

## Housing and Clothing Lead Consumer Price Boost in Brazil

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Brazil's Market Prices General Index, IGP-M with a strong incidence of wholesale prices, contracted 0.22% in May after having expanded 0.86% in April according to the latest release from the Getúlio Vargas Foundation, FGV.

So far this year IGP-M accumulated a 2.2% increase and in the twelve months to May, 9.08%.

The wholesale prices index IPA, which has a 60% incidence in the IGP-M index also experienced a 0.77% retraction in May following a 0.86% expansion in April. Agriculture goods included in the IPA index dropped 3.42% while industrial goods increased 0.13%.

However FGV foundation points out that the back step in prices has yet to reach the consumer prices index which has a 30% participation in the IGP-M and actually jumped 1.02% in May compared to 0.8% in April.

"Of the seven expenditure items in the consumer prices index, six experienced increases over the previous month", reads the FGV report.

The item with the highest impact in the consumer prices index was housing with 0.86% pushed by an increase in electricity rates. Food and clothing items jumped 1.38% and 2.19%.

The construction costs index in May also advanced 0.54% compared to 0.38% in April.

The overall prices picture helped bring down the annual inflation estimate for 2005 from 6,38% to 6,35%, according to an opinion poll among the Brazil's leading companies and financial institutions.

The 2006 target remains at 5% and in the coming twelve months estimates indicate a slight drop from 5,46 to 5,38%.

The Brazilian Central Bank target for 2005 is 5,1% with a maximum cap of 7% and in 2006, 4,5% with a maximum variation of 6,5%.

As to the basic Selic rate estimates indicate it will remain unchanged in June and then could begin a gradual drop to 18% by December.

Average Selic rate for 2006 remains at 15,5%, while GDP expansion is expected to stabilize in 3.5% both in 2005 and 2006.

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