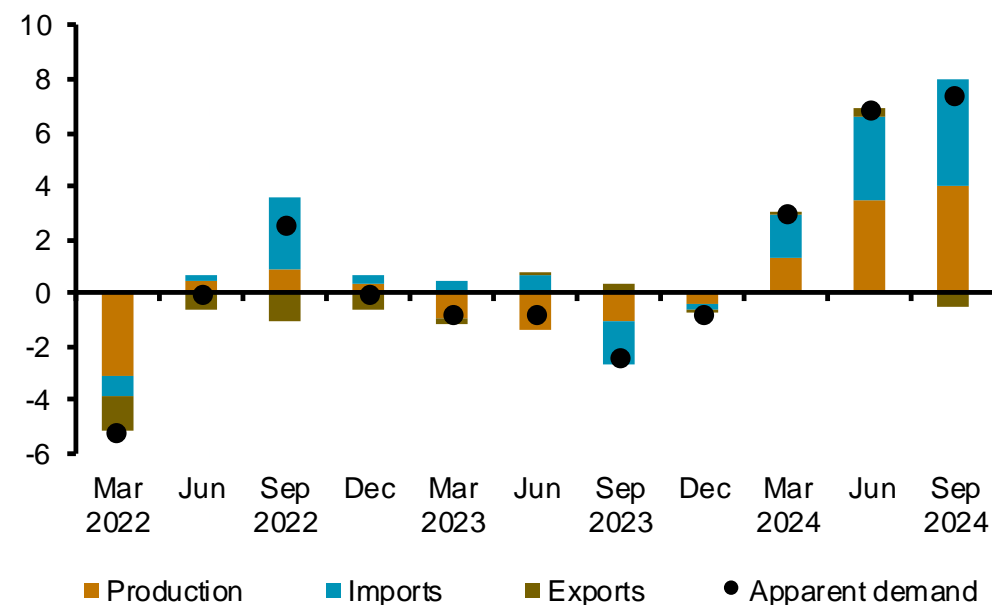


## Recent evolution of manufacturing

- Growth recovery since the end of 2023;
- The growth was widespread.
- Increased output is associated with domestic demand and greater use of production factors.
- The sector's profitability is at a relatively high level.
- Industry's entrepreneurs mention limiting factors, either more structural or more cyclical, for the output growth, such as: tax burden, lack or cost of raw materials, lack or high cost of skilled workers, high interest rates, transport logistics, competition with imports.

### Apparent demand for industrial goods

Var % T/T-4 e contribuição dos componentes

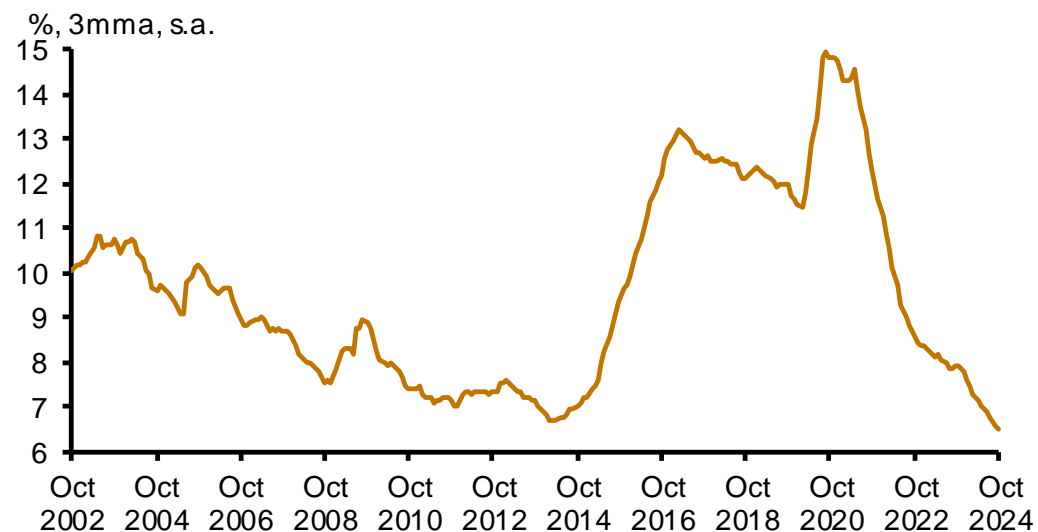


Sources: Secex and BCB

# Labor market – Employment

The labor market has remained heated in recent months. The unemployment rate is at the historic low and the creation of jobs remains at a high level.

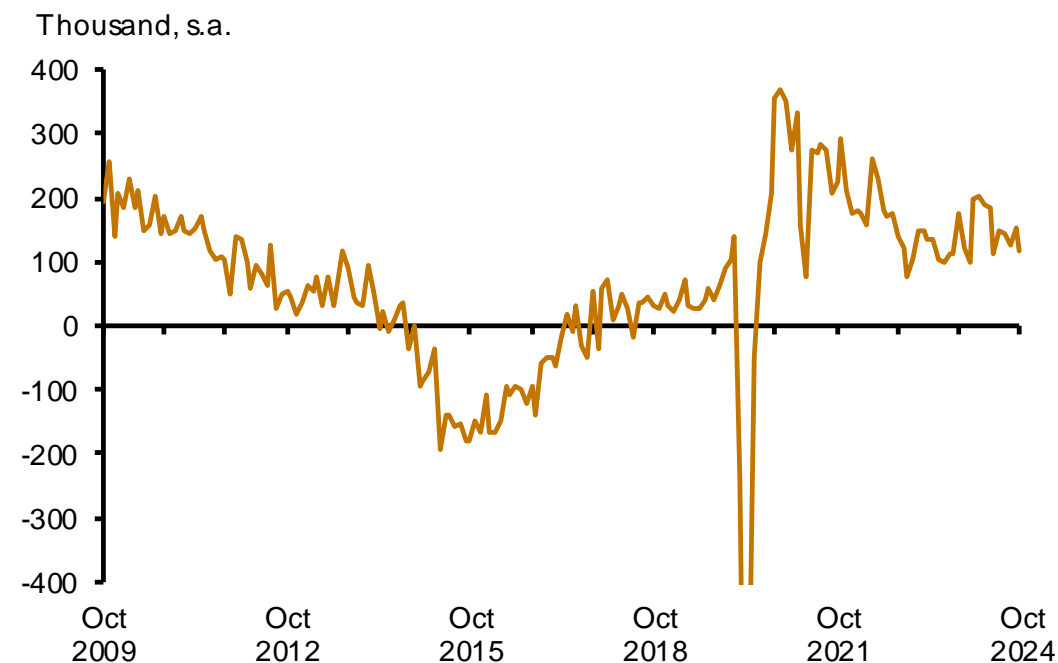
## Unemployment rate<sup>1</sup>



<sup>1</sup> Historical unemployment rate estimates following Alves, S. A. L. and Fasolo, A. M., "Not just another mixed frequency paper", Banco Central do Brasil (2015), Working Paper 400.

Sources: IBGE and BCB

## Net formal job creation



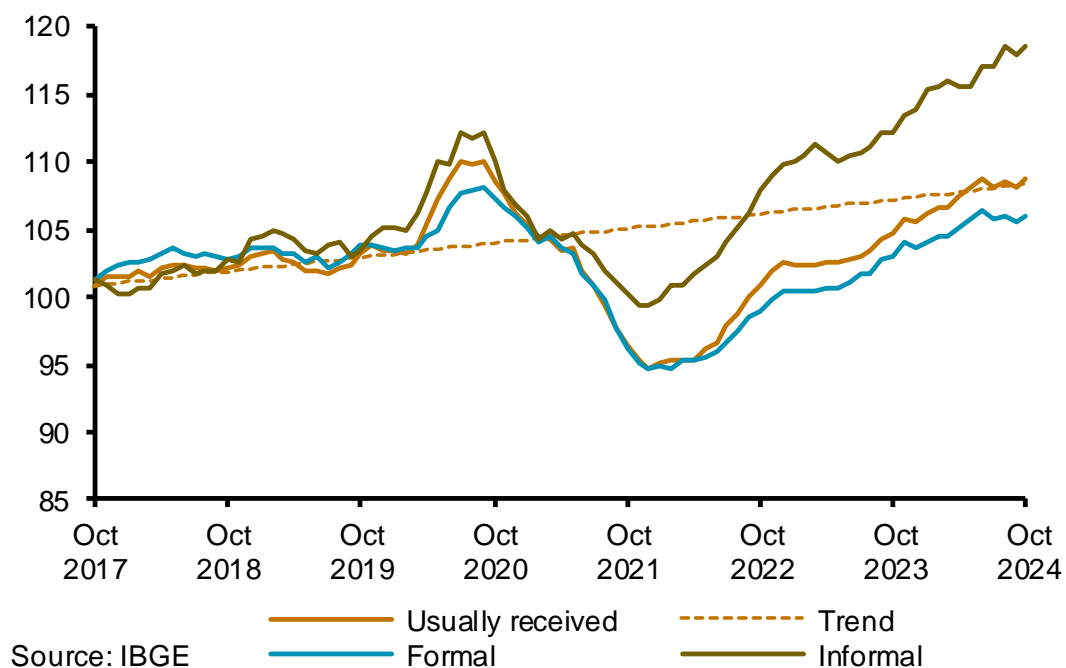
Source: Ministry of Labor and Employment

# Labor market – Income

The average real income measured by the PNAD Continuous has been growing at a more moderate pace. However, the slowdown in real income is greater than that of nominal income.

