

Daniel Karp*daniel.karp@santander.com.br
+5511 3553 9828

IPCA February: No Respite from Inflation

- February's IPCA (inflation gauge) rose 0.86% MoM (5.20% YoY), significantly above the market's median estimate of 0.71% and our forecast of 0.73%, with upside surprises fairly widespread among categories.
- Core measures continued to experience upward pressure. In particular, core industrial goods and core services remained at high levels.
- Therefore, February's IPCA reading reinforces an unfavorable outlook for short-term inflation, in our view, indicating that upward pressures remain strong.
- Looking ahead, we believe most of the pressures (commodity prices rising, a depreciated BRL, supply chain disruption, etc.) should continue for a while, keeping short-term IPCA risks tilted to the upside. Our IPCA 2021 high-frequency tracking was at 4.80% before today's number, but we have revised it to 4.9%, and risks remain tilted to the upside.

Major Upward Surprise, with Core Measures Still Experiencing Upward Pressure

The IPCA during February increased 0.86% MoM (5.20% YoY), significantly above the market's median expectation of 0.71% and our forecast of 0.73%.

Upside surprises were fairly widely spread among the categories. Food-at-home contributed +4 bps of deviation from the headline forecast, with some proteins being a highlight of the upside surprise. Industrial goods also generated a +4 bps surprise relative to the headline, with clothing and perfumes of particular note. Services contributed +2 bps of deviation from the headline forecast, while administered prices contributed +3 bps (mainly on gasoline).

Core measures continued to experience upward pressure. The average of the main core measures saw a slight deceleration to +5.4% in the trend (3mma-saar), continuing at a persistently high level. Headline-industrial goods decelerated in 3mma-saar terms, but just a tad (from 9.2% to 8.7%), remaining at a notably high level. Moreover, core-industrial goods even accelerated in 3mma-saar terms to 8.6% from 8.0%. For services, the headline decelerated considerably in 3mma-saar terms to 2.7% from 3.5%, but core-services remained steady at +4.3% 3mma-saar. Finally, diffusion (seasonally adjusted) rose to 66.0% from 63.1%, indicating spill-over effects from recent shocks to general prices.

Therefore, February's IPCA reading reinforces an unfavorable outlook for short-term inflation, in our view, indicating that upward pressures remain strong.

Forecasts: IPCA 2021 Tracking Keeps Being Revised Upward

Looking ahead, we believe most of the pressures (commodity prices rising, a depreciated BRL, supply chain disruption, etc.) should continue for a while, keeping short-term IPCA risks tilted to the upside. Our IPCA 2021 high-frequency tracking was at 4.80% before today's number, but we have revised it to 4.9%, and risks remain tilted to the upside. For IPCA in 2022, we still believe most of the pandemic-related influences will have faded and that prices will return to being more determined by weak demand, causing IPCA to stay close to the target. However, greater inertia from 2021 and a trickier fiscal scenario tilt the risks to the upside, in our view.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.

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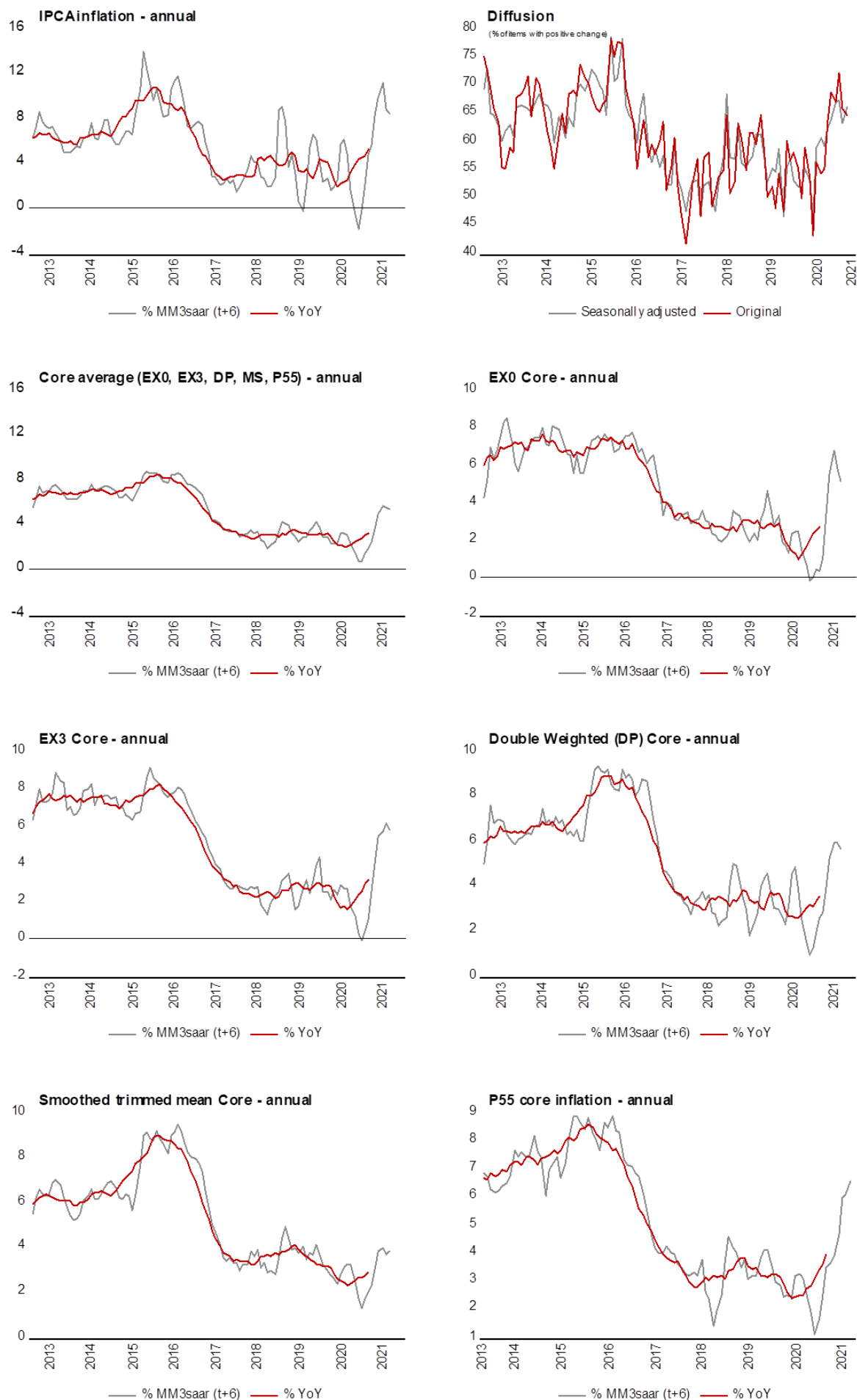
Figure 1. IPCA Inflation by Group

