

June IPCA-15: Unfavorable Composition, Risks Keep Rising

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- June's IPCA-15 registered a 0.83% MoM change (8.13% YoY), in line with our estimate of 0.82% and a bit below the market's median expectation of 0.85%.
- The upside surprise came in services, a core-related group that the BCB is closely watching to decide the next steps of monetary policy. Core services are hovering around 4.5% in 3mma-saar terms.
- Qualitative measures were notably unfavorable, with core measures rising (to 6.1% in 3mma-saar terms) and diffusion remaining high (69.5%, seasonally adjusted), evidencing the spread of primary shocks to general prices.
- We have raised our IPCA 2021 tracking to 6.6% (from 6.1%), while our IPCA 2022 tracking remains unchanged at 4.0%. The balance of risks remains tilted to the upside, in our view.

More Evidence of (The Risky) Spread of Primary Shocks to General Prices

June's IPCA-15 registered a 0.83% MoM change (8.13% YoY), in line with our estimate of 0.82% and a bit below the market's median expectation of 0.85%. The headline accelerated from 9.0% in May-21 to 9.2% in 3mma-saar terms, showing that the upward pressure remains strong.

The upside surprise came in services, a core-related group that the BCB is closely watching to decide the next steps of monetary policy. The group rose 0.30% MoM vs. our estimate of 0.15%, contributing +5 bps to the headline forecast error and accelerating to 2.4% in 3mma-saar terms. Although the headline services inflation is not high, it is accelerating, and the re-opening of the economy should provide support for that move. Moreover, the core of services is already higher at 4.5% in 3mma-saar terms, and it has been hovering around that level for eight months now, showing a risky persistence—it is important to highlight the role of food-service (surprising with +1 bp to the headline) which remains a risk given the shock the sector was subjected to (food prices). Finally, despite coming in line, industrial goods continue to have an unfavorable outlook, rising 1.05% MoM, equivalent to acceleration to 11.8% in 3mma-saar terms, showing no sign of relief in sight. Finally, food-at-home (-3 bps of error) and administered prices (-2 bps of error), usually non-core-related groups, were the downside surprises.

Qualitative measures remain considerably unfavorable, with cores rising and diffusion continuing at a high level. The average of the main core measures followed by the BCB was already hovering at the distressed level of 4.5%-5.5% in 3mma-saar terms for seven months and now it accelerated further to the even higher level of 6.1% 3mma-saar. This is an evidence of spreading of the primary shocks (commodities, exchange rate, supply chain disruption, etc.) to the general prices and the persistency at these levels is risky. Also on that tone, the diffusion index – a leading indicator of annual inflation – fell a bit but stayed at the high level of 69.5% (seasonally adjusted), compatible with annual inflation at around 10% five months ahead, reinforcing the signs of the spreading of shocks.

Forecasts Remain above the BCB's Target, and Risks Are Still Tilted to the Upside

Our worries regarding the inflation outlook keep piling up, despite some relief in commodity prices and BRL. First because we see a large backlog of prices at the wholesale level that should still come to the consumers, and second because we are seeing more evidence of spreading of primary shocks to general prices, which can worsen with a stronger economic recovery once the pandemic starts to fade (particularly in services).

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We revised our IPCA 2021 high-frequency tracking to 6.6% (from 6.5%), while the IPCA 2022 tracking remains unchanged at 4.0%; however, we see risks as tilted to the upside for both years. It is worth remembering that the BCB's target is 3.75% for 2021 ($\pm 1.50\%$ of tolerance interval) and 3.50% for 2022 (same tolerance interval), so our forecasts are above the targets for both years.

