

## Despite Services' Upward Surprise, Another Favorable Inflation Print

**Daniel Karp\***  
daniel.karp@santander.com.br  
+55 11 3553 9828

**Adriano Valladão\***  
adriano.ribeiro@santander.com.br  
+55 11 3553 8071

- The IPCA-15 rose 0.35% MoM in September, below the consensus (0.37%) and our forecast (0.43%). The YoY change increased to 5.0% (from 4.2% in August), owing to base effects however.
- The downward surprise was concentrated in food-at-home (-5 bps) and industrial goods (-9 bps), which more than offset the upward surprise in services inflation (+6 bps). It is worth noticing that half of the surprise in services was in the volatile airline tickets (+3 bps).
- Most of the qualitative measures improved again in this mid-month inflation print. Even core services, which exceed our expectation in MoM terms (+2 bps), posting a positive sign with its trend easing to 3.8% 3MMA-saar (from 4.5%).
- The EX3 gauge, which encompasses both services and industrial goods core measures, decelerated to 2.9% 3MMA-saar (from 4.1%), the lowest level in three years.
- Moreover, the diffusion index plummeted to 43.9% (sa), the lowest level on record, with diffusion ex-food at its lowest since the height of the Covid pandemic.
- All in all, the September's IPCA-15 inflation print continues to show further evidence that the stickier part of inflation is improving (decelerating) at the margin.
- The better core gauges dynamics, even with the upward surprise in core services, reinforces the idea that inflation's short-term outlook remains good.

The IPCA-15 rose 0.35% MoM in September, below the consensus (0.37%) and our forecast (0.43%). The YoY change increased to 5.0% (from 4.2% in August), owing to base effects however. The headline trend (3MMA-saar) accelerated to 5.2% (from 3.2%).

The downward surprise was concentrated in food-at-home (-5 bps) and industrial goods (-9 bps), which more than offset the upward surprise in services inflation (+6 bps). It is worth noticing that half of the surprise in services was in the volatile airline tickets (+3 bps). In food-at-home, meats came once again in the deflation camp (-2.73% MoM) and contributed with -1 bps to the group surprise. In industrial goods, the downward surprise was spread among household articles, apparel, and personal hygiene. Finally, monitored prices came in line with expectations.

Most of the qualitative measures improved again in this mid-month inflation print. Even core services, which exceeded our expectation in MoM terms (+2 bps), posted a positive sign, with its trend easing to 3.8% 3MMA-saar (from 4.5%). The biggest surprise was in core industrials (-5 bps), with the trend reaching 2.0% 3MMA-saar (from 3.8%). Thus, the EX3 gauge, which encompasses both services and industrial goods core measures, decelerated to 2.9% 3MMA-saar (from 4.1%), the lowest level in three years, in line with our expectation. The average five main core indexes followed by the BCB (EX3 included) stayed

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U.S. investors' inquiries should be directed to Santander US Capital Markets LLC at (212) 583-4629 / (212) 350-3918.

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around 3.4% 3MMA-saar, slightly above the inflation target of 3.25% for 2023. **Moreover, the diffusion index plummeted to 43.9% (sa), the lowest level on record, with diffusion ex-food at its lowest since the height of the Covid pandemic.** It indicates that non-inflation/deflation was spread in September and could be associated with IPCA YoY below 2%, given its unusually low level, it is likely a welcome data-point rather than a trend.

Looking at the services breakdown, we notice that the good news came in at the inertial related group, as its trend decelerated to 4.5% 3MMA-saar (from 5.2%), and the volatile services, with the trend easing to 4% 3MMA-saar, while the services more related to wages are sustained above 5.0% 3MMA-saar, and the services more linked to the economic activity accelerated to 4.7% 3MMA-saar (from 3.5%).

