

Short-Term Inflation Continues to Improve, but Medium- and Long-Term Expectations Worsen

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- **IPCA rose 0.53% MoM in January, slightly below the consensus estimate of 0.56% and our forecast of 0.55%. The YoY change was stable, at 5.8%.**
- **The downward surprises were concentrated in services and industrial goods — core-related groups; whereas, food-at-home (a more volatile group) surprised a bit to the upside.**
- **Broad qualitative measures had mixed signals, with some rising, some falling and, as a result, the average of them remaining stable, at 5.4% 3MMA-saar. However, it is worth highlighting that the gauges that rose were affected by the telecom price adjustments (which we see as a one-off movement).**
- **All in all, we see a divergence between short-term inflation, as well as medium- and/long-term expectations. Although still at high levels, this IPCA January is additional evidence that short-term inflation keeps improving (both headline and cores), while medium/long-term expectations continue to rise, on the back of uncertainties regarding the path of the structural reforms and the debate around the possible rise of the inflation target.**

IPCA rose 0.53% MoM in January, slightly below the consensus estimate of 0.56% and our forecast of 0.55%. The YoY change was stable at 5.8%. The trend (3MMA-saar) continued to rebound, reaching 6.0% 3MMA-saar (from 5.0%), as (i) the downward effect of the tax cuts is fading, (ii) the Black Friday-related prices are recovering after the sales and (iii) telecom price adjustment surprised in January's IPCA-15.

In the breakdown, the biggest downward surprise came in services (contributing -3 bps to the headline error). The deviation was concentrated in the inertial services group, in particular transportation via app. Industrial goods also surprised slightly downwards (-2 bps), driven by perfume (a volatile item). On the other hand, food-at-home surprised upwards (+3 bps), while regulated prices came in line with our forecast.

In trend terms, headline services rose to 3.9% 3MMA-saar (from 2.9%). It is worth to remember that this rise in services headline trend was expected due to an upward surprise in telecom price adjustment in the last IPCA-15 print (as the IBGE's methodology says that this item's change is just repeated from IPCA-15 to IPCA). On the other side, services core inflation trend was mostly stable around 4.8% 3MMA-saar. Indeed, all of the services' subgroups either continued to decelerate or remained stable at very low levels (see Figure 2). Industrial goods trend fell to 5.3% 3MMA-saar (from 6.1%), and its core decelerated more sharply, to 7.5% 3MMA-saar (from 10.5%), as Black Friday effects fade. Food-at-home accelerated remained stable, at around 8% 3MMA-saar, while its core softened to 6.0% 3MMA-saar (from 6.8%). Also, regulated prices continued to "normalize" after the tax cut effects fades, reaching 9.0% 3MMA-saar (from 4.0%).

Broad qualitative measures had mixed signals, with some rising, some falling and, as a result, the average of them remaining stable, at 5.4% 3MMA-saar. However, it is worth highlighting that the gauges that rose were affected by the telecom price adjustments (which we see as a one-off movement), while the EX3 core gauge, the one which correlates the most with the output gap and was more resilient at high levels recently, saw a

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drop to 6.0% 3MMA-saar (from 7.4%). The diffusion index saw a slight fall, reaching 61.6% s.a. (from 62.8%). Despite the improvement, the level still surpasses the average for the years of low inflation (2017-2020).

All in all, we see a divergence between short-term inflation, as well as medium- and long-term expectations. Although still at high levels, this IPCA January is additional evidence that short-term inflation keeps improving (both headline and cores), while medium- and long-term expectations continue to rise, on the back of uncertainties regarding the path of the structural reforms and the debate around the possible rise of the inflation target.

