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A Mixed Showing in Qualitative Measures

- **IPCA-15 rose 0.76% MoM in February, slightly above the consensus estimate of 0.72% and our forecast of 0.73%. The YoY change fell to 5.6%. The trend (3MMA-saar) continued to rebound, reaching 6.2% 3MMA-saar (from 5.0%).**
- **Upward surprises came in food and industrial goods, while downward surprises were concentrated in services, although in a volatile item: airline tickets.**
- **Broad qualitative measures once again showed mixed signals. The EX3 (the one more correlated with the output gap) saw a drop to 5.5% 3MMA-saar (from 5.9%). The diffusion index moved higher, reaching 67.1% s.a. (from 61.4%).**
- **All in all, we still see a divergence between short-term inflation and medium- and long-term expectations. Although short-term inflation is still high, and despite some mixed signals in the qualitative measures, we maintain our view that in broad terms short-term inflation continues to improve (both headline and core), whereas medium- and long-term expectations keep rising, given uncertainties regarding the path to achieving structural reforms and the debate around the possible increase of the inflation target. We are maintaining our IPCA 2023 tracking at 5.9% and our IPCA 2024 tracking at 3.7%.**

IPCA-15 rose 0.76% MoM in February, slightly above the consensus estimate of 0.72% and our forecast of 0.73%. The YoY change fell to 5.6%. The trend (3MMA-saar) continued to rebound, reaching 6.2% 3MMA-saar (from 5.0%).

In the breakdown, upward surprises came in food and industrial goods, with each group contributing +5 bps to the headline error. On the other side, downward surprises were concentrated in services (-6 bps), although in a volatile item: airline tickets. However, we highlight that although we are getting education inflation right (6.4% MoM), we believe the market had higher estimates, so we believe downward revisions for that line are likely for February's IPCA. Regulated prices came in line with our estimate.

In trend terms, food-at-home rose to 7.0% 3MMA-saar (from 6.5%), driven by dairy products. Meanwhile, industrial goods fell to 5.0% 3MMA-saar (from 5.4%). On the other side, the services inflation trend rose to 6.0% 3MMA-saar (from 4.3%), with all but one of the services subgroups contributing to the rise. The exception was airline tickets, which fell to 9.4% MoM. Finally, regulated prices trend fell to 3.3% 3MMA-saar (from 5.4%).

Broad qualitative measures once again showed mixed signals, with some rising and some falling, and as a result, the average saw an uptick to 6.3% 3MMA-saar (from 5.8%). The EX3 (the one more correlated with the output gap) saw a drop to 5.5% 3MMA-saar (from 5.9%). The MS core also decelerated, while EX0, DP, and P55 accelerated. The diffusion index moved higher, reaching 67.1% s.a. (from 61.4%). It is worth highlighting that the latter's level exceeds the average for the years of low inflation (2017-2020).

All in all, we still see a divergence between short-term inflation and medium- and long-term expectations. Although short-term inflation is still high, and despite some mixed signals in the qualitative measures, we

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maintain our view that in broad terms short-term inflation continues to improve (both headline and core), while medium- and long-term expectations keep rising, given uncertainties regarding the path to achieving structural reforms and the debate around the possible increase of the inflation target. **We are maintaining our IPCA 2023 tracking at 5.9%, and our IPCA 2024 tracking at 3.7%.**

