



## IMPROVEMENT IN BROAD QUALITATIVE MEASURES

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- The IPCA rose 0.12% MoM in July, above the consensus estimate of 0.06-0.07% and our forecast of 0.08%.
- The YoY change rebounded to 3.99% (from 3.16% in June), confirming that June was the bottom of the IPCA in the short-term.
- Although the net surprise in headline was positive, its breakdown looks more meaningful. As the upward part of the surprise should be less relevant in terms of signaling future inflation in comparison to the downward one concentrated in services.
- Qualitative measures improved once again this month, particularly with core services decelerating and surprising towards the downward. Core services rose just 0.20% MoM, leading the 3MMA-saar gauge to cool down to 5.4% (from 6.7%).
- The EX3 measure, which encompasses services core and industrial goods core, moved down to 4.5% 3MMA-saar (from 5.7%).
- Additionally, high-frequency price surveys continued to show a price deceleration, which motivated us to lower our IPCA 2023 tracking to 4.7% (from 4.9%).

**The IPCA rose 0.12% MoM in July, above the consensus estimate of 0.06-0.07% and our forecast of 0.08%. The YoY change rebounded to 3.99% (from 3.16% in June), confirming that June was the bottom of the IPCA in the short-term, explained by base effect, as the deflation provoked by the last year's tax break left the 12-month sample. The headline trend (3MMA-saar) eased to 3.4% (from 5.1%), the lowest level since November 2022.**

In the breakdown of MoM numbers, monitored prices came in line with our expectations. While food-at-home (+4 bps) and industrial goods (+5 bps) surprised to the upside. The surprise in food-at-home was driven by volatile items, that are still pointing to a deflation in August in high-frequency price surveys. In industrial goods the surprise was due to the rebound of new autos after the end of the subsidy policy, thus likely a one-off movement. Finally, services (-5 bps) surprised downward, a group more inertial and related to core gauges. **Therefore, although the net surprise in headline was positive, its breakdown looks more meaningful. As the upward part of the surprise should be less relevant in terms of signaling future inflation in comparison to the downward one concentrated in services.**

**Qualitative measures improved once again this month, particularly with core services decelerating and surprising downward. Indeed, core services rose just 0.20% MoM (vs. our 0.41% forecast), leading the 3MMA-saar gauge to cool down to 5.4% (from 6.7%).** In the breakdown of services, only the "economic activity"-linked group showed a deterioration at the margin going to 5.9% 3MMA-saar, while the "inertial" (5.1% 3MMA-saar), "wages" (4.4% 3MMA-saar), "volatile" (5.0% 3MMA-saar), and "telecom" (-0.4% 3MMA-saar) improved this month. Nevertheless, all, except for telecom, are still running at levels above the 3.0% target.



Industrial goods core fell again, reaching 3.0% 3MMA-saar (from 4.3%). **Thus, the EX3 measure, which encompasses services core and industrial goods core, moved down to 4.5% 3MMA-saar (from 5.7%).** Regarding the five main cores followed by the BCB, all decelerated at the margin, with the average reaching 3.6% 3MMA-saar (from 4.7%). Additionally, the diffusion index fell to 51.8% s.a. (from 52.7%), indicating that inflation is much less spread now and at a level compatible with inflation around 3.0% in the medium term. **In other words, broad qualitative measures improved considerably in July.**

All in all, the print continues to show that inflation is improving at the margin, and now even with its stickier part (mainly services) also cooling down. **Additionally, high-frequency price surveys continue to show a price deceleration, which motivated us to revise down our IPCA 2023 tracking to 4.7% (from 4.9%).** For 2024, it was maintained at 3.9%.