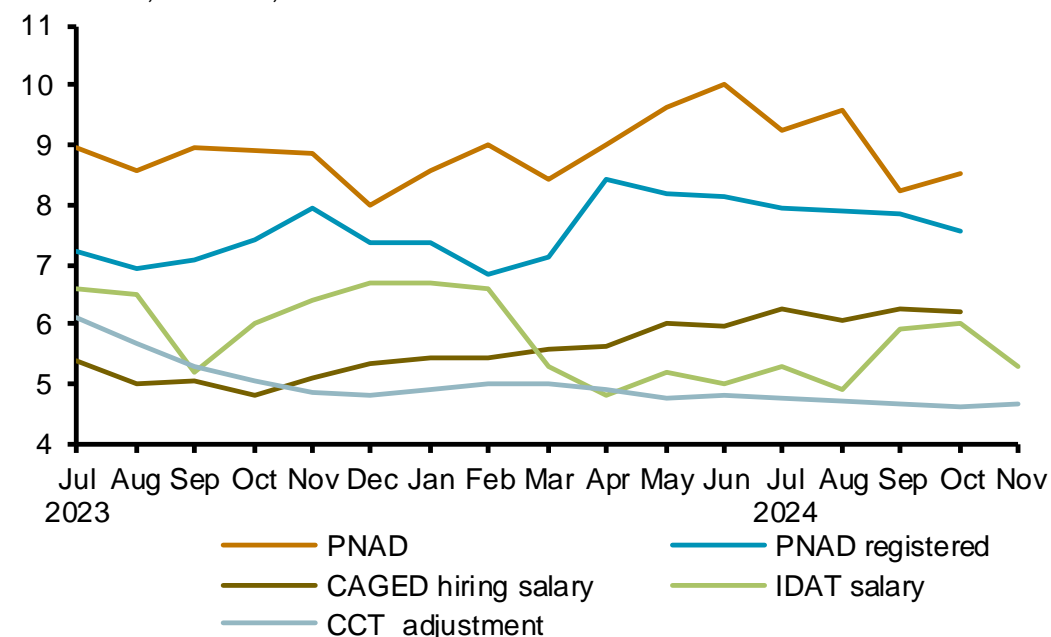
## Real average labor income

Dec 2019 = 100, 3mma, s.a.



## Salaries and labor incomes

YoY %, nominal, 3mma

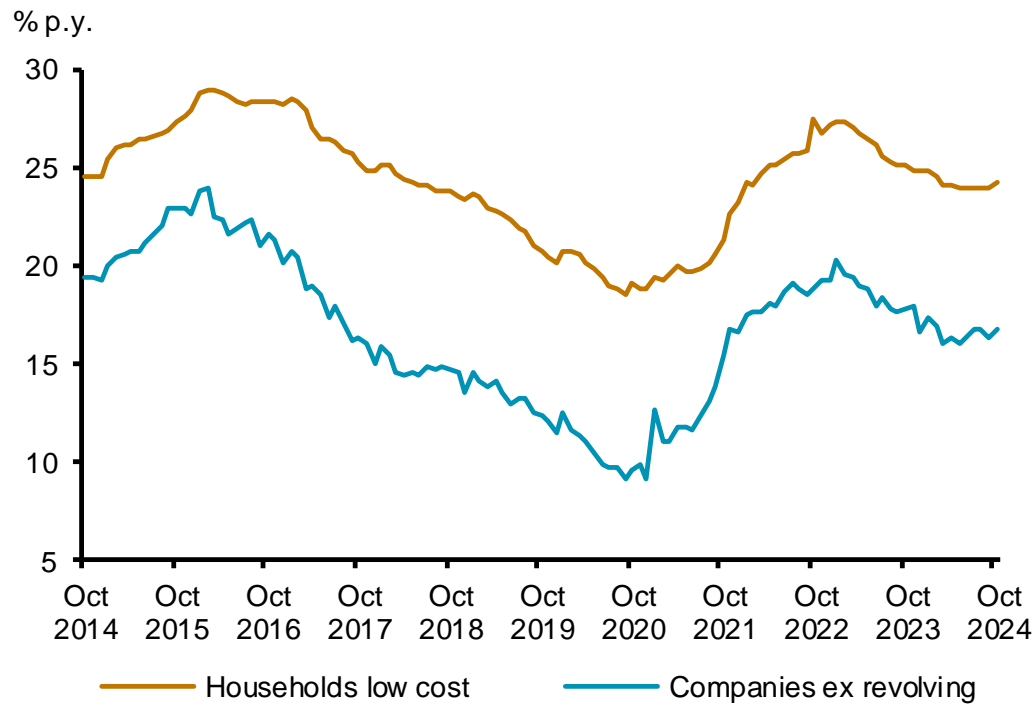




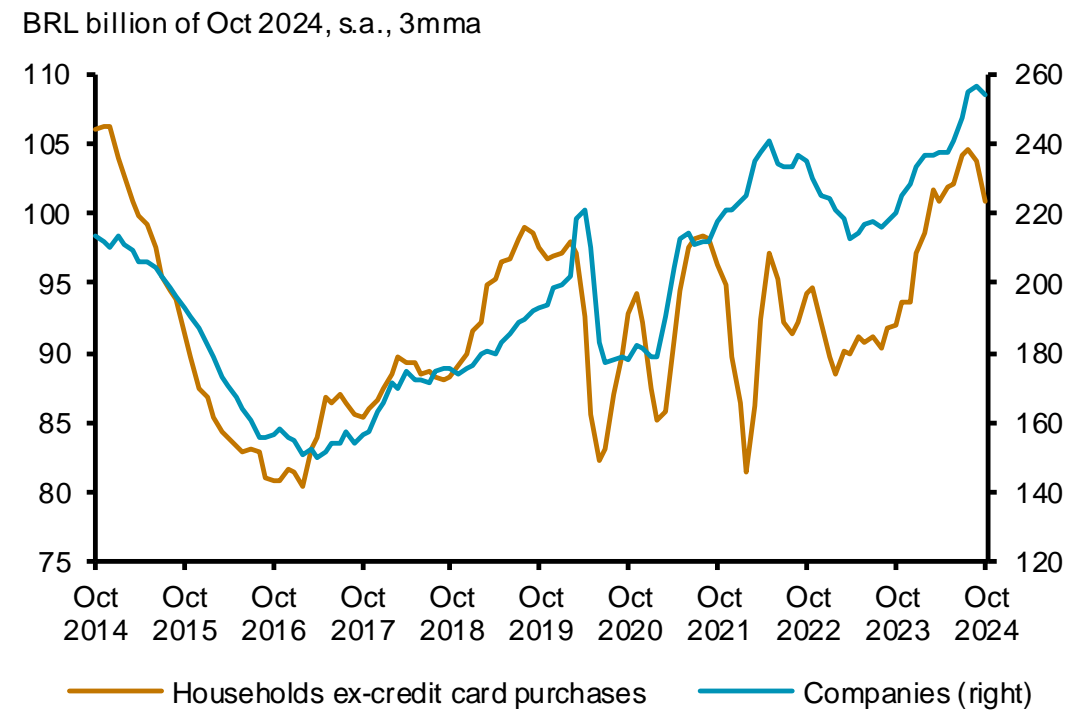
# Credit

The credit market shows incipient signs of turnaround. Interest rates on non-earmarked credit increased while non-earmarked credit granting decreased in the household segment but maintained a robust growth in the corporate segment.

## Non-earmarked interest rates



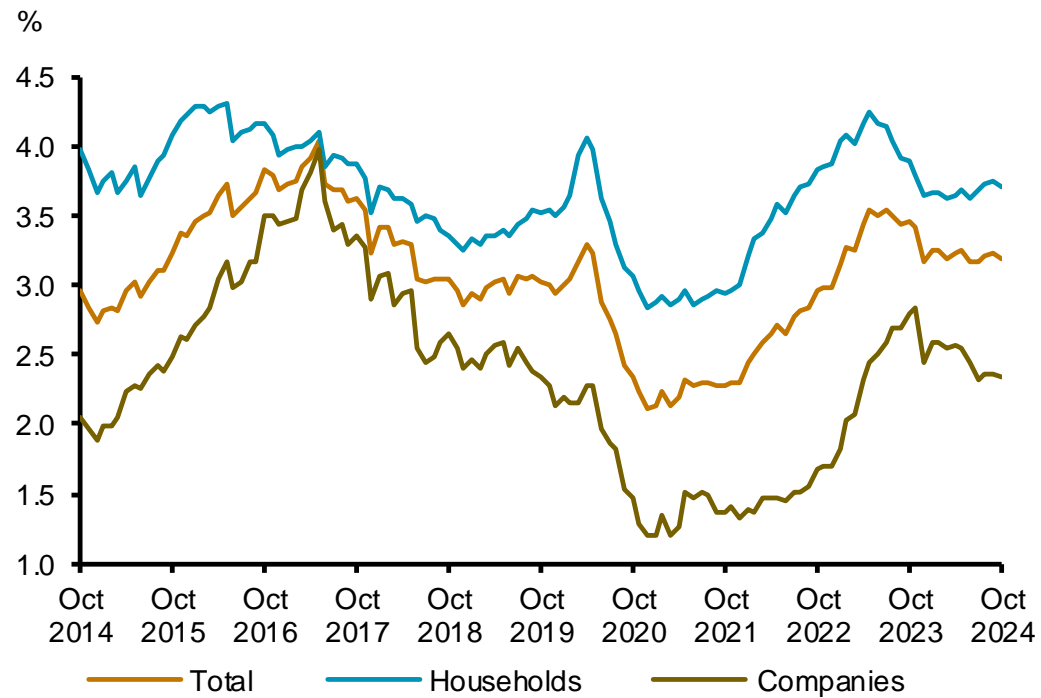
## Non-earmarked new credit operations



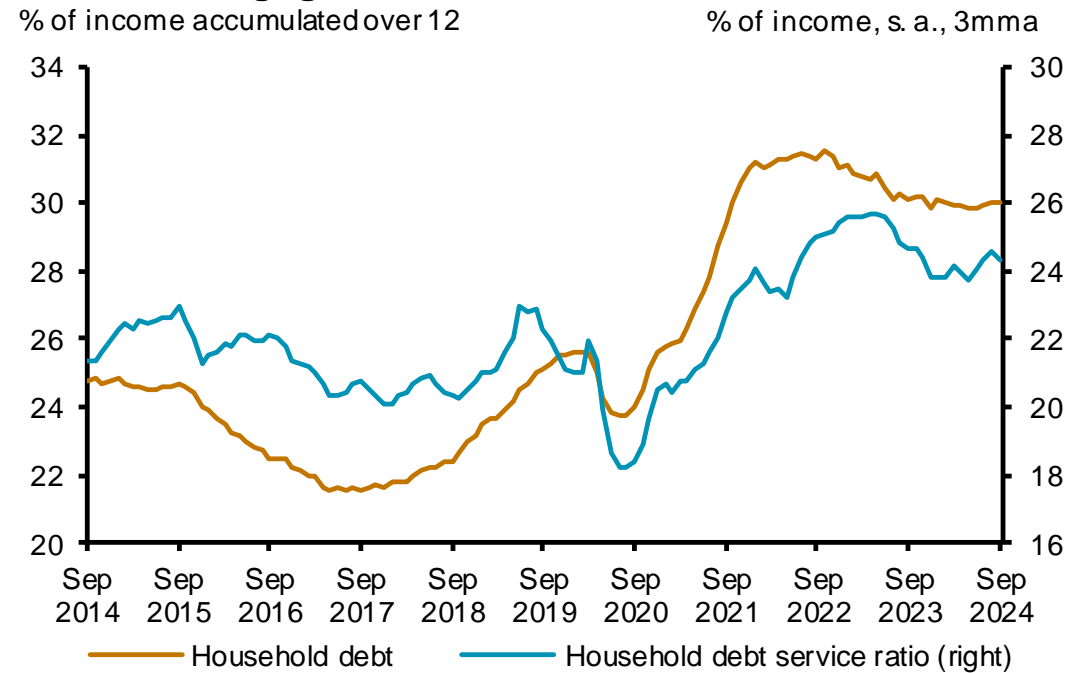
# Credit

Delinquency, indebtedness, and debt-to-income indicators remained stable, even in a scenario of growing activity and household disposable income.