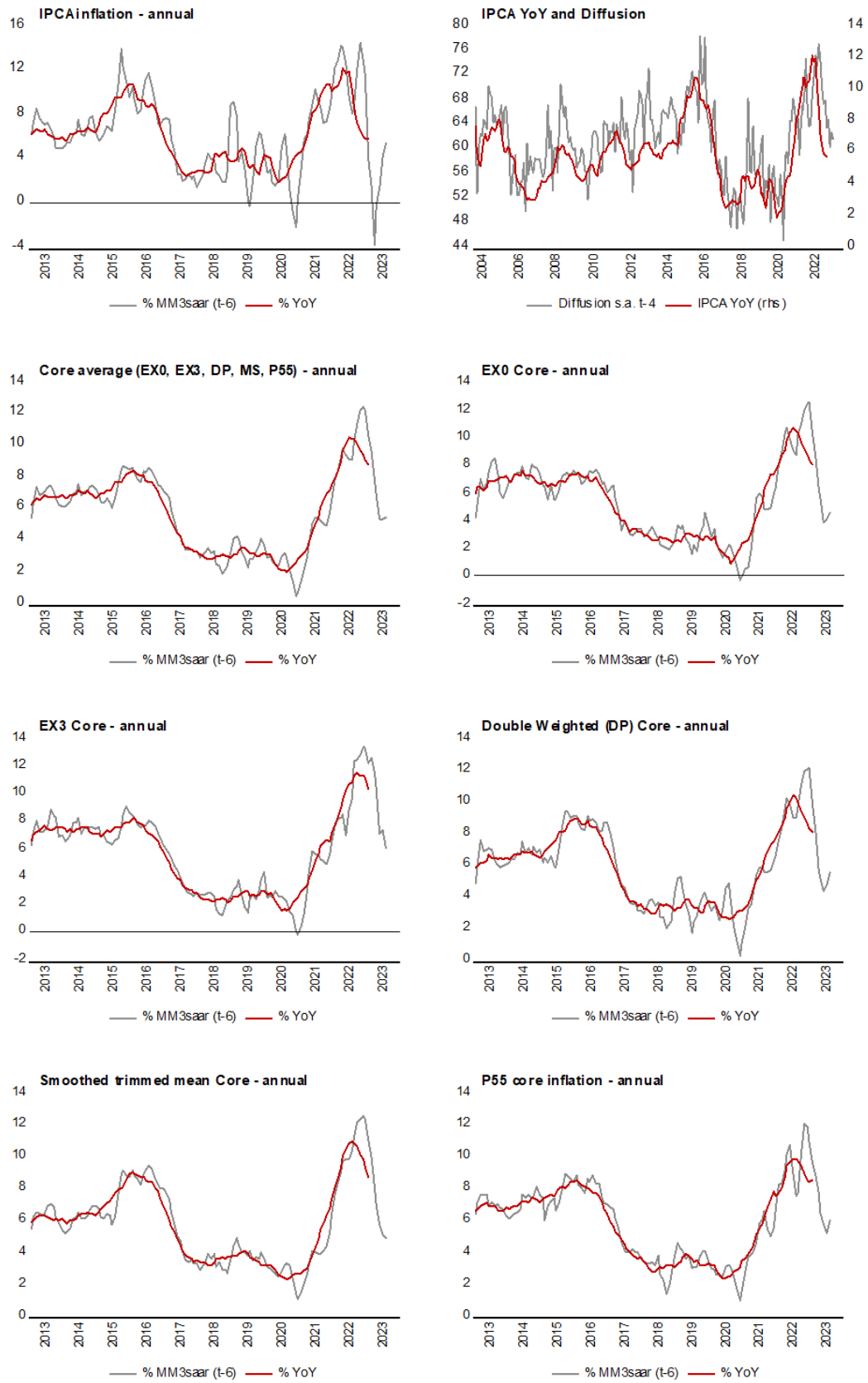
Figure 1. January's IPCA Details (%)

	MoM			YoY		3MMA-saar	
	Jan-23	Santander	Dev.	Dec-22	Jan-23	Dec-22	Jan-23
IPCA	0.53	0.55	-0.02	5.8	5.8	5.0	6.0
Food and beve	0.59	0.43	0.04	11.6	11.1		
Food-at-home	0.60	0.40	0.03	13.2	12.3	5.4	5.7
Food service	0.57	0.50	0.00	7.5	7.8		
Housing	0.33	0.24	0.01	0.1	0.3		
Electrical ener	0.19	0.00	0.01	-19.0	-18.0		
Household arti	0.70	0.49	0.01	7.9	6.7		
Apparel	-0.27	-0.39	0.01	18.0	16.5		
Transportation	0.55	0.78	-0.05	-1.3	-0.7		
Airline tickets	-0.51	-0.22	0.00	23.5	50.5		
Gasoline	0.83	0.90	0.00	-25.8	-24.3		
Health and per	0.16	0.48	-0.04	11.4	11.2		
Personal spend	0.76	0.75	0.00	7.8	7.8		
Education	0.36	0.23	0.01	7.5	7.6		
Communicatio	2.09	2.25	-0.01	-1.0	0.0		
Administered	0.72	0.73	0.00	-3.8	-2.8	4.5	8.2
Free	0.47	0.49	-0.02	9.4	8.9		
Food-at-home	0.60	0.40	0.03	13.2	12.3	5.4	5.7
Industrial goods	0.20	0.29	-0.02	9.6	8.5	6.4	6.2
Services	0.60	0.67	-0.03	7.6	7.8	3.4	4.4
EX3 Core	0.33	0.33	0.00	11.1	10.3	8.4	7.1

