



A Tough Part of the Disinflation Process

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- **April's IPCA-15 rose 0.57% MoM in April, below consensus (0.60%) and our forecast (0.66%). The YoY change fell to 4.2% (from 5.4%), the lowest level since October 2020, while the trend (3MMA-saar) rose to 7.4% 3MMA-saar (from 6.8%).**
- **Broad qualitative measures worsened at the margin. The average of the main core gauges rose to 6.2% 3MMA-saar (from 5.9%) — it has been rising since January. From the five gauges, just one decelerated (the DP), while the four others (EX0, EX3, P55 and MS) rose in April. The EX3 gauge—the one more correlated to economic activity and the monetary policy cycle — rose to 6.1% 3MMA-saar (from 5.5%), driven mostly by the services items. Finally, the diffusion index worsened at the margin, rising to 60.9% s.a. (from 59.2%).**
- **All in all, the clear marginal improvements that we were seeing during 2H22 are much more mixed in 1H23, making it clear that we are in a tougher part of the disinflation process. Inflation levels are still high if compared to the current Brazil Central Bank (BCB) target (3.0% for the medium term) — our main concern remains the de-anchoring of inflation expectations for the medium term (driven by a myriad of discussions on possibly changing the inflation target and another round of fiscal expansion, in our view). Our current tracking is at 6.0% for IPCA 2023 and 3.9% for IPCA 2024.**

April's IPCA-15 rose 0.57% MoM in April, below consensus (0.60%) and our forecast (0.66%). The YoY change fell to 4.2% (from 5.4%), the lowest level since October 2020, while the trend (3MMA-saar) rose to 7.4% 3MMA-saar (from 6.8%).

In the breakdown, downward surprises were concentrated in non-core items. The biggest downward surprise came from regulated prices (-8 bps of surprise), driven by gasoline (-5 bps). Food-at-home also contributed to the downward surprise (-3 bps) while industrial goods (+1 bp) and services came in line with expectations.

In trend terms, regulated prices reached 14.2% 3MMA-saar (from 9.7%), still affected by the reinstatement of taxes on fuels in March. Food-at-home headline decelerated to -0.4% 3MMA-saar (from 2.9%), while industrial goods headline was flat at 4.3% 3MMA-saar. Finally, services headline was also flat at 7.3% 3MMA-saar, but we see the 3MMA-saar measure of services still being affected by the adjustment in education fees, which is concentrated in February, and also by airline tickets (a volatile item), which came in high in this print.

As for the core groups trend, industrial goods core decelerated slightly to 7.3% 3MMA-saar (from 7.4%) while food-at-home core decelerated to 4.9% 3MMA-saar (from 5.7%). Conversely, the services core gauge rose to 6.0% 3MMA-saar (from 4.7%). In the breakdown, services groups have either paused (group related to wages) or risen (group related to inertia and group related to economic activity).

Broad qualitative measures worsened at the margin. The average of the main core gauges rose to 6.2% 3MMA-saar (from 5.9%) — it has been rising since January. From the five gauges, just one decelerated (the DP),

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All in all, the clear marginal improvements that we were seeing during 2H22 are much more mixed in 1H23, making it clear that we are in a tougher part of the disinflation process. Inflation levels are still high if compared to the current BCB target (3.0% for the medium term)—our main concern remains the de-anchoring of inflation expectations for the medium term (driven by a myriad of discussions on possibly changing the inflation target and another round of fiscal expansion, in our view). Our current tracking is at 6.0% for IPCA 2023 and 3.9% for IPCA 2024.