	MoM			YoY	
	Feb-21	Santander	Dev.	Jan-21	Feb-21
IPCA	0.86	0.73	0.13	4.6	5.2
Food and beverage	0.27	0.15	0.03	14.8	15.0
Food-at-home	0.28	0.05	0.04	19.2	19.4
Food service	0.27	0.40	-0.01	4.9	4.9
Housing	0.40	0.42	0.00	3.6	4.4
Electrical energy	-0.71	-0.48	-0.01	2.9	3.9
Household articles	0.66	0.88	-0.01	7.0	7.8
Apparel	0.38	-0.03	0.02	-0.7	0.4
Transportation	2.28	1.94	0.07	1.1	3.7
Airline tickets	-3.04	-2.54	0.00	-28.9	-26.0
Gasoline	7.11	6.50	0.03	1.1	9.1
Health and personal care	0.62	0.52	0.01	2.2	2.0
Personal spending	0.17	0.09	0.01	1.1	0.9
Education	2.48	2.38	0.01	1.1	-0.1
Communication	-0.13	-0.06	0.00	3.3	3.0
Administered	1.69	1.58	0.03	1.8	3.8
Free	0.58	0.44	0.10	5.5	5.7
Food-at-home	0.28	0.05	0.04	19.2	19.4
Industrial goods	0.81	0.62	0.04	4.1	4.6
Services	0.55	0.49	0.02	1.5	1.4
EX3 Core	0.45	0.30	0.15	2.9	3.1
Average of cores	0.51	-	-	3.0	3.2

Sources: IBGE, BCB, and Santander.