**All in all, the September's IPCA-15 inflation print continues to provide further evidence that the stickier part of inflation is improving (decelerating) at the margin. The better core gauges dynamics, even with the upward surprise in core services, reinforces the idea that inflation's short-term outlook remains good.**



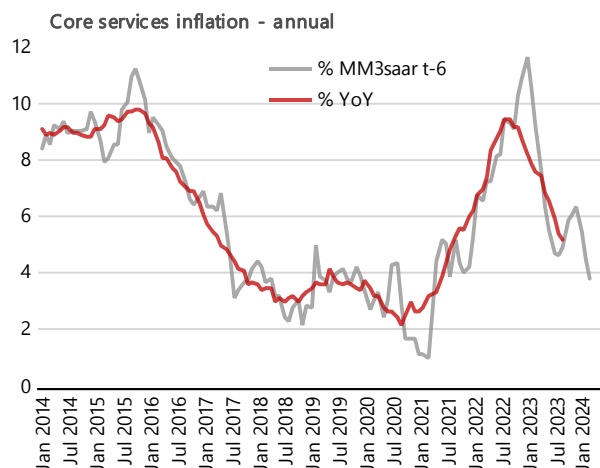
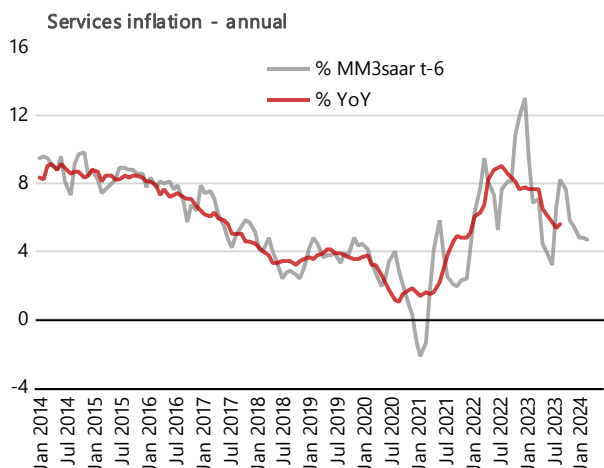
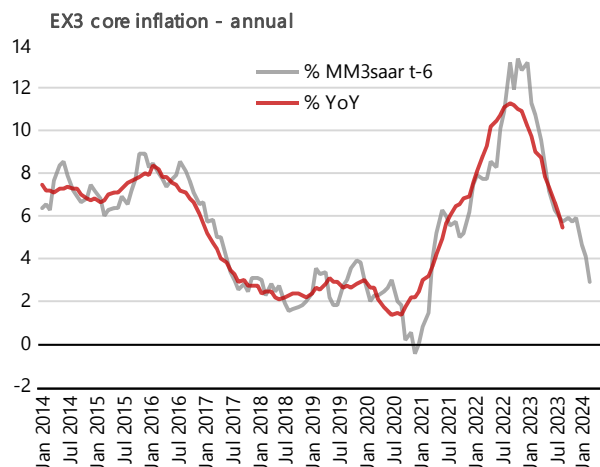
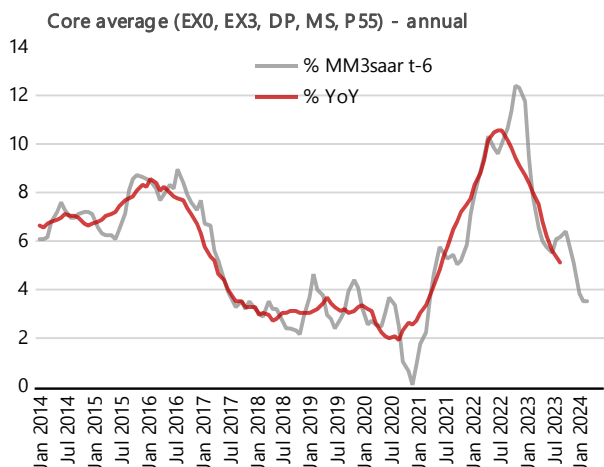
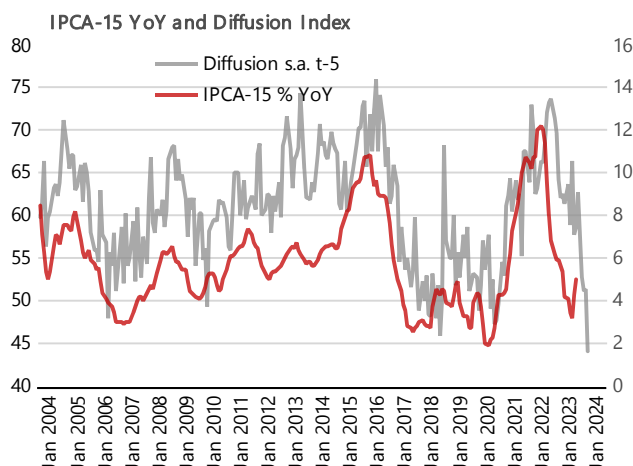
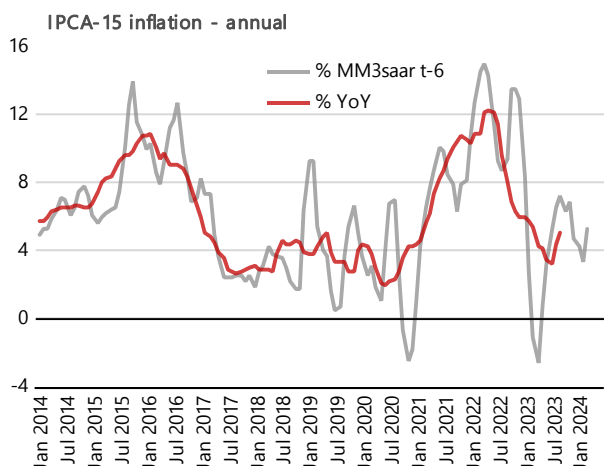
Figure 1. September's IPCA-15 Details (%)

