

Testing the Benign View of Short-Term Inflation Dynamics

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- **IPCA rose 0.84% MoM in February, well above the consensus estimate of 0.78% and even higher than our forecast of 0.72%. The YoY change decelerated to 5.6% YoY (from 5.8% in January). The trend (3MMA-saar) continued to rebound, reaching 7.6% 3MMA-saar (from 5.6%).**
- **Broad qualitative measures gave mixed signals, with some rising and some falling, but this time the average rose to 6.5% 3MMA-saar (from 5.5%). The EX3 core gauge, the one that correlates the most with the output gap, rose a bit to 6.4% 3MMA-saar (from 5.8%).**
- **All in all, we consider that our benign view regarding short-term inflation is being tested by the last two prints, as the average of core gauges saw a pause in the downward trend. However, as we believe there are one-off movements affecting the gauges, we believe we do not have enough evidence to say that inflation (and particularly core gauges) have halted their downward trend and that short-term inflation dynamics are back to being worrisome. Nonetheless, medium-/long-term expectations remain de-anchored from the target, and this is indeed a cause for concern.**

IPCA rose 0.84% MoM in February, well above the consensus estimate of 0.78% and even higher than our forecast of 0.72%. The YoY change decelerated to 5.6% YoY (from 5.8% in January). The trend (3MMA-saar) continued to rebound, reaching 7.6% 3MMA-saar (from 5.6%). Upward surprises were spread among gasoline, food-at-home, personal care, and telecom services.

In trend terms, headline services rose to 6.4% 3MMA-saar (from 4.1%), affected by an adjustment in school tuition costs. However, the services core gauge remained stable at 5.2% 3MMA-saar. The industrial goods headline also rose, to 7.1% 3MMA-saar (from 5.4%), while its core gauge rose less but remained high (9.4% vs. 8.1% 3MMA-saar).

Broad qualitative measures gave mixed signals, with some rising and some falling, but this time the average rose to 6.5% 3MMA-saar (from 5.5%). However, we still believe that the gauges that rose were likely affected by some one-off movements like education fee adjustments, perfume inflation (highly volatile), and telecom adjustments. The EX3 core gauge, the one that correlates the most with the output gap, rose a bit to 6.4% 3MMA-saar (from 5.8%).

All in all, we consider that our benign view regarding short-term inflation is being tested by the last two prints, as the average of core gauges saw a pause in the downward trend. However, as we believe there are one-off movements affecting the gauges, we believe we do not have enough evidence to say that inflation (and particularly core gauges) have halted their downward trend and that short-term inflation dynamics are back to being worrisome. Nonetheless, medium-/long-term expectations remain de-anchored from the target, and this is indeed a cause for concern.