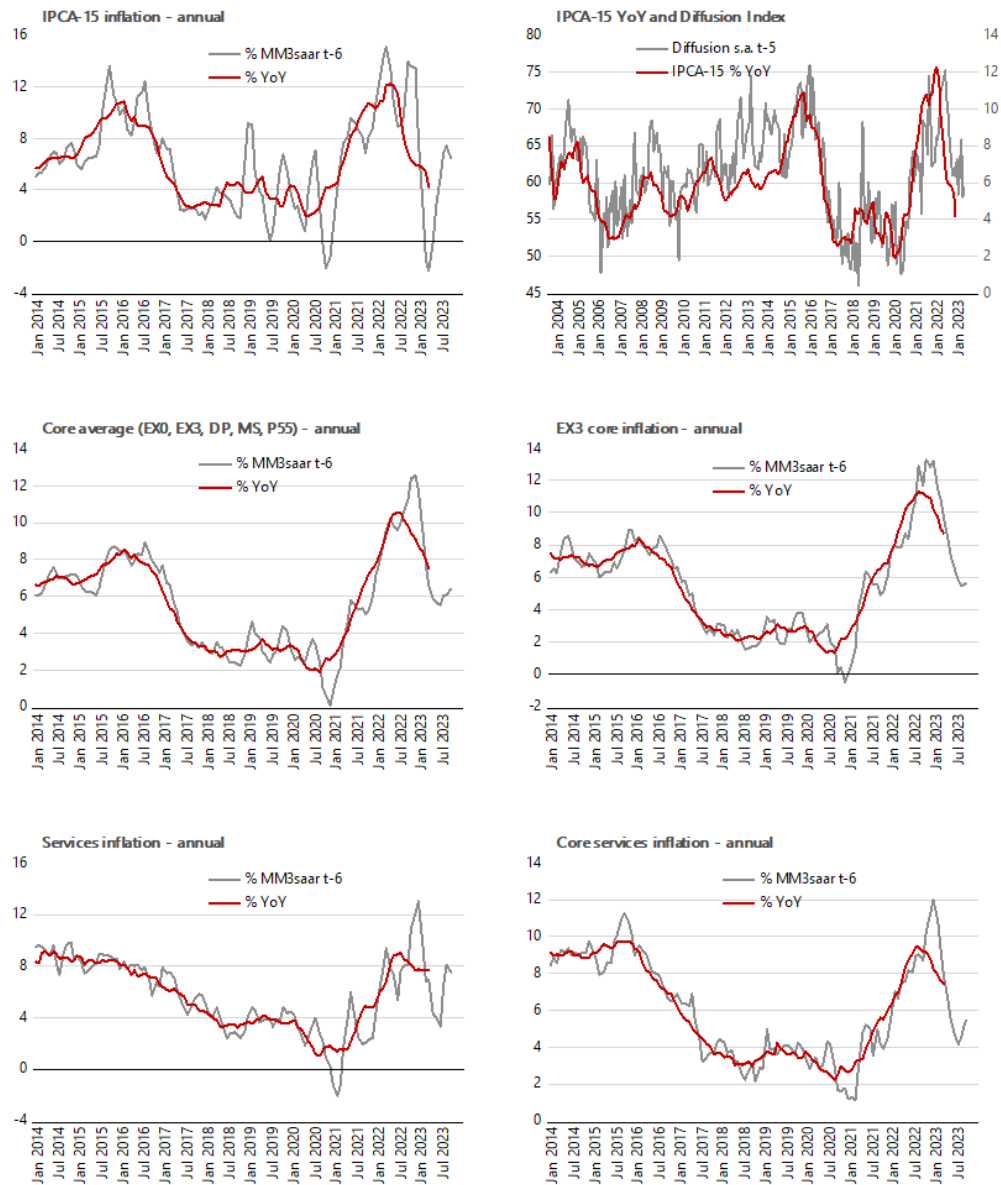
Figure 1. April's IPCA-15 Details (%)

