

Daniel Karp*daniel.karp@santander.com.br
+55 11 3553 9828

Marginal Relief After Three Pressured Prints

Felipe Kotinda*felipe.kotinda@santander.com.br
+55 11 3553 8071

- **March's IPCA rose 0.71% MoM in March, below consensus (0.77%) and even lower than our forecast (0.79%). The YoY change fell to 4.7% (from 5.6%), while the trend (3MMA-saar) remained basically stable, at ~7.2% 3MMA-saar.**
- **Broad qualitative measures saw scant relief. The average of the main core gauges fell to 6.0% 3MMA-saar (from 6.5%), after three prints of stabilization/small upward trend. The positive highlight was the EX3 gauge—the one more correlated to economic activity and the monetary policy cycle—which fell to 5.6% 3MMA-saar (from 7.4). The diffusion index was also better at the margin, falling to 59.7% s.a. (from 64.1%).**
- **All in all, after three marginally worse prints, this one came in marginally better, although inflation levels are still high if compared to the current BCB target (3.0% for the medium-term)—our main concern remains the de-anchoring of inflation expectations for the medium term (driven by a myriad of discussions on possibly changing the inflation target and another round of fiscal expansion, in our view). Our current tracking is at 6.0% for IPCA 2023 and 3.9% for IPCA 2024.**

March's IPCA rose 0.71% MoM in March, below consensus (0.77%) and even lower than our forecast (0.79%). The YoY change fell to 4.7% (from 5.6%), while the trend (3MMA-saar) remained basically stable, at ~7.2% 3MMA-saar.

In the breakdown, the biggest downward surprise came from food-at-home (-5 bps). Industrial goods and regulated prices also contributed to the downward surprise (-2 bps each), while services were in line with expectations (just +1 bp of surprise).

In trend terms, the industrial goods headline decelerated to 4.0% 3MMA-saar (from 6.9%), while the services headline rose to 8.0% 3MMA-saar (from 6.5%). It is worth noting that the 3MMA-saar measure of services is still being affected by the adjustment in education fees, which is concentrated in February—looking just at the monthly annualized and seasonally adjusted rate (and not the three month average), the services headline fell from 10.7% MoM-saar in February to 5.5% MoM-saar in March. The food-at-home headline decelerated to 1.5% 3MMA-saar (from 4.7%), while regulated prices reached 12.7% 3MMA-saar (from 10.2%), with the latter being the lowlight, with the reinstatement of taxes on fuels having an impact on this line.

As for the core groups trend, the positive highlight was industrial goods core, decelerating to 4.6% 3MMA-saar (from 9.4%). The services core gauge was stable, at 5.1% 3MMA-saar. In the breakdown, the lowlight in the services core was the group related to wages, which accelerated to 4.5% 3MMA-saar (from 2.3%), while the positive highlight was the group more related to economic activity, which decelerated to 4.5% 3MMA-saar (from 6.3%).

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U.S. investors' inquiries should be directed to Santander US Capital Markets LLC at (212) 583-4629 / (212) 350-3918.

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Broad qualitative measures saw scant relief. The average of the main core gauges fell to 6.0% 3MMA-saar (from 6.5%), after three prints of stabilization/small upward trend—in year-over-year terms the average of the cores is 7.8% YoY (from 8.4%). From the five gauges, just one accelerated (the P55), while three others (EX0, DP and MS) were relatively stable/fell a tad. The positive highlight was the EX3 gauge—the one more correlated to economic activity and the monetary policy cycle—which fell to 5.6% 3MMA-saar (from 7.4%), driven mostly by the industrial goods items. The diffusion index was also better at the margin, falling to 59.7% s.a. (from 64.1%).

All in all, after three marginally worse prints, this one came in marginally better, although inflation levels are still high if compared to the current BCB target (3.0% for the medium term)—our main concern remains the de-anchoring of inflation expectations for the medium term (driven by a myriad of discussions on possibly changing the inflation target and another round of fiscal expansion, in our view). Our current tracking is at 6.0% for IPCA 2023 and 3.9% for IPCA 2024.