	MoM			YoY	
	Sep-23	Santander	Dev.	Aug-23	Sep-23
<b>IPCA-15</b>	<b>0.35</b>	<b>0.43</b>	<b>-0.08</b>	<b>4.2</b>	<b>5.0</b>
<b>Food and beverage</b>	<b>-0.77</b>	<b>-0.61</b>	<b>-0.03</b>	<b>1.5</b>	<b>1.2</b>
Food-at-home	-1.25	-0.95	-0.05	0.0	-0.4
Food service	0.46	0.26	0.01	5.7	5.5
<b>Housing</b>	<b>0.30</b>	<b>0.33</b>	<b>0.00</b>	<b>5.4</b>	<b>5.2</b>
Electrical energy	0.66	0.93	-0.01	8.9	9.2
<b>Household articles</b>	<b>-0.47</b>	<b>-0.07</b>	<b>-0.02</b>	<b>0.3</b>	<b>-0.4</b>
<b>Apparel</b>	<b>0.41</b>	<b>0.57</b>	<b>-0.01</b>	<b>8.0</b>	<b>6.7</b>
<b>Transportation</b>	<b>2.02</b>	<b>2.02</b>	<b>0.00</b>	<b>1.8</b>	<b>6.3</b>
Airline tickets	13.29	9.00	0.03	2.7	7.5
Gasoline	5.18	5.00	0.01	-4.6	11.2
<b>Health and personal care</b>	<b>0.17</b>	<b>0.34</b>	<b>-0.02</b>	<b>9.9</b>	<b>9.0</b>
<b>Personal spending</b>	<b>0.35</b>	<b>0.26</b>	<b>0.01</b>	<b>5.9</b>	<b>5.4</b>
<b>Education</b>	<b>0.05</b>	<b>0.04</b>	<b>0.00</b>	<b>8.4</b>	<b>8.3</b>
<b>Communication</b>	<b>-0.15</b>	<b>-0.01</b>	<b>-0.01</b>	<b>0.9</b>	<b>3.6</b>
<b>Administered</b>	<b>1.54</b>	<b>1.53</b>	<b>0.00</b>	<b>5.7</b>	<b>9.2</b>
<b>Free</b>	<b>-0.06</b>	<b>0.05</b>	<b>-0.08</b>	<b>3.7</b>	<b>3.6</b>
Food-at-home	-1.25	-0.95	-0.05	0.0	-0.4
<i>Food-at-home core</i>	-0.15	-0.09	0.00	5.0	4.4
Industrial goods	-0.17	0.23	-0.09	3.9	3.3
<i>Industrial goods core</i>	-0.11	0.23	-0.05	7.0	5.8
Services	0.53	0.37	0.06	5.4	5.6
<i>Services core</i>	0.34	0.22	0.02	5.4	5.2
<b>EX3 Core</b>	<b>0.15</b>	<b>0.23</b>	<b>-0.03</b>	<b>6.1</b>	<b>5.4</b>

Sources: Brazilian Central Bank, IBGE, Santander.



