

Downward Surprise in Core Services Points to Disinflation Process

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- The IPCA rose 0.26% MoM in September, below our (0.29%) and consensus (0.32-0.33%) estimates. On a YoY basis, the IPCA rose 5.19% (from 4.61% in August).
- The downward surprise came in industrial goods (-2 bps), while food-at-home, services, and monitored prices came in line with expectations.
- Overall, food-at-home and industrial goods continued to reflect lower commodity prices in BRL, services remained on a downward trend, and monitored prices rebounded mostly due to fuels.
- Broad qualitative measures improved again. Core services trend fell to 3.5% 3MMA-saar (from 4.2%) and industrial goods core trend decreased to 2.0% 3MMA-saar (from 3.2%). This supported the EX3 core trend easing to 3.1% 3MMA-saar (from 4.0%), the lowest level in three years.
- The diffusion index plummeted to 46.2% (sa), a level compatible with keeping inflation below the target in the medium-term.
- Signs of a downside were observed in the five main core measures (including the EX3), in which three increased on a 3MMA-saar basis, and one remained unchanged. Thus, the average increased to 3.7% 3MMA-saar (from 3.4%).
- All in all, the print was favorable yet again in qualitative terms, with more signs pointing towards an ongoing disinflation process. Furthermore, the headline YoY change should mark the peak of the annual short-term rebound.

The IPCA rose 0.26% MoM in September, below our (0.29%) and consensus (0.32-0.33%) estimates. On a YoY basis, the IPCA increased to 5.19% (from 4.61% in August) owing to base effects. The headline trend (3MMA-saar) accelerated to 4.5% (from 3.9%).

The downward surprise came in industrial goods (-2 bps), spread among a few items, but mainly in household articles and ethanol. Food-at-home, services, and monitored prices came in line with expectations. The MoM change in monitored prices (1.11%) was mostly due to fuels, given the mid-August readjustment at the refinery level and the rise in electrical energy prices. Once again, food-at-home (-1.02% MoM) showed a steep monthly deflation owed to *in natura*, meats, and milk. Overall, food-at-home and industrial goods continued to reflect lower commodity prices in BRL, services remained on a downward trend, and monitored prices rebounded mostly due to fuels.

Broad qualitative measures improved yet again in this inflation print, beating expectations on MoM terms, as core services, core industrial goods, EX3 core and the average of the five main core measures, followed by the Brazilian Central Bank (BCB), surprised to the downside. The core services' downward surprise came on



the heels of food-services (-2 bps), a topic covered in our last inflation special report¹. **In trend terms, core services fell to 3.5% 3MMA-saar (from 4.2%) and industrial goods core decreased to 2.0% 3MMA-saar (from 3.2%), both supporting the EX3 core easing to 3.1% 3MMA-saar (from 4.0%), the lowest level in three years. Moreover, the diffusion index plummeted to 46.2% (sa), a level compatible with keeping inflation below the target in the medium-term.**

Signs of a downside were observed in the five main core measures (including the EX3), in which three increased in the 3MMA-saar metric, and one remained unchanged. The MS, DP, and EX0 core measures increased to 4.5% 3MMA-saar (from 3.2%), 4.5% 3MMA-saar (from 3.5%) and 3.4% 3MMA-saar (from 3.2%), respectively, while the P55 core stayed at 3.4% 3MMA-saar. **Thus, the average of the five core measures increased to 3.7% 3MMA-saar (from 3.4%). Nevertheless, the rebound in the trend (average) was somewhat expected and it remains at a healthy level, i.e., in the middle of the inflation target band.**

All in all, the print was yet again favorable in qualitative terms, with more signs pointing towards an ongoing disinflation process. Broad qualitative measures dynamics improved at the margin, in particular, core services surprised to the downside, continuing on a downward trajectory – the low diffusion level was last seen during the covid pandemic. Furthermore, the headline YoY change should mark the peak of the annual short-term rebound.

¹ Santander Brazil Special Report: “Food-Services Dynamics and Core Services” – September 29, 2023 – Available on: <https://tinyurl.com/Std-special-092923>