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

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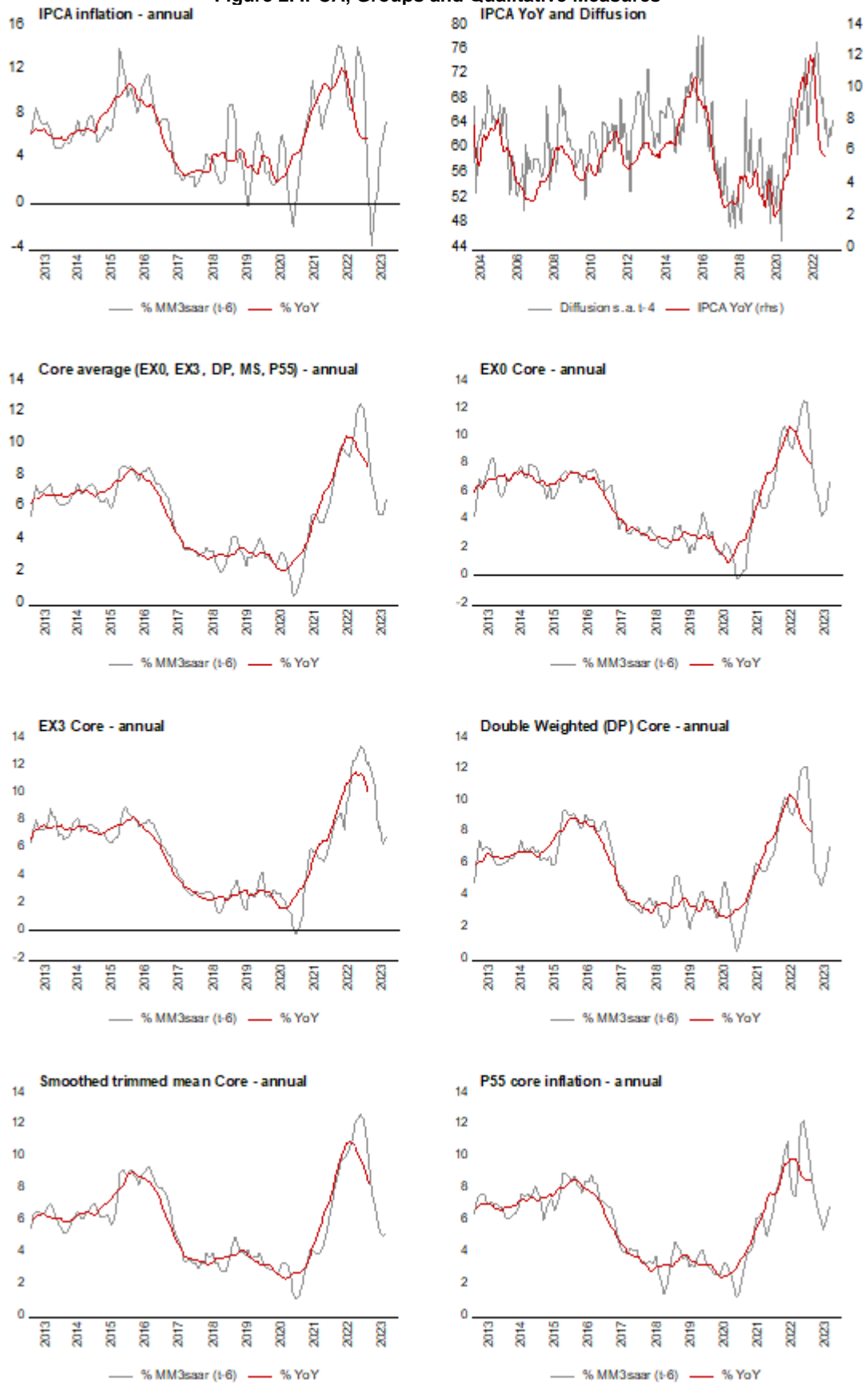
Figure 1. February's IPCA Details (%)

	MoM			YoY	
	Feb-23	Santander	Dev.	Jan-23	Feb-23
IPCA	0.84	0.72	0.12	5.8	5.6
Food and beverage	0.16	0.01	0.03	11.1	9.8
Food-at-home	0.04	-0.14	0.03	12.3	10.5
Food service	0.50	0.40	0.01	7.8	8.1
Housing	0.82	0.78	0.01	0.3	0.5
Electrical energy	1.37	1.20	0.01	-18.0	-17.0
Household articles	0.11	0.43	-0.01	6.7	5.0
Apparel	-0.24	0.25	-0.02	16.5	15.2
Transportation	0.37	0.14	0.05	-0.7	-0.7
Airline tickets	-9.38	-9.45	0.00	50.5	43.6
Gasoline	1.16	0.15	0.05	-24.3	-23.1
Health and personal care	1.26	0.84	0.05	11.2	12.1
Personal spending	0.44	0.51	-0.01	7.8	7.5
Education	6.28	6.33	0.00	7.6	8.3
Communication	0.98	0.59	0.02	0.0	0.7
Administered	0.84	0.66	0.05	-2.8	-2.1
Free	0.84	0.75	0.07	8.9	8.4
Food-at-home	0.04	-0.14	0.03	12.3	10.5
Industrial goods	0.54	0.50	0.01	8.5	7.9
Services	1.41	1.32	0.03	7.8	7.8
EX3 Core	0.64	0.53	0.04	10.3	9.9

Sources: Brazilian Central Bank, IBGE, Santander.



