

## Upward Surprise During the Tough Part of the Disinflation Process

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- The IPCA (Brazil's official CPI) rose 0.61% MoM in April, above the consensus estimate and our own forecast (both at 0.55%). The YoY change decelerated to 4.2% (from 4.7% in January), which is the lowest reading since October 2020.
- In the breakdown, upward surprises were concentrated in food-at-home (+7 bps) and industrial goods (+4 bps). Conversely, administered prices surprised downward (-4 bps), driven by gasoline. Services inflation was in line with expectations.
- Broad qualitative measures worsened at the margin. The EX3 core gauge, the one that correlates the most with the output gap, rose to 6.5% 3MMA-saar (from 5.1%), driven mostly by services items. Finally, the diffusion index worsened at the margin, rising to 63.3% s.a. (from 58.1%).
- All in all, we consider that the benign trajectory we saw for short-term inflation through the end of last year has not materialized in the first months of 2023, but our main concern is still not current inflation (as we see downward drivers ahead, at least for volatile prices) but rather the de-anchoring of expectations, which could lead to higher medium-term inflation.

The IPCA (Brazil's official CPI) rose 0.61% MoM in April, above the consensus estimate and our own forecast (both at 0.55%). The YoY change decelerated to 4.2% (from 4.7% in January), which is the lowest reading since October 2020. The headline trend (3MMA-saar), however, was roughly stable at 8.2%, a high level, while the average of core gauges rose to 6.6% 3MMA-saar (from 6.1%).

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In trend terms, headline services decelerated a bit to 7.9% 3MMA-saar (from 8.3%), but its core gauge rose to 5.8% 3MMA-saar (from 5.0%). The industrial goods headline also rose, to 4.9% 3MMA-saar (from 4.2%), and its core gauge increased to 6.4% 3MMA-saar (from 5.3%). Regulated prices fell to 12.8% 3MMA-saar (from 13.2%), affected in this print by the readjustment in medicine prices. Lastly, food-at-home decelerated to 0.9% 3MMA-saar (from 2.2%).

Broad qualitative measures worsened at the margin, with the average of core gauges rising to 6.6% 3MMA-saar (from 6.1%) — it has been rising since January. Of the five gauges (EX0, EX3, DP, MS and P55), only the P55 core has decelerated. The EX3 core gauge, the one that correlates the most with the output gap, rose to 6.5% 3MMA-saar (from 5.1%), driven mostly by services items. Finally, the diffusion index worsened at the margin, rising to 63.3% s.a. (from 58.1%).

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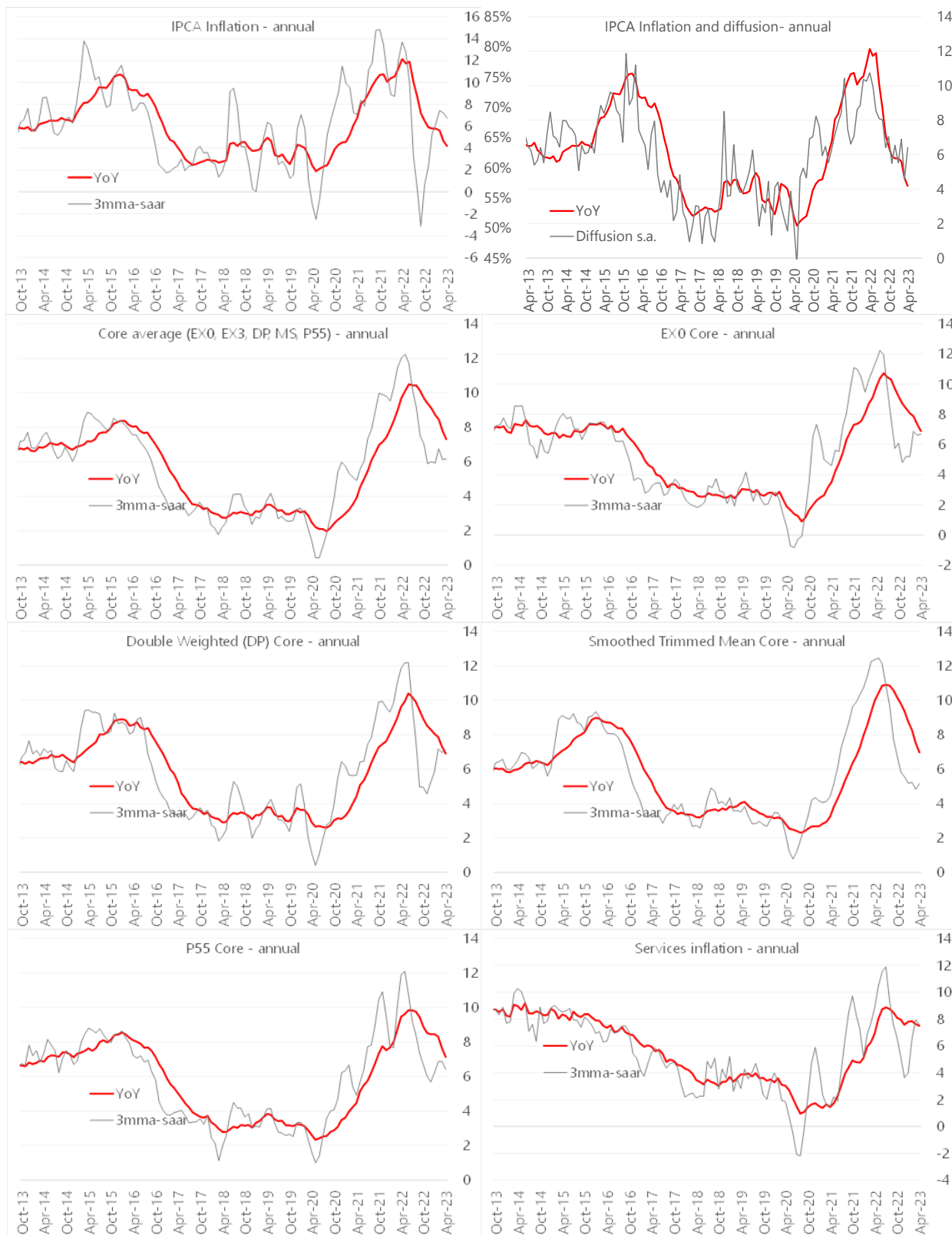
Figure 1. April's IPCA Details (%)

