

## Inflation Quality Continues to Improve

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- The IPCA-15 rose 0.21% MoM in October, in line with our forecast and the consensus (0.20%). The YoY change increased to 5.05% (from 5.00% in September), which will likely mark its short-term peak, in our view.
- Broad qualitative measures came in way below expectations, indicating a consistent disinflation process.
- The EX3 core, which encompasses core services and core industrial goods, eased to 2.9% 3MMA-saar (from 3.3%), the lowest level since March 2021.
- Moreover, the diffusion index rebounded to 49.0% (sa), still low and compatible with inflation around the target in the medium term.
- Even the rebound in the trend of the average of the five main core measures followed by the BCB (which includes the EX3) was somewhat expected and also rose less than our forecast.
- All in all, the mid-month inflation print was notably favorable in qualitative terms. The upside surprise in the breakdown came mostly in volatile items, which erased all the downward surprise of the core gauges in the headline. In our view, the diffusion rate and deceleration in core services indicate the continuation of a benign inflation trend ahead.

**The IPCA-15 rose 0.21% MoM in October, in line with our forecast and the consensus (0.20%). The YoY change increased to 5.05% (from 5.00% in September), which will likely mark its short-term peak, in our view.** The headline trend (3MMA-saar) decelerated to 4.2% (from 4.3%).

In the monthly breakdown, industrial goods (-5 bps) and monitored prices (-2 bps) surprised to the downside. In industrial goods, the downward surprise was spread among apparel, new autos, personal hygiene, and cellphones, while for monitored prices it was led by gasoline. In contrast, food-at-home (+1 bps) and services (+6 bps) surprised to the upside. In services, volatile airline tickets (+8 bps) and transportation apps (+1 bps) came in above our expectations; when contrasted with the group's surprise, they more than offset the better-than-expected numbers for the other items. Finally, despite surprising to the upside, food-at-home MoM fell for the fifth consecutive month.

**Broad qualitative measures came in way below expectations, indicating a consistent disinflation process.** Core services (-3 bps) decelerated to 3.8% 3MMA-saar (from 4.1%) and core industrial goods (-5 bps) fell to 1.1% 3MMA-saar (from 1.9%). **The EX3 core, which encompasses core services and core industrial goods, eased to 2.9% 3MMA-saar (from 3.3%), the lowest level since March 2021. Moreover, the diffusion index rebounded to 49.0% (sa), still low and compatible with inflation around the target in the medium term.**

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**Even the rebound in the trend of the average of the five main core measures followed by the BCB (which includes the EX3) was somewhat expected and also rose less than our forecast. The average of the five main core measures trend accelerated to 3.8% 3MMA-saar (from 3.4%),** as the MS, DP, and EX0 core measures increased to 4.5% 3MMA-saar (from 3.6%), 4.3% 3MMA-saar (from 3.9%), and 4.0% 3MMA-saar (from 3.3%), respectively. Additionally, the P55 core decreased slightly to 3.9% 3MMA-saar (from 4.1%). Therefore, despite the acceleration, all these measures continue to be well-behaved.

**All in all, the mid-month inflation print was notably favorable in qualitative terms. The upside surprise in the breakdown came mostly in volatile items, which erased all the downward surprise of the gauges in the headline.** Moreover, we believe the rebound in the average of the five main core measures should not be interpreted as a negative sign, considering it was already incorporated in expectations and remained inside the inflation target bands. **Finally, the diffusion rate and deceleration in core services indicate the continuation of a benign inflation trend, in our view.**