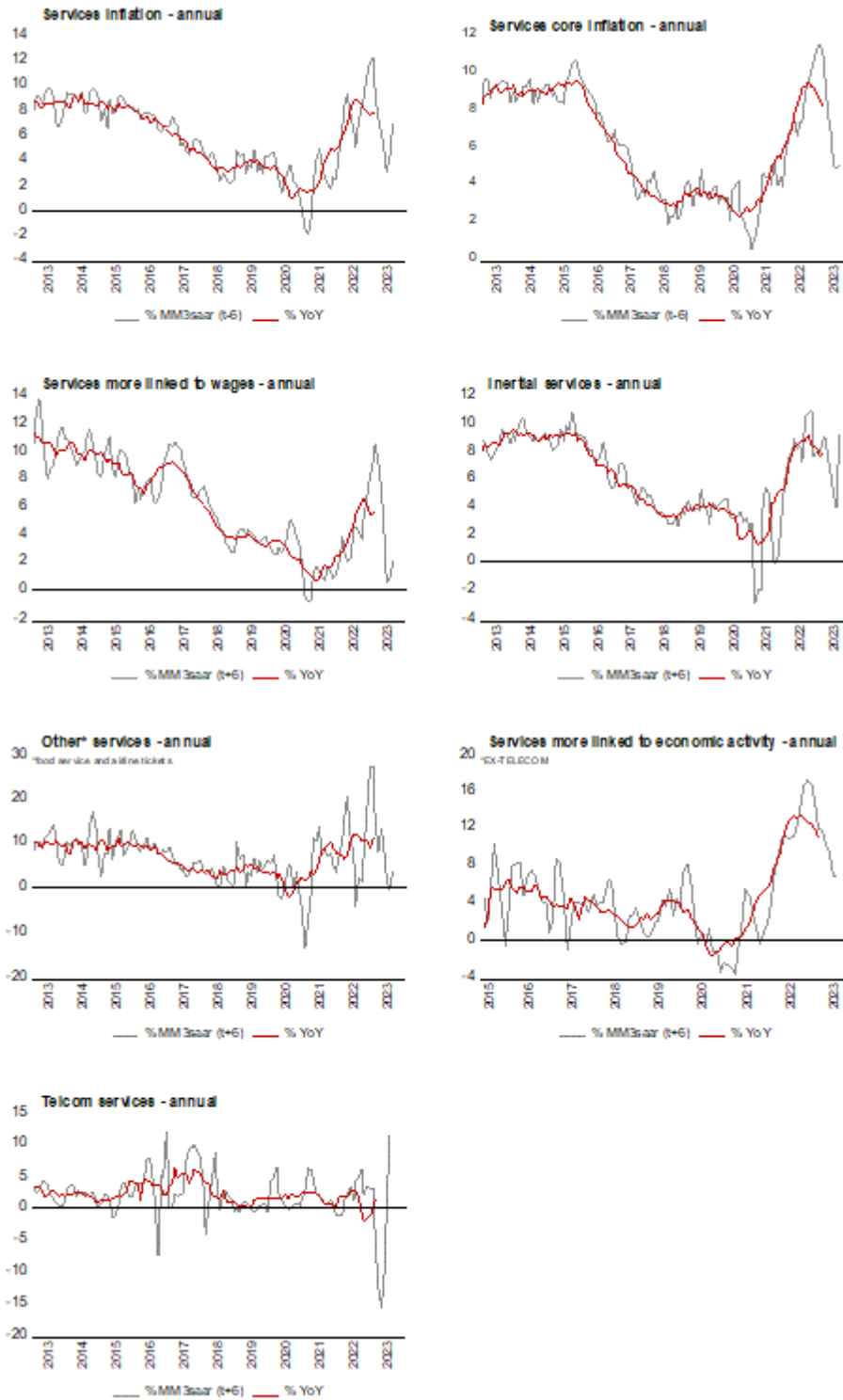
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