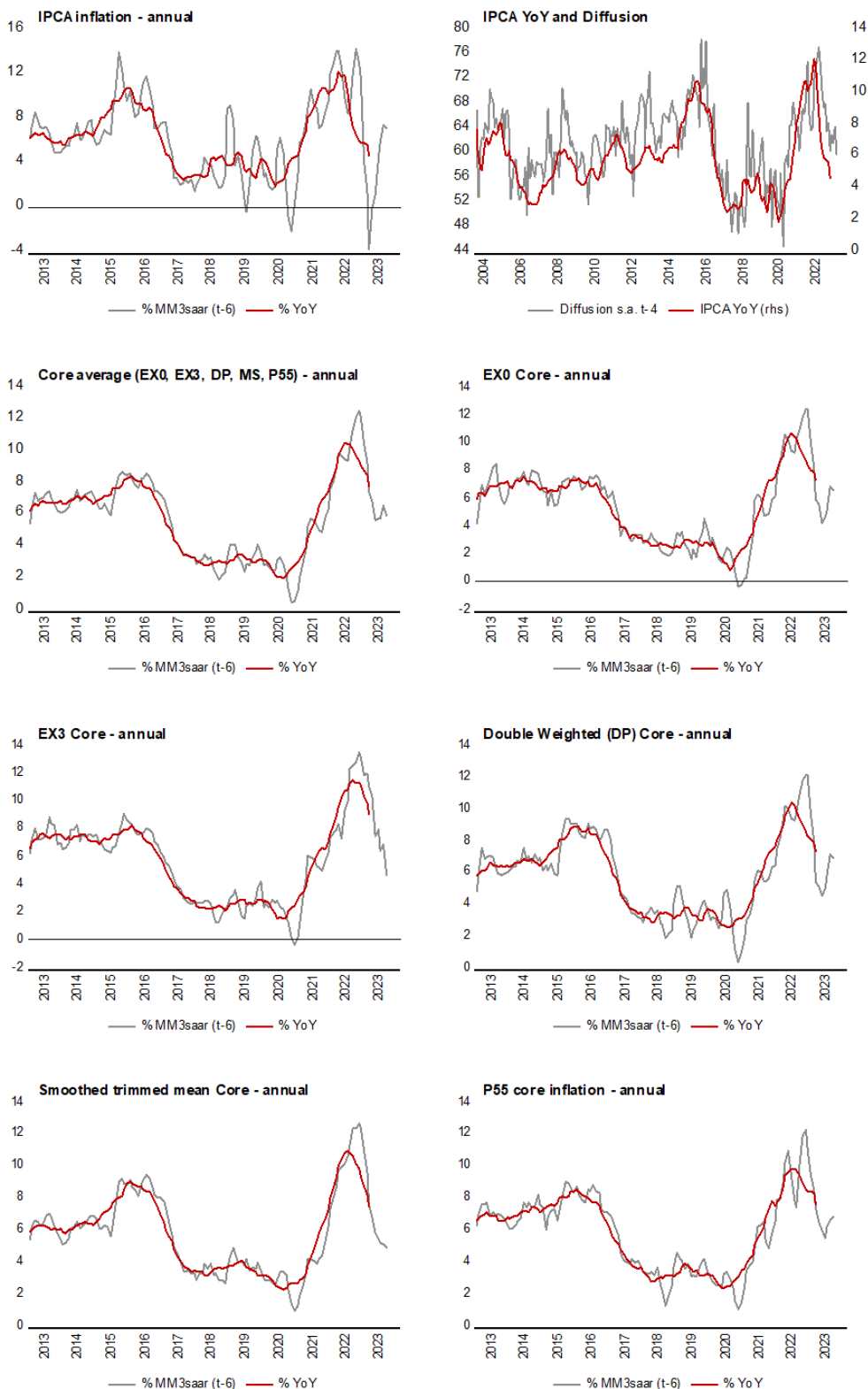
Figure 1. March's IPCA Details (%)

	MoM			YoY		3MMA-saar	
	Mar-23	Santander	Desv.	Feb-23	Mar-23	Feb-23	Mar-23
IPCA	0.71	0.79	-0.08	5.6	4.7	7.3	7.2
Food and beverage	0.05	0.33	-0.06	9.8	7.3		
Food-at-home	-0.14	0.19	-0.05	10.5	7.0	4.7	1.5
Food service	0.60	0.70	-0.01	8.1	8.0		
Housing	0.57	0.86	-0.04	0.5	0.0		
Electrical energy	2.23	3.21	-0.04	-17.0	-16.0		
Household articles	-0.27	-0.14	-0.01	5.0	4.1		
Apparel	0.31	0.29	0.00	15.2	13.4		
Transportation	2.11	2.02	0.02	-0.7	-1.6		
Airline tickets	-5.32	-5.32	0.00	43.6	46.7		
Gasoline	8.33	8.00	0.02	-23.1	-22.1		
Health and personal care	0.82	0.86	-0.01	12.1	12.0		
Personal spending	0.38	0.27	0.01	7.5	7.3		
Education	0.10	0.06	0.00	8.3	8.2		
Communication	0.50	0.56	0.00	0.7	1.2		
Administered	2.33	2.42	-0.02	-2.1	-2.4	10.2	12.7
Free	0.18	0.25	-0.06	8.4	7.3		
Food-at-home	-0.14	0.19	-0.05	10.5	7.0	4.7	1.5
Industrial goods	0.27	0.33	-0.02	7.9	6.9	6.9	4.0
Services	0.25	0.23	0.01	7.8	7.6	6.5	8.0
EX3 Core	0.37	0.38	0.00	9.9	9.1	7.4	5.6
Average of cores	0.37	-	-	8.4	7.8	6.7	6.0