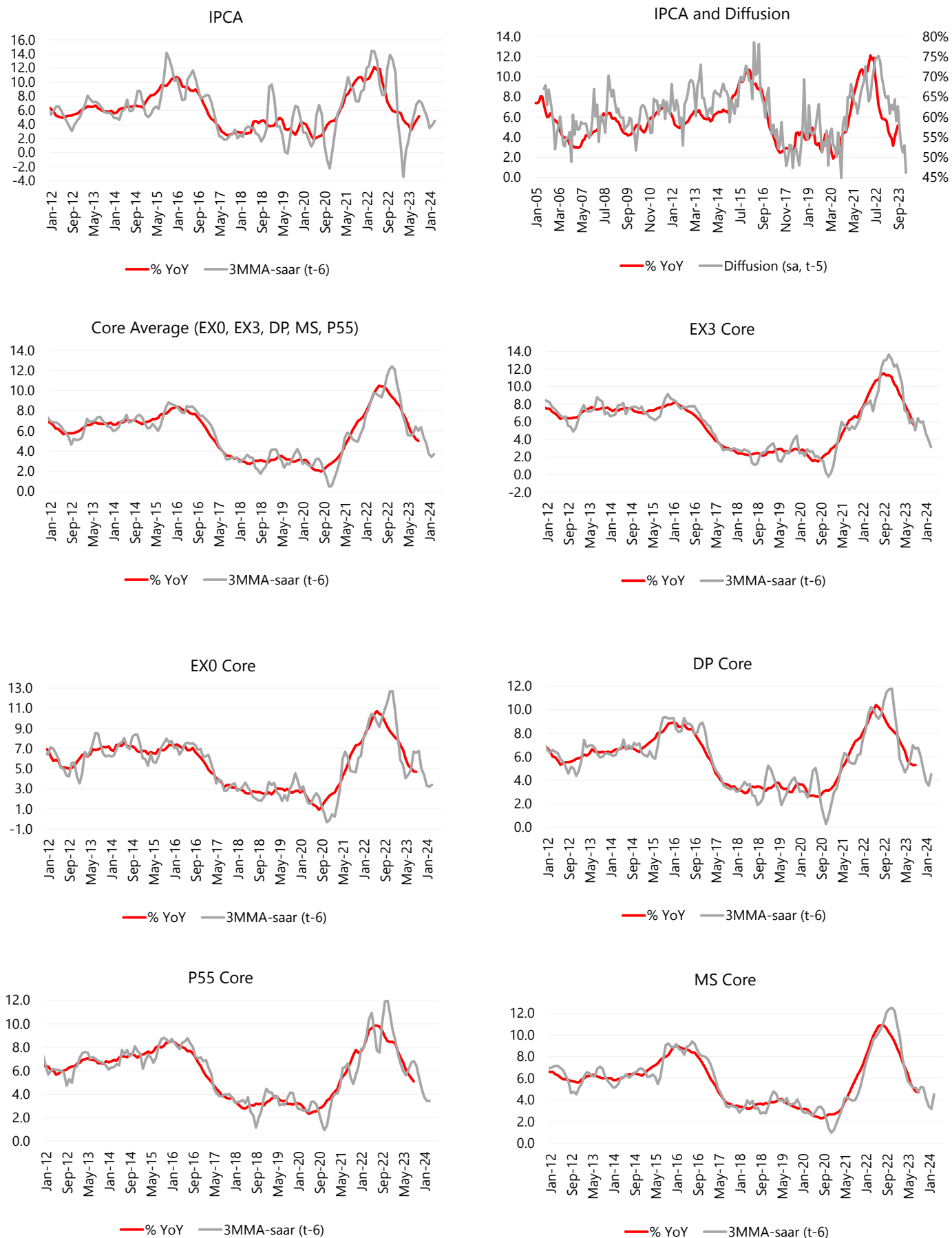
Figure 1. September's IPCA Details (%)

	MoM			YoY	
	Sep-23	Santander	Dev.	Aug-23	Sep-23
IPCA	0.26	0.29	-0.03	4.6	5.2
Food and beverage	-0.71	-0.60	-0.02	1.1	0.9
Food-at-home	-1.02	-1.00	0.00	-0.6	-0.8
Food service	0.12	0.44	-0.02	5.8	5.4
Housing	0.47	0.42	0.01	5.4	5.3
Electrical energy	0.99	0.93	0.00	9.3	9.6
Household articles	-0.58	-0.29	-0.01	0.3	-0.2
Apparel	0.38	0.39	0.00	7.5	6.1
Transportation	1.40	1.44	-0.01	4.1	7.7
Airline tickets	13.47	13.29	0.00	1.5	6.4
Gasoline	2.80	2.90	-0.01	3.9	16.6
Health and personal care	0.04	0.11	-0.01	9.3	8.8
Personal spending	0.45	0.37	0.01	6.0	5.5
Education	0.05	0.04	0.00	8.4	8.3
Communication	-0.11	-0.11	0.00	1.4	3.4
Administered	1.11	1.11	0.00	7.7	10.2
Free	-0.04	0.01	-0.03	3.6	3.5
Food-at-home	-1.02	-1.00	0.00	-0.6	-0.8
<i>Food-at-home core</i>	-0.30	0.01	-0.01	4.6	4.0
Industrial goods	-0.19	-0.09	-0.02	3.7	3.4
<i>Industrial goods core</i>	-0.15	-0.07	-0.01	6.4	5.4
Services	0.50	0.51	0.00	5.4	5.5
<i>Services core</i>	0.33	0.38	-0.01	5.5	5.2
EX3 Core	0.12	0.18	-0.02	5.9	5.3
Average core measures	0.22	0.24	-	5.6	5.0

Sources: Brazilian Central Bank, IBGE, Santander.



