

IPCA January: Upward Inflation Pressure Persists

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- January's IPCA registered a 0.25% MoM change (4.56% YoY), below our forecast of 0.31% and the market's median expectation (also at 0.30-0.31%).
- Upward pressure on core measures continued, influenced mainly by industrial goods, which saw its 3mma-saar rising a bit more and reaching 9.3%. However, services' downward surprise helped stabilize the average of main core measures a bit, although still at a high level (5.6%).
- All in all, despite the downside surprise, we see January's IPCA as still showing an unfavorable picture and continue to see risks tilted to the upside — although the preliminary signs of cooling down reinforce our view that inflation is under control and should not overshoot the target.
- We maintain our short-term forecasts at 0.58% MoM for February, 0.27% for March and 0.50% for April. Our high-frequency tracking for IPCA 2021 also remains at 3.60% (the official forecast is 3.00%, but is under revision with a bias toward the tracking). Finally, our 2022 forecast also remains at 3.20%.

Some Downside Surprises, but Still an Unpleasant Reading

January's IPCA registered a 0.25% MoM change (4.56% YoY), below our forecast of 0.31% and the market's median expectation (also at 0.30-0.31%).

On downside surprises, food-at-home contributed -6 bps — and the downward trend should continue until February-end (probably resulting in a small deflation), but then it will probably accelerate again, in our view, as our wholesale agricultural price survey is pointing upward. Also surprising to the downside, services rose only 0.07% MoM, contributing -5 bps of deviation between our forecast and the headline inflation — one particular item drew attention: transportation apps, which have a small weight (0.20%), but fell -12%, alone contributing -3 bps of deviation of our forecast from headline inflation. Industrial goods, which have been a source of pressure and upward surprises lately, did not surprise, coming in line with our expectation (at a high level).

Core measures remain upwardly pressured, influenced mainly by industrial goods, which saw its 3mma-saar rising a bit more and reaching 9.3%. However, services' downward surprise helped the average of the main core measures stabilize a bit, although still at a high level (5.6%). Also, on a more positive tone, diffusion (seasonally adjusted) fell from 67% to 63%.

All in all, despite the downside surprise, we see January's IPCA still showing an unfavorable picture. Industrial goods, the main source of upside risks lately, did not surprise but remain high, raising the risks of pass-through to other groups. The downward surprise in services was not widespread and might be influenced by recent (and short-lived lockdowns), something that tends to fade, so we do not believe services will decelerate but actually accelerate at a gradual pace. On food, high frequency price surveys and the global scenario for commodities still point to persistently high food inflation. **As a result, we still see risks tilted to the upside, although the preliminary signs of cooling down reinforce our view that inflation is under control and should not overshoot the target.**

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Forecasts: no changes

We maintain our short-term forecasts at 0.58% MoM for February, 0.27% for March and 0.50% for April. Our high-frequency tracking for IPCA 2021 also remains at 3.60% (the official forecast is at 3.0% but is under revision with a bias toward the tracking). Finally, our forecast for 2022 also remains at 3.20%.