Sources: Brazilian Central Bank, IBGE, Santander.



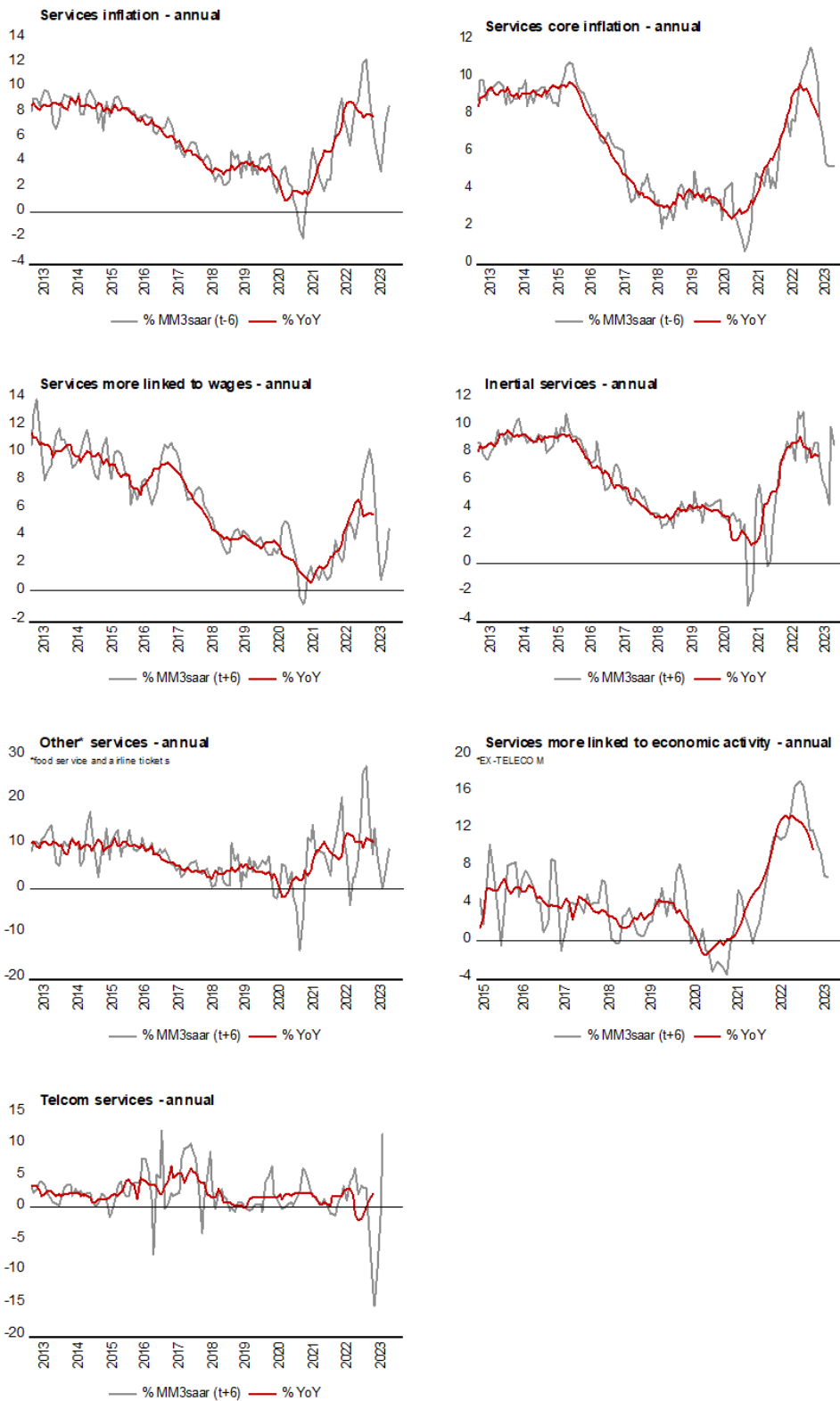
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



