



## Clear Sign of Deceleration in Services and Core Services

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- The IPCA rose 0.23% MoM in August, in line with our forecast (0.24%) and below the consensus estimate (0.28%). The YoY change rebounded to 4.61% (from 3.99% in July).
- Looking at the qualitative part of the IPCA, the surprise was more welcoming, as core services, at 0.14% MoM, came in 2 bps below our expectation.
- The EX3 core, which encompasses services core and industrial goods core, fell to 3.2% 3MMA-saar (from: 3.9%). While the trend of the average of the five main core measures (EX3 included) followed by the BCB decelerated to 3.2% 3MMA-saar (from: 3.4%).
- On the downside, the diffusion index increased to 55.9% s.a. (from: 52.2%), though it remains at a level compatible with inflation below 4% in the medium term.
- All in all, the print continues to show that underlying inflation, which is stickier and more procyclical, is improving at the margin, including even a downward surprise in core services.
- We are keeping our IPCA 2023 tracking at 4.7%. Looking ahead, we expect this downward trend in core measures to continue in the coming months — one reason behind our downward revision in the IPCA 2024 tracking to 3.8% (from 3.9%).

The IPCA rose 0.23% MoM in August, in line with our forecast (0.24%) and below the consensus estimate (0.28%). The YoY change rebounded to 4.61% (from 3.99% in July), explained by the base effect, as the last year monthly deflation, provoked by last year's tax break, was not accounted in the 12-month sample anymore. The headline trend (3MMA-saar) also rebounded going to 3.9% (from 3.4%), a movement already expected.

In the breakdown of MoM numbers, monitored prices (+3 bps) came above our expectation, driven mostly by gasoline prices (+2 bps). However, it was more than offset by a downward surprise in food-at-home (-4 bps), in which meat (-2 bps) was primarily responsible for our forecast error in the group. Therefore, the bigger IPCA surprises could be explained by volatile items that compensated for each other. Moreover, industrial goods (+1 bp) surprised on the upside, mostly due to apparel, while services (-1 bp) were below expectations owing to personal services.

Looking at the qualitative part of the IPCA, the surprise was more welcoming, as core services, at 0.14% MoM, came in 2 bps below our expectation. Moreover, core services trend (3MMA-saar) fell to 4.1% (from 5.3%), the lowest reading since June 2021. Core industrial goods' trend moved up slightly to 3.6% 3MMA-saar (from 3.4%). Thus, the EX3 core, which encompasses services core and industrial goods core, fell to 3.2% 3MMA-saar (from: 3.9%). Regarding the average of the five main core measures (EX3 included) followed by the BCB, its trend decelerated to 3.2% 3MMA-saar (from: 3.4%), in which only one of the core measures did not fall in August. On the downside, the diffusion index increased to 55.9% s.a. (from: 52.2%), though still at a level compatible with inflation below 4% in the medium term. Overall, qualitative measures improved once again in August.

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

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**All in all, the print continues to show that underlying inflation, which is stickier and more procyclical, is improving at the margin, including even a downward surprise in core services. We are maintaining our IPCA 2023 tracking at 4.7%. Looking ahead, we expect this downward trend in core measures to continue in the coming months — one reasons behind our downward revision in the IPCA 2024 tracking to 3.8% (from 3.9%).**