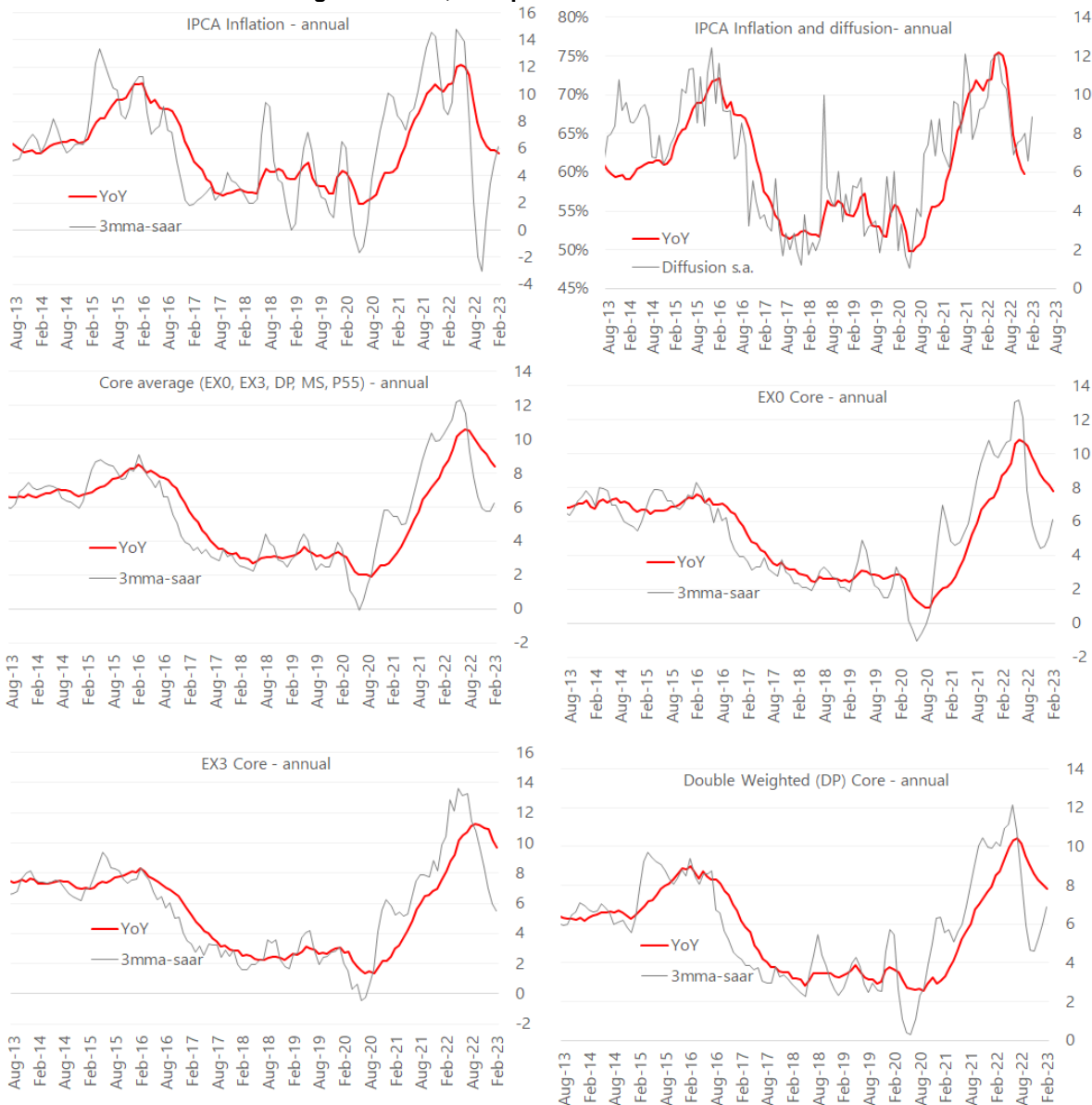
Figure 1. February's IPCA-15 Details (%)

	MoM			YoY		3MMA-saar	
	Feb-23	Santander	Desv.	Jan-23	Feb-23	Jan-23	Feb-23
IPCA-15	0.76	0.73	0.03	5.9	5.6	5.0	6.2
Food and beverage	0.39	0.23	0.03	11.5	10.6		
Food-at-home	0.38	0.06	0.05	13.1	11.8	6.5	7.0
Food service	0.40	0.70	-0.02	7.5	7.5		
Housing	0.63	0.43	0.03	-0.2	0.2		
Electrical energy	0.35	0.30	0.00	-18.8	-17.9		
Household article	0.71	0.57	0.01	7.3	6.0		
Apparel	-0.05	-0.32	0.01	17.2	15.8		
Transportation	0.08	0.47	-0.08	-0.4	-1.2		
Airline tickets	-9.45	-1.00	-0.06	51.3	44.3		
Gasoline	-0.04	0.40	-0.02	-24.6	-24.7		
Health and personal	0.55	0.40	0.02	11.4	12.1		
Personal spending	0.63	0.61	0.00	7.5	7.3		
Education	6.41	6.34	0.00	7.5	8.3		
Communication	0.78	0.77	0.00	0.1	0.6		
Administered	0.57	0.61	-0.01	-3.0	-2.6	5.4	3.3
Free	0.82	0.77	0.04	9.2	8.6		
Food-at-home	0.38	0.06	0.05	13.1	11.8	6.5	7.0
Industrial goods	0.39	0.18	0.05	8.9	8.0	5.4	5.0
Services	1.32	1.49	-0.06	7.7	7.6	4.3	6.0
EX3 Core	0.45	0.46	-0.01	10.2	9.7	5.9	5.5
Average of cores	0.68	-		8.7	8.4	5.8	6.3