Sources: Brazilian Central Bank, IBGE, Santander.



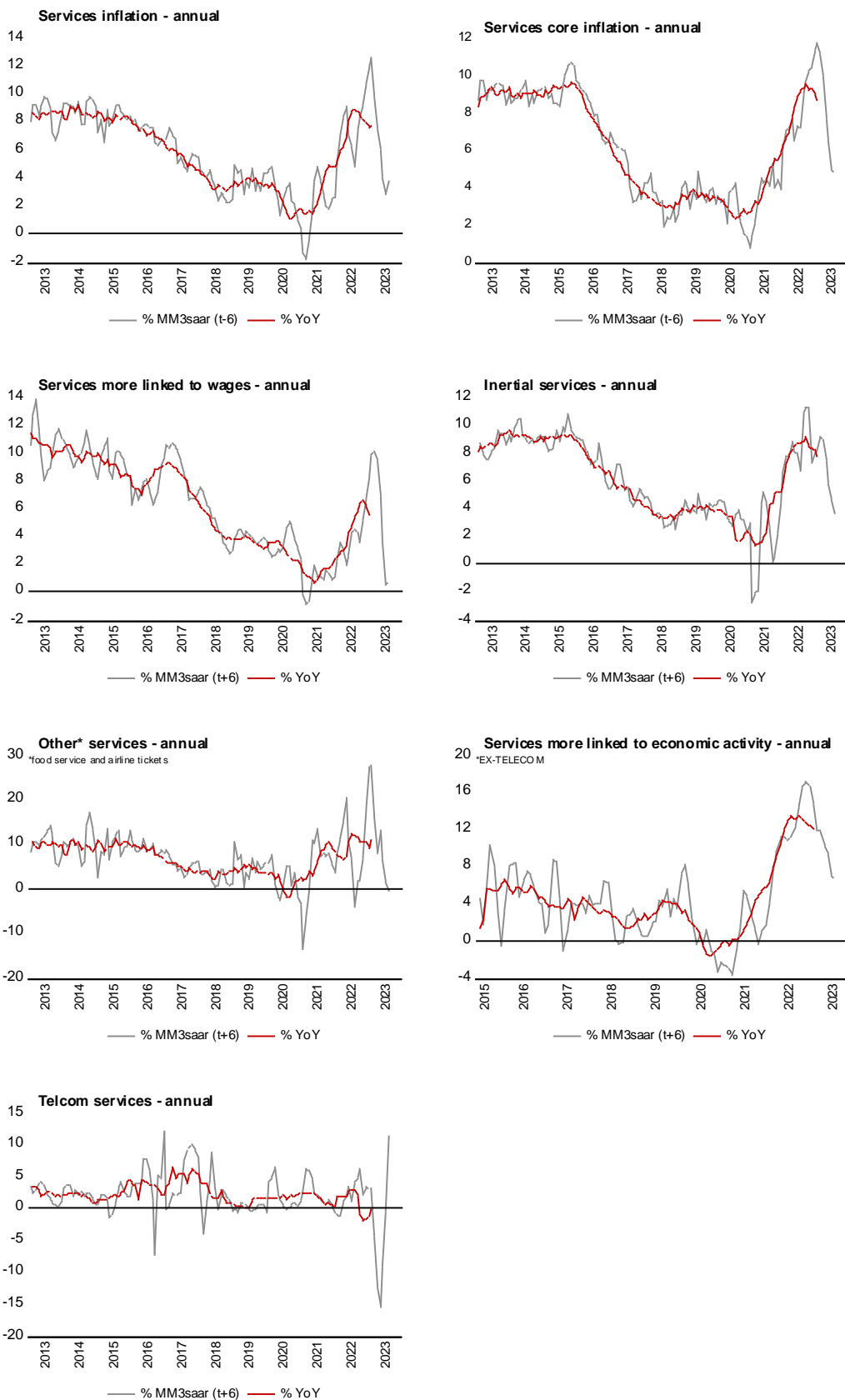
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



