



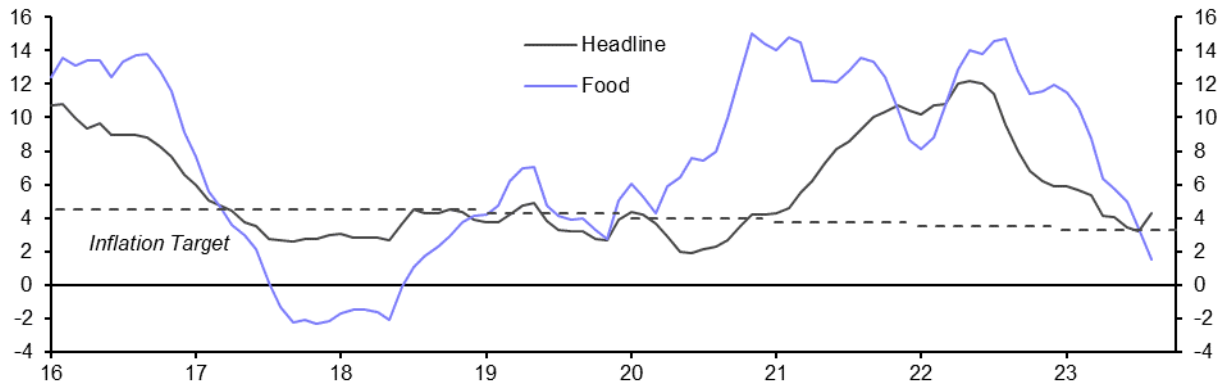
LATLATIN AMERICA DATA RESPONSE

Brazil IPCA-15 (August 2023)

Inflation rise likely to take larger rate cuts off the table

- **The jump in Brazilian inflation to a higher-than-expected 4.2% y/y in the middle of the month (and the prospect of further increases over the rest of Q3) are likely to dash hopes that the central bank will step up the pace of its easing cycle at the next few meetings. We think it will continue to cut the Selic rate in 50bp steps.**
- The outturn was above both our own and the consensus forecast (4.0% and 4.1% respectively). It marked a sharp increase from the 3.2% y/y rise in consumer prices recorded in the middle of July, although that was always to be expected as favourable base effects have started to unwind.
- Food inflation continued to fall, declining to a five-year low of 1.5% y/y. (See Chart 1.) But that was more than offset by rises in inflation in a range of categories including housing, transport and education. (See Table 1.) The transport category was influenced by the end of a discount programme for vehicles.
- **We estimate that core services inflation, which the central bank is paying particularly close attention to, only edged down to 4.8% in the middle of month (from 4.9% over July as a whole).** That may continue to reflect the impact of strong wage growth and the tight labour market.
- **Overall, this inflation figure serves as a reminder that price pressures in Brazil’s economy remain reasonably strong.** And inflation is likely to rise a little higher in September, perhaps to around 5%.
- **We doubt this will stop the central bank’s easing cycle. But it takes the prospect of any rate cut larger than 50bp off the table for the time being.** We expect 50bp cuts at the remaining Copom meetings this year, taking the Selic rate to 11.75% by year-end (from 13.25% now).

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



Sources: Refinitiv, IBGE

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
May-23	0.5	4.1	5.8	3.7	6.5	-4.1	11.8	8.3	11.4
Jun-23	0.0	3.4	5.0	4.0	6.5	-5.4	10.6	8.2	10.3
Jul-23	-0.1	3.2	3.3	3.9	6.1	-3.8	9.9	8.3	8.9
Aug-23	0.3	4.2	1.5	5.4	5.9	1.8	9.9	8.4	8.0

Sources: Refinitiv, IBGE



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