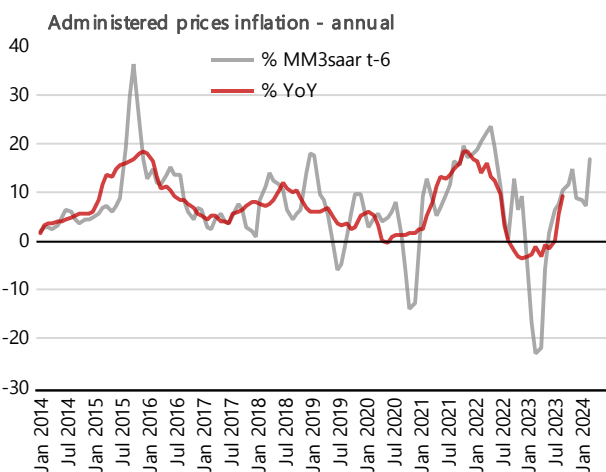
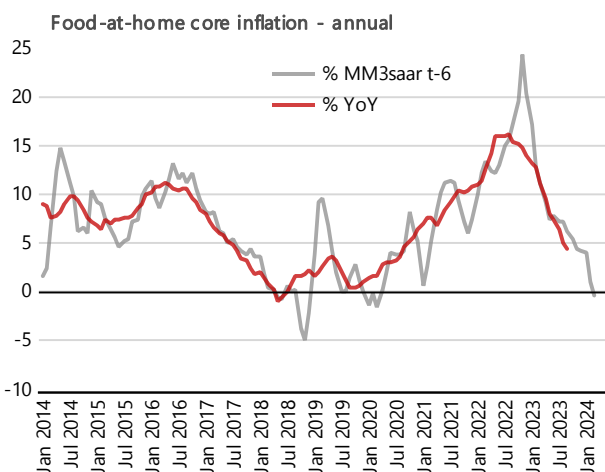
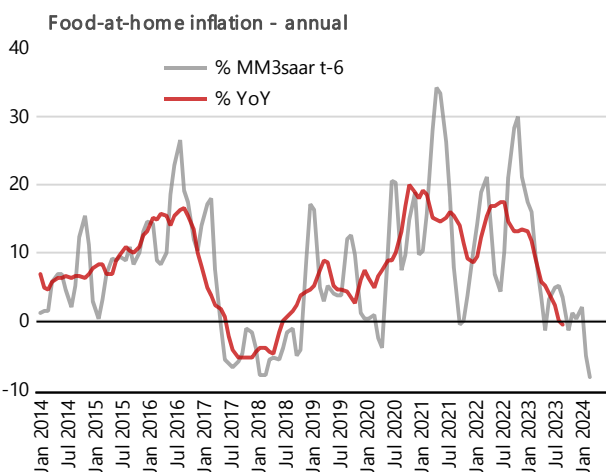
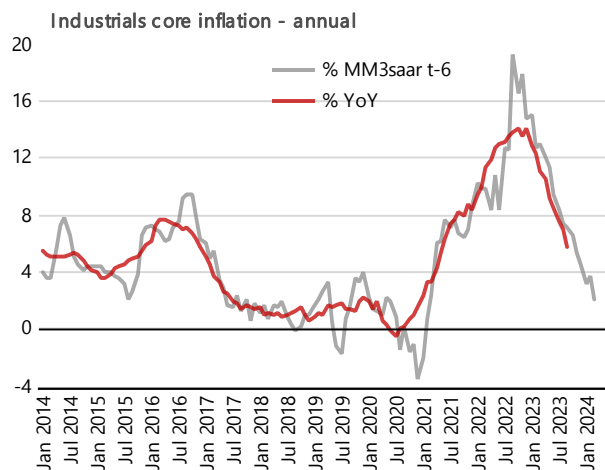
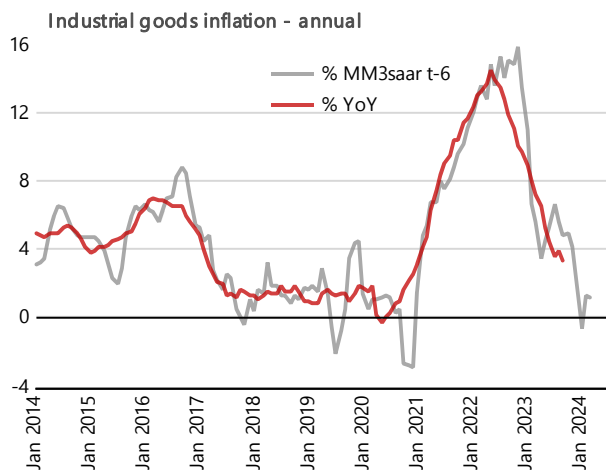
Figure 2. IPCA-15, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