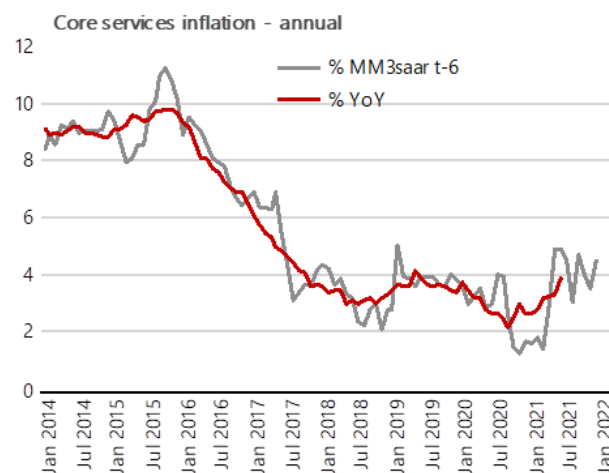
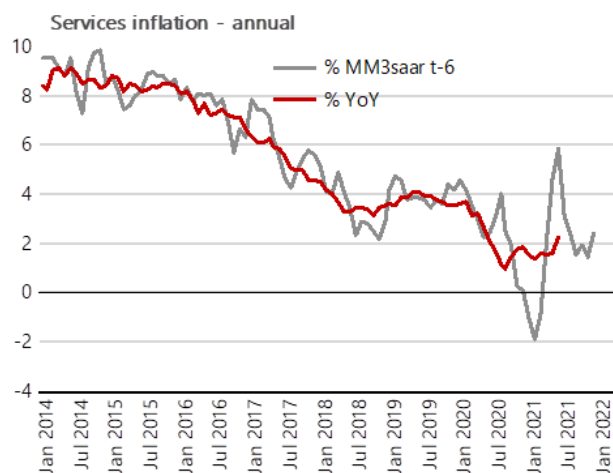
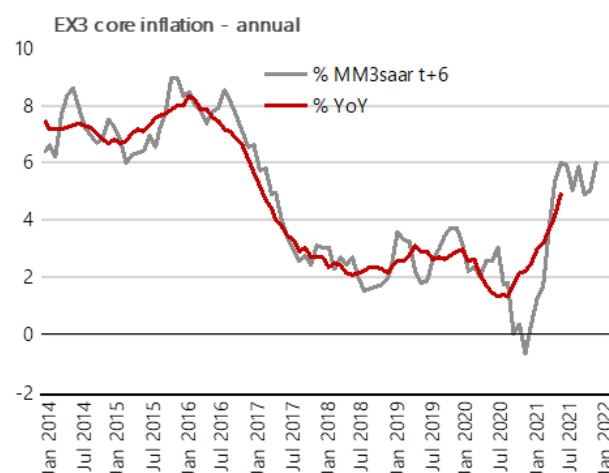
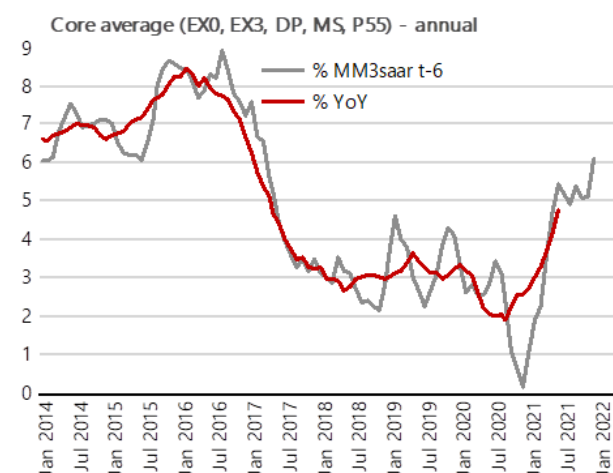
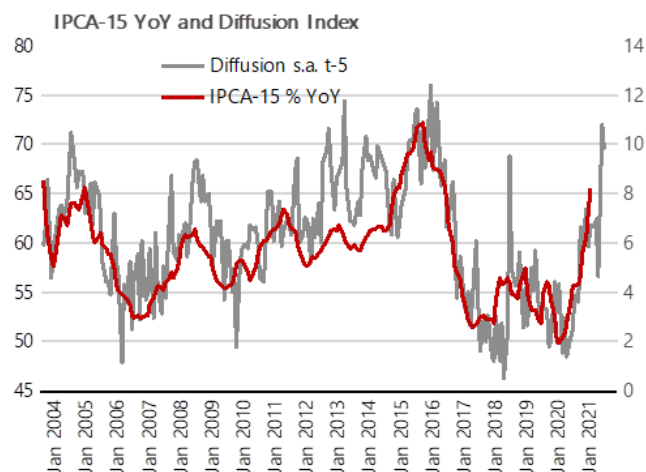
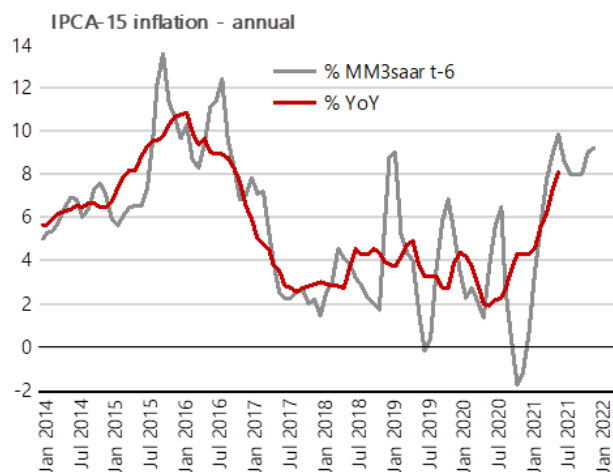
Figure 1. IPCA-15 by Group and Forecasting Errors

