

Higher Volatile Price Surprises Mask Improvements in Core Gauges

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- The IPCA-15 rose 0.28% MoM in August, above the consensus (0.16%) and our forecast (0.17%). The YoY change jumped to 4.24% (from 3.19% in July), but it was explained by base effects and the rebound of one-off movements in new autos and electrical energy prices this month.
- The upward surprise was spread among different groups but concentrated in highly volatile items.
- Most of the qualitative measures improved once again in this August mid-month inflation print. Core services (+0.27% MoM) came slightly below our expectation with its trend, i.e., 3MMA-saar measure, easing to 4.6% (from 5.5%). This is especially important as it has been closely followed by the Brazil Central Bank (BCB).
- Broad core gauges tell a better story about the disinflation process when compared to the headline surprise.
- All in all, the August's IPCA-15 inflation print continues to show further evidence that the stickier part of inflation – mainly core services – is improving (decelerating) at the margin, despite the headline rebound and the upward surprise.

The IPCA-15 rose 0.28% MoM in August, above the consensus (0.16%) and our forecast (0.17%). The YoY change jumped to 4.24% (from 3.19% in July), but it was explained by base effects – we saw a deep deflation for this month last year following temporary tax breaks – and the rebound of one-off movements in new autos and electrical energy prices this month. The headline trend (3MMA-saar) decelerated to 3.1% (from 4.3%).

The upward surprise was spread among different groups, but concentrated in highly volatile items, such as food-at-home (+4 bps), airline tickets (+3 bps), new autos (+4 bps), and personal hygiene (+4 bps) – driven by skincare products and perfume in the latter. On the other hand, gasoline (-5 bps) came below expectations. These volatile items also explain the surprise in the breakdown, as besides food-at-home, industrial goods (+6 bps) and services (+6 bps) surprised to the upside, while monitored prices came 4 bps below our expectation.

Most of the qualitative measures improved once again in this August mid-month inflation print. Core services (+0.27% MoM) came slightly below our expectation with its trend, i.e., 3MMA-saar measure, easing to 4.6% (from 5.5%). This is especially important as has been closely followed by the BCB. However, after falling 11 months in a row, core industrial goods moved up to 3.8% 3MMA-saar (from 3.0%). The EX3 gauge, which encompasses both services and industrial goods core measures, decelerated to 4.2% 3MMA-saar (from 4.6%). While the average five main core indexes followed by the BCB eased to 3.4% 3MMA-saar (from 3.8%). Finally, the diffusion index rose to 52.4% s.a. (from 51.3%), a level still compatible

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with inflation around 3.0% in the medium term. **Therefore, broad core gauges tell a better story about the disinflation process when compared to the headline surprise.**

Even though most of the qualitative measures were positive, there were a few negative signs. Looking at the services breakdown, all are way above the 3.0% inflation target, as the part related to wages seems to be stabilizing around 4.5% 3MMA-saar. The share more linked to economic activity is accelerating and reached 6.0% 3MMA-saar, while inertial services eased to 5.2% 3MMA-saar.

All in all, the August's IPCA-15 inflation print continues to show further evidence that the stickier part of inflation – mainly core services – is improving (decelerating) at the margin, despite the headline rebound and the upward surprise. Our high frequency inflation tracking continues at 4.7% with downward risks for IPCA 2023 and at 3.9% for 2024.