	MoM			YoY		3MMA-saar	
	Apr-23	Santander	Desv.	Mar-23	Apr-23	Mar-23	Apr-23
IPCA-15	0.57	0.66	-0.09	5.4	4.2	6.8	7.4
Food and beverage	0.04	0.19	-0.03	8.7	6.4		
Food-at-home	-0.15	0.02	-0.03	9.1	5.8	2.9	-0.4
Food service	0.55	0.63	0.00	7.6	7.9		
Housing	0.48	0.50	0.00	0.5	-0.7		
Electrical energy	0.84	1.17	-0.01	-15.8	-16.7		
Household articles	0.07	-0.16	0.01	4.3	3.4		
Apparel	0.39	0.46	0.00	14.9	13.1		
Transportation	1.44	1.64	-0.04	-0.4	-2.3		
Airline tickets	11.96	10.00	0.01	47.8	51.2		
Gasoline	3.47	4.42	-0.05	-21.0	-24.0		
Health and persona	1.04	1.01	0.00	11.9	12.6		
Personal spending	0.28	0.39	-0.01	7.2	6.9		
Education	0.11	0.06	0.00	8.2	8.3		
Communication	0.06	0.30	-0.01	1.3	1.4		
Administered	1.41	1.71	-0.08	-1.4	-3.1	9.7	14.2
Free	0.29	0.31	-0.01	7.8	6.9		
Food-at-home	-0.15	0.02	-0.03	9.1	5.8	2.9	-0.4
Industrial goods	0.22	0.16	0.01	7.2	6.5	4.4	4.3
Services	0.53	0.53	0.00	7.6	7.6	7.4	7.3
EX3 Core	0.41	0.36	0.02	9.0	8.7	5.5	6.1
Average of cores	0.45	-	-	7.9	7.5	5.9	6.2

Sources: Brazilian Central Bank, IBGE, Santander.



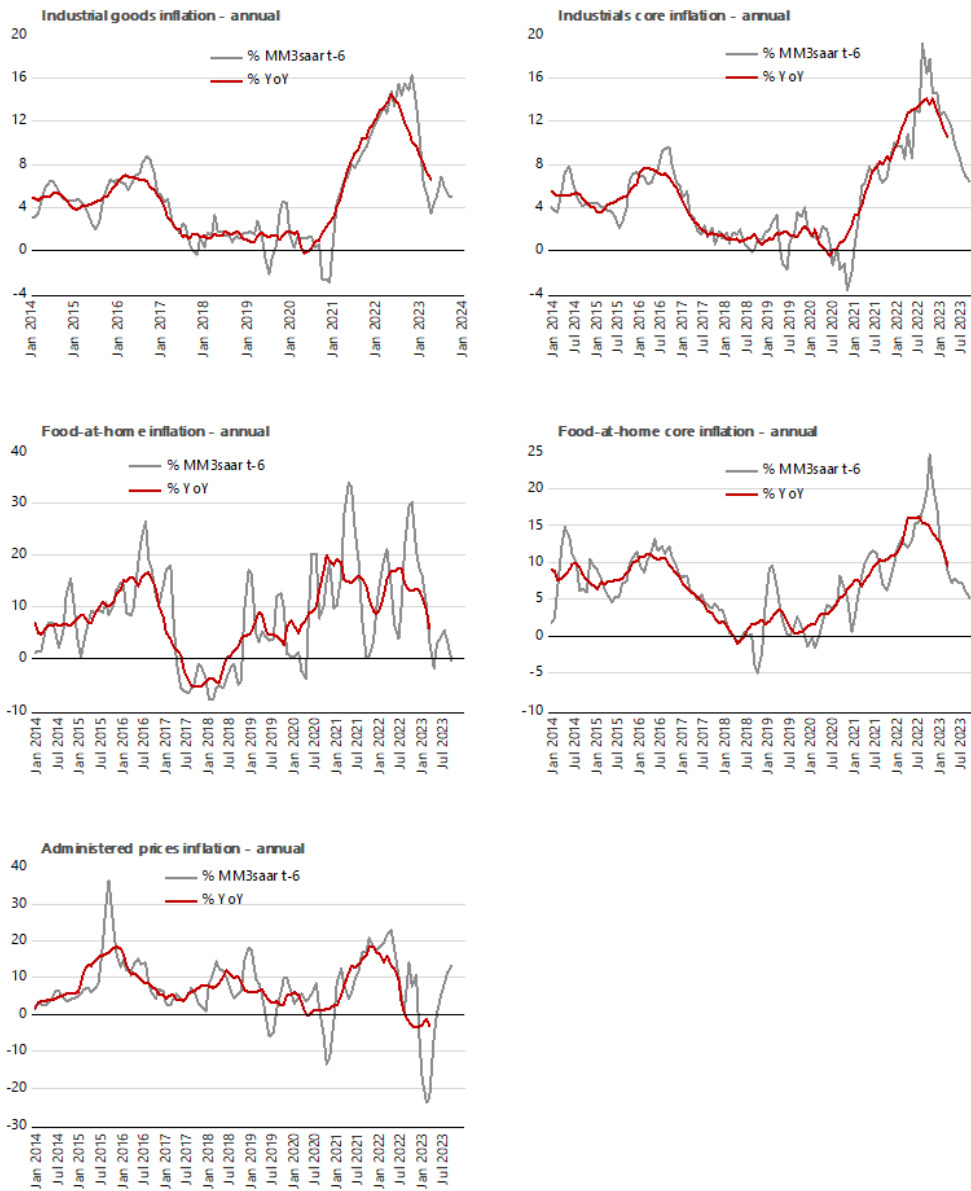
Figure 2. IPCA-15, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