## 90 days past due loans



## Household debt and household debt service ratio without mortgage loans



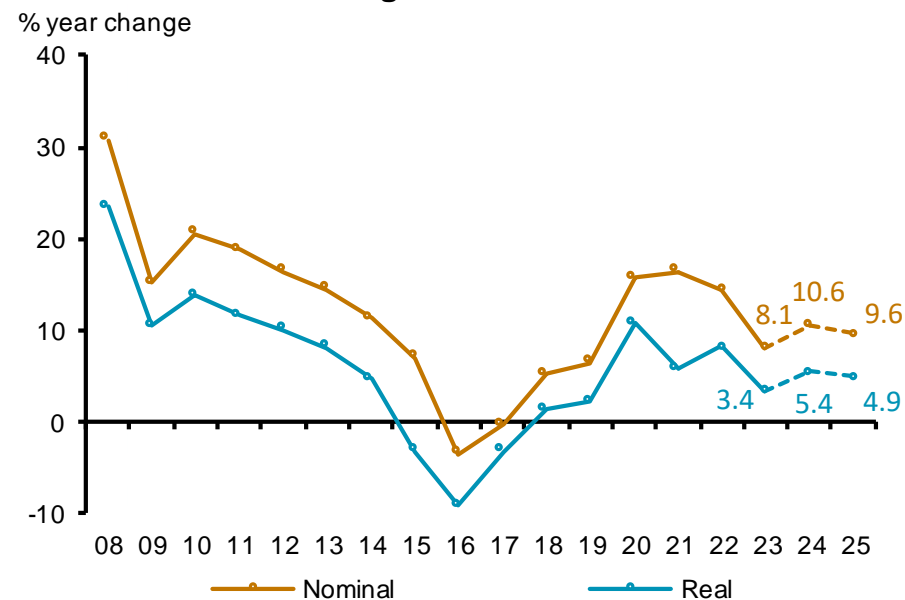
## Projection for credit growth in 2024 and 2025

- Nominal growth projection for the SFN credit balance in 2024 fell from 11.1% to 10.6%, within a scenario of tighter monetary policy and reassessed trajectory of earmarked corporate credit.
- For 2025, when the effects of the monetary tightening will be concentrated, nominal growth projection dropped from 10.3% to 9.6%, highlighting the downside revision for non-earmarked household credit.

### Credit balance

	12-month % change						
	Occurred		Proj. 2024		Proj. 2025		
	2022	2023	Oct 2024	Previous	Current	Previous	Current
Total	14.5	8.1	10.8	11.1	10.6	10.3	9.6
Non-earmarked	14.9	5.6	10.2	10.5	10.4	10.2	9.6
Households	17.4	8.4	11.3	12.0	11.5	11.0	10.0
Corporations	11.9	2.1	8.7	8.5	9.0	9.0	9.0
Earmarked	14.0	11.9	11.7	12.0	10.8	10.5	9.7
Households	18.0	13.1	12.8	12.0	12.0	10.5	10.0
Corporations	6.9	9.6	9.5	12.0	8.5	10.5	9.0
Total Households	17.7	10.5	12.0	12.0	11.7	10.8	10.0
Total Corporations	10.1	4.7	8.9	9.7	8.8	9.5	9.0

### Total credit outstanding

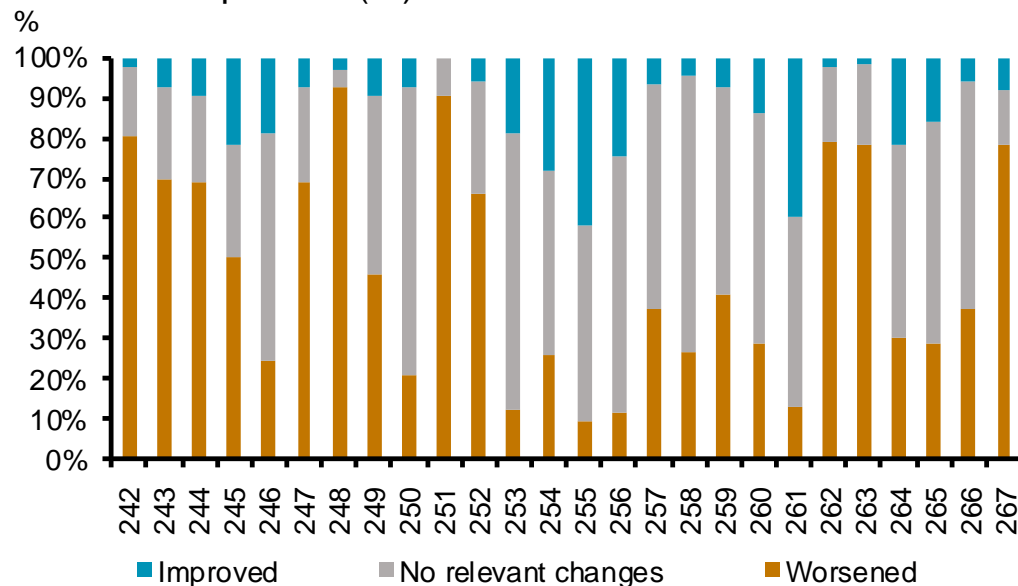




The Central Government primary balance target for 2024 is likely to be met, considering the lower limit set, but the fiscal situation still requires attention. Uncertainties remain regarding the achievement of fiscal targets in the coming years, and projections indicate a rising public debt trajectory. The PCQ assessed the worsening of the fiscal situation since the latest Copom meeting.

## PCQ: Assessment of fiscal situation

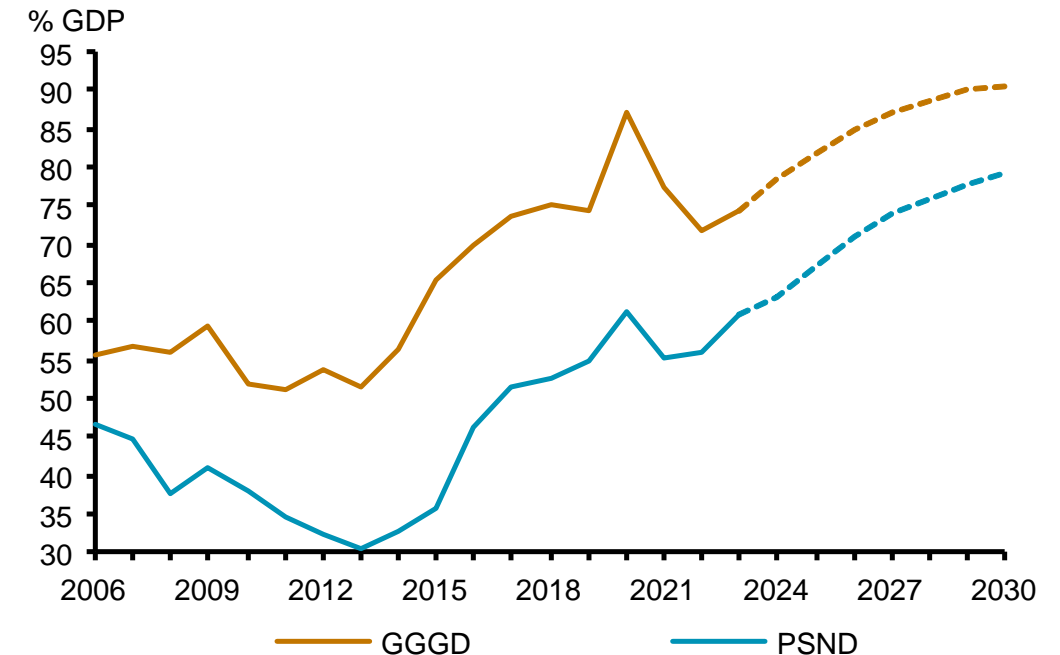
Share of responses (%) in each PCQ



Question: How do you assess the change of the fiscal outlook since the previous Copom, considering both your baseline scenario and related risks?

Source: BCB – Pre-Copom Questionnaire (PCQ)

## Debt forecasts



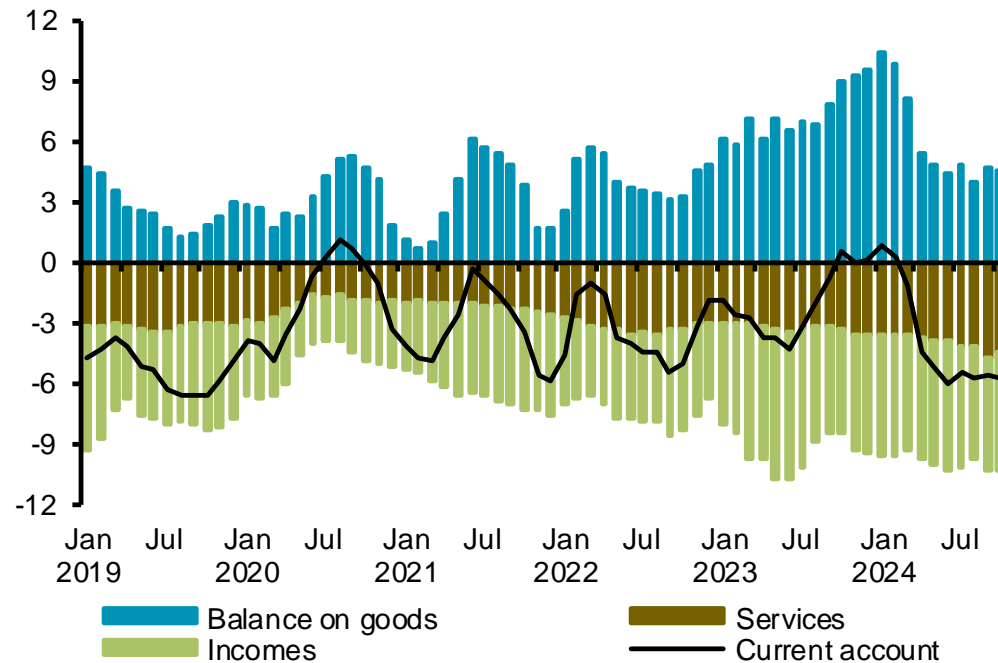
Forecast from 2024 on correspond Focus

# External accounts

The current situation of the external accounts, as well as their prospect, remains similar to that of the September 2024 IR.