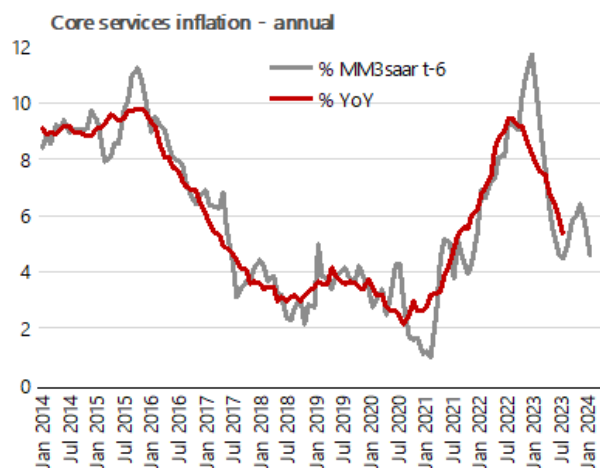
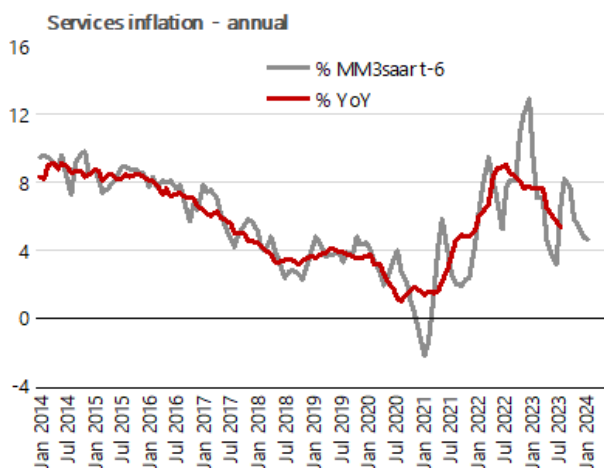
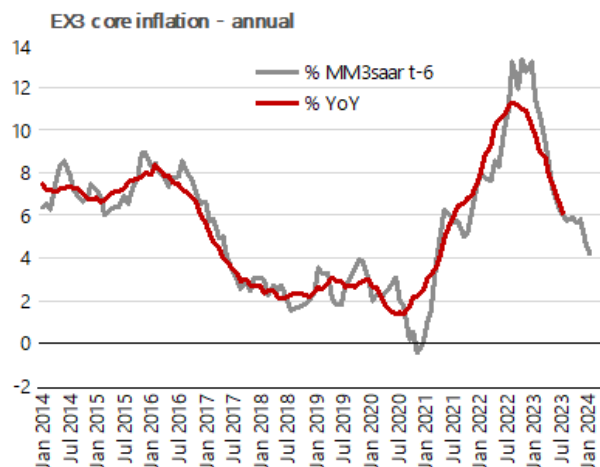
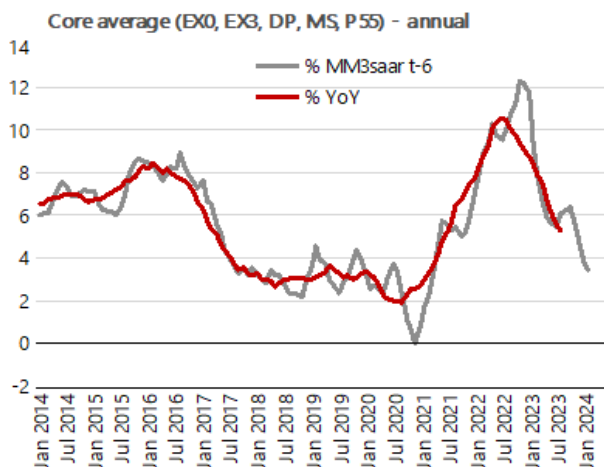
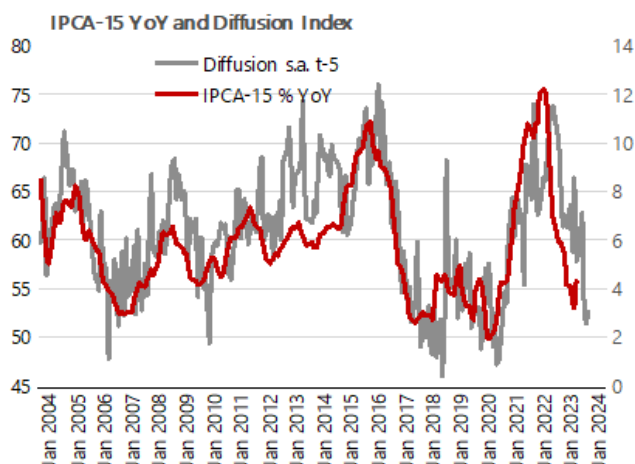
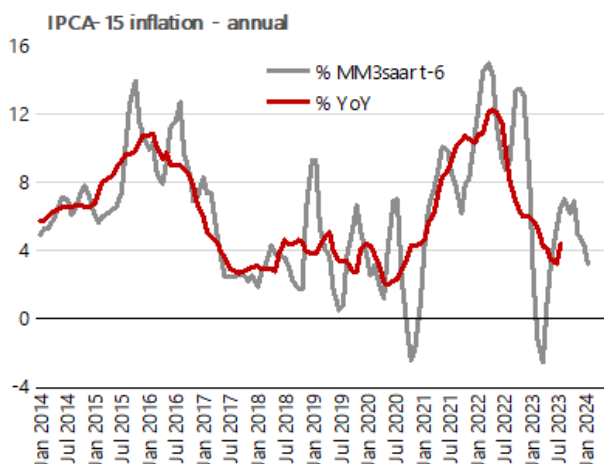
Figure 1. August's IPCA-15 Details (%)