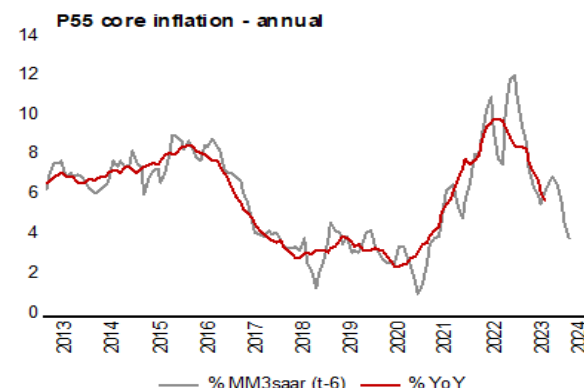
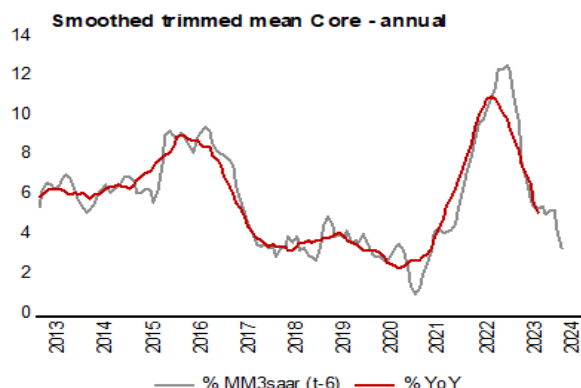
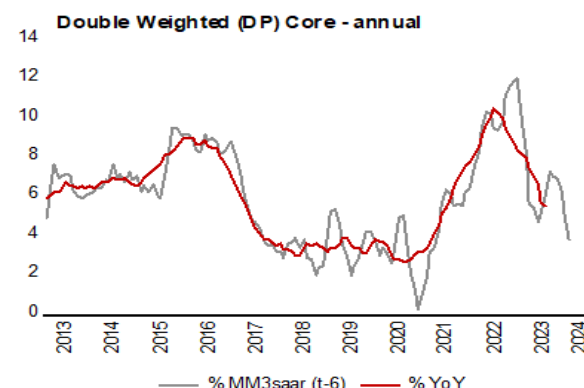
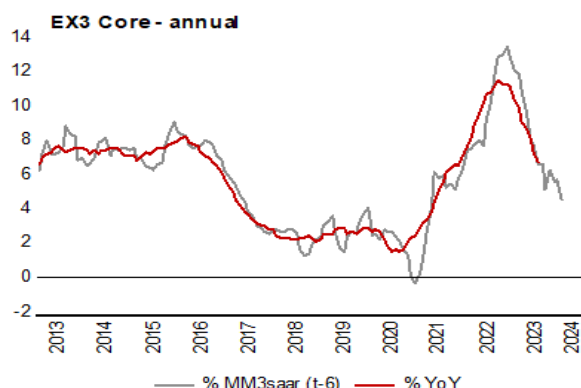
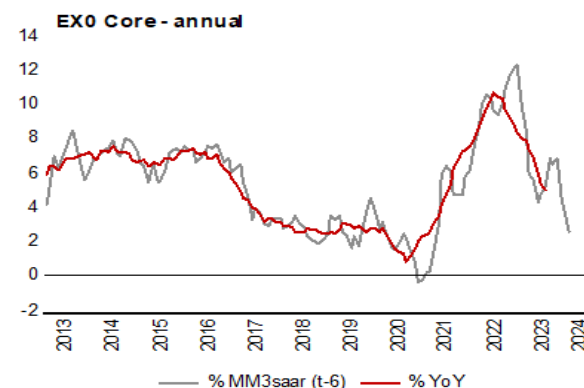
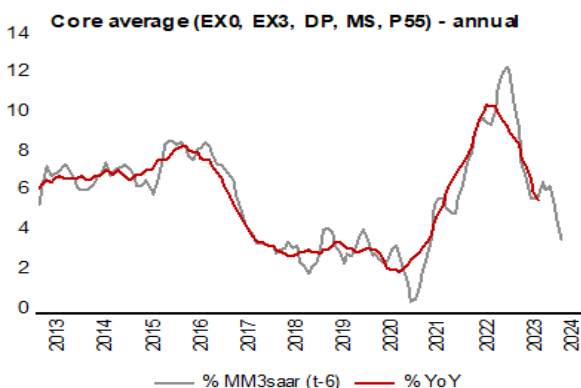
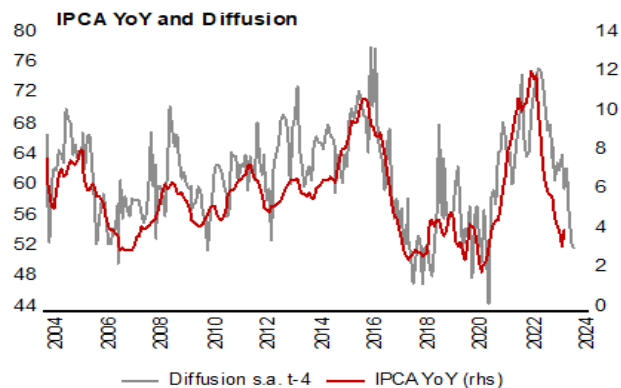
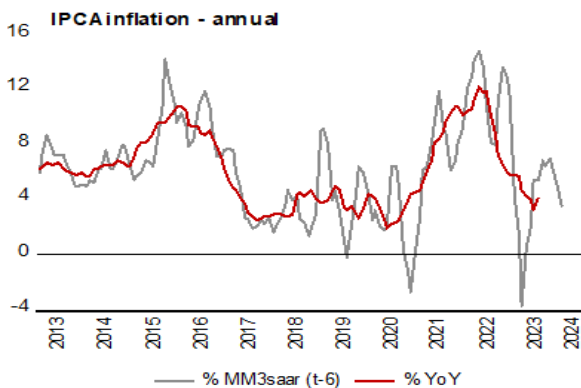
Figure 1. July's IPCA Details (%)