	MoM			YoY		3MMA-saar	
	Apr-23	Santander	Desv.	Mar-23	Apr-23	Mar-23	Apr-23
<b>IPCA</b>	<b>0.61</b>	<b>0.55</b>	<b>0.06</b>	<b>4.7</b>	<b>4.2</b>	<b>8.3</b>	<b>8.2</b>
<b>Food and bevera</b>	<b>0.71</b>	<b>0.35</b>	<b>0.08</b>	<b>7.3</b>	<b>5.9</b>		
Food-at-home	0.73	0.29	0.07	7.0	5.1	2.2	0.9
Food service	0.66	0.49	0.01	8.0	8.0		
<b>Housing</b>	<b>0.48</b>	<b>0.49</b>	<b>0.00</b>	<b>0.0</b>	<b>1.6</b>		
Electrical energy	0.48	0.36	0.00	-16.0	-10.0		
<b>Household articl</b>	<b>0.17</b>	<b>0.14</b>	<b>0.00</b>	<b>4.1</b>	<b>2.7</b>		
<b>Apparel</b>	<b>0.79</b>	<b>0.52</b>	<b>0.01</b>	<b>13.4</b>	<b>12.9</b>		
<b>Transportation</b>	<b>0.56</b>	<b>0.57</b>	<b>0.00</b>	<b>-1.6</b>	<b>-2.9</b>		
Airline tickets	11.97	11.96	0.00	46.7	50.0		
Gasoline	-0.52	-0.10	-0.02	-22.1	-24.4		
<b>Health and persc</b>	<b>1.49</b>	<b>1.59</b>	<b>-0.01</b>	<b>12.0</b>	<b>11.7</b>		
<b>Personal spendin</b>	<b>0.18</b>	<b>0.27</b>	<b>-0.01</b>	<b>7.3</b>	<b>7.0</b>		
<b>Education</b>	<b>0.09</b>	<b>0.09</b>	<b>0.00</b>	<b>8.2</b>	<b>8.3</b>		
<b>Communication</b>	<b>0.08</b>	<b>0.32</b>	<b>-0.01</b>	<b>1.2</b>	<b>1.2</b>		
<b>Administered</b>	<b>0.86</b>	<b>1.03</b>	<b>-0.04</b>	<b>-2.4</b>	<b>-2.1</b>	<b>13.2</b>	<b>12.8</b>
<b>Free</b>	<b>0.53</b>	<b>0.39</b>	<b>0.10</b>	<b>7.3</b>	<b>6.5</b>		
Food-at-home	0.73	0.29	0.07	7.0	5.1	2.2	0.9
Industrial goods	0.40	0.24	0.04	6.9	6.0	4.2	4.9
Services	0.52	0.53	0.00	7.6	7.5	8.3	7.9
<b>EX3 Core</b>	<b>0.53</b>	<b>0.41</b>	<b>0.04</b>	<b>9.1</b>	<b>8.7</b>	<b>5.1</b>	<b>6.5</b>
<b>Average of cores</b>	<b>0.51</b>	<b>-</b>	<b>-</b>	<b>7.8</b>	<b>7.3</b>	<b>6.1</b>	<b>6.6</b>

Sources: Brazilian Central Bank, IBGE, Santander.