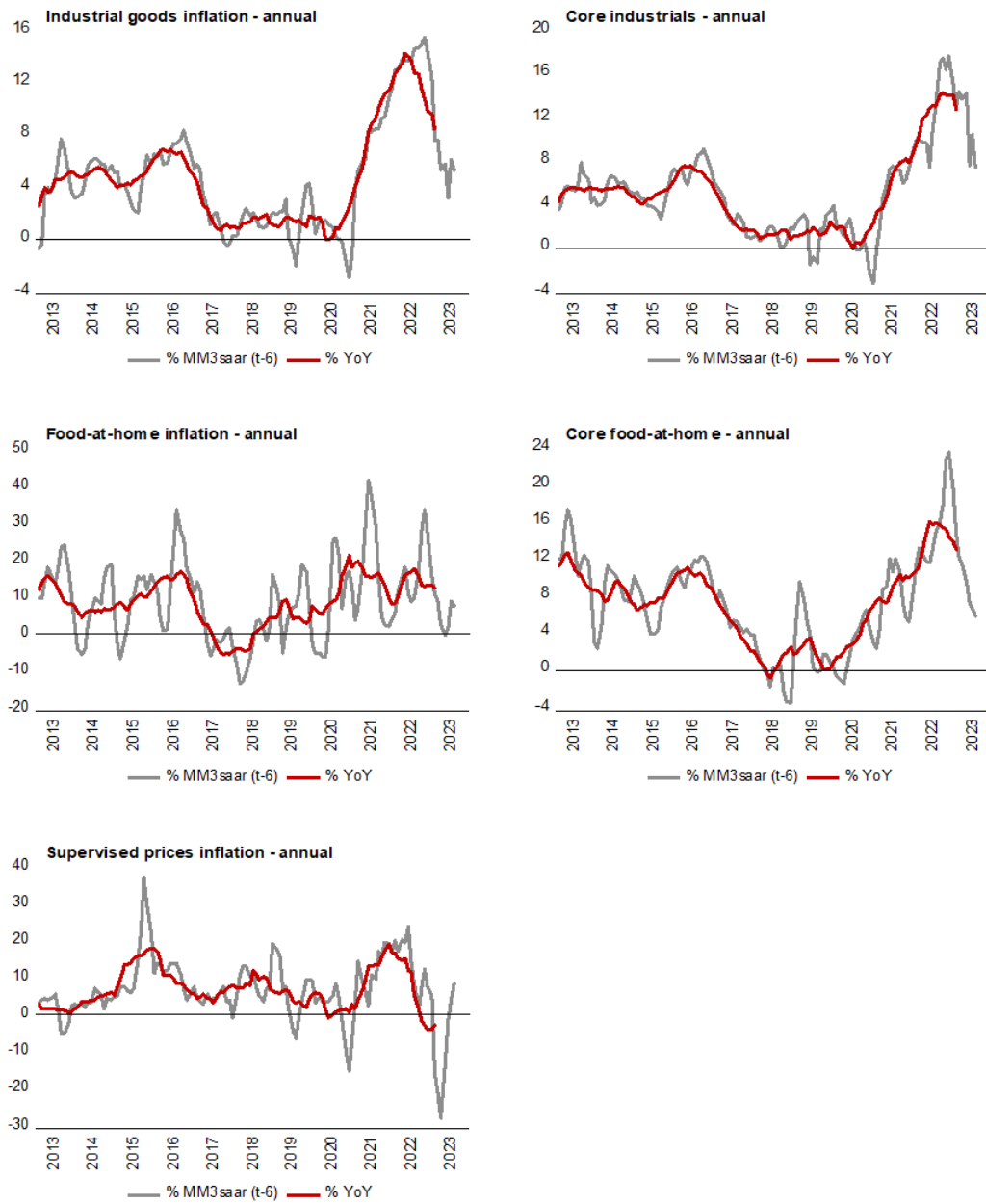
Figure 3. IPCA, Groups and Qualitative Measures (continued)



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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