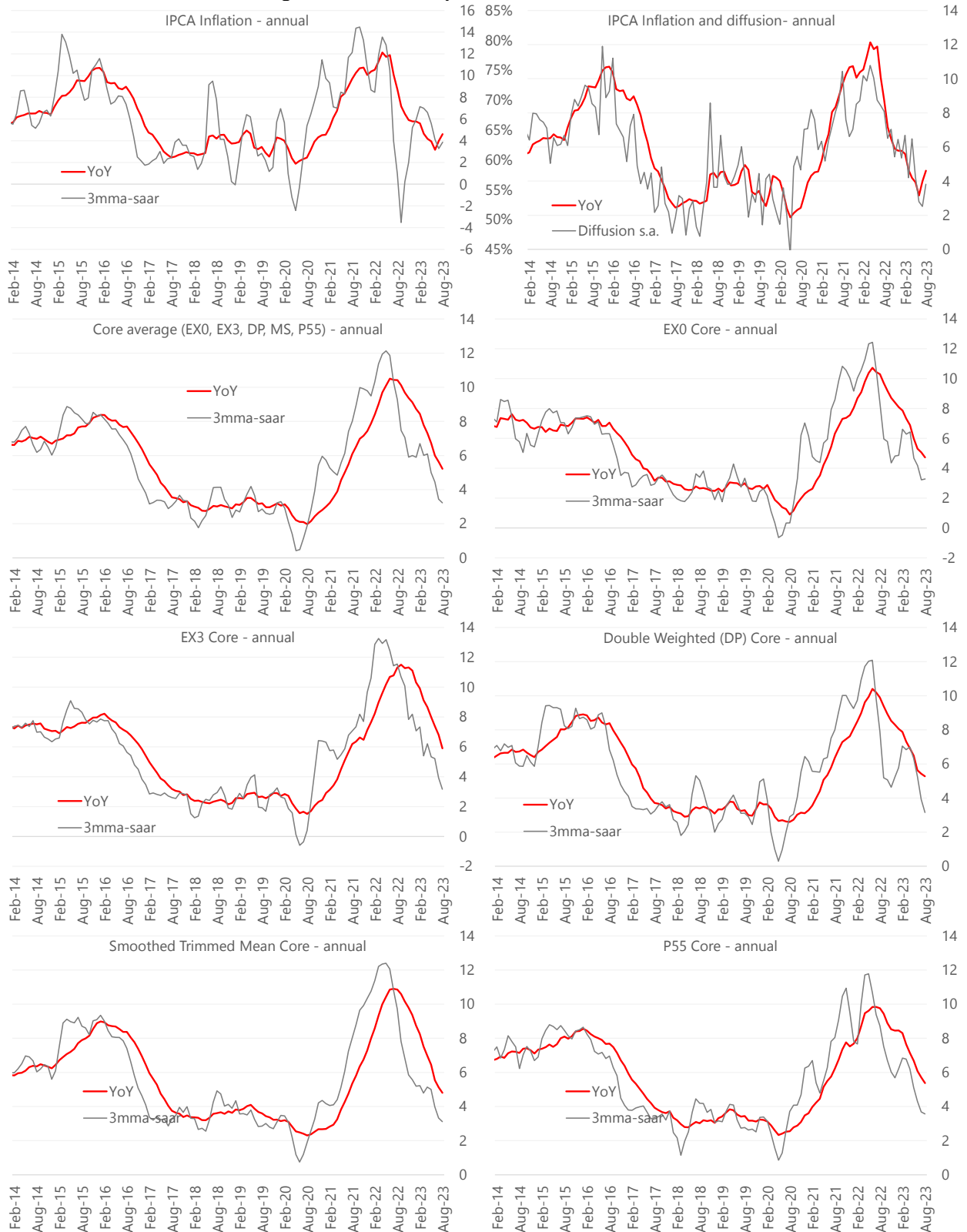
Figure 1. August's IPCA Details (%)

	MoM			YoY	
	Aug-23	Santander	Dev.	Jul-23	Aug-23
<b>IPCA</b>	<b>0.23</b>	<b>0.24</b>	<b>-0.01</b>	<b>4.0</b>	<b>4.6</b>
<b>Food and beverage</b>	<b>-0.85</b>	<b>-0.66</b>	<b>-0.04</b>	<b>2.2</b>	<b>1.1</b>
Food-at-home	-1.26	-1.02	-0.04	0.7	-0.6
Food service	0.22	0.28	0.00	6.5	5.8
<b>Housing</b>	<b>1.11</b>	<b>1.10</b>	<b>0.00</b>	<b>4.4</b>	<b>5.4</b>
Electrical energy	4.59	4.60	0.00	3.2	9.3
<b>Household articles</b>	<b>-0.04</b>	<b>0.01</b>	<b>0.00</b>	<b>0.7</b>	<b>0.3</b>
<b>Apparel</b>	<b>0.54</b>	<b>0.09</b>	<b>0.02</b>	<b>8.8</b>	<b>7.5</b>
<b>Transportation</b>	<b>0.34</b>	<b>0.22</b>	<b>0.03</b>	<b>0.3</b>	<b>4.1</b>
Airline tickets	-11.69	-11.36	0.00	1.0	1.5
Gasoline	1.24	0.90	0.02	-9.3	4.0
<b>Health and personal care</b>	<b>0.58</b>	<b>0.60</b>	<b>0.00</b>	<b>10.1</b>	<b>9.3</b>
<b>Personal spending</b>	<b>0.38</b>	<b>0.44</b>	<b>-0.01</b>	<b>6.2</b>	<b>6.0</b>
<b>Education</b>	<b>0.69</b>	<b>0.67</b>	<b>0.00</b>	<b>8.3</b>	<b>8.4</b>
<b>Communication</b>	<b>-0.09</b>	<b>-0.02</b>	<b>0.00</b>	<b>0.4</b>	<b>1.4</b>
<b>Administered</b>	<b>1.26</b>	<b>1.15</b>	<b>0.03</b>	<b>3.6</b>	<b>7.7</b>
<b>Free</b>	<b>-0.12</b>	<b>-0.07</b>	<b>-0.04</b>	<b>4.1</b>	<b>3.6</b>
Food-at-home	-1.26	-1.02	-0.04	0.7	-0.6
<i>Food-at-home core</i>	-0.38	-0.11	-0.01	6.0	4.6
Industrial goods	0.32	0.28	0.01	4.2	3.7
<i>Industrial goods core</i>	0.39	0.29	0.01	7.7	6.4
Services	0.08	0.10	-0.01	5.6	5.4
<i>Services core</i>	0.14	0.24	-0.02	6.1	5.5
<b>EX3 Core</b>	<b>0.25</b>	<b>0.26</b>	<b>0.00</b>	<b>6.8</b>	<b>5.9</b>

