

IPCA for May: Upward Pressures Keep Piling Up

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- The IPCA for May increased 0.83% MoM (8.06% YoY), well above the market's median expectation of 0.71% and slightly above our 0.76%.
- The upside surprises came in core-related groups. Industrial goods contributed +4 bps to the headline forecast error, and services likewise contributed 4 bps, while food-at-home and regulated prices were basically in line.
- Qualitative measures were notably unfavorable, with core measures and diffusion rising. The average of core measures rose from 5.1% to 5.8% 3mma-saar, and the diffusion index reached 68.8%, both notably high, evidencing the spreading of primary shocks to general prices.
- We have raised our IPCA 2021 tracking to 6.1% (from 5.9%) and IPCA 2022 to 4.1% (from 3.9%). The balance of risks remains tilted to the upside, in our view.

Upward Pressures Continue at the Margin, Raising Concerns for the Inflation Outlook

May's IPCA registered a 0.83% MoM change (8.06% YoY), well above the market's median expectation of 0.71% and a bit above our call of 0.76%. The headline accelerated from 8.6% in Apr-21 to 9.1% in 3mma-saar terms, showing that the upward pressure at the margin remains strong.

The upside surprises came in core-related groups. Industrial goods rose 1.28% MoM, contributing +4bps to the headline forecast error. Ethanol (+3bps of contribution to the headline forecast deviation) was a relevant surprise inside the group, but the surprises were not concentrated in just that item, as we also saw new cars (+1 bp), household articles (+2 bps), personal care items (+1 bp), and telephone (+1 bp) surprising to the upside. The 3mma-saar measurement of industrial goods accelerated further to the high level of 12.3%. Moreover, the core of industrial goods also advanced in 3mma-saar terms, from 6.6% to 7.3%, also a high level.

Furthermore, still on core-related groups, although services fell 0.15% MoM, this was a smaller decline than we were estimating (-0.27%), so the group also contributed +4 bps to the headline forecast deviation. In terms of trend, services remained at a low level, but advanced to 2.0% 3mma-saar (from 1.6%). More importantly, the core of services stayed at a higher level, accelerating from 3.9% to 4.2% 3mma-saar (the YoY change was 3.5%, but the 3mma-saar remained above 4% for the eighth month in a row, indicating the YoY difference should continue rising). It is worth noting that food service (which is part of the services core measure) rose almost 1.0% MoM, a major surprise (+2 bps), and we believe the item will continue to be upwardly pressured. Finally, food-at-home (-1 bp of contribution to the headline error) and regulated prices (zero contribution to the error) came in basically in line with our forecast.

Qualitative measures were notably unfavorable, with cores and diffusion rising. Four of the five main core measures followed by the BCB advanced in 3mma-saar terms. The average of those measures advanced from the already high level of 5.1% to 5.8% in 3mma-saar terms. The cores have been hovering above 4.5% for eight months, a notably high level that in our view is an initial sign of a spreading of the primary shocks to general prices. Also in that regard, the diffusion index—a leading indicator of inflation YoY—rose 66.1% to 68.8% (seasonally adjusted), compatible with the IPCA at around 9% YoY five months from now, as per their historical relationship, which reinforces the risk of the spreading of primary shocks to general prices.

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Higher Inflation Forecasts, with Risks Still Tilted to the Upside

Our worries regarding the inflation outlook keep growing, as shocks continue to be strong and persistent at the margin and as the distortion of relative prices continues to indicate there is considerable price pressure from producers still reaching consumers. We are revising our high-frequency tracking to 6.1% for IPCA 2021 (from 5.9%) and to 4.1% for IPCA 2022 (from 3.9%). Moreover, we continue to see upside risks for both years, particularly from energy prices but also from industrial goods and services.

We have adjusted our short-term forecasts to 0.51% MoM for June (from 0.42%), to 0.49% MoM for July (from 0.59%), and to 0.30% MoM for August (from 0.32%).