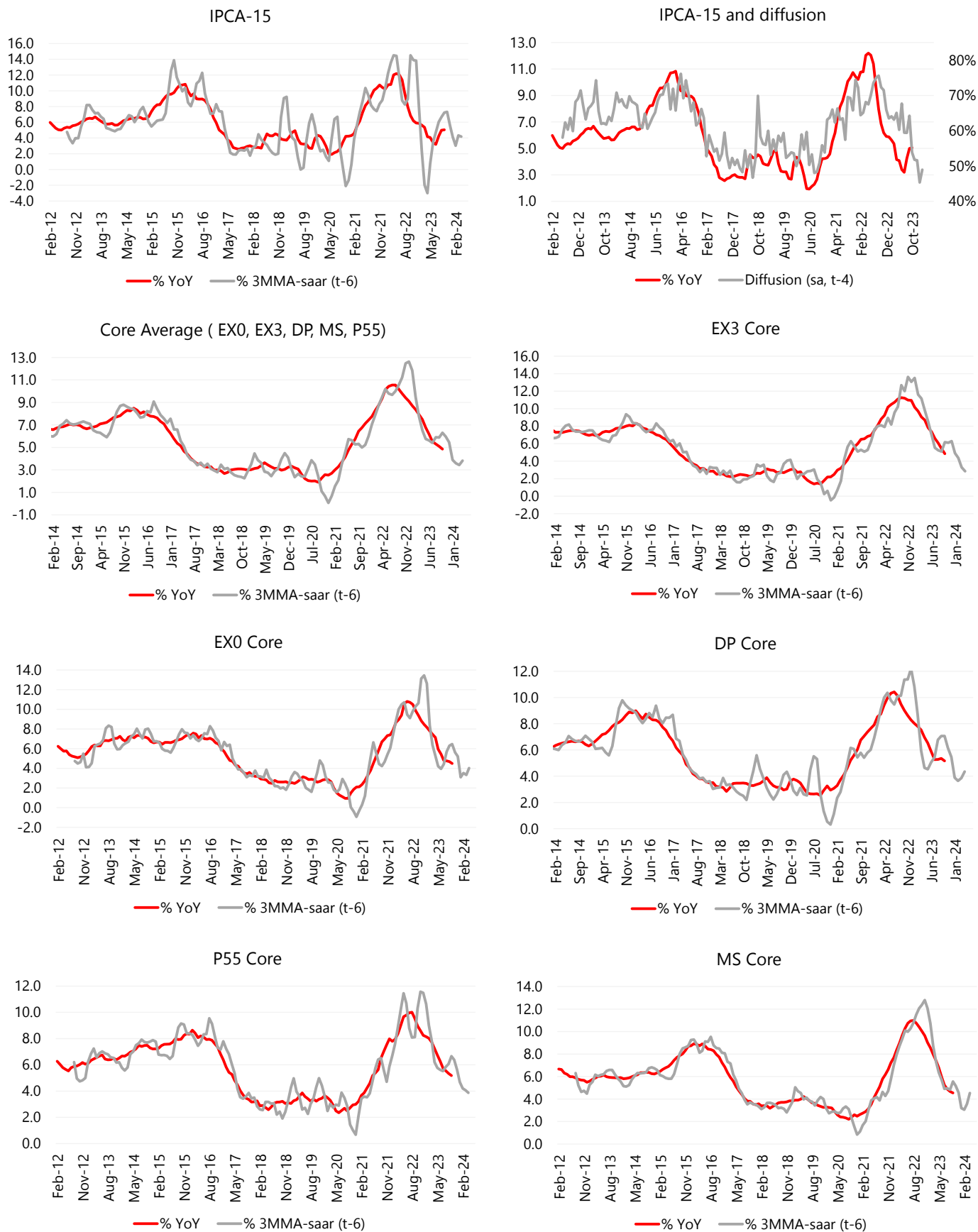
Figure 1. October's IPCA-15 Details (%)

	MoM			YoY	
	Out-23	Santander	Dev.	Set-23	Out-23
<b>IPCA-15</b>	<b>0.21</b>	<b>0.20</b>	<b>0.01</b>	<b>5.0</b>	<b>5.1</b>
<b>Food and beverage</b>	<b>-0.31</b>	<b>-0.37</b>	<b>0.01</b>	<b>1.2</b>	<b>0.7</b>
Food-at-home	-0.52	-0.62	0.01	-0.4	-1.1
Food service	0.21	0.26	0.00	5.5	5.4
<b>Housing</b>	<b>0.26</b>	<b>0.24</b>	<b>0.00</b>	<b>5.2</b>	<b>5.2</b>
Electrical energy	-0.07	0.00	0.00	9.2	9.0
<b>Household articles</b>	<b>0.05</b>	<b>-0.19</b>	<b>0.01</b>	<b>-0.4</b>	<b>0.0</b>
<b>Apparel</b>	<b>0.33</b>	<b>0.46</b>	<b>-0.01</b>	<b>6.7</b>	<b>5.5</b>
<b>Transportation</b>	<b>0.78</b>	<b>0.62</b>	<b>0.03</b>	<b>6.3</b>	<b>7.8</b>
Airline tickets	23.75	12.00	0.08	7.5	3.8
Gasoline	-0.56	-0.30	-0.01	11.3	17.6
<b>Health and personal care</b>	<b>0.28</b>	<b>0.43</b>	<b>-0.02</b>	<b>9.1</b>	<b>8.5</b>
<b>Personal spending</b>	<b>0.31</b>	<b>0.37</b>	<b>-0.01</b>	<b>5.4</b>	<b>5.1</b>
<b>Education</b>	<b>0.07</b>	<b>0.07</b>	<b>0.00</b>	<b>8.3</b>	<b>8.2</b>
<b>Communication</b>	<b>-0.29</b>	<b>-0.09</b>	<b>-0.01</b>	<b>3.6</b>	<b>3.7</b>
<b>Administered</b>	<b>0.27</b>	<b>0.34</b>	<b>-0.02</b>	<b>9.2</b>	<b>10.3</b>
<b>Free</b>	<b>0.19</b>	<b>0.15</b>	<b>0.03</b>	<b>3.6</b>	<b>3.3</b>
Food-at-home	-0.52	-0.62	0.01	-0.4	-1.1
<i>Food-at-home core</i>	-0.25	0.04	-0.01	4.4	3.8
Industrial goods	-0.03	0.17	-0.05	3.3	3.1
<i>Industrial goods core</i>	0.00	0.30	-0.05	5.8	4.8
Services	0.63	0.46	0.06	5.6	5.4
<i>Services core</i>	0.14	0.26	-0.03	5.2	4.9
<b>EX3 Core</b>	<b>0.08</b>	<b>0.28</b>	<b>-0.07</b>	<b>5.4</b>	<b>4.8</b>
<b>Average core measures</b>	<b>0.23</b>	<b>0.30</b>	<b>-</b>	<b>5.4</b>	<b>4.8</b>