	MoM			YoY	
	Jun-21	Santander	Contrib.	May-21	June-21
IPCA-15	0.83	0.82	0.01	7.3	8.1
Food and beverage	0.41	0.51	-0.02	12.2	12.1
Food-at-home	0.15	0.35	-0.03	15.0	14.5
Food service	1.08	0.92	0.01	5.8	6.6
Housing	1.67	1.60	0.01	6.4	8.2
Electrical energy	3.85	4.00	-0.01	8.0	12.8
Household articles	1.38	1.16	0.01	12.3	12.3
Apparel	0.88	0.69	0.01	1.9	2.9
Transportation	1.35	1.36	0.00	13.0	15.3
Airline tickets	-5.63	-8.00	0.01	-21.4	0.4
Gasoline	2.86	2.40	0.03	41.6	45.9
Health and personal care	0.53	0.51	0.00	3.8	4.3
Personal spending	0.32	0.26	0.01	1.3	1.7
Education	0.03	0.01	0.00	-1.1	-1.1
Communication	0.15	0.24	0.00	2.8	2.3
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Administered	1.74	1.80	-0.02	11.3	13.3
Free	0.51	0.47	0.03	5.9	6.4
Food-at-home	0.15	0.35	-0.03	15.0	14.5
Industrial goods	1.05	1.05	0.00	7.4	8.3
Services	0.30	0.15	0.05	1.6	2.2
EX3 Core	0.61	0.47	0.14	4.1	4.9
Average of cores	0.62	-	-	4.1	-

Sources: IBGE and Santander.



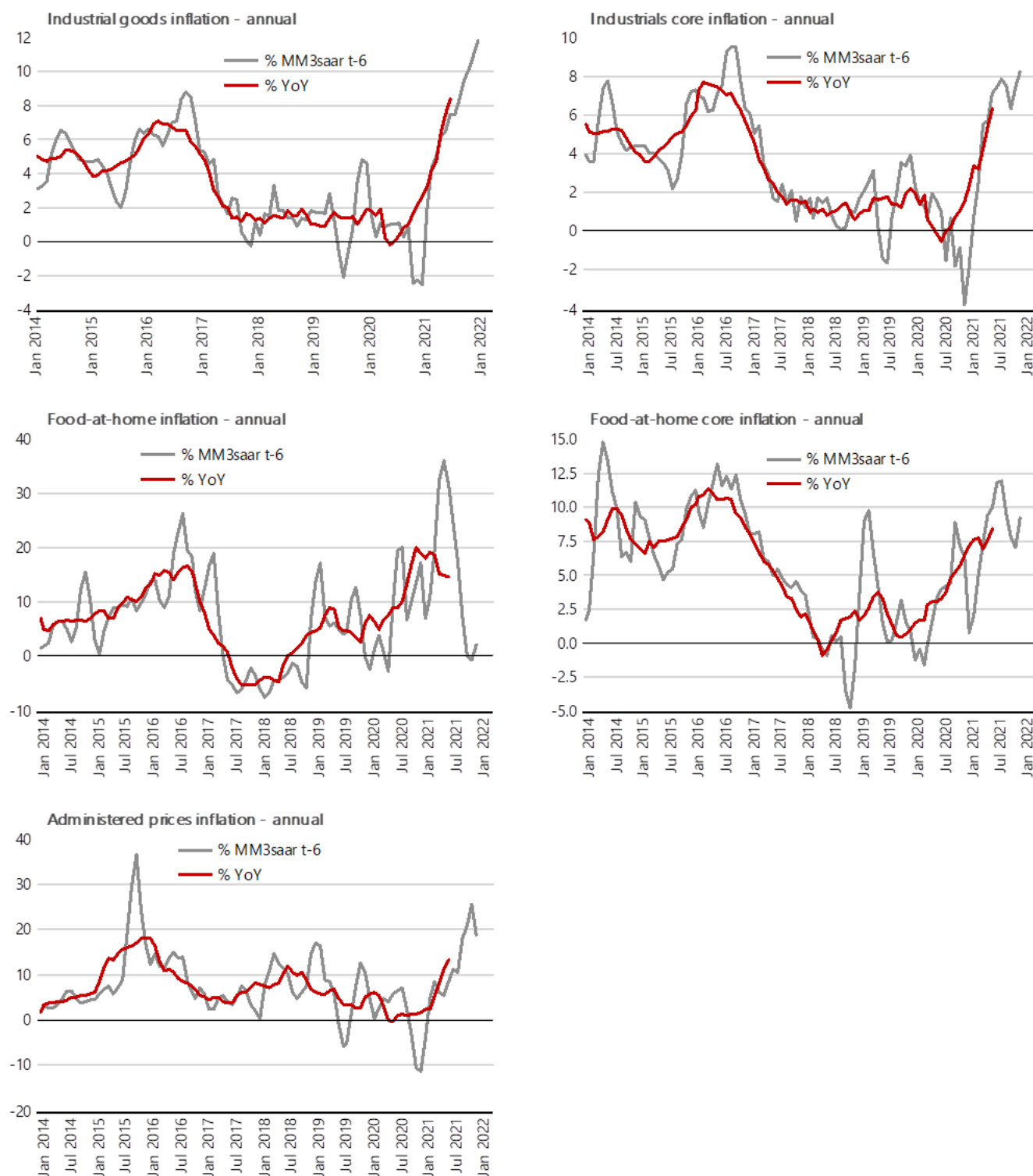
Figure 2. IPCA-15, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



Figure 3. IPCA-15, Groups and Qualitative Measures continuation



Sources for all charts: IBGE and Santander.



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