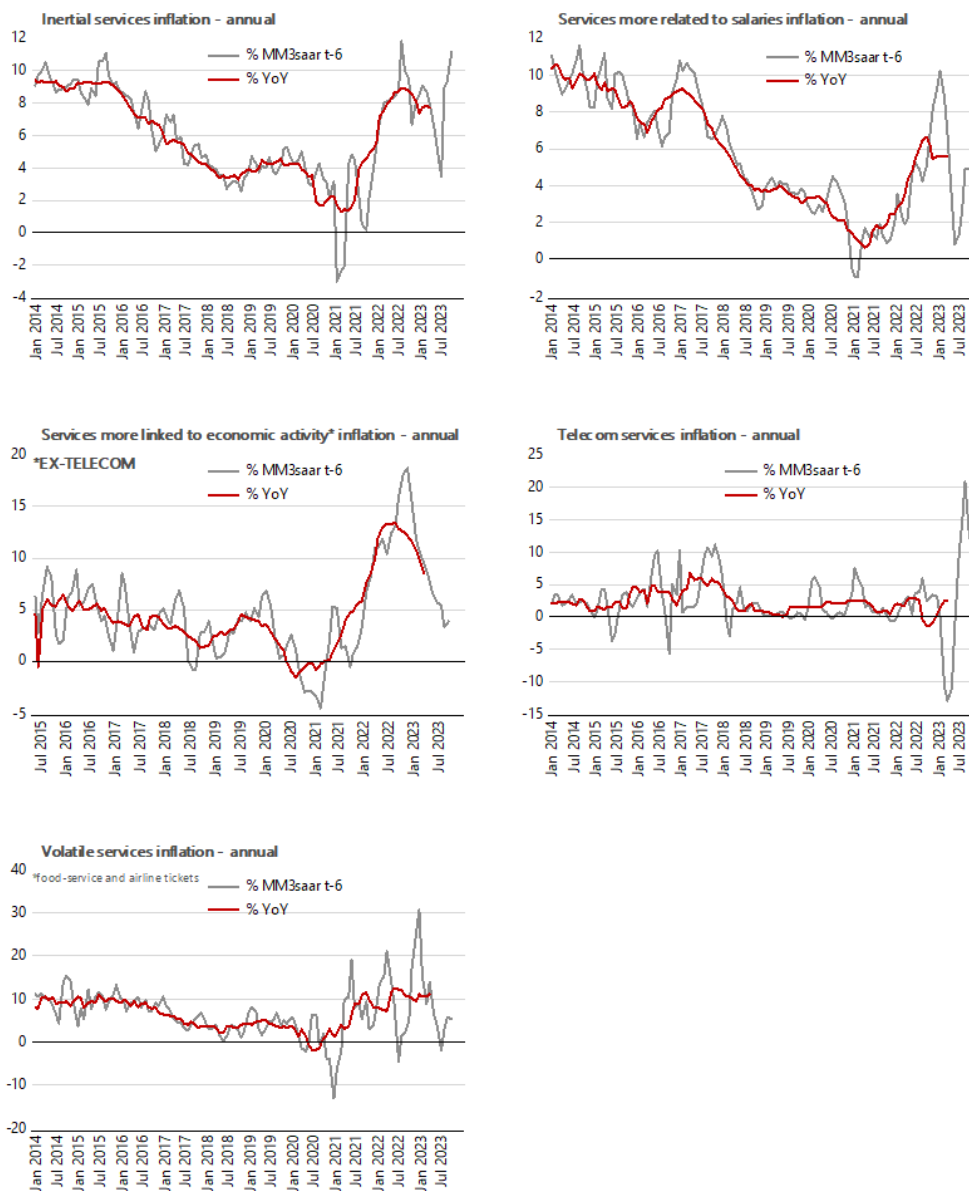
Figure 3. IPCA-15, Groups and Qualitative Measures (continued)



