Santander Macroeconomic Research

BRAZIL MACRO

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DATA ANALYSIS – INFLATION

November's IPCA: Too Soon to be Optimistic

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- **November's IPCA registered a 0.95% MoM change (10.74% YoY—the same level of 4Q15-1Q16), considerably below our forecast (1.12%) and the consensus (1.09%).**
- **A majority of the headline surprise came in items related to Black Friday sales, and the marginal relief in some underlying inflation measures was also influenced by these one-off effects.**
- **As a result, we see this as yet another unfavorable reading and remain cautious on the inflation outlook, believing it is soon to extrapolate marginal reliefs in a number blurred by one-off Black Friday effects.**
- **We revised our high-frequency tracking for IPCA 2021 from 10.2% to 10.1%. Inflation should continue running around 10.0% YoY until April 2022, without a clear peak before that. For IPCA 2022 and 2023 we continue forecasting 5.8% and 3.5%, respectively.**
- **We continue to see the balance of risks tilted to the upside, especially with the recent rise in domestic risk and with the constantly occurring global shocks.**

A considerable downside surprise, but not enough to become optimistic

November's IPCA registered a 0.95% MoM change (10.74% YoY—the same level of 4Q15-1Q16), considerably below our forecast (1.12%) and the consensus (1.09%). The headline trend ticked down to 13.5% 3MMA-saar (from 14.4%), still a high level that shows that the upward pressure remained strong at the margin.

A majority of the surprise came in items related to Black Friday sales. Industrial goods contributed -6 bps to the headline error, but digging deeper into the number, some specific items related to Black Friday sales, such as perfumes (-11 bps) and makeup products (-2 bps), surprised even more. It is worth noticing that, despite this surprise, the industrials trend remained stable at 12.8% 3MMA-saar, a strong level. Food-at-home was another downward surprise (contributing -6 bps to the headline forecast error), though anecdotal evidence points out to some Black Friday effects in this group also, particularly in proteins. Finally, services also surprised to the downside (-4 bps of contribution to the error), but mostly because of food-service, which was also impacted by the Black Friday, and we find difficult to assume that food-service will start a decelerating trend right after notable cost-shocks. **In trend terms, services decelerated to 7.6% 3MMA-saar (from 9.6%) and it should inch as low as 5.2% until January 2022, as per our forecast, but then we envision a re-acceleration to levels close to 9.5% 3MMA-saar, so this relief should be seen with caution.**

Some qualitative measures saw a relief, but we would take this with a grain of salt. For example, the EX3 core gauge came down from 7.9% 3MMA-saar to 6.5%. The movement was driven by a deceleration in both components of this core measure: the industrials core gauge came from 8.4% to 6.7% 3MMA-saar and the services core gauge from 7.4% to 6.1% 3MMA-saar. However, despite being highly volatile items (a non-desirable property for components of core gauges), "perfumes" and "makeup" are part of the industrials core gauge, so we think the movement might be too influenced by that. At the same time, food-service is part of the services core gauge and was also influenced by Black Friday discounts. As a result, we are skeptical on if this improvement in qualitative measures is already a trend, rather than a one-off movement coming from Black Friday effects.

All in all, we remain cautious with the inflation outlook and think it is soon to extrapolate marginal reliefs in a reading blurred by one-off Black Friday effects. Although our view is that inflation does not have room to accelerate further in YoY terms, we think it may not peak clearly until Apr-22, so the dynamic we envision is a plateau around 10.0% and then a clearer relief to around 9.0% only in May-22 (mainly because of base-effect coming from the end of the Red 2 "Hydro Scarcity" tariff flag in electrical energy). **It is worth noticing, however, that the headline trend should already see relief in Dec-21, coming from the current level of 13.5% 3MMA-saar to levels closer to 9.0% 3MMA-saar, so with the running rate going below the YoY change, it might be a first clearer trigger to a better mood for the inflation outlook.**