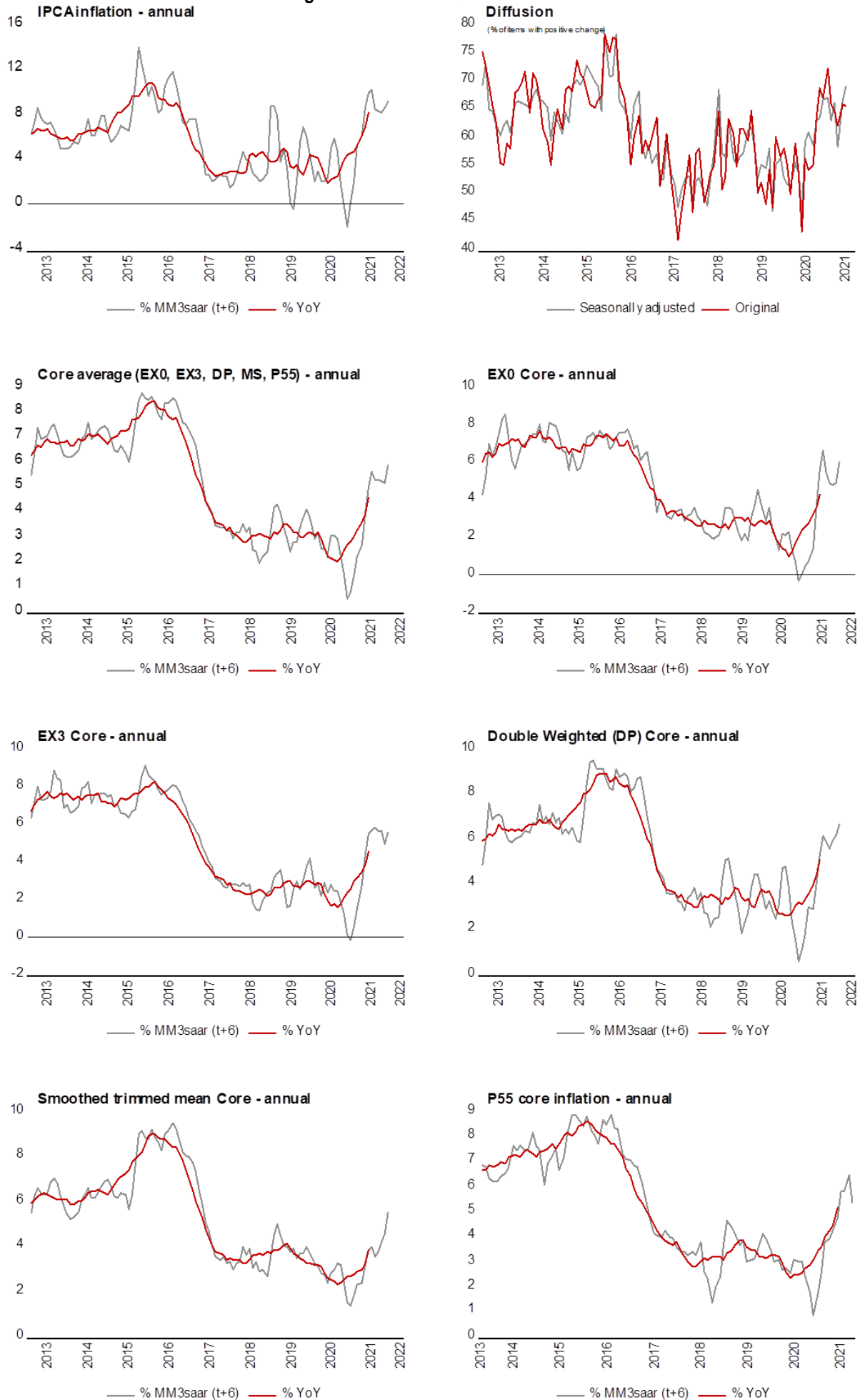
Figure 1. IPCA by Group and Forecasting Errors

	May-21	Santander	Contrib.	Apr-21	May-21
IPCA	0.83	0.76	0.07	6.8	8.06
Food and beverage	0.44	0.39	0.01	12.3	12.5
Food-at-home	0.23	0.28	-0.01	15.6	15.4
Food service	0.98	0.65	0.02	4.8	5.8
Housing	1.78	1.89	-0.02	5.4	7.6
Electrical energy	5.37	5.82	-0.02	5.3	11.6
Household articles	1.25	0.81	0.02	11.9	12.6
Apparel	0.92	1.54	-0.03	0.9	2.4
Transportation	1.15	0.74	0.09	11.5	14.9
Airline tickets	-28.33	-28.85	0.00	-19.4	-20.7
Gasoline	2.87	2.10	0.04	35.6	45.8
Health and personal care	0.76	0.90	-0.02	3.2	4.1
Personal spending	0.21	0.07	0.01	1.3	1.6
Education	0.06	0.08	0.00	-1.1	-1.1
Communication	0.21	0.07	0.01	3.2	3.1
Administered	2.11	2.10	0.00	9.6	13.1
Free	0.38	0.28	0.07	5.8	6.3
Food-at-home	0.23	0.28	-0.01	15.6	15.4
Industrial goods	1.28	1.12	0.04	6.9	8.3
Services	-0.15	-0.27	0.04	1.4	1.7
EX3 Core	0.52	0.42	0.09	3.8	4.5
Average of cores	0.55	-	-	3.9	-

Sources: IBGE and Santander.



