

Cheaper Alcohol in Brazil Brings Biggest Deflation in 8 Years

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The Broad Consumer Price Index (IPCA) registered a deflation of 0.21% in June, compared with a 0.10% inflation in May. This was the first deflation in the IPCA since June of last year, when the index fell 0.02%.

June's rate is the lowest since September, 1998, when the IPCA dropped 0.22%. These data were released today, July 7, by the Brazilian Institute of Geography and Statistics (IBGE).

Counting June's result, the index, which is used by the government as a basis for its inflation target, closed the first half of the year with an increase of 1.54%, below the cumulative figure for the first half of 2005.

For the 12 months ending in June, the IPCA showed an increase of 4.03%, which is less than the 4.23% registered during the previous 12-month period, which ended in May.

According to the IBGE, the chief cause of the decrease in the IPCA in June was the drop in fuel alcohol prices, down by as much as 8.77%, reflecting the increase in sugarcane supplies. Gasoline, which contains a 20% mixture of alcohol, was 1.60% less expensive at the pumps.

Items of apparel (up 0.59%, as against 0.90% in May) and medications (up 0.21%, as against 1.41% in May) also helped lower inflation. Food prices fell 0.10%, following a 0.14% rise in May.

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