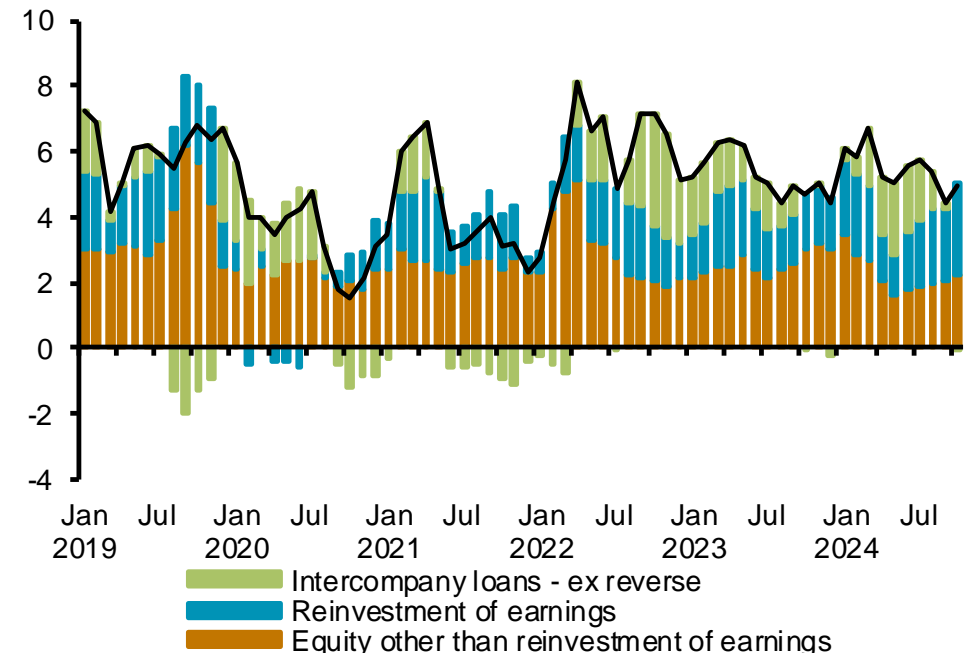
## Current account

USD billion, 3mma s.a.



## Direct investment liabilities

USD billion, 3mma s.a.

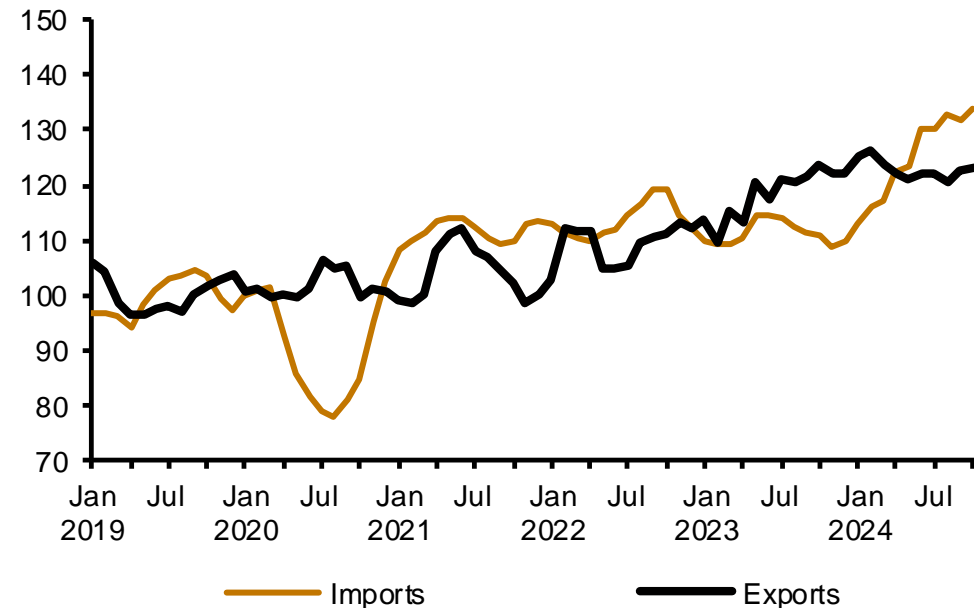


# External accounts

The growth of imports is associated with the increase of quantum, widespread across categories, in line with the expansion of consumption, investment, and manufacturing.

## Quantum Index

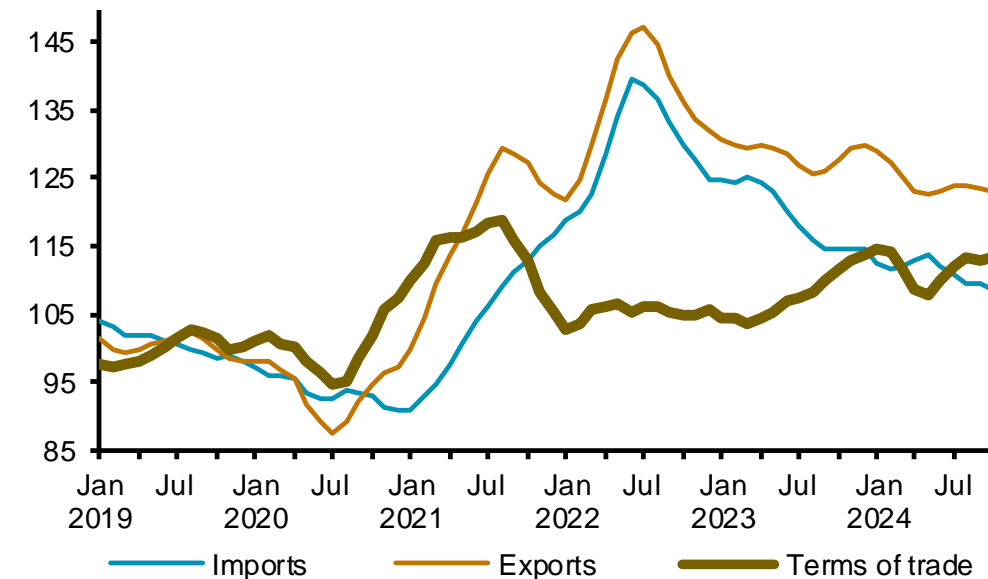
Index (2019=100), 3mma, s.a.



Source: BCB, Funcex methodology

## Price Index

Index (2019=100), 3mma s.a.

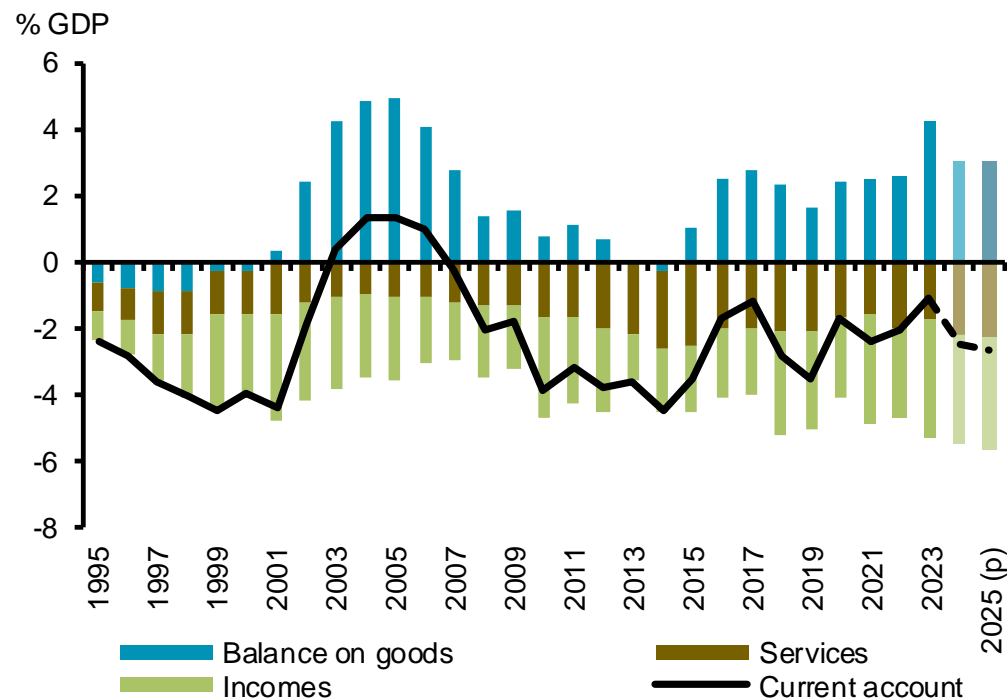


Source: BCB, Funcex methodology



# Projections for the external accounts for 2024 and 2025

## Current account



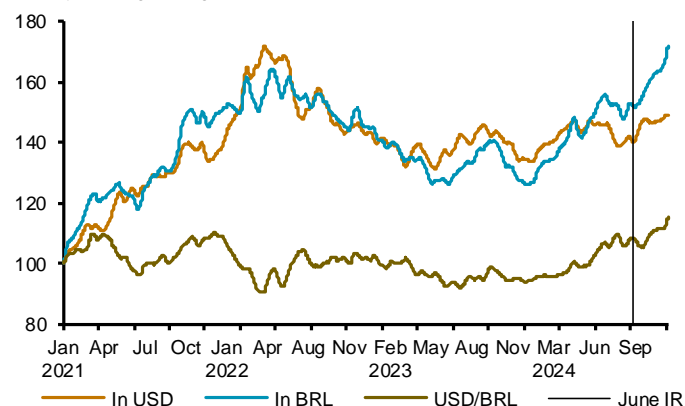
- Little change compared with what was expected in the previous IR.
- A relevant increase in the current account deficit is expected from 2023 to 2024 and a more moderate increase from 2024 to 2025. Nevertheless, the current account deficit in both years is expected to remain below net inflows of direct investment liabilities.
- **2024** – current account deficit equivalent to 2.5% of GDP. Compared with the previous IR, slight downward revision for the expected trade surplus due to increased imports.
- **2025** – current account deficit equivalent to 2.7% of GDP compared with 2024: stable trade balance and increased primary income deficit due to net interest expenses.