Sources: Brazilian Central Bank, IBGE, Santander.



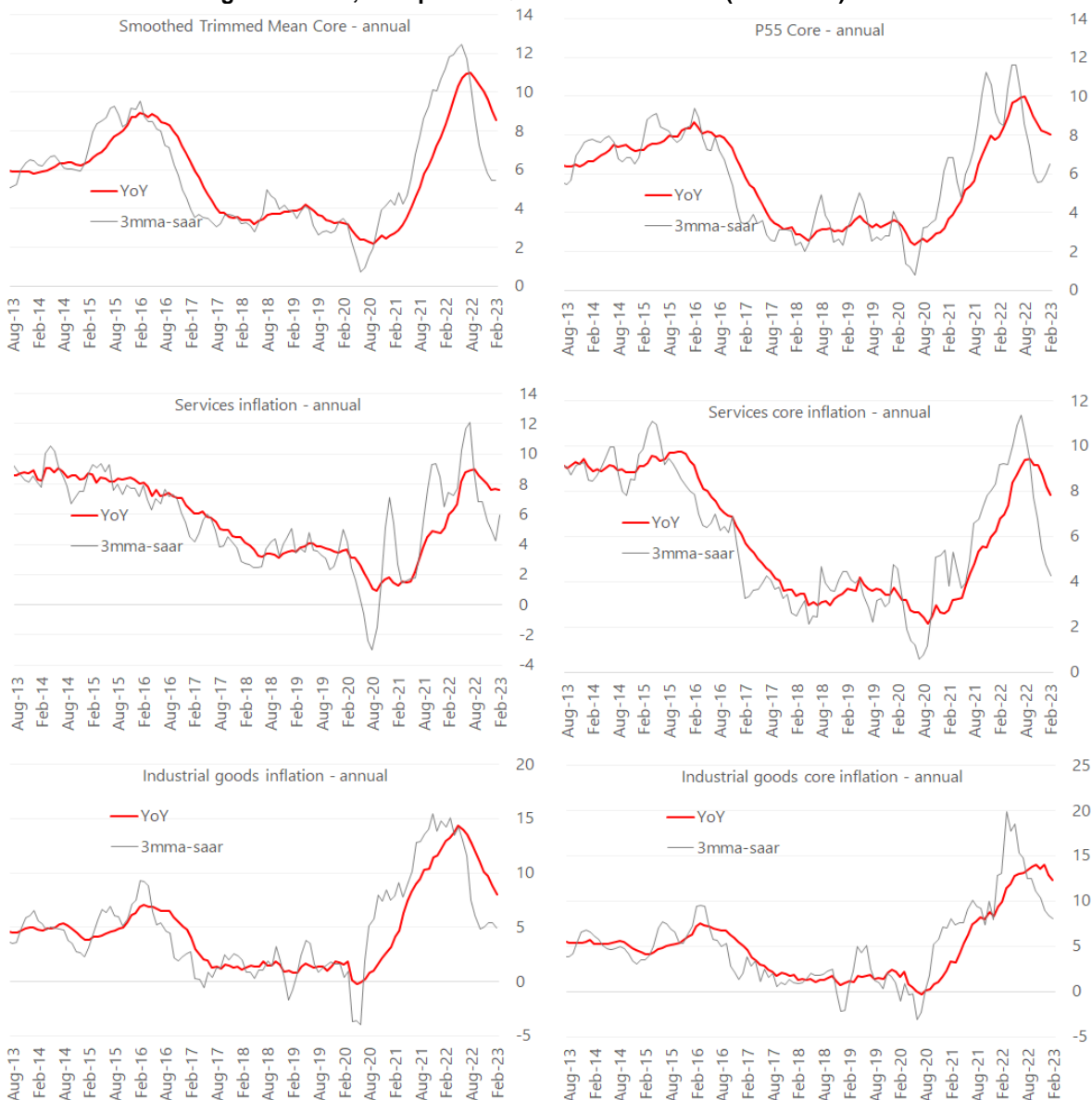
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