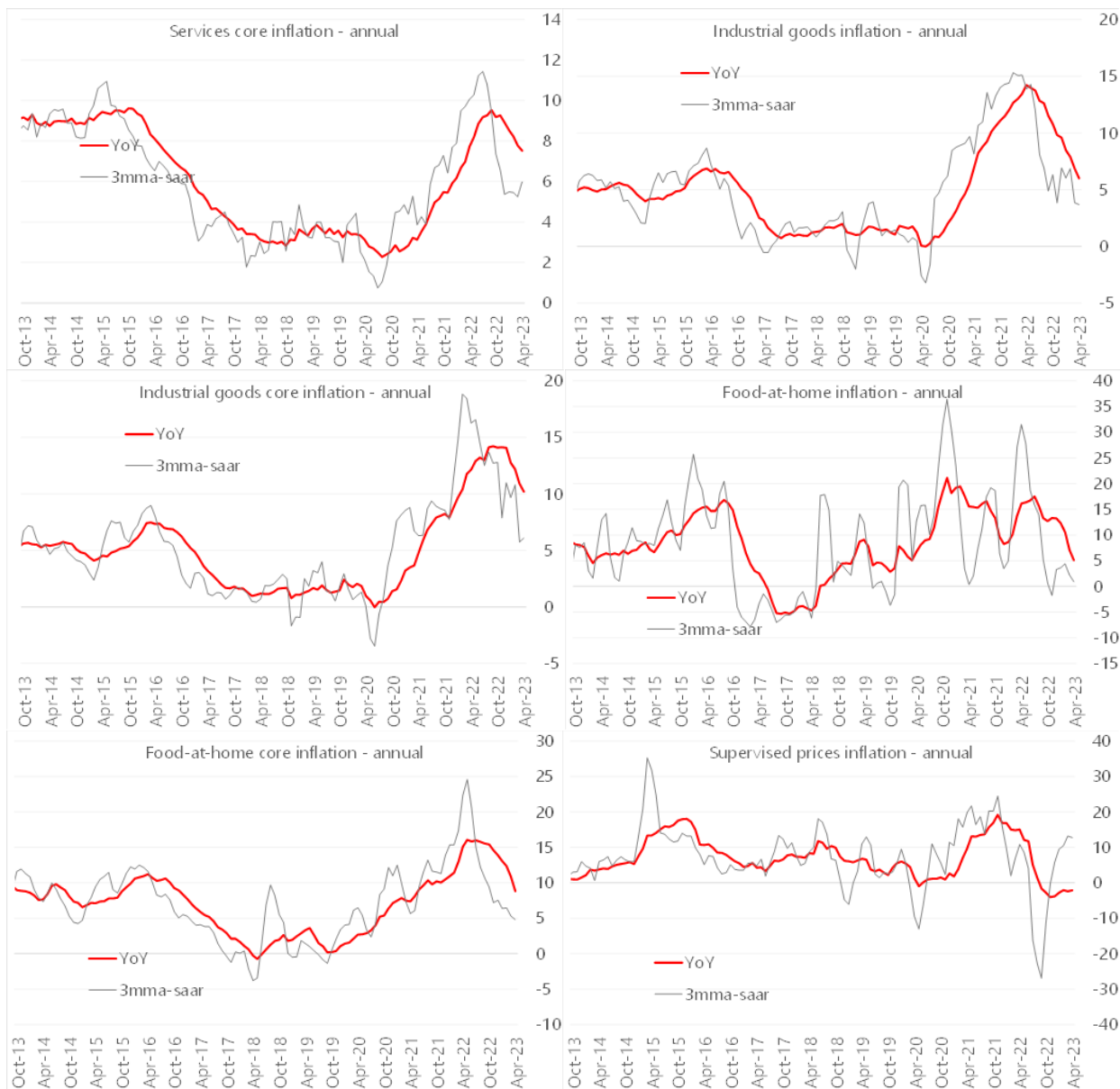
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



Figure 3. IPCA, Groups and Qualitative Measures



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