	MoM			YoY	
	Aug-23	Santander	Contrib.	Jul-23	Aug-23
IPCA-15	0.28	0.17	0.11	3.2	4.2
Food and beverage	-0.65	-0.83	0.04	3.3	1.5
Food-at-home	-0.99	-1.23	0.04	2.2	0.0
Food service	0.22	0.20	0.00	6.3	5.7
Housing	1.08	1.07	0.00	3.9	5.4
Electrical energy	4.59	3.80	0.03	0.7	8.9
Household articles	0.01	0.15	-0.01	0.3	0.3
Apparel	-0.03	-0.08	0.00	8.9	8.0
Transportation	0.23	0.19	0.01	-3.8	1.8
Airline tickets	-11.36	-17.00	0.03	1.7	2.7
Gasoline	0.90	1.85	-0.05	-21.3	-4.6
Health and personal care	0.81	0.63	0.02	9.9	9.9
Personal spending	0.60	0.34	0.03	6.1	5.9
Education	0.71	0.48	0.01	8.3	8.4
Communication	0.04	-0.04	0.00	0.6	0.9
Administered	1.02	1.20	-0.04	0.2	5.7
Free	0.03	-0.18	0.15	4.3	3.7
Food-at-home	-0.99	-1.23	0.04	2.2	0.0
<i>Food-at-home core</i>	-0.31	-0.12	-0.01	6.4	6.4
Industrial goods	0.54	0.29	0.06	3.6	3.9
<i>Industrial goods core</i>	0.41	0.28	0.02	7.5	7.5
Services	0.13	-0.03	0.06	5.6	5.4
<i>Services core</i>	0.27	0.31	-0.01	5.9	5.9
EX3 Core	0.33	0.30	0.01	6.6	6.1
Average of cores	0.34	0.26	-	5.5	-

Sources: Brazilian Central Bank, IBGE, Santander.