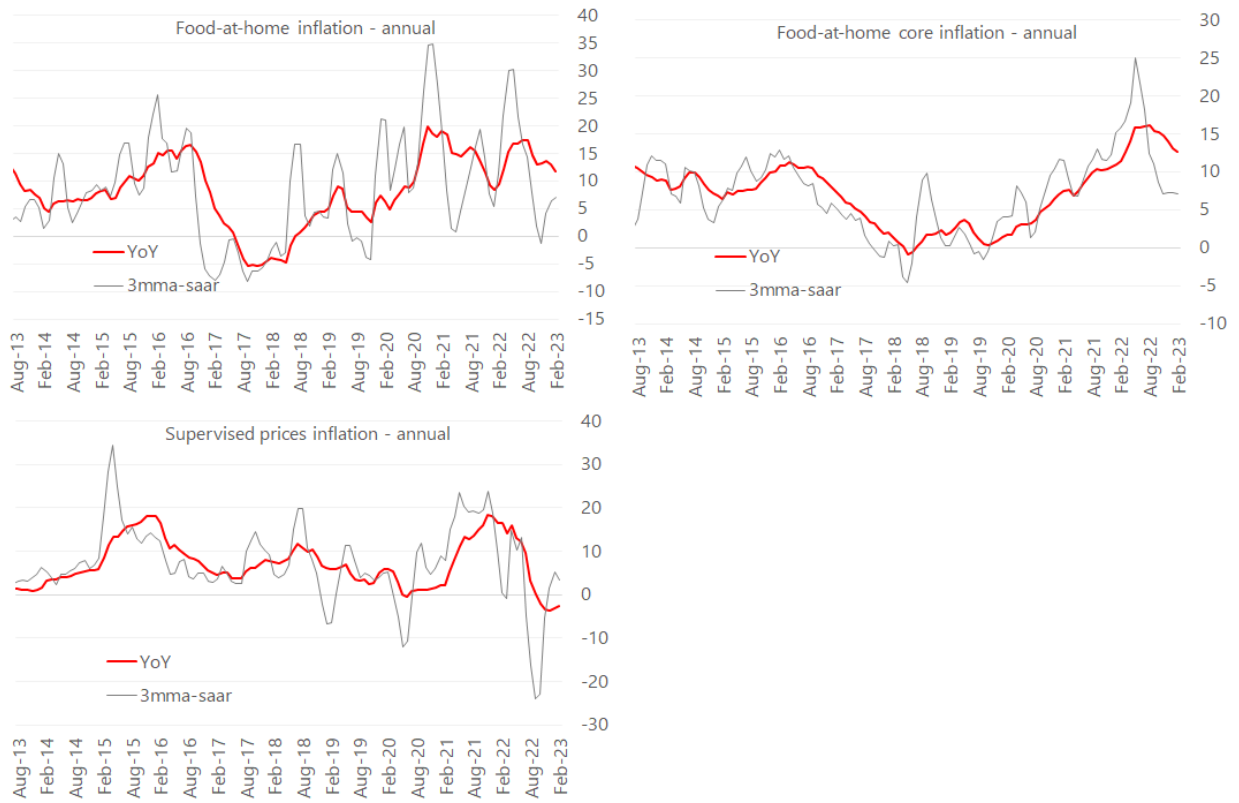
Figure 3. IPCA, Groups and Qualitative Measures (continued)



Sources for all charts: IBGE and Santander.



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



Sources for all charts: IBGE and Santander.



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