Sources: Brazilian Central Bank, IBGE, Santander.



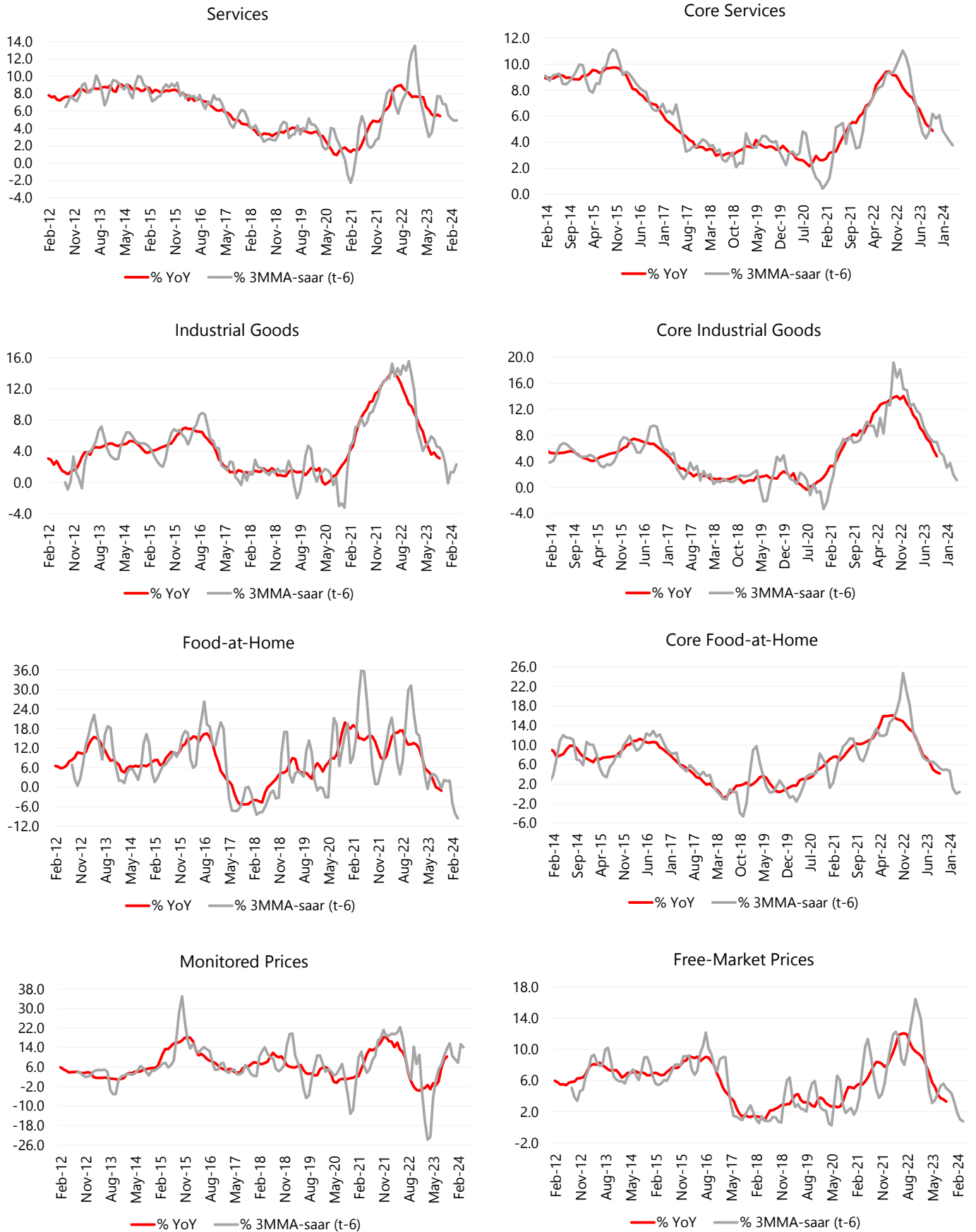
Figure 2. IPCA-15 Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



**Figure 3. IPCA-15 Groups and Qualitative Measures**



Sources for all charts: IBGE and Santander.



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