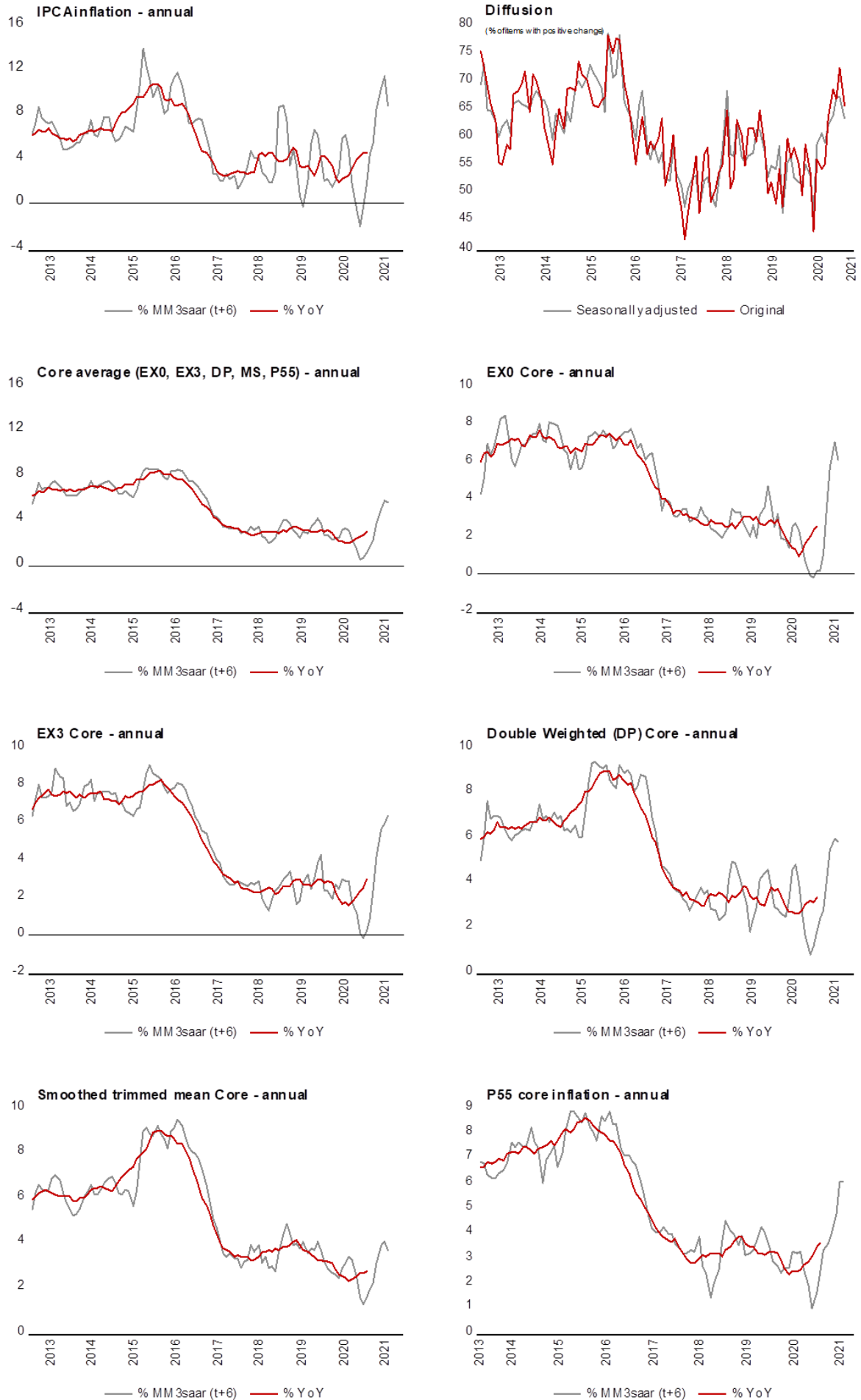
Figure 1. IPCA Inflation by Group

	MoM			YoY	
	jan/21	Santander	Cont.	dec/21	jan/21
IPCA	0.25	0.31	-0.06	4.5	4.6
Food and beverage	1.02	1.27	-0.05	14.1	14.8
Food-at-home	1.06	1.49	-0.06	18.2	19.2
Food service	0.91	0.70	0.01	4.8	4.9
Housing	-1.07	-1.24	0.03	5.3	3.6
Electrical energy	-5.60	-6.18	0.03	9.1	2.9
Household articles	0.86	0.48	0.01	6.0	7.0
Apparel	-0.07	0.53	-0.03	-1.1	-0.7
Transportation	0.41	0.44	-0.01	1.0	1.1
Airline tickets	-19.93	-20.49	0.00	-17.2	-28.9
Gasoline	2.17	1.30	0.04	-0.2	1.1
Health and personal care	0.32	0.50	-0.02	1.5	2.2
Personal spending	0.39	0.35	0.00	1.0	1.1
Education	0.13	0.10	0.00	1.1	1.1
Communication	0.02	-0.07	0.01	3.4	3.3
Administered	-0.29	-0.49	0.05	2.6	1.8
Free	0.44	0.58	-0.11	5.2	5.5
Food-at-home	1.06	1.49	-0.06	18.2	19.2
Industrial goods	0.61	0.60	0.00	3.2	4.1
Services	0.07	0.19	-0.05	1.7	1.5
EX3 Core	0.56	0.60	-0.04	2.4	2.9
Average of cores	0.45	-	-	2.8	3.0

Sources: IBGE, BCB and Santander Brazil.