# Commodity and producer prices

Commodity prices have increased, especially when quoted in BRL. The producer price index, for which in recent quarters had been registered a rise associated with manufacturing, accelerated due to meat prices.

IC-Br and foreign exchange rate

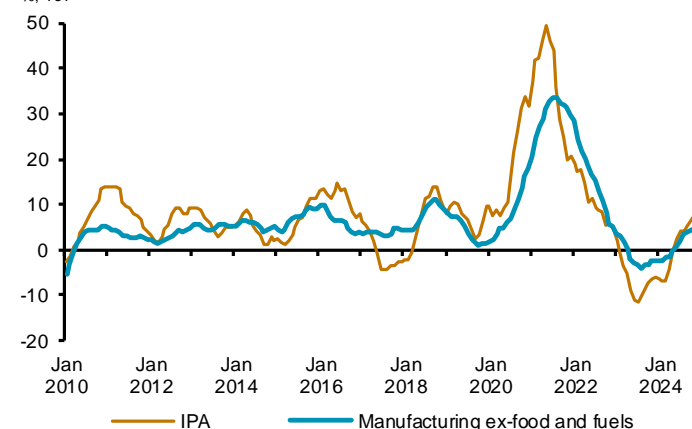
10-day moving average; Dec/31 2020 = 100



Sources: Bloomberg and BCB

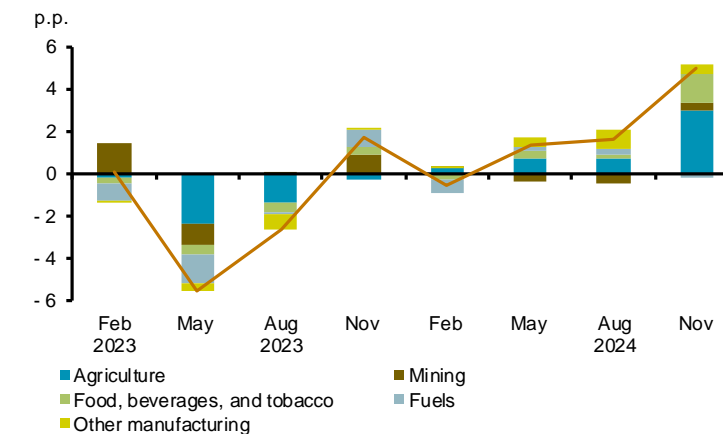
IPA-DI

% YoY



Source: FGV

Contributions to quarterly IPA-DI change

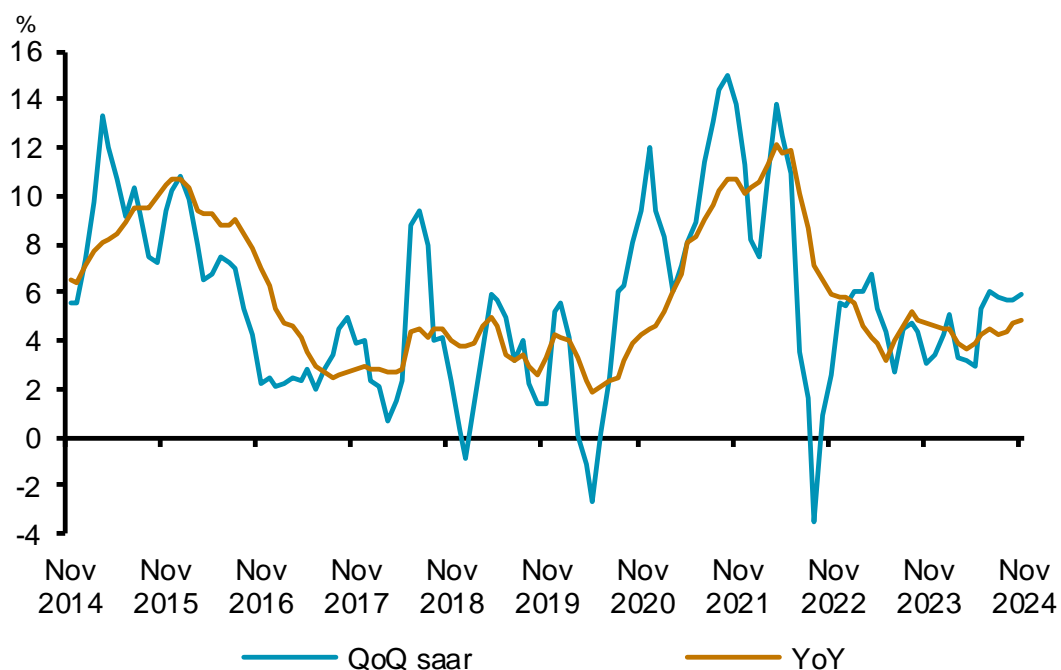


Source: FGV

# Consumer prices (IPCA)

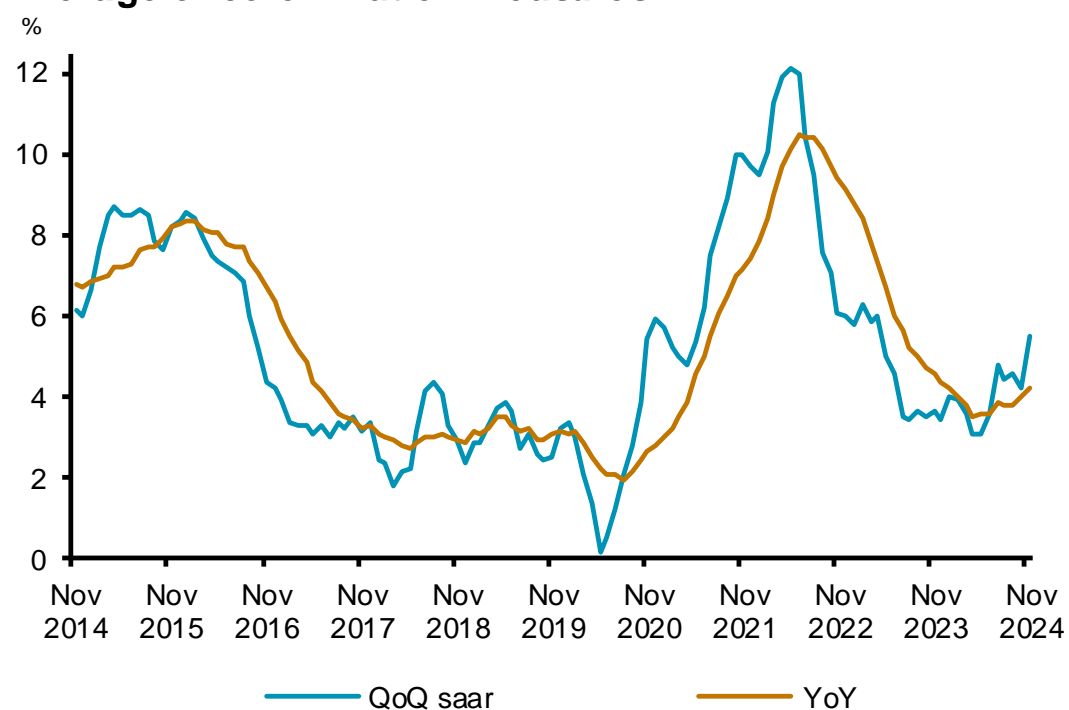
Consumer prices inflation – already high in 2024Q3 – increased. IPCA accelerated in 2024Q3, with a sharp rise in food. In the 12-month period, indexes increased for both the headline inflation (from 4.24% to 4.87%) and the average of core measures (from 3.80% to 4.21%) .