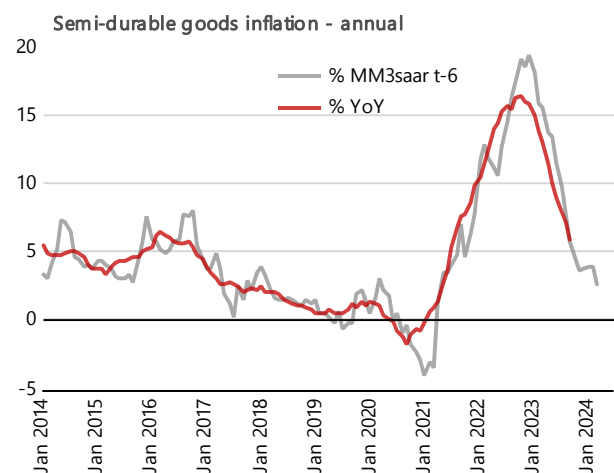
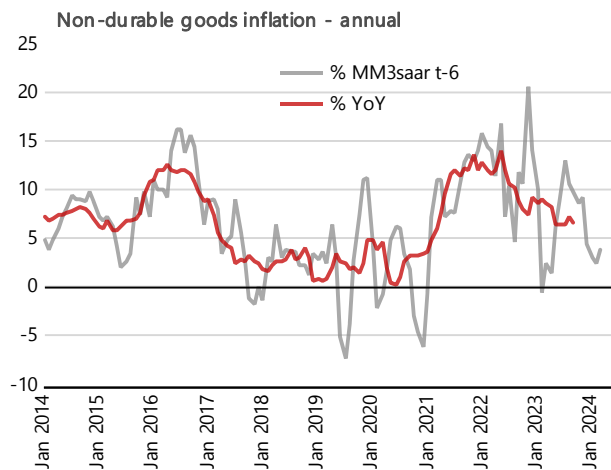
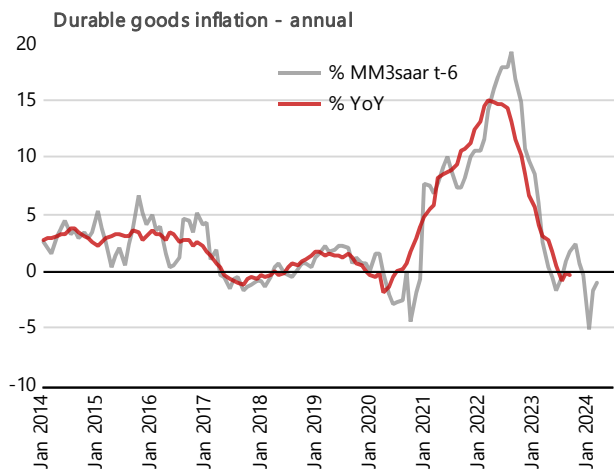
**Figure 3. IPCA-15, Groups and Qualitative Measures**



Sources for all charts: IBGE and Santander.



