



## IPCA-15 January: Still an Unpleasant Reading

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- January's IPCA-15 registered a 0.78% MoM change (4.30% YoY). The result was slightly below our forecast (0.81% MoM) and the market's median expectation (0.82% MoM).
- On the one hand, some volatile items (food and gasoline) that have been sources of upward surprises came in lower than expected this time, and industrial goods – more related to core measures – also surprised to the downside.
- On the other hand, although qualitative measures (cores and diffusion) saw a pause in their upward trend, they remain at high levels, and the BCB has shown sensitivity to those measures.
- All in all, we see January's IPCA-15 as showing mixed signals, but overall still displaying an unpleasant picture of current inflation.
- Looking ahead, we revised our short-term forecasts and year-end IPCA tracking upward and still see upside risks. However, we continue to expect a benign scenario for inflation, particularly for 2022, when the disruption generated by the pandemic should end and inflation should be more driven by the high degree of idleness in the economy.

### Some Downside Surprises, but Still an Unpleasant Reading

January's IPCA-15 registered a 0.78% MoM change (4.30% YoY). The result was slightly below our forecast (0.81% MoM) and the market's median expectation (0.82% MoM).

Two groups that the BCB recently cited (in the most recent Copom minutes) as creating upward pressures for its inflation forecasts surprised to the downside: food-at-home (-4 bps) and fuels (-4 bps). Industrial goods – also a source of pressure on IPCA in recent readings – surprised to the downside too (-2 bps). Finally, services and administered prices were basically in line with expectations (+1 bp of deviation each).

Core measures continued to experience upward pressure, with EX3 core rising 0.83% MoM vs. our forecast of 0.72%, but the trend (3mma-saar) of most cores (recently cited by the BCB as being “above the range compatible with meeting the inflation target”) at least did not continue to rise, although cores continued at high levels (above the upper bound of BCB's inflation target). The industrial goods 3mma-saar (which has been pushing cores upward) also stabilized, though still at high levels as well. Also in qualitative measures, diffusion remained high, at 62.1% s.a.

All in all, we see January's IPCA-15 as showing mixed signals, but overall still displaying an unpleasant picture for current inflation: on the one hand, some volatile items (food and gasoline) that have been sources of upward surprises came in lower than expected this time, and industrial goods – more related to core measures – also surprised to the downside; on the other hand, although qualitative measures (cores and diffusion) saw a pause in their upward trend, they remain at high levels, and the BCB has shown sensitivity to those measures.

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Figure 1. IPCA Inflation by Group

	MoM			YoY	
	jan/21	Santander	Dev.	dec/20	jan/21
<b>IPCA-15</b>	<b>0.78</b>	<b>0.81</b>	<b>-0.03</b>	<b>4.2</b>	<b>4.3</b>
<b>Food and beverage</b>	<b>1.53</b>	<b>1.57</b>	<b>-0.01</b>	<b>14.4</b>	<b>14.0</b>
Food-at-home	1.73	1.96	-0.04	18.7	18.0
Food service	1.02	0.59	0.03	4.9	4.9
<b>Housing</b>	<b>1.44</b>	<b>0.91</b>	<b>0.08</b>	<b>3.1</b>	<b>4.7</b>
Electrical energy	3.14	1.68	0.06	1.8	7.3
<b>Household articles</b>	<b>0.81</b>	<b>1.27</b>	<b>-0.02</b>	<b>5.3</b>	<b>6.1</b>
<b>Apparel</b>	<b>0.85</b>	<b>1.08</b>	<b>-0.01</b>	<b>-1.7</b>	<b>-1.0</b>
<b>Transportation</b>	<b>0.14</b>	<b>0.46</b>	<b>-0.06</b>	<b>1.4</b>	<b>0.6</b>
Airline tickets	-20.49	-18.00	-0.02	-16.8	-29.3
Gasoline	0.95	1.67	-0.04	1.3	-0.4
<b>Health and personal care</b>	<b>0.66</b>	<b>0.74</b>	<b>-0.01</b>	<b>1.1</b>	<b>1.4</b>
<b>Personal spending</b>	<b>0.40</b>	<b>0.39</b>	<b>0.00</b>	<b>1.0</b>	<b>0.9</b>
<b>Education</b>	<b>0.11</b>	<b>0.03</b>	<b>0.00</b>	<b>1.2</b>	<b>1.1</b>
<b>Communication</b>	<b>-0.01</b>	<b>0.16</b>	<b>-0.01</b>	<b>3.2</b>	<b>3.2</b>
<b>Administered</b>	<b>1.01</b>	<b>0.96</b>	<b>0.01</b>	<b>1.7</b>	<b>2.3</b>
<b>Free</b>	<b>0.70</b>	<b>0.75</b>	<b>-0.04</b>	<b>5.1</b>	<b>5.0</b>
Food-at-home	1.73	1.96	-0.04	18.7	18.0
Industrial Goods	0.85	0.93	-0.02	2.7	3.2
Services	0.18	0.15	0.01	1.8	1.5
<b>EX3 Core</b>	<b>0.83</b>	<b>0.72</b>	<b>0.11</b>	<b>2.2</b>	<b>2.5</b>
<b>Average of cores</b>	<b>0.65</b>	<b>-</b>	<b>-</b>	<b>2.5</b>	<b>2.7</b>

