



# LATLATIN AMERICA DATA RESPONSE

## Brazil IPCA-15 (May 2023)

### Inflation shows broader signs of easing

- **The surprise fall in Brazilian inflation to 4.1% y/y in the first half of May, coming alongside this week’s approval of the new fiscal framework in the lower house of congress, suggests that the balance of risks is shifting towards an earlier start to the monetary easing cycle than is in our forecast (currently Q4).**
- The outturn was below both our own expectations and that of the consensus (4.2% and 4.3% respectively). That was the lowest reading since October 2020. (See Chart 1.)
- **Food inflation was, once again, the main driver of the fall in the headline rate.** It fell to 5.8%, its lowest rate in over three years. Transport inflation declined too, helped by lower prices of airfare prices and some fuels. But inflation in most categories of the CPI basket declined, pointing to a broad-based easing of price pressures. (See Table 1.)
- **Taken together with the approval of the government’s flagship new fiscal framework in the lower house of congress this week, the arguments in favour of monetary easing are growing.** Interest rate cuts aren’t imminent though. At the [last central bank meeting](#), policymakers made clear that progress on the fiscal front won’t necessarily trigger monetary easing.
- What’s more, they have continued to sound the alarm about high rates of core inflation (even if falling) and unanchored inflation expectations. As a result, they’ll probably need to see more evidence that core inflation and inflation expectations are coming down before bringing interest rate cuts onto the cards.
- For now, we’re sticking to our view that the first interest rate cut will come in Q4, and that there’ll be a total of 100bp of cuts in the Selic rate before year-end (taking it to 12.75%). Nonetheless, **this data release suggests that the risks are shifting towards a slightly earlier start to the cycle (perhaps September).**

Chart 1: Brazil IPCA-15 (% y/y)

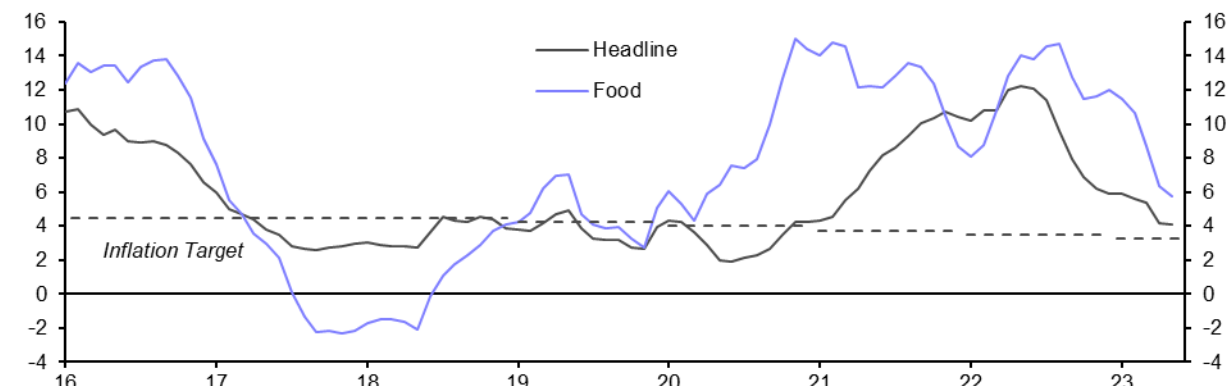


Table 1: Brazil IPCA-15

	Headline		Food & Bev.	Housing	Pers. Exp.	Transp.	Health	Educ.	Clothing
	% m/m	% y/y	% y/y	% y/y	% y/y	% y/y	% y/y	% y/y	% y/y
Feb-23	0.8	5.6	10.6	0.2	7.3	-1.2	12.1	8.3	15.8
Mar-23	0.7	5.4	8.7	0.5	7.2	-0.4	11.9	8.2	14.9
Apr-23	0.6	4.2	6.4	-0.7	6.9	-2.3	12.6	8.3	13.1
<b>May-23</b>	<b>0.5</b>	<b>4.1</b>	<b>5.8</b>	<b>3.7</b>	<b>6.5</b>	<b>-4.1</b>	<b>11.8</b>	<b>8.3</b>	<b>11.4</b>

Sources: Refinitiv, IBGE



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