## IPCA



Sources: IBGE and BCB

## Average of core inflation measures

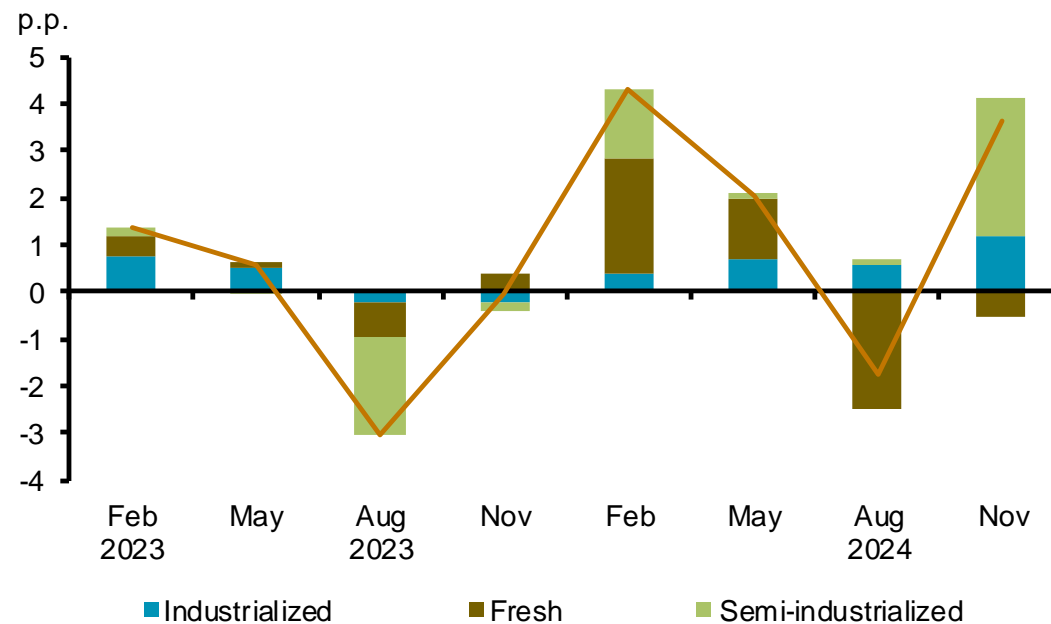




# Consumer prices – Food-at-home

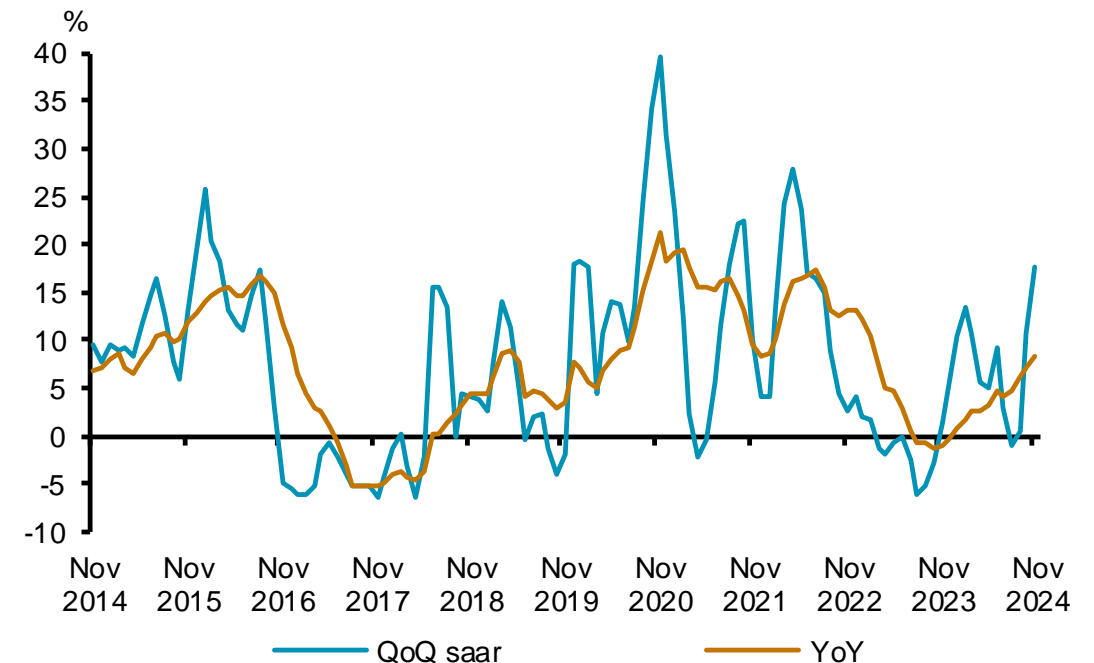
Consumer food prices increased strongly in the quarter, driven by beef. The pressure of coffee and soybean oil prices was also noteworthy. Prices of other industrialized food items are also on the rise, impacted by the BRL depreciation. In turn, fresh food prices fell again, even in a period of less favorable seasonality for this group.

**Contributions to quarterly changes in food-at-home prices – IPCA**



Sources: IBGE and BCB

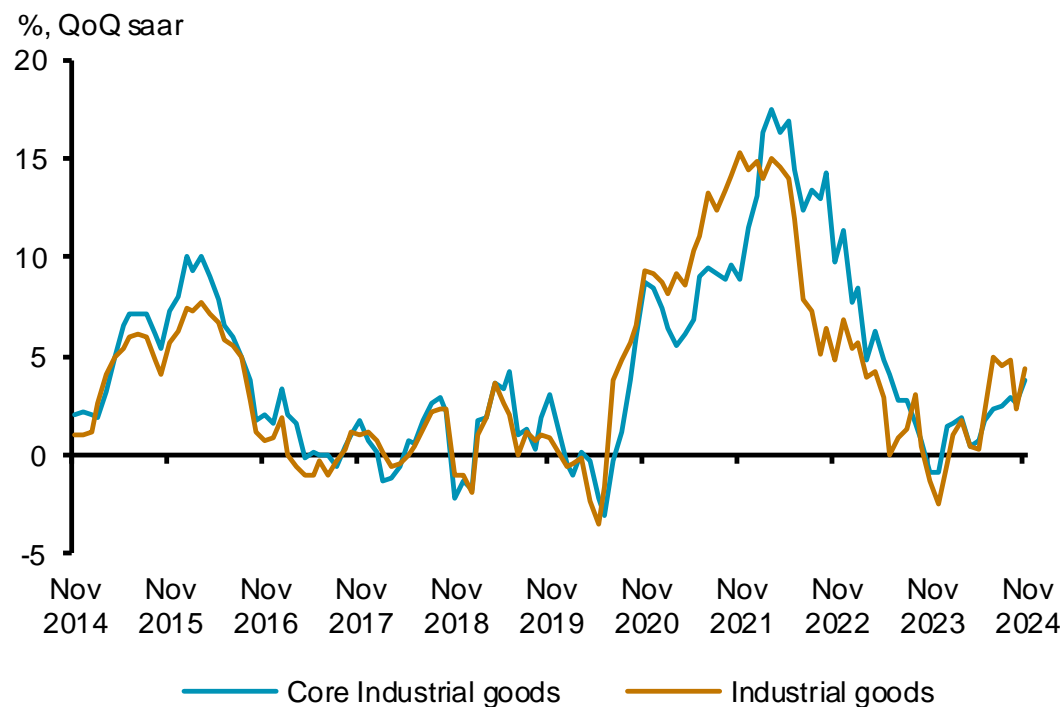
**Food-at-home inflation**



# Consumer prices – Industrial goods and services

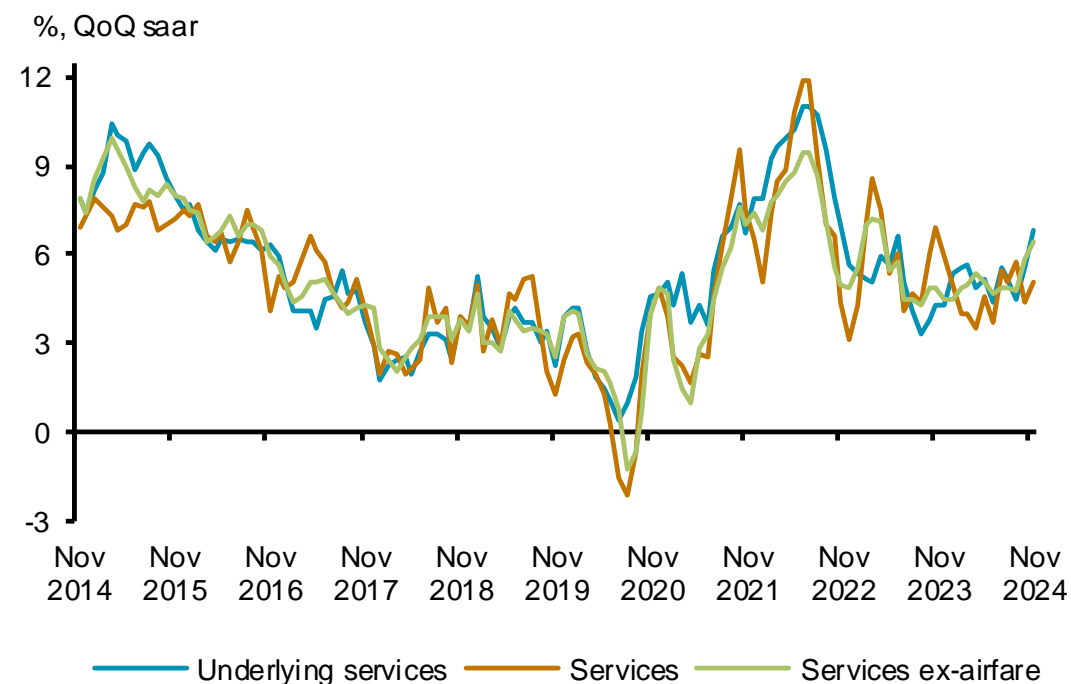
The 12-month industrial goods inflation increased, in line with the recent exchange rate trajectory.

## Industrial goods inflation



Services inflation remains high and some of its core measures have increased compared with the previous quarter.

## Services inflation



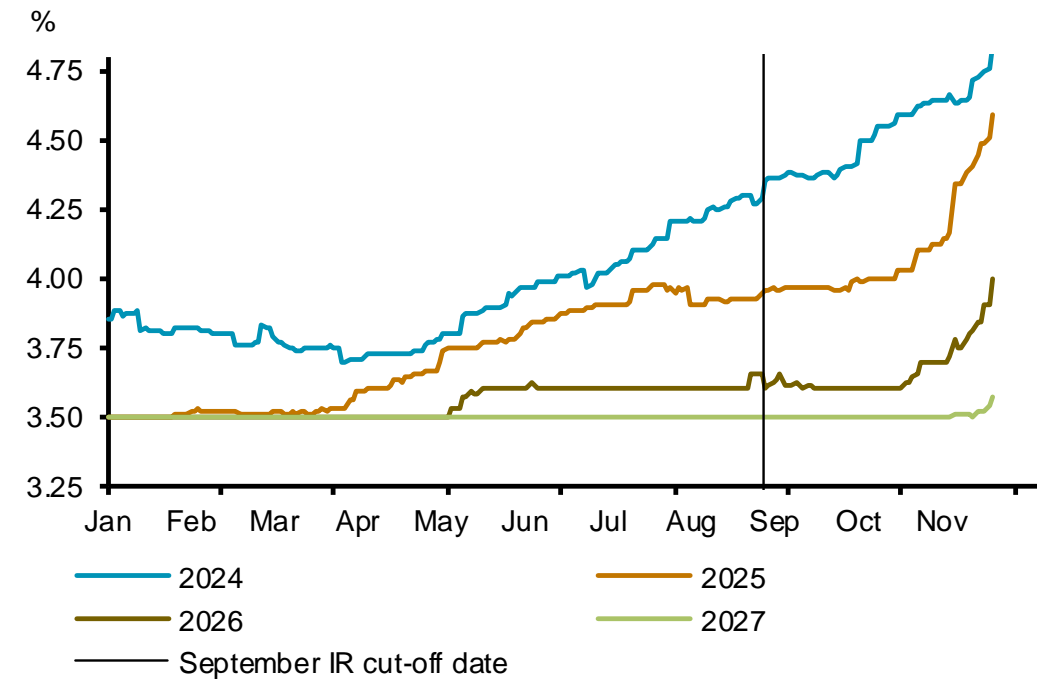
# Consumer prices – Expectations

Inflation expectations remain deanchored for the next few years and have risen since the previous IR.