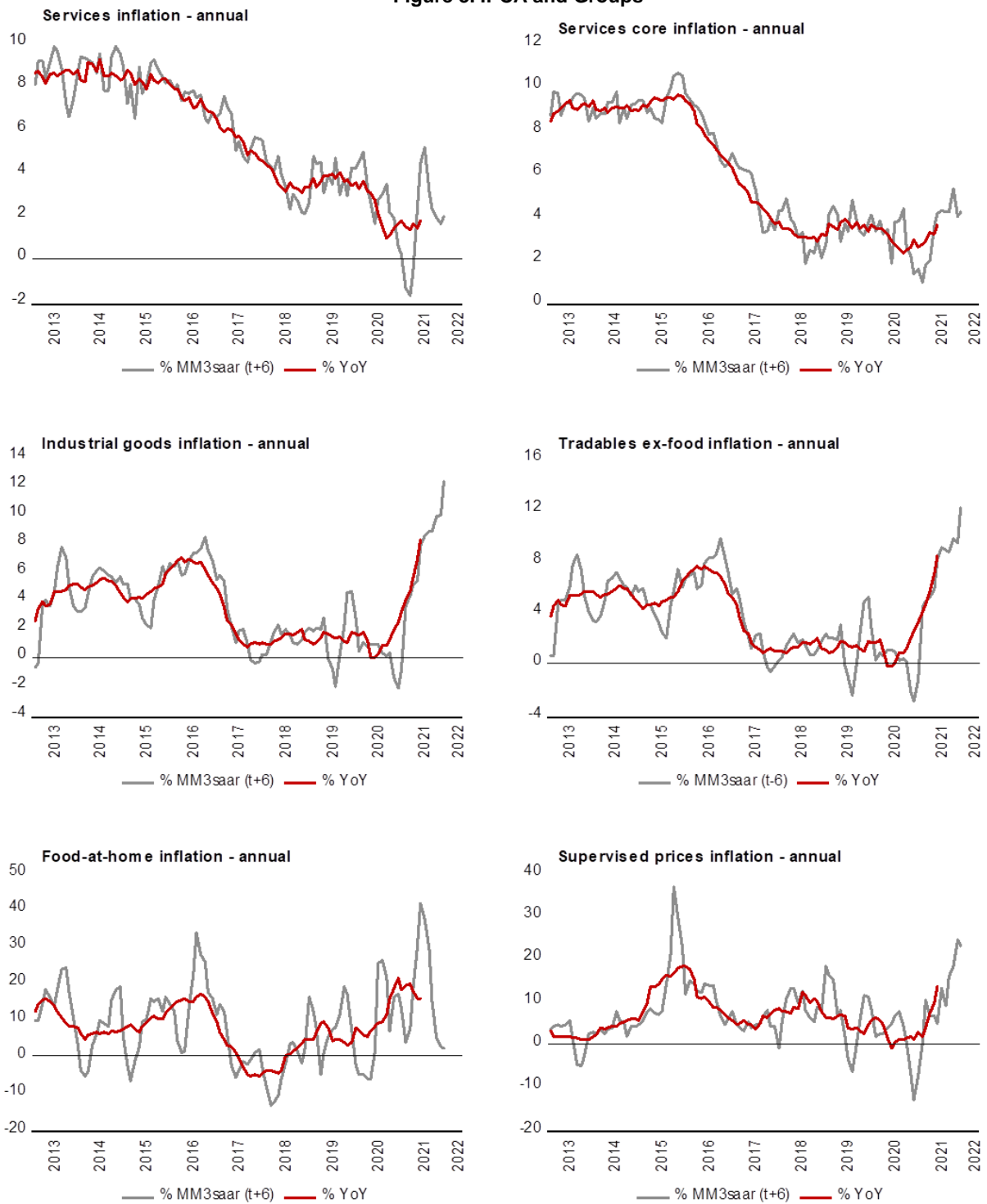
Figure 2. IPCA and Qualitative Measures



Sources: IBGE and Santander.



Figure 3. IPCA and Groups



Sources: IBGE and Santander.



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