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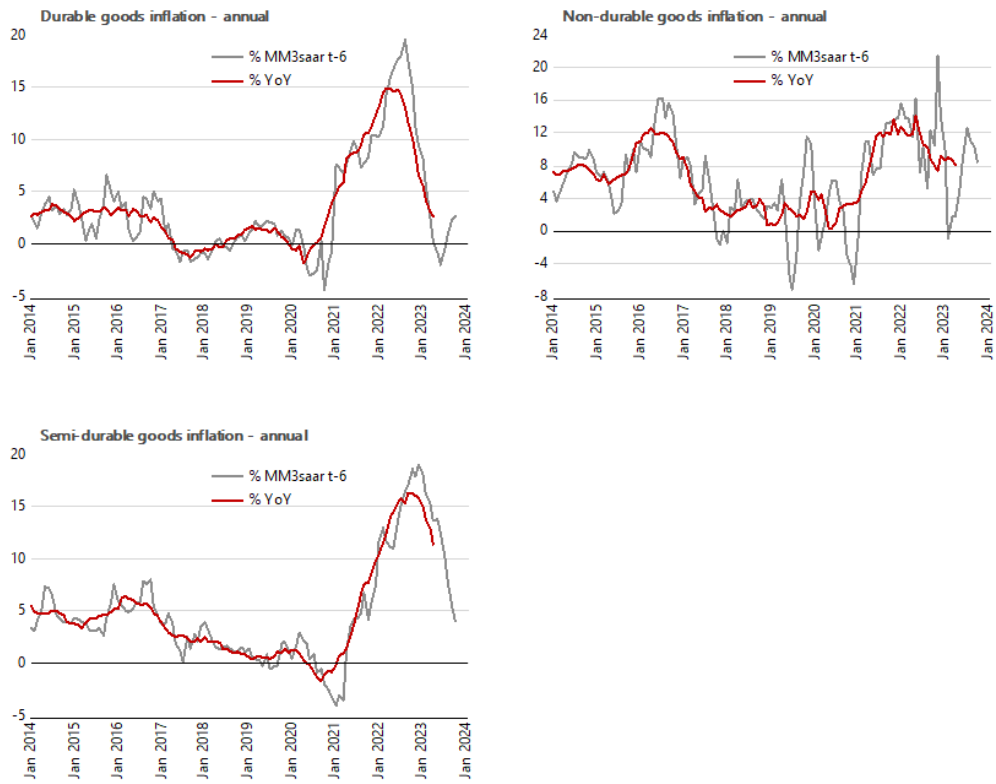
Figure 4. IPCA-15, Groups and Qualitative Measures (continued)



Sources: IBGE and Santander.



Figure 5. IPCA-15, Groups and Qualitative Measures (continued)



Sources: IBGE and Santander.



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