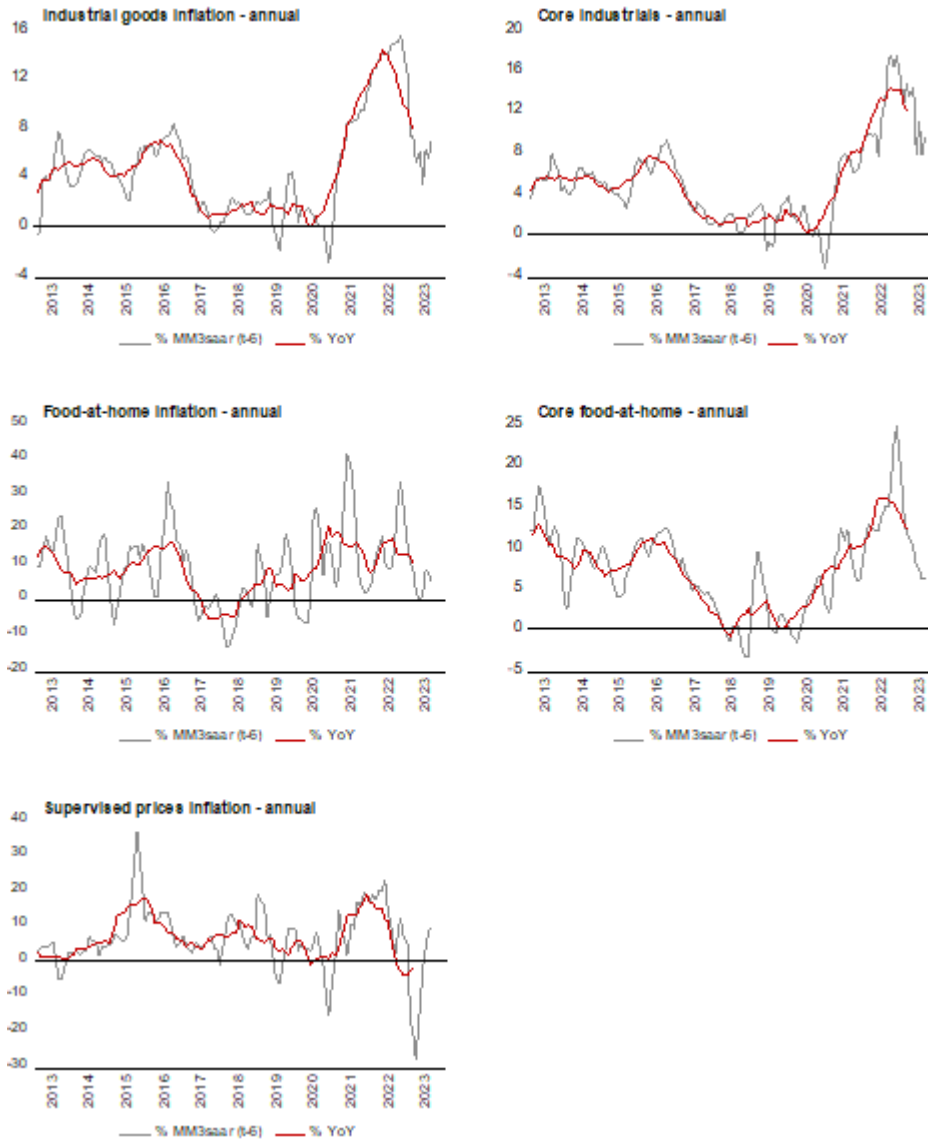
Figure 3. IPCA, Groups and Qualitative Measures (continued)



Sources for all charts: IBGE and Santander.



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



Sources for all charts: IBGE and Santander.



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