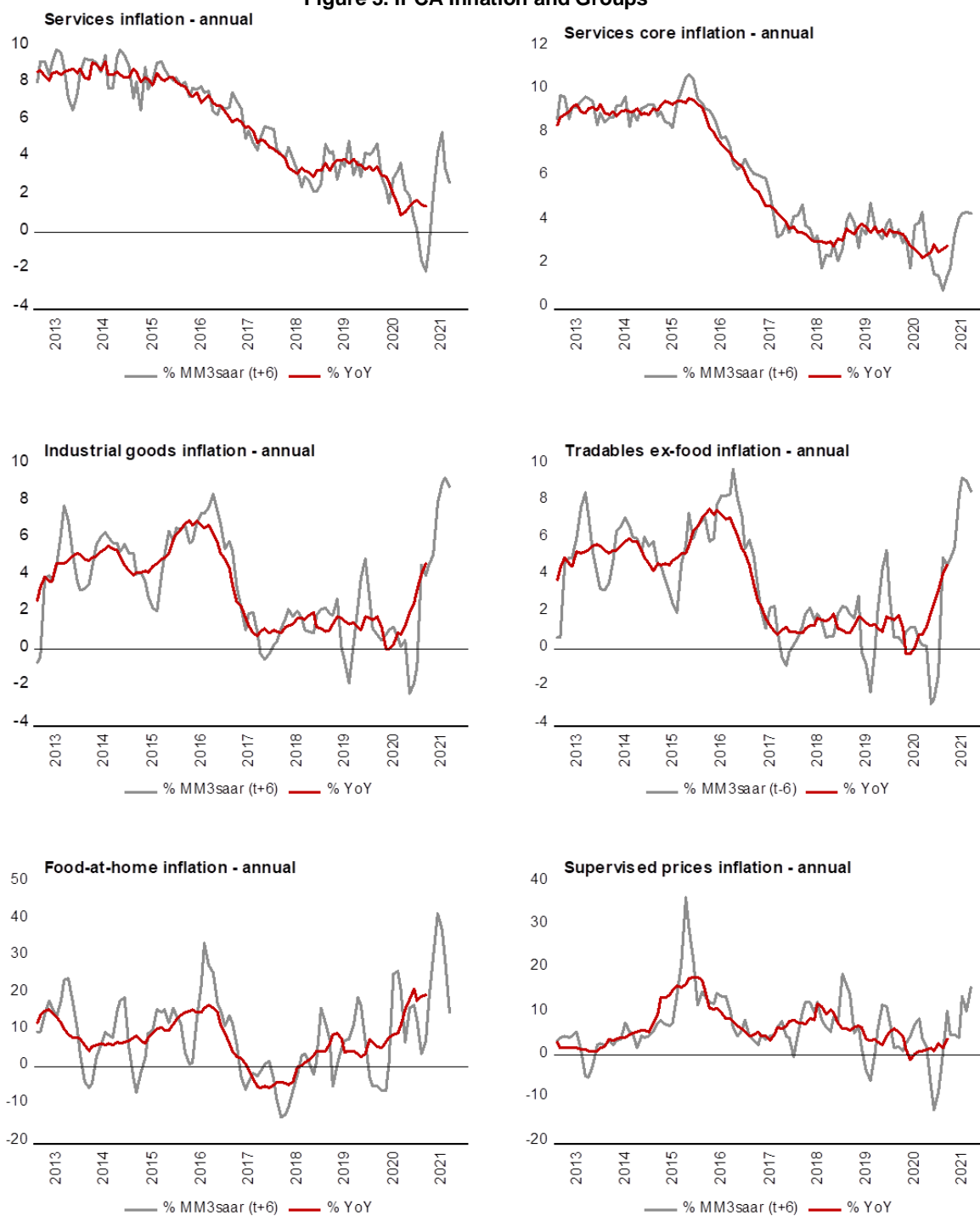
Figure 2. IPCA Inflation and Qualitative Measures



Sources: IBGE, BCB and Santander.



Figure 3. IPCA Inflation and Groups



Sources: IBGE, BCB and Santander.



Figure 4. IPCA Inflation Forecasts*

	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	2021e
IPCA	0.91	0.53	0.34	0.44	0.41	-0.05	0.19	0.26	0.24	0.45	4.9
Food and beverage	0.72	0.55	0.39	0.37	0.31	0.13	0.13	0.43	0.54	0.79	5.8
Food-at-home	0.96	0.73	0.45	0.40	0.30	0.00	0.00	0.40	0.50	0.80	6.0
Food service	0.10	0.10	0.22	0.30	0.35	0.45	0.45	0.50	0.65	0.75	5.2
Housing	0.50	0.01	1.24	1.61	0.89	-0.99	0.18	0.13	-0.43	0.11	2.6
Electrical energy	0.49	-0.78	3.76	4.83	2.61	-4.11	0.27	0.15	-1.94	-0.04	-1.6
Household articles	0.37	0.35	0.25	0.17	0.25	0.30	0.10	0.19	0.14	0.19	3.9
Apparel	0.27	0.36	0.45	0.14	-0.15	0.11	0.35	0.52	0.27	0.59	3.3
Transportation	2.85	0.99	-0.26	-0.03	0.29	-0.36	0.12	0.12	0.38	0.66	7.7
Airline tickets	-2.50	-1.00	-1.50	10.50	19.00	-15.00	4.50	2.00	11.00	21.00	18.1
Gasoline	9.00	2.80	-1.00	-1.00	-0.70	-0.60	-0.30	-0.20	0.00	0.00	18.0
Health and personal care	0.58	1.30	0.52	0.51	0.50	0.52	0.51	0.52	0.52	0.54	7.2
Personal spending	0.04	0.09	0.14	0.29	0.15	0.12	0.16	0.17	0.22	0.27	2.2
Education	0.04	0.02	0.02	0.03	0.01	0.29	0.04	0.02	0.03	0.07	3.2
Communication	0.00	0.07	0.05	0.06	1.04	0.60	0.08	0.14	0.06	0.08	2.1
Administered	2.24	1.09	0.72	0.91	0.55	-0.57	0.20	0.22	-0.12	0.20	7.0
Free	0.45	0.34	0.21	0.28	0.36	0.13	0.18	0.27	0.36	0.54	4.2
Food-at-home	0.96	0.73	0.45	0.40	0.30	0.00	0.00	0.40	0.50	0.80	6.0
Industrial goods	0.69	0.43	0.25	0.12	0.13	0.25	0.24	0.30	0.28	0.39	4.3
Services	0.08	0.11	0.08	0.32	0.53	0.10	0.23	0.20	0.36	0.53	3.2
EX3 Core	0.27	0.27	0.24	0.23	0.19	0.23	0.26	0.28	0.31	0.39	3.7

Sources: IBGE, BCB and Santander.

*2021e is the high-frequency tracking for the end of the year.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Orenge*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Orenge*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

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