## Breakdown of the revision on the 2024 Focus survey

	weights	Focus expectations (% p.a.)		
		Sep-13	Dec-6	Contr. to Δ (p.p.)
<b>IPCA</b>	<b>100</b>	<b>4.35</b>	<b>4.84</b>	<b>+0.49</b>
IPCA (by aggregation)	100	4.36	4.81	+0.45
Food-at-home	15	5.46	8.49	+0.46
Industrial goods	23	2.88	2.71	-0.04
Services	36	4.55	4.69	+0.05
Administered prices	26	4.78	4.69	-0.02
Market prices	74	4.19	4.89	+0.52
Market prices (by aggreg.)	74	4.21	4.85	+0.47

## Median market expectations (Focus) – Annual IPCA





RELATÓRIO DE INFLAÇÃO

# Perspectivas para a inflação

# Cenário de referência de curto prazo

## IPCA – Inflation surprise

	% change				
	2024				
	Sep	Oct	Nov	Quarterly up to May	12- month up to Nov
Copom scenario <sup>1</sup>	0.57	0.36	0.04	0.97	4.43
Actual IPCA	0.44	0.56	0.39	1.40	4.87
Surprise (p.p.)	-0.13	0.20	0.35	0.42	0.44

Sources: IBGE and BCB

1/ Scenario at the September Sunday Inflation Report cut-off date.

## IPCA – Short-term projections?

	% change			
	2024	2025		
	Dec	Jan	Feb	Mar
Monthly change	0.58	-0.08	1.17	0.42
Quarterly change	1.54	0.89	1.68	1.51
12-month change	4.89	4.37	4.72	5.00

Sources: IBGE and BCB

1/ Copom's reference scenario at cut-off date.

## Surprises

- Consumer inflation in the Sep-Nov quarter was above expectations, with most of the surprise concentrated in food-at-home (meat). The services segment also contributed to higher-than-expected inflation, especially food-away-from-home.
- The December projection was revised upwards, with stronger increase in beef prices and less benign behavior of administered prices.

## Projection

- Except for the fluctuation between January and February, 12-month inflation is expected to remain above to the upper limit of the tolerance interval over the next months, amid higher monthly inflation rates.
- Contributing to high monthly inflation: food (exchange rate depreciation, pass-through of cattle price increase), industrial goods (upward producer prices, exchange rate depreciation), and services (higher inertia, heated labor market).

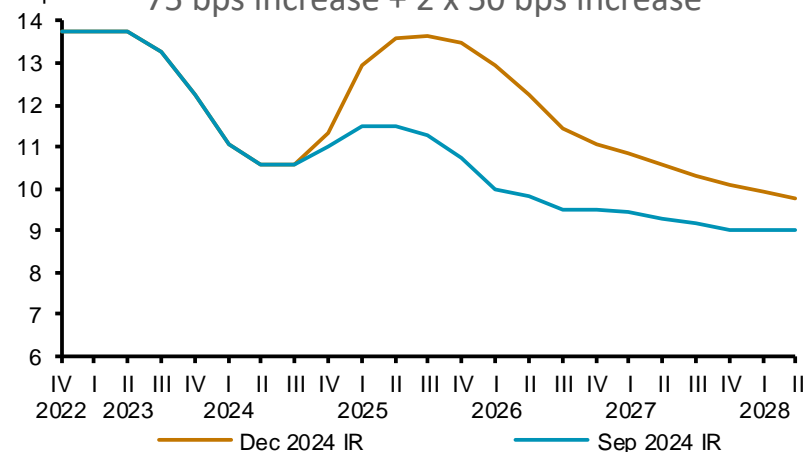
# Conditional projections for inflation: conditioning assumptions

## Selic rate target assumption for projections – Focus survey expectations

Quarterly averages

% p.a.

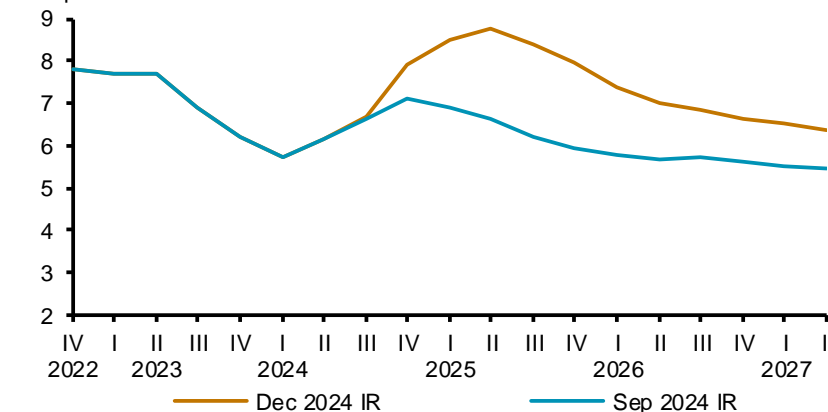
75 bps increase + 2 x 50 bps increase



## Four-quarter-ahead real Selic

Quarterly averages

% p.a.



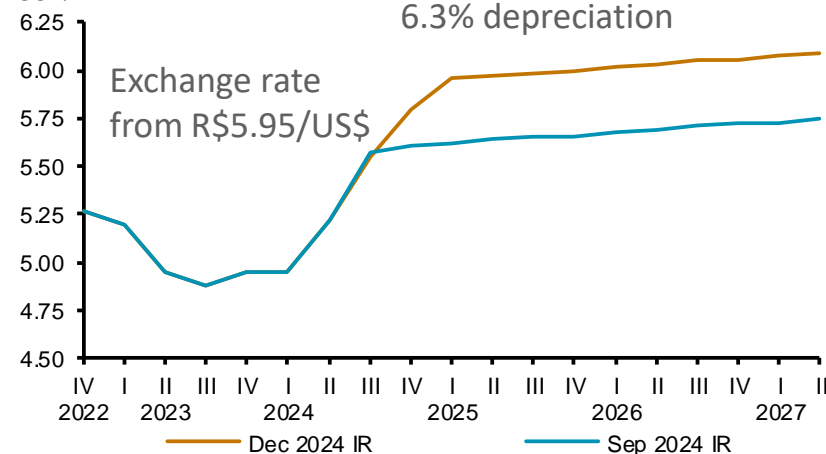
Neutral real interest rate from 5.00%

Note: Real Selic calculated as the four-quarter-ahead Selic rate, discounted from inflation expectations for the same period, both variables extracted from the Focus survey.

## Exchange rate assumption for projections – PPP trajectory

Quarterly averages

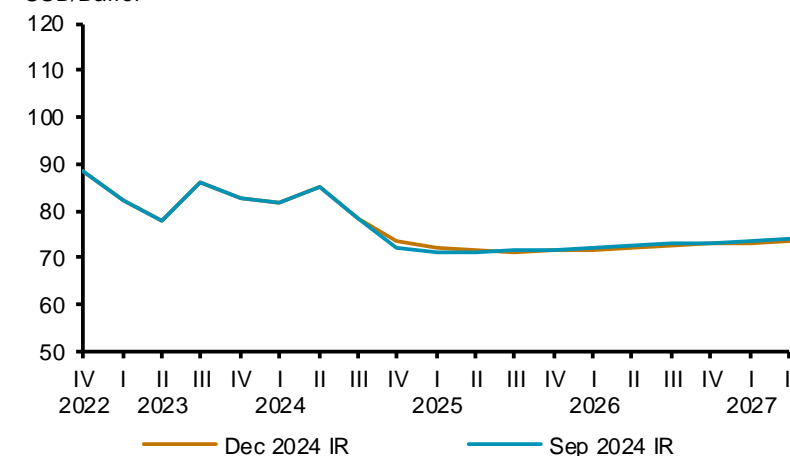
USD/BRL



## Brent-type oil price

Quarterly averages

USD/Barrel



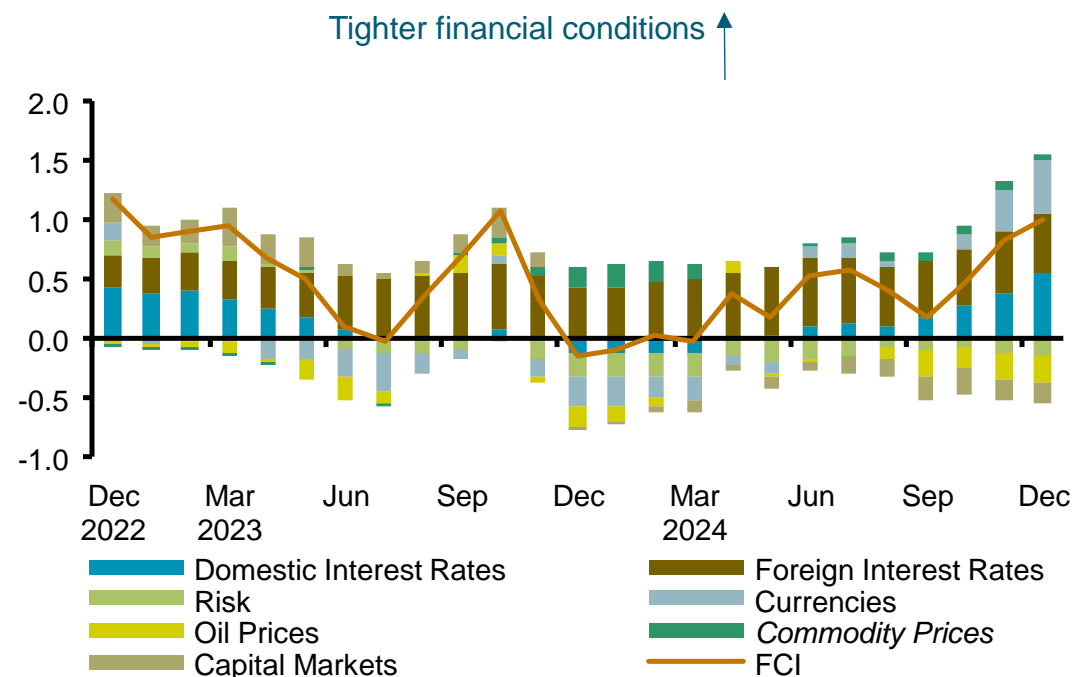
Sources: Bloomberg and BCB



# Financial conditions

## Financial Conditions Index

Standard deviations in relation to the mean and contributions



Financial conditions became more restrictive in 2024Q4, mainly due to the "Interest rates in Brazil" and "Currencies" groups.

Main factors for FCI increase in the quarter:

- increase of domestic interest rate futures;
- BRL depreciation;
- USD appreciation against currencies of other advanced economies;
- external interest rate futures increase in longer-terms;
- higher 5-year Credit Default Swap (CDS) for Brazil .
- domestic stock exchange fall.

