



## IPCA-15 April: Marginal Relief for Underlying Measures Don't Improve Inflation Outlook Considerably

Daniel Karp\*  
daniel.karp@santander.com.br  
+5511 3553 9828

- April's IPCA-15 increased 0.60% MoM (6.17% YoY), below the median market expectation of 0.65% and broadly in line with our forecast of 0.62%.
- Underlying measures saw a marginal relief, but inflation determinants continue to signal continued upward pressures throughout the year.
- We raised our high-frequency tracking for IPCA 2021 to 5.4% from 5.3% (the BCB's target is 3.75% with an upper bound of tolerance at 5.25%). We did not change our forecast of 3.7% for IPCA 2022, but risks are also tilted to the upside.

### Still an Unfavorable Reading, but with Marginal Relief for Underlying Measures

April's IPCA-15 increased 0.60% MoM (6.17% YoY), below the median market expectation of 0.65% and broadly in line with our forecast of 0.62%.

**The small downside surprise was scattered between administered prices (-2 bps), services (-2 bps) and industrial goods (-1 bp)**, while food-at-home surprised a bit to the upside (+2 bps). In administered prices we highlight that medicines (-3 bps) and gas cylinders (-3 bps) were important downside surprises—partially compensated by an upside surprise in gasoline (+2 bps). In services, a relevant upside surprise came from airline tickets (+3 bps), but this was compensated by food service (-1 bp) and vehicle insurance (-3 bps).

**In terms of underlying measures, the reading was marginally better (as were the last few), but the picture is still unfavorable and the recent commodities rally is a negative sign in the medium term.** On the bright side, the EX3 core surprised to the downside (0.31% MoM vs. 0.43% estimated) and the 3mma-saar decelerated from 5.8% to 4.9%. Services core also decelerated, to 4.2% from 4.8% in 3mma-saar terms, while industrials core decelerated to 6.2% from 7.3% 3mma-saar. The average of the main cores rose 0.34% MoM, meaning also a small deceleration in the 3mma-saar (5.0% from 5.4%). Finally, the diffusion (seasonally adjusted) fell to 58.3% from 61.0%. Therefore, most of the underlying measures showed some relief at the margin but continued at very high levels, and as the 3mma-saar is pretty volatile, it is too soon, in our view, to make any strong conclusions about a better scenario for short-term inflation—especially with the recent rally in commodities prices (mostly grains and metals) that should renew inflationary pressures on IPCA at some point.

### Forecasts: Small Reduction for April, but a Slight Increase for the Year-End

**We revised our short-term forecasts to 0.27% (from 0.31%) for April, 0.72% (from 0.62%) for May, and 0.24% (from 0.16%) for June.** We highlight that the uncertainty regarding April's number is still considerable, mainly because of doubts regarding the price adjustments for medicines and fuel inflation—the range of economists' forecasts is 0.20%-0.40% MoM. For May there is also high uncertainty regarding the definition of the tariff flag for electricity costs—we forecast a Red 1 flag, but there is a considerable chance of Yellow, generating a -21 bps risk.

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Looking ahead, the recent boost in commodity prices (particularly grains and metals) increases the upside risk for IPCA 2021E and we already raised our high-frequency tracking to 5.4% from 5.3%—it is worth highlighting that the BCB's target is 3.75%, with the upper bound of the tolerance interval at 5.25%. For the IPCA 2022, we still believe that most of the pandemic-related influences will have faded and that prices will return to being more determined by weak demand, causing the IPCA 2022 to stay closer to the target, but a bit above, at 3.70% (target is 3.50%). However, greater inertia from 2021 onward, and a trickier fiscal scenario, tilt the risks to the upside, in our view.