Sources: Brazilian Central Bank, IBGE, Santander.



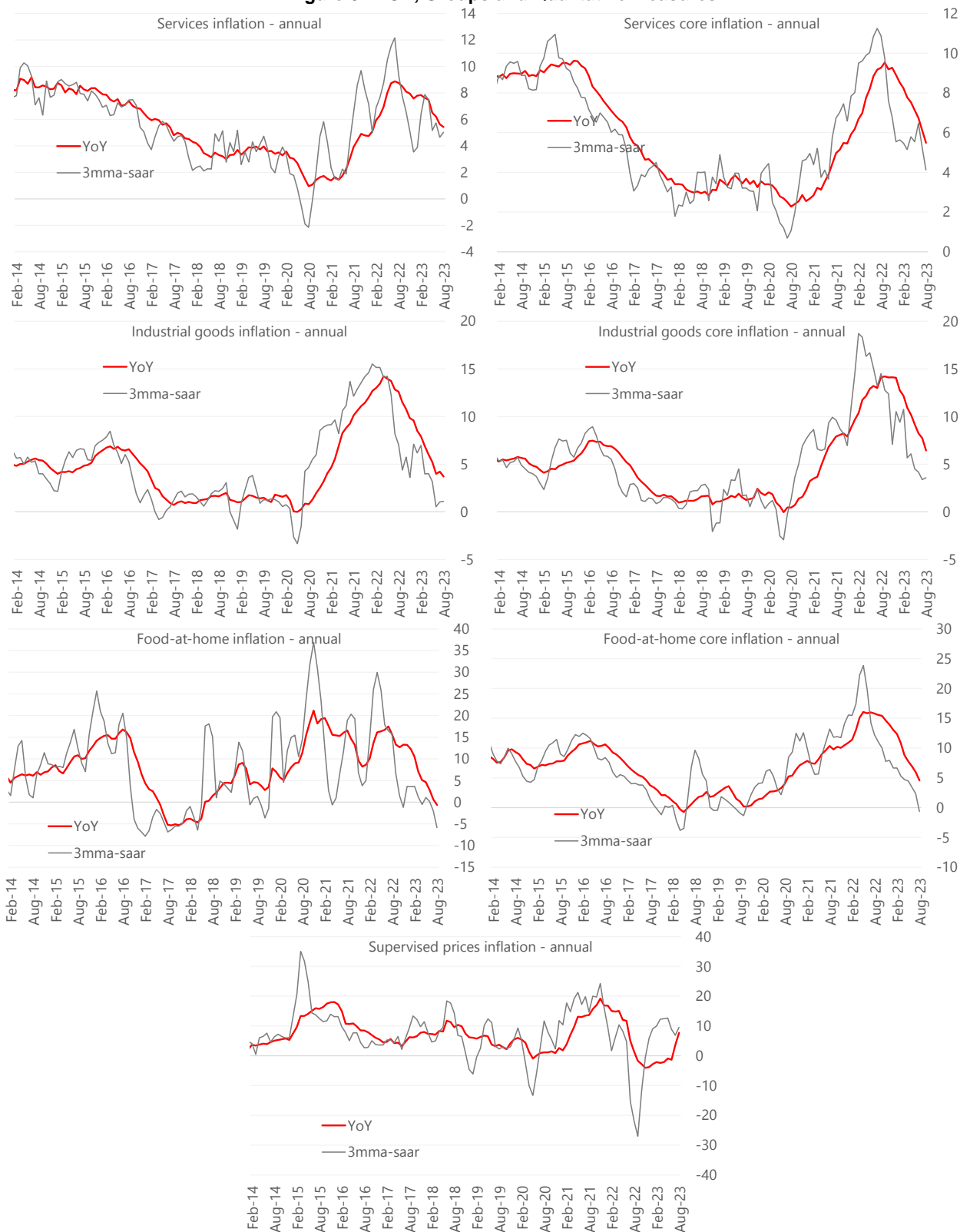
**Figure 2. IPCA, Groups and Qualitative Measures**



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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