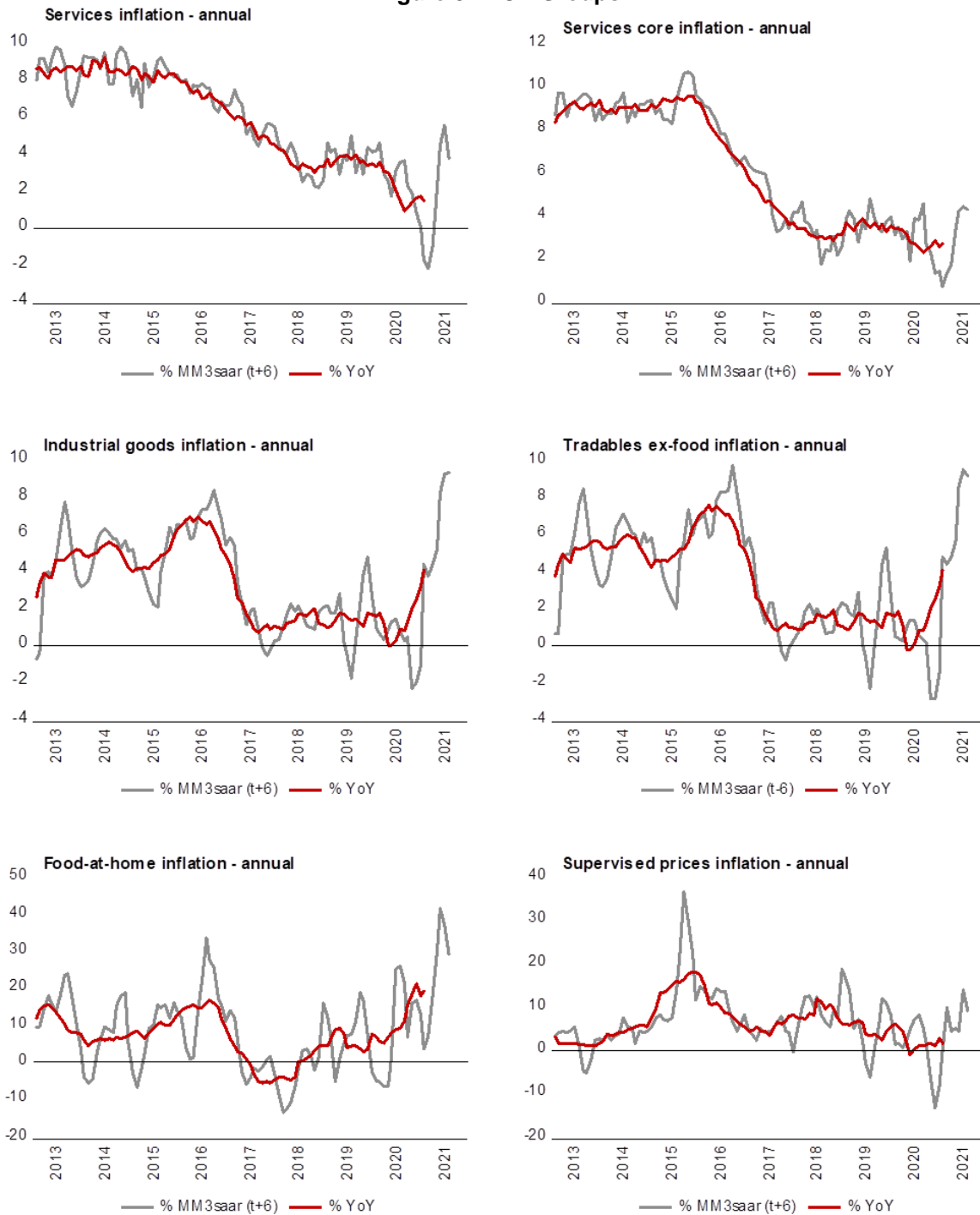
Figure 2. IPCA Inflation and Qualitative Measures



Sources: IBGE, BCB and Santander Brazil.



Figure 3. IPCA Groups



Sources: IBGE, BCB and Santander Brazil.



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