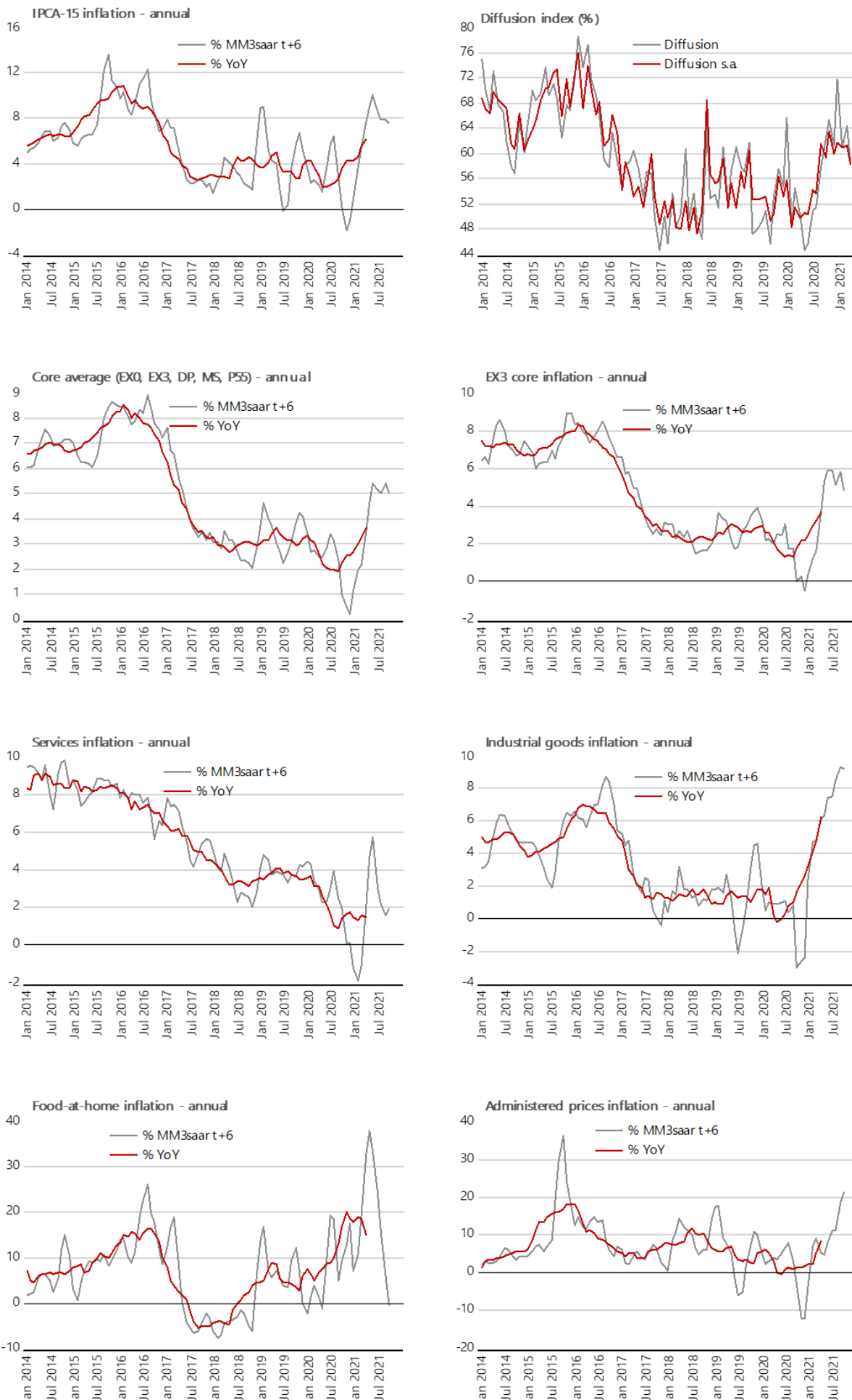
Figure 1. IPCA-15 Inflation by Group

	MoM			YoY	
	Apr-21	Santander	Contrib.	Mar-21	Apr-21
<b>IPCA-15</b>	<b>0.60</b>	<b>0.62</b>	<b>-0.02</b>	<b>5.5</b>	<b>6.2</b>
<b>Food and beverage</b>	<b>0.36</b>	<b>0.35</b>	<b>0.00</b>	<b>14.5</b>	<b>12.2</b>
Food-at-home	0.19	0.09	0.02	18.5	15.1
Food service	0.79	1.00	-0.01	5.6	5.5
<b>Housing</b>	<b>0.45</b>	<b>0.65</b>	<b>-0.03</b>	<b>4.9</b>	<b>5.3</b>
Electrical energy	0.47	0.49	0.00	4.3	4.8
<b>Household articles</b>	<b>0.55</b>	<b>0.60</b>	<b>0.00</b>	<b>7.7</b>	<b>11.8</b>
<b>Apparel</b>	<b>0.17</b>	<b>0.48</b>	<b>-0.01</b>	<b>0.1</b>	<b>0.2</b>
<b>Transportation</b>	<b>1.76</b>	<b>1.60</b>	<b>0.03</b>	<b>6.2</b>	<b>9.7</b>
Airline tickets	6.27	-1.00	0.03	-12.9	-19.4
Gasoline	5.49	5.13	0.02	15.8	29.1
<b>Health and personal care</b>	<b>0.44</b>	<b>0.60</b>	<b>-0.02</b>	<b>1.6</b>	<b>2.4</b>
<b>Personal spending</b>	<b>0.05</b>	<b>0.09</b>	<b>0.00</b>	<b>0.8</b>	<b>1.1</b>
<b>Education</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>-1.2</b>	<b>-1.2</b>
<b>Communication</b>	<b>-0.04</b>	<b>-0.02</b>	<b>0.00</b>	<b>2.7</b>	<b>3.0</b>
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<b>Administered</b>	<b>1.55</b>	<b>1.62</b>	<b>-0.02</b>	<b>5.3</b>	<b>8.1</b>
<b>Free</b>	<b>0.27</b>	<b>0.28</b>	<b>-0.01</b>	<b>5.6</b>	<b>5.5</b>
Food-at-home	0.19	0.09	0.02	18.5	15.1
Industrial goods	0.46	0.52	-0.01	4.7	6.3
Services	0.18	0.22	-0.02	1.6	1.5
<b>EX3 Core</b>	<b>0.31</b>	<b>0.43</b>	<b>-0.12</b>	<b>3.2</b>	<b>3.7</b>
<b>Average of cores</b>	<b>0.34</b>	<b>-</b>	<b>-</b>	<b>3.3</b>	<b>-</b>

Sources: IBGE, BCB, and Santander.



**Figure 2. IPCA-15 Inflation and Qualitative Measures**



Sources: IBGE, BCB 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*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
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
Juan Cerruti *	Senior Economist – Argentina	jcerruti@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@santanderrio.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
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Henrique Navarro*	Head, Brazil	havieira@santander.com.br	5511-3012-5756

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