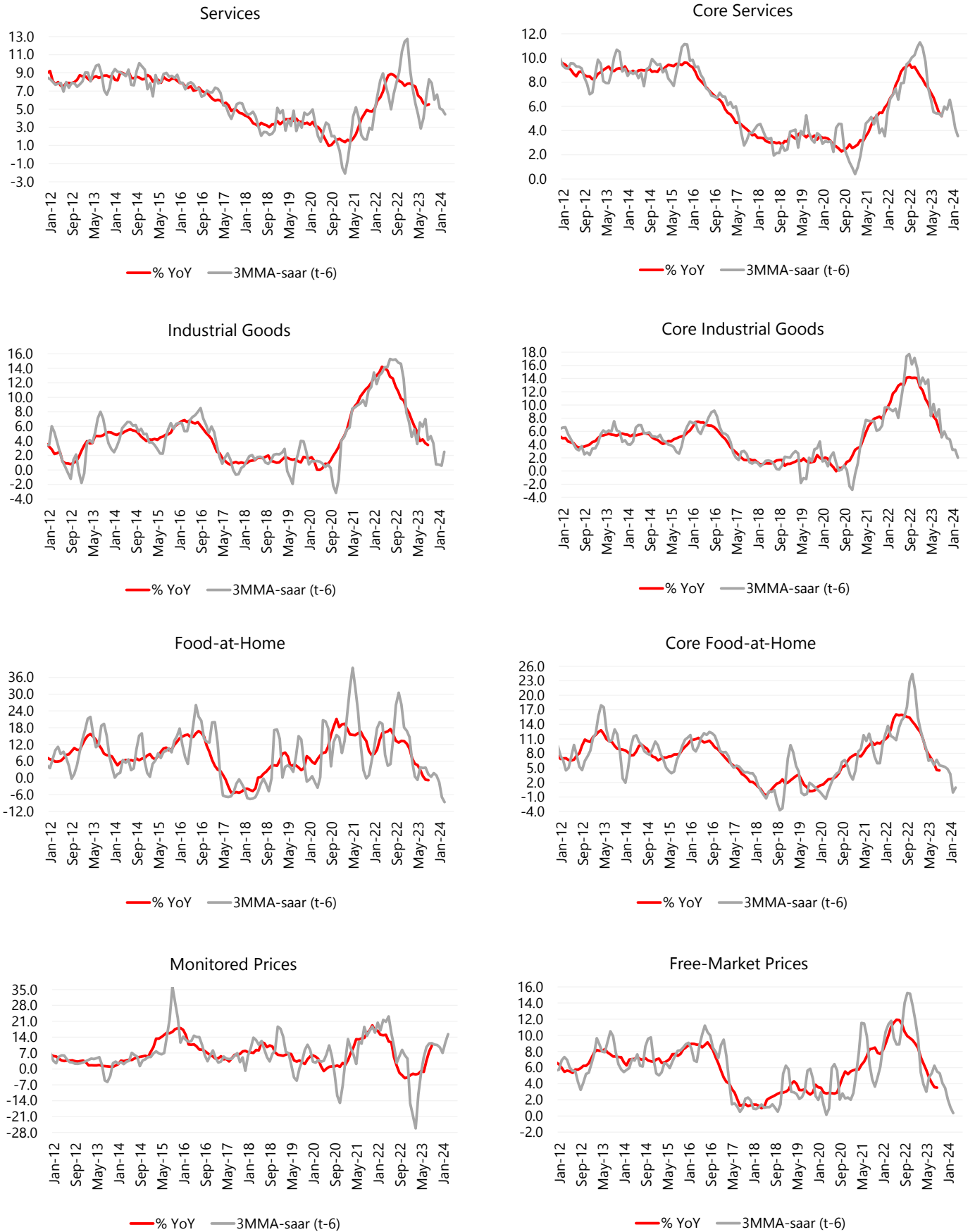
Figure 2. IPCA Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



Figure 3. IPCA Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



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