	MoM			YoY	
	Jul-23	Santander	Dev.	Jun-23	Jul-23
<b>IPCA</b>	<b>0.12</b>	<b>0.08</b>	<b>0.04</b>	<b>3.2</b>	<b>4.0</b>
<b>Food and beverage</b>	<b>-0.46</b>	<b>-0.58</b>	<b>0.03</b>	<b>4.0</b>	<b>2.2</b>
Food-at-home	-0.72	-0.96	0.04	2.9	0.7
Food service	0.21	0.43	-0.01	7.2	6.5
<b>Housing</b>	<b>-1.01</b>	<b>-0.88</b>	<b>-0.02</b>	<b>4.3</b>	<b>4.4</b>
Electrical energy	-3.89	-3.45	-0.02	1.2	3.2
<b>Household articles</b>	<b>0.04</b>	<b>-0.30</b>	<b>0.01</b>	<b>0.8</b>	<b>0.7</b>
<b>Apparel</b>	<b>-0.24</b>	<b>-0.28</b>	<b>0.00</b>	<b>9.7</b>	<b>8.8</b>
<b>Transportation</b>	<b>1.50</b>	<b>1.38</b>	<b>0.03</b>	<b>-5.7</b>	<b>0.3</b>
Airline tickets	4.97	4.70	0.00	4.0	1.0
Gasoline	4.75	4.30	0.02	-26.8	-9.3
<b>Health and personal care</b>	<b>0.26</b>	<b>0.23</b>	<b>0.00</b>	<b>10.4</b>	<b>10.1</b>
<b>Personal spending</b>	<b>0.38</b>	<b>0.52</b>	<b>-0.01</b>	<b>7.0</b>	<b>6.2</b>
<b>Education</b>	<b>0.13</b>	<b>0.07</b>	<b>0.00</b>	<b>8.3</b>	<b>8.3</b>
<b>Communication</b>	<b>0.00</b>	<b>-0.12</b>	<b>0.01</b>	<b>0.4</b>	<b>0.4</b>
<b>Administered</b>	<b>0.46</b>	<b>0.44</b>	<b>0.00</b>	<b>-1.3</b>	<b>3.6</b>
<b>Free</b>	<b>0.01</b>	<b>-0.05</b>	<b>0.04</b>	<b>4.8</b>	<b>4.1</b>
Food-at-home	-0.72	-0.96	0.04	2.9	0.7
<i>Food-at-home core</i>	0.03	-0.09	0.01	6.9	6.4
Industrial goods	0.12	-0.10	0.05	4.0	4.2
<i>Industrial goods core</i>	-0.05	-0.10	0.01	8.2	7.5
Services	0.25	0.39	-0.05	6.2	5.6
<i>Services core</i>	0.20	0.41	-0.04	6.7	5.9
<b>EX3 Core</b>	<b>0.09</b>	<b>0.19</b>	<b>-0.10</b>	<b>7.4</b>	<b>6.8</b>
<b>Average of cores</b>	<b>0.18</b>	<b>0.17</b>	<b>0.01</b>	<b>6.0</b>	<b>-</b>

Sources: Brazilian Central Bank, IBGE, Santander.