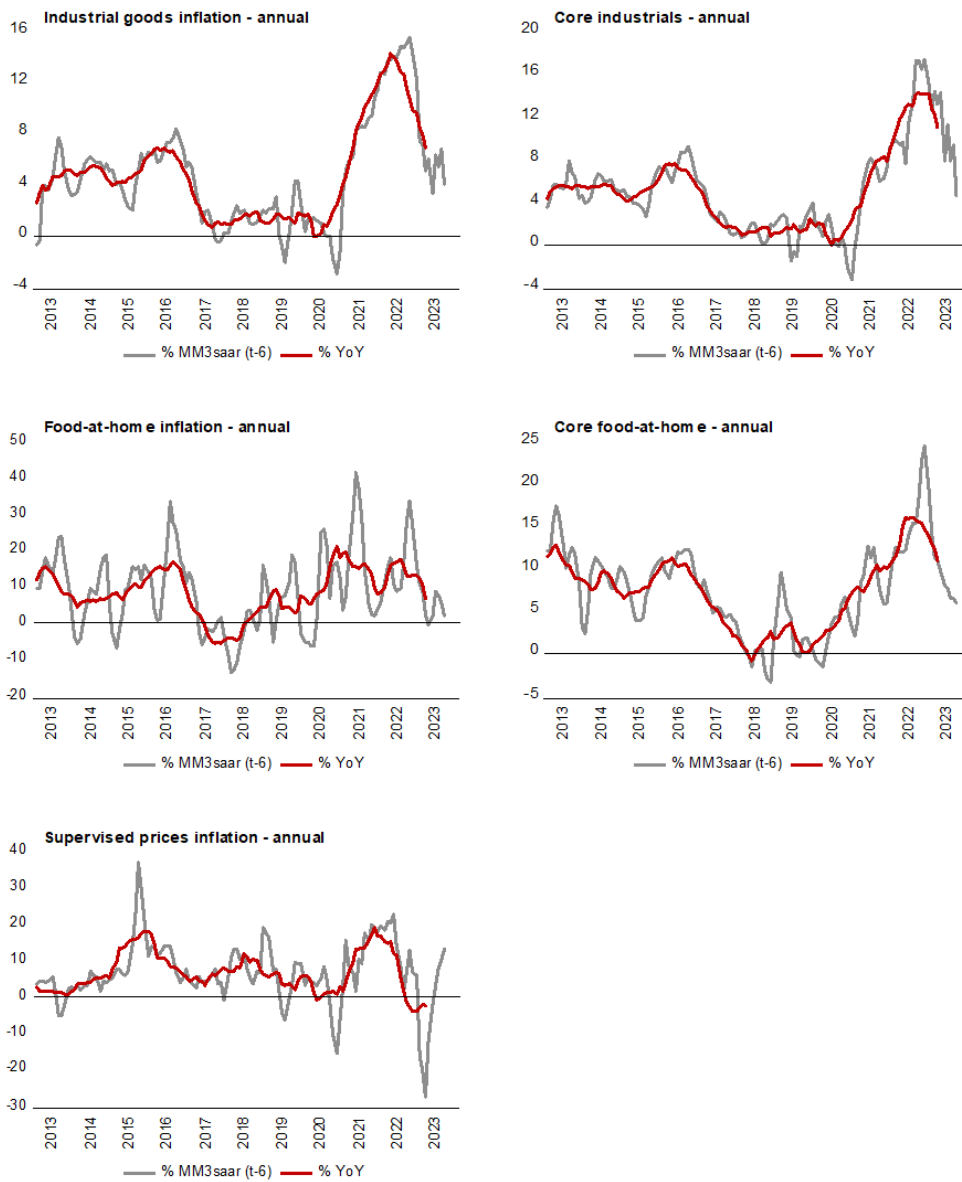
Figure 3. IPCA, Groups and Qualitative Measures (continued)



Sources for all charts: IBGE and Santander.



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



Sources: IBGE and Santander.



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	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
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
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
Rodrigo Park*	Economist – Argentina	rpark@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@santander.com.ar	5411-4341-1065
Mauricio Oreng*	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
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santander.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684

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