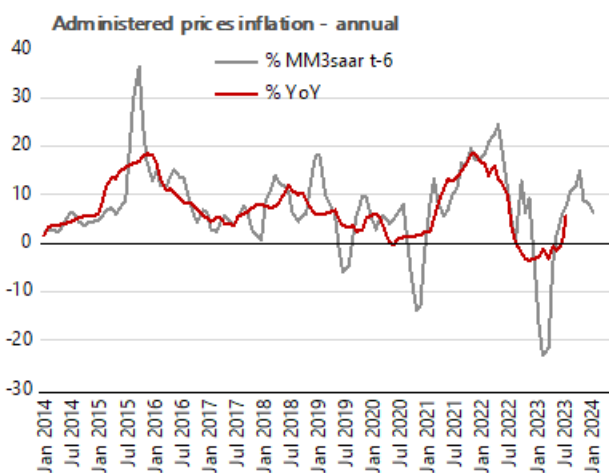
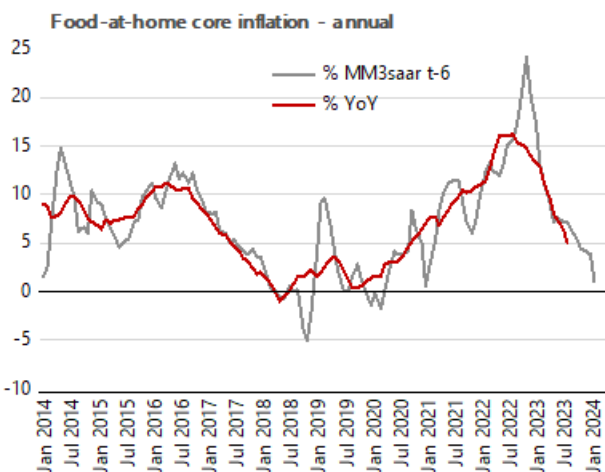
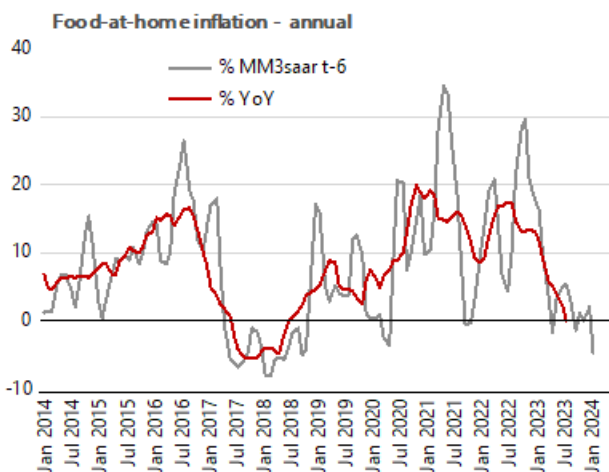
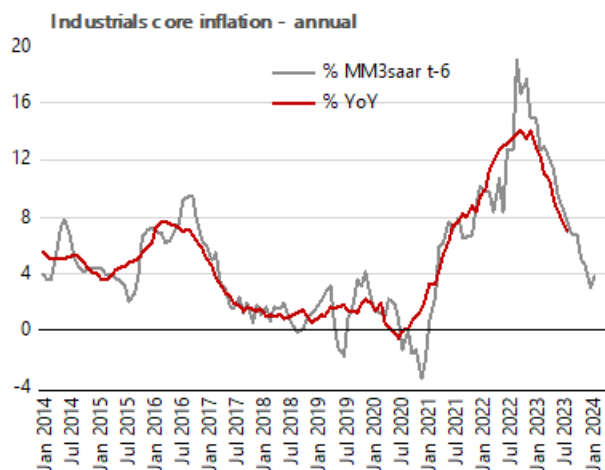
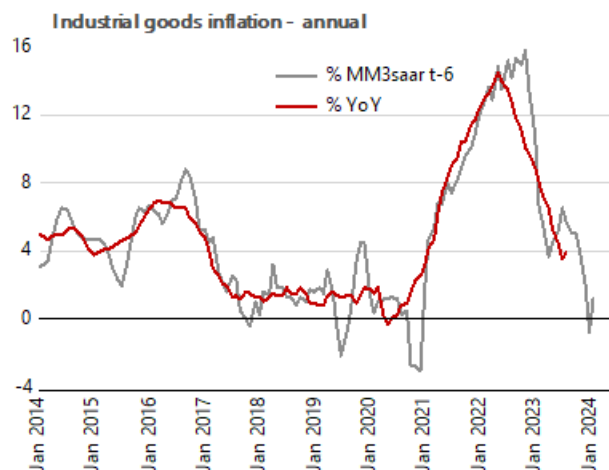
Figure 2. IPCA-15, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