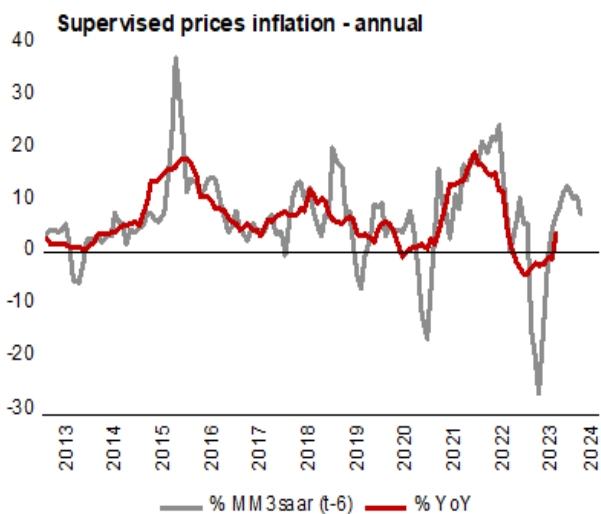
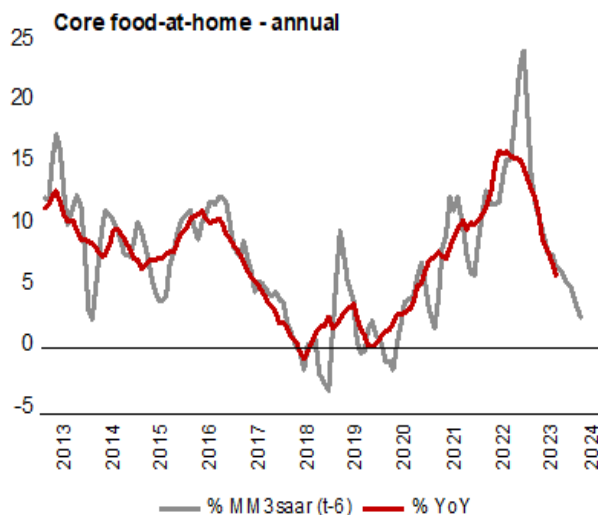
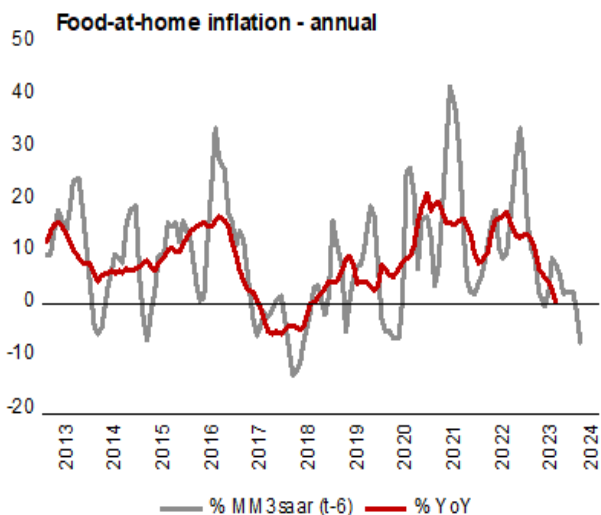
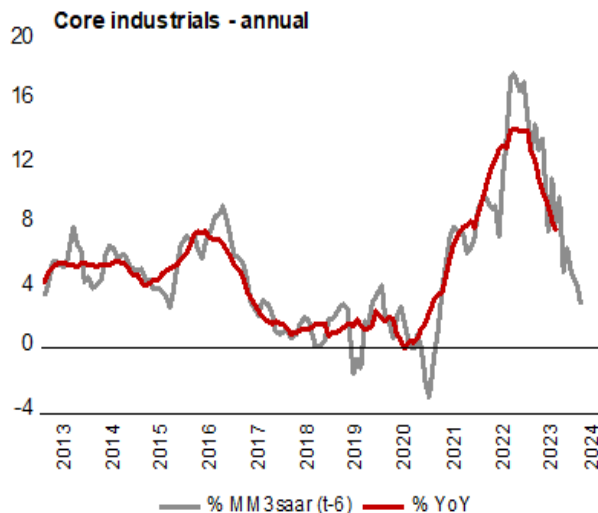
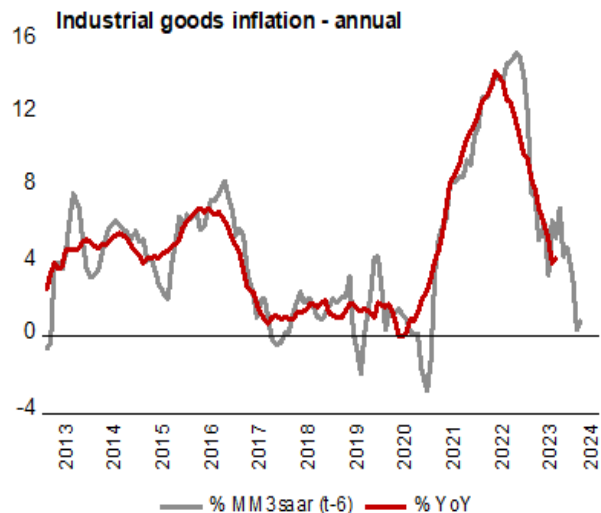
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