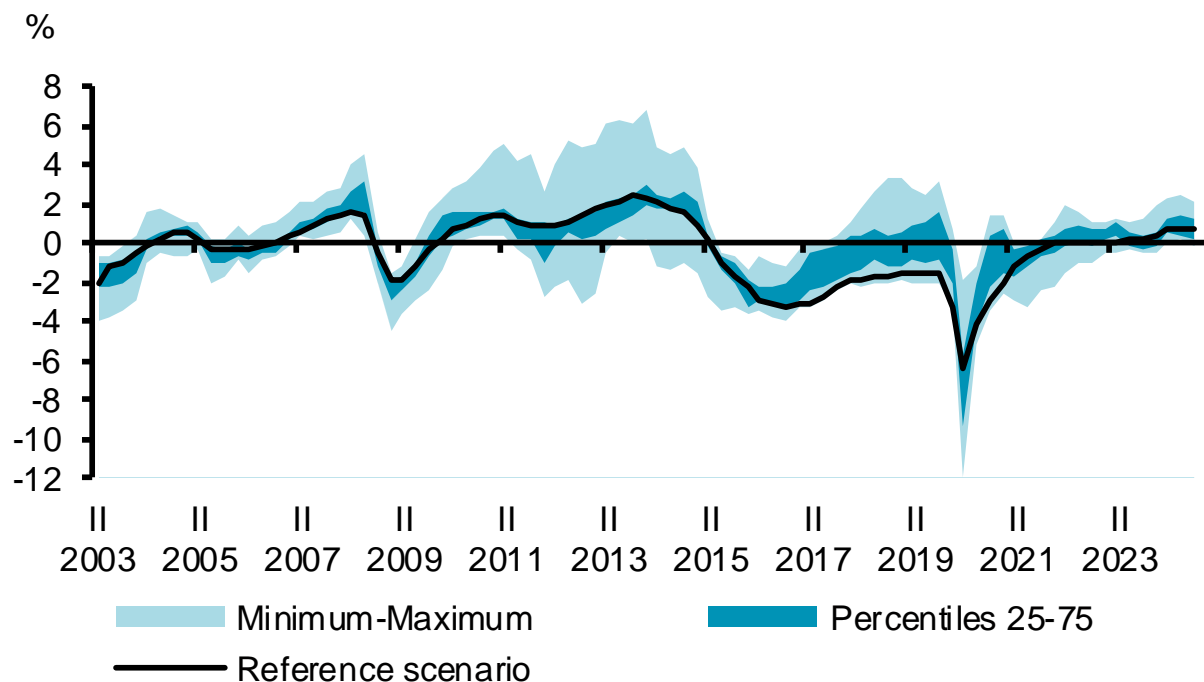
Main factors for FCI decrease in the quarter:

- VIX reduction;
- oil price reduction;
- appreciation of foreign stock exchanges;
- agricultural commodity prices increase.

# Output gap

Due to the economic activity surprises, the estimated output gap was once again revised upwards.

## Output Gap: estimatives and dispersion



- The estimated output gap for 2024Q3 and 2024Q4 is 0.7%.
- The estimated output gap for 2026Q2 is -0.6%.

Note: Dispersion measures were constructed using a set of output gap measures. See the box “Output gap measures in Brazil”, in the June 2024 Report, for a presentation of various methodologies. Chart data: 2003Q2–2024Q4.

# Conditional projections for inflation: reference scenario

## Inflation projections – Reference scenario

YoY IPCA inflation

	%														
	2023	2024				2025				2026				2027	
Price index	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II
IPCA	4.6	3.9	4.2	4.4	4.9	5.0	5.0	5.1	4.5	4.2	4.0	3.8	3.6	3.4	3.2
Previous IR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.2]	[0.6]	[1.0]	[1.2]	[1.6]	[0.8]	[0.7]	[0.5]	[0.4]	[0.3]	[0.2]	-
Market prices	3.1	3.1	3.5	4.1	5.0	5.3	5.4	5.5	4.5	4.1	3.8	3.6	3.4	3.2	3.0
Previous IR difference (p.p.)	[0.0]	[0.0]	[0.0]	[-0.2]	[0.6]	[1.0]	[1.3]	[1.7]	[0.9]	[0.7]	[0.5]	[0.4]	[0.3]	[0.1]	-
Administered prices	9.1	6.4	6.4	5.5	4.6	4.1	3.9	4.0	4.5	4.6	4.6	4.4	4.1	4.0	3.8
Previous IR difference (p.p.)	[0.0]	[0.0]	[0.0]	[0.2]	[0.4]	[0.8]	[1.1]	[1.5]	[0.5]	[0.7]	[0.5]	[0.6]	[0.3]	[0.4]	-

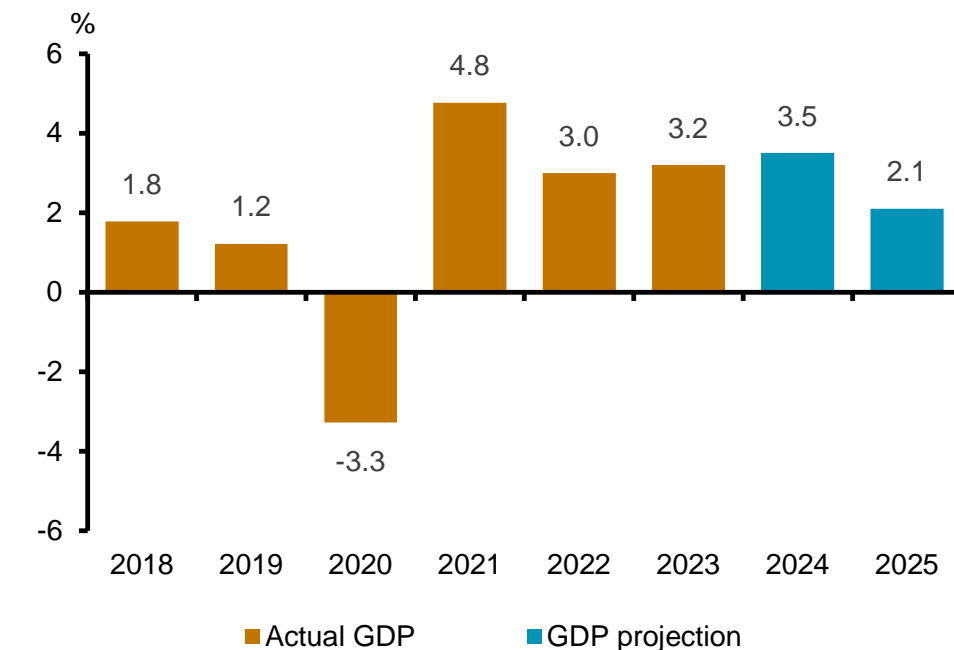
Note: The values in white background are actuals, and those in hatched background are projections. The values presented are rounded. Therefore, the aggregated values may not match the combination of the rounded disaggregated values. The difference with respect to the previous Report is calculated using the rounded values presented.

- Inflation in 2024 mainly resulted from a combination of:
  - exchange rate depreciation,
  - strong growth pace of the economic activity,
  - climate factors,
  - context of deanchored inflation expectations and inertia from the previous year's inflation.
- Inflation projections rose across the entire horizon, thus increasing the distance from the target and making convergence to the target more challenging.
- Main factors for the increase in medium-term projections:
  - Stronger-than-expected economic activity => increase in the estimated output gap.
  - Strong exchange rate depreciation
  - Increase in inflation expectations
  - Inertia from the higher short-term inflation
- Main downward factors for projections:
  - Real interest rate increase



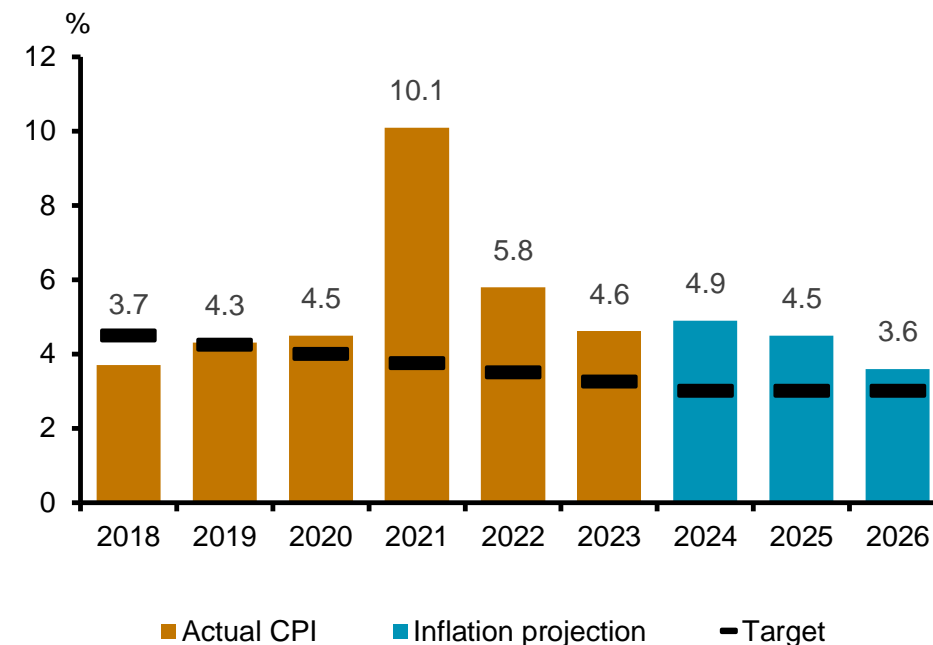
# GDP and IPCA projections

## Actual GDP and GDP projection



Sources: IBGE and BCB

## Actual CPI and inflation projection – IPCA



Sources: IBGE and BCB

# Final comments – Balance of risks

- Due to the materialization of risks, the Monetary Committee judges that the scenario is less uncertain and more adverse than in the previous meeting. However, the risks to its inflation scenarios remain tilted to the upside.
- Among the **upside risks** for the inflation outlook and inflation expectations, it should be emphasized:
  - i. a more prolonged period of deanchoring of inflation expectations;
  - ii. a stronger-than-expected resilience of services inflation due to a more positive output gap; and
  - iii. a conjunction of internal and external economic policies with an inflationary impact, for example, through a persistently more depreciated currency.
- Among the **downside risks**, it should be noted:
  - i. a greater-than-projected deceleration of global economic activity; and
  - ii. an impact on global inflation larger than expected from monetary policy tightening.





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