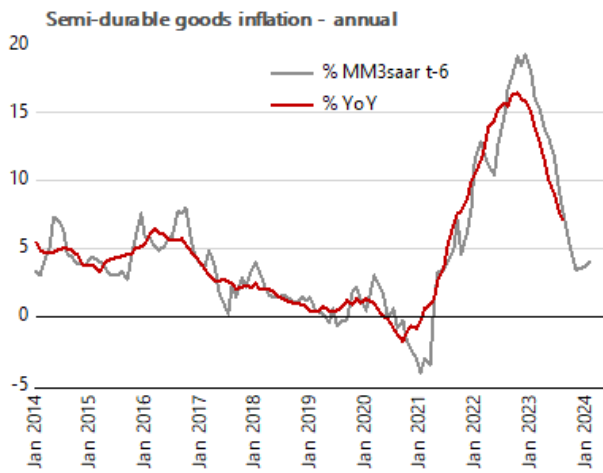
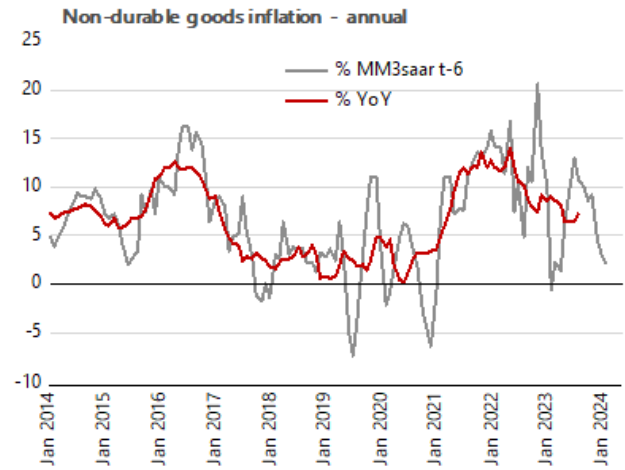
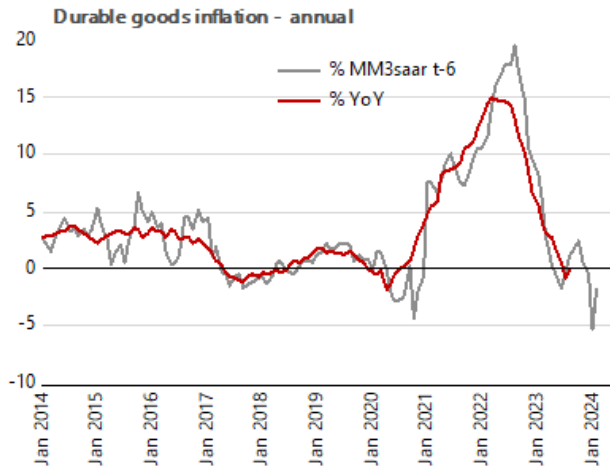
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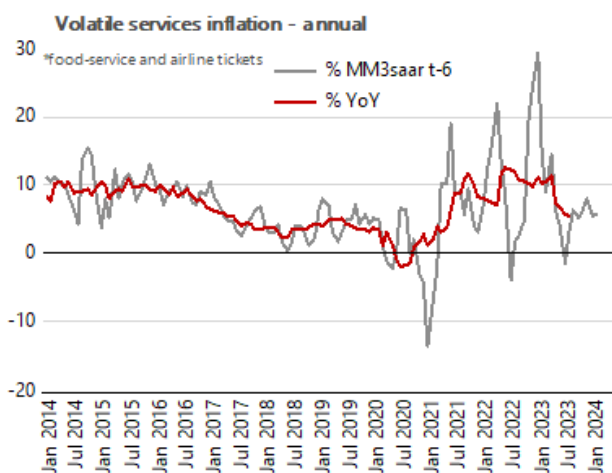
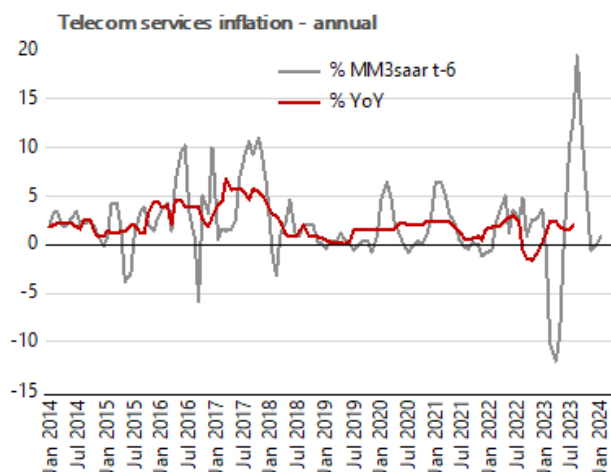