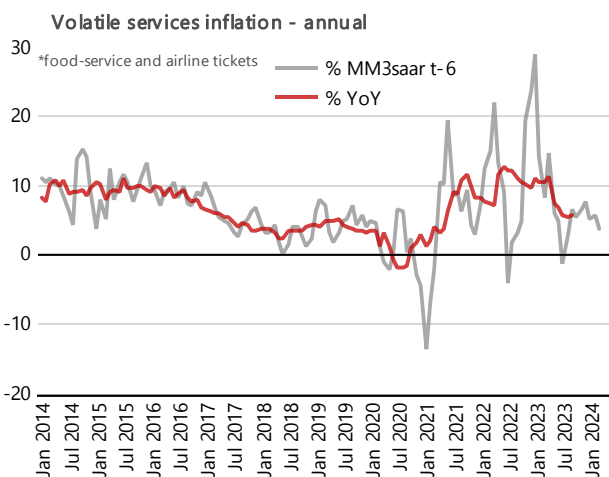
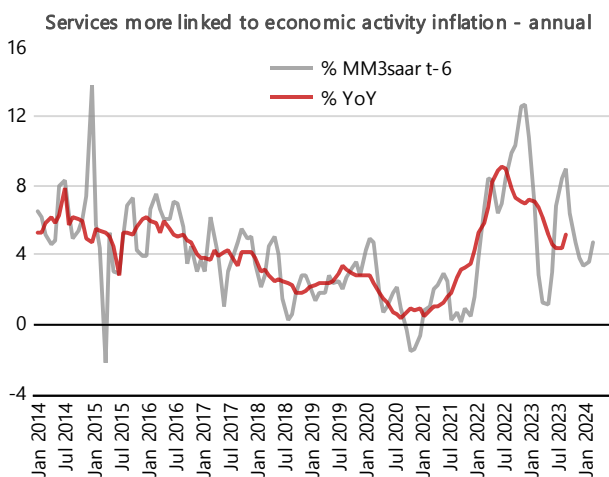
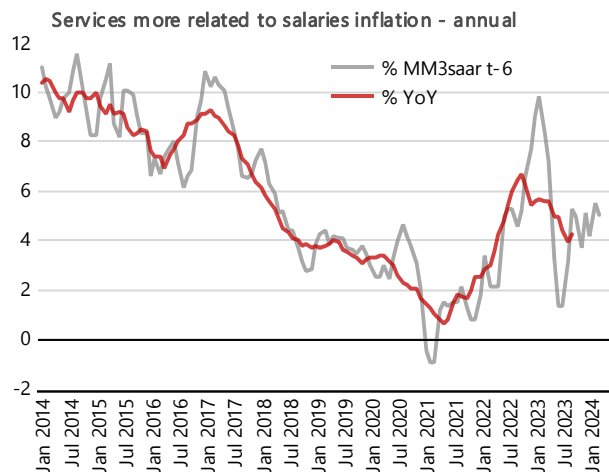
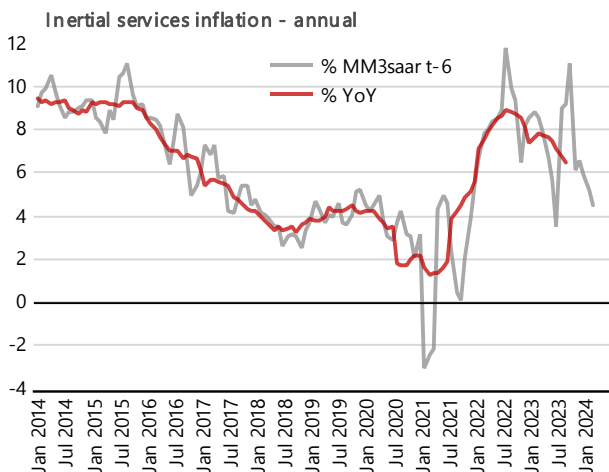
**Figure 4. IPCA-15, Groups and Qualitative Measures**



Sources for all charts: IBGE and Santander.



**Figure 5. IPCA-15, Groups and Qualitative Measures**



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## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
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
Adriano Valladao Ribeiro*	Economist – Inflation	adriano.ribeiro@santander.com.br	5511-3553-7495
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Henrique Danyi Correia*	Economist – Credit / Monetary Policy	henrique.danyi@santander.com.br	5511-3553-7350
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Activity	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327
Ana Julia Carvalho	Economist – Special Projects	ana.carvalho.silva@santander.com.br	5511-3553-8071

### Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Rodrigo Park *	Economist – Argentina	rpark@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
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
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Aline de Souza Cardoso*	Head, Brazil	aline.souza.cardoso@santander.com.br	5511-3553-1684

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