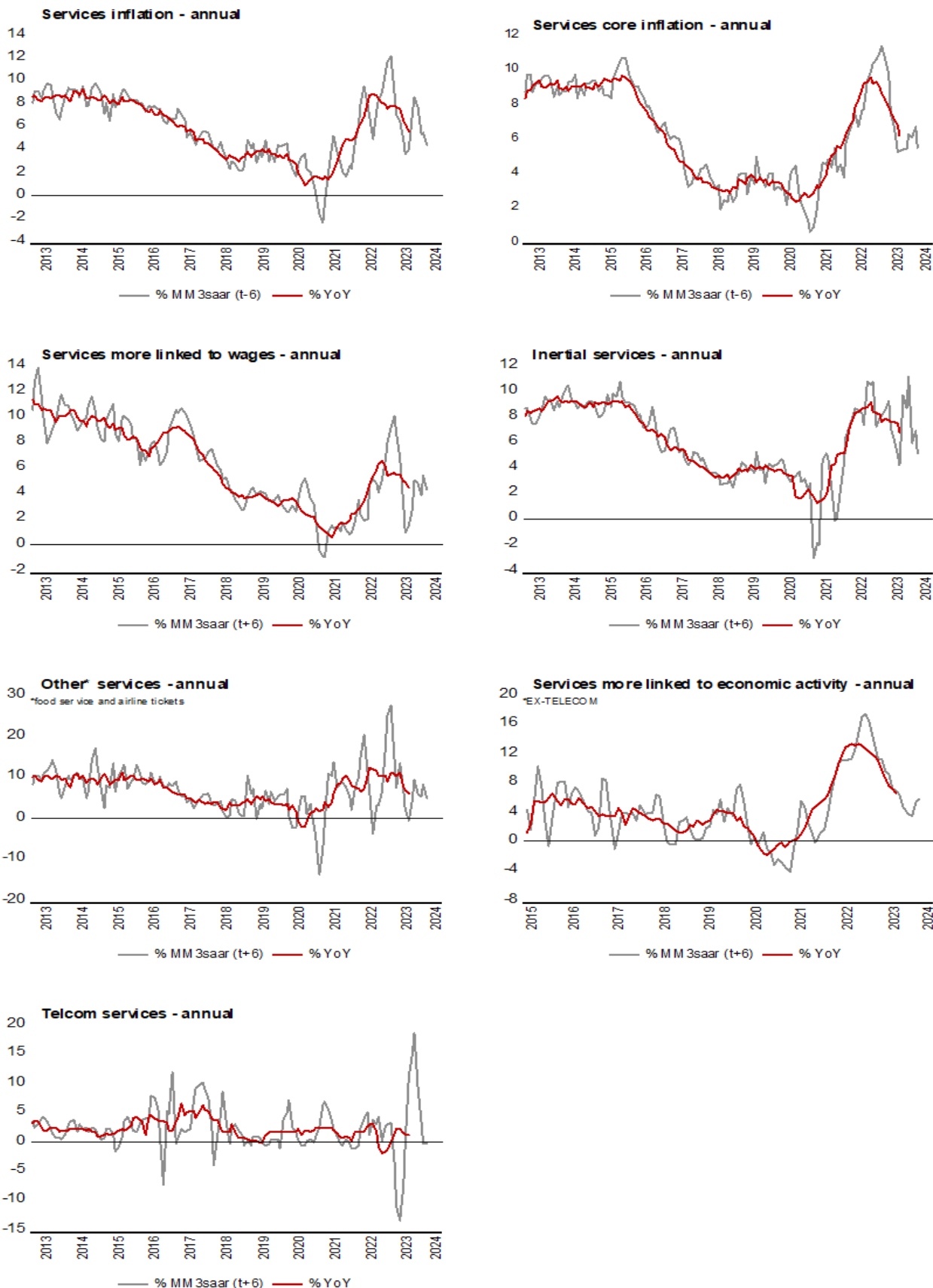
Figure 3. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



Figure 4. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



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