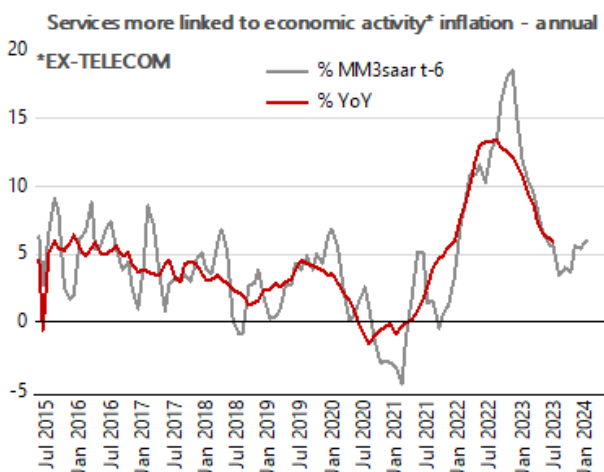
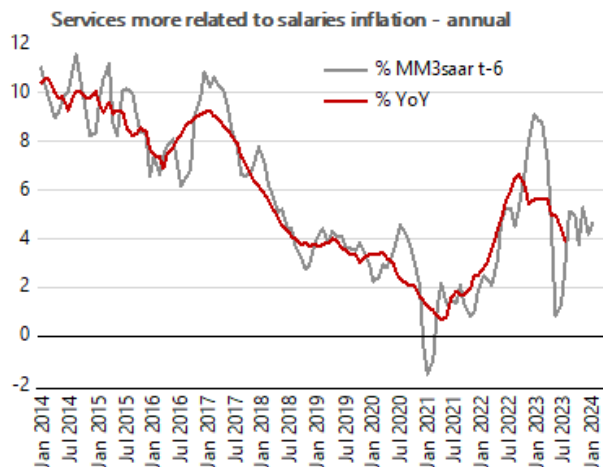
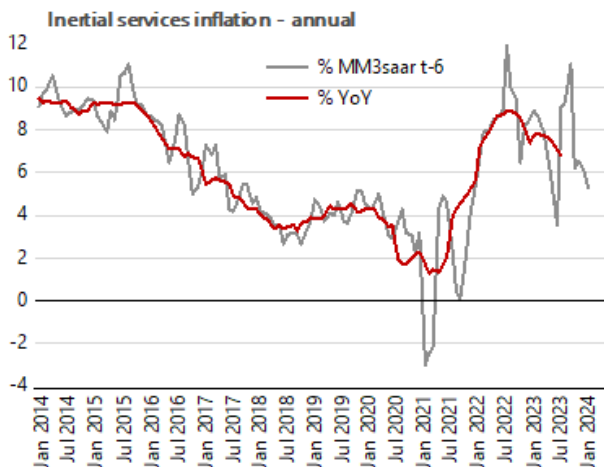
Figure 4. IPCA-15, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



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