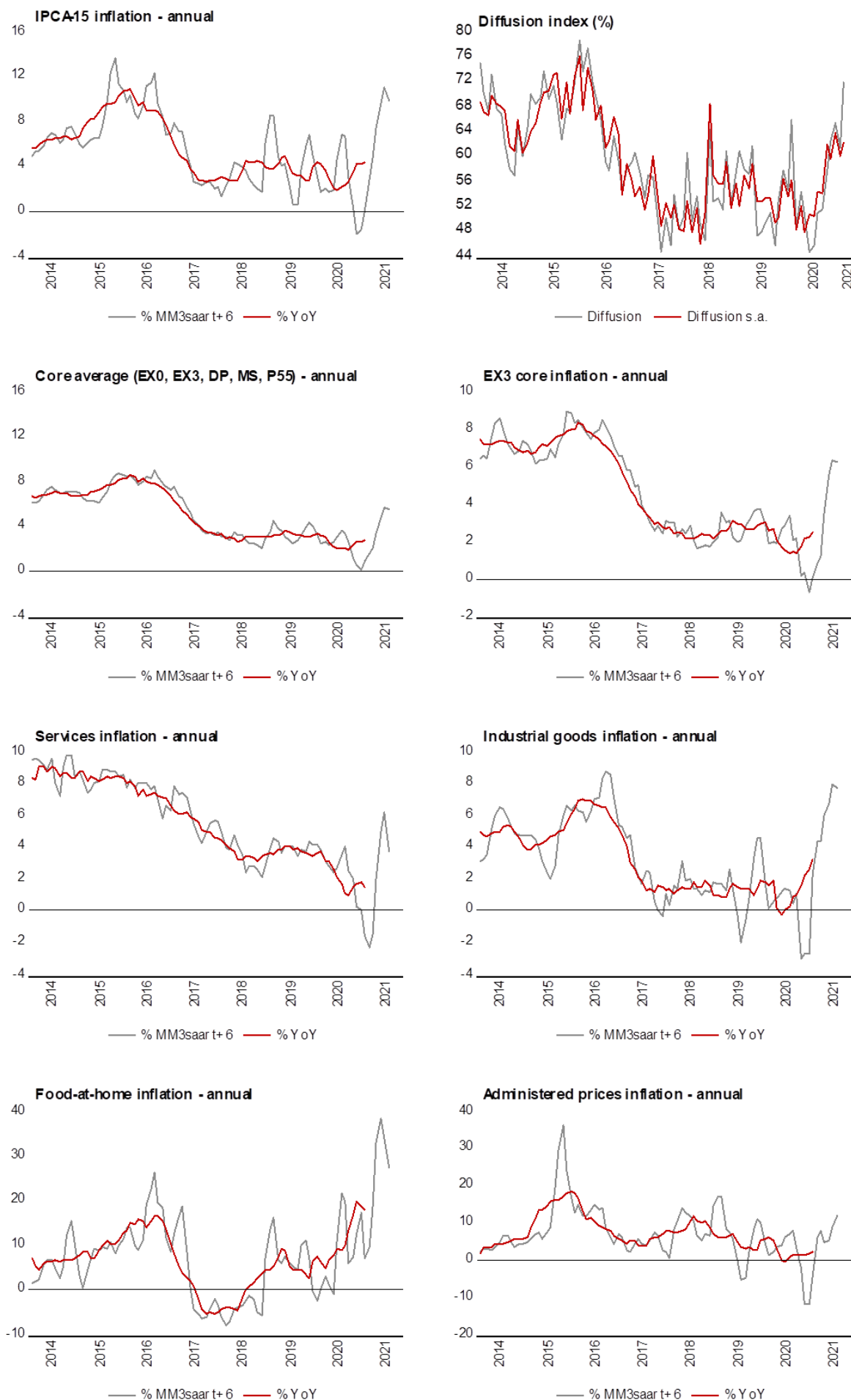
Sources: IBGE, BCB and Santander Brazil.

### Short-Term Forecasts and Medium-Term Tracking Worsened a Bit, but We Still See a Benign Scenario

We revised our short-term IPCA forecasts upward: January went to 0.29% MoM (from 0.36%), February went to 0.44% MoM (from 0.29%), March went to 0.27% MoM (from 0.30%), and April went to 0.44% MoM (from 0.30%). Besides these short-term adjustments, we also revised our forecasts for the remaining months of 2021, which led the IPCA 2021 tracking to 3.6% from 3.2% (the official forecast is 3.0%, but the bias is in the direction of the high-frequency tracking). Commodity prices continue to rise, while the BRL is not appreciating (contrary to our expectation). In addition, pass-through to industrial goods is also surprising to the upside. That is, those points suggest cost-related inflation, although we still expect slowly recovering demand. Also, we believe there is a growing risk of another round of income emergency aid (fiscal expansion). In our view, those factors tilt the balance of risks to IPCA to the upside. On the other hand, we continue to believe the food shock will fade (though it is lasting longer than expected), services will accelerate slowly (weak job market), and industrial goods prices will eventually become less pressured as the mismatch between supply and demand ends (though this is also taking longer than we expected). On those downside risks, it will be important to monitor how the recent recrudescence in the pandemic will impact demand and whether the government will provide another round of income emergency aid. For 2022 we continue to see a more benign scenario for inflation (3.2% IPCA 2022 forecast, below the BCB's 3.5% target), as the disruption generated by the pandemic should end and inflation should be more driven by the high degree of idleness in the economy.



**Figure 2. IPCA Inflation and Qualitative Measures**



Sources: IBGE, BCB and Santander Brazil.



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