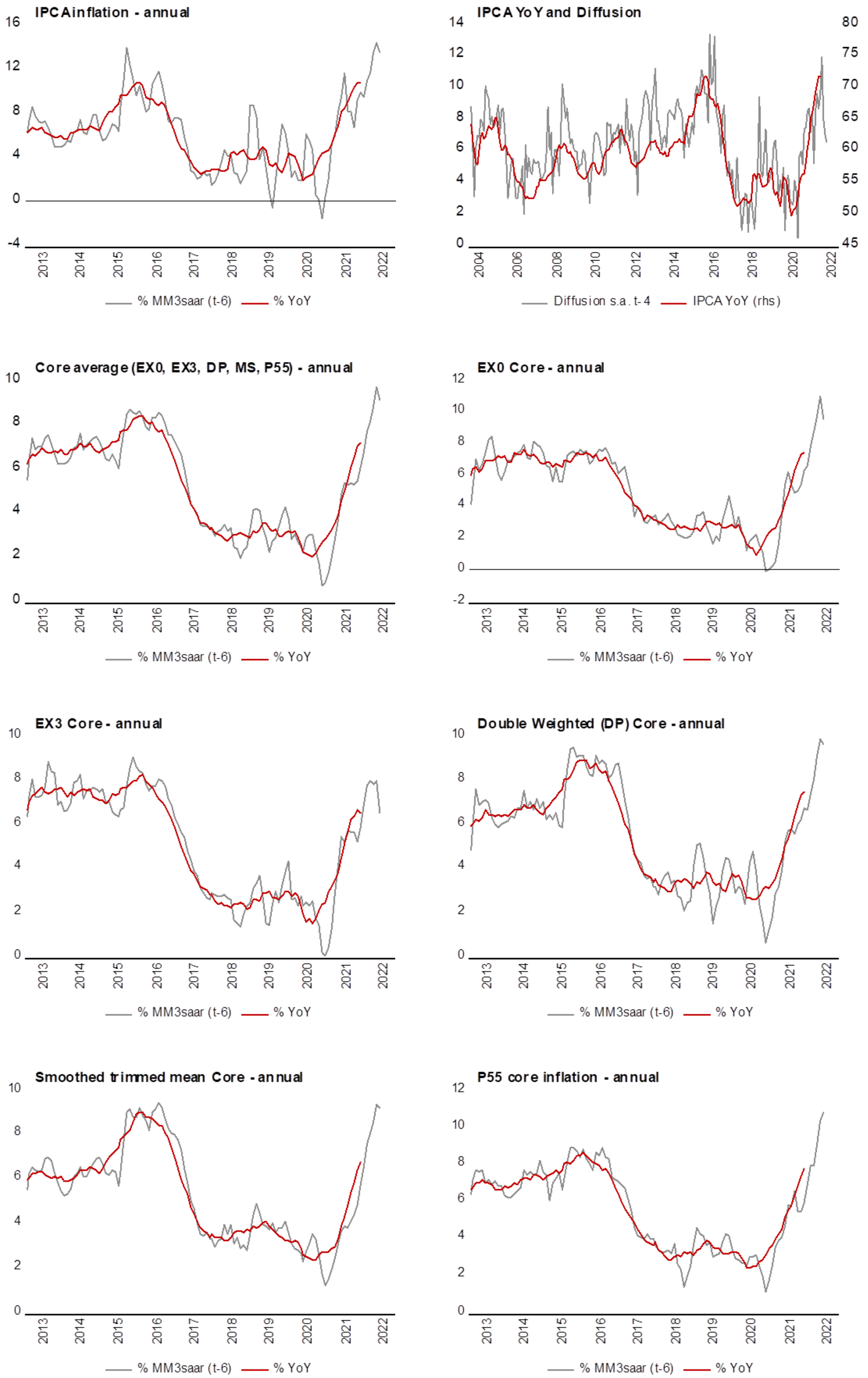
We have revised our high-frequency tracking for IPCA 2021 from 10.2% to 10.1%. For IPCA 2022 and 2023 we continue forecasting 5.8% and 3.5%, respectively.

Figure 1. IPCA by Group and Forecasting Errors

	MoM			YoY	
	Nov-21	Santander	Dev.	Oct-21	Nov-21
IPCA	0.95	1.12	-0.17	10.7	10.7
Food and beverage	**-0.04**	**0.44**	**-0.10**	**11.7**	**8.9**
Food-at-home	0.04	0.42	-0.06	13.3	9.7
Food service	-0.25	0.50	-0.04	7.8	6.9
Housing	**1.03**	**1.10**	**-0.01**	**14.8**	**15.4**
Electrical energy	1.24	1.06	0.01	30.3	31.9
Household articles	**1.03**	**1.08**	**0.00**	**12.3**	**12.5**
Apparel	**0.95**	**0.01**	**0.04**	**7.8**	**8.7**
Transportation	**3.35**	**3.26**	**0.02**	**19.6**	**22.0**
Airline tickets	-6.12	-6.34	0.00	50.1	36.6
Gasoline	7.38	7.60	-0.01	42.7	50.8
Health and personal care	**-0.57**	**0.39**	**-0.12**	**3.8**	**3.3**
Personal spending	**0.57**	**0.57**	**0.00**	**4.2**	**4.8**
Education	**0.02**	**0.00**	**0.00**	**3.2**	**3.3**
Communication	**0.09**	**0.19**	**-0.01**	**1.6**	**1.4**
Administered	2.30	2.33	-0.01	17.0	19.2
Free	0.45	0.67	-0.16	8.5	7.8
Food-at-home	0.04	0.42	-0.06	13.3	9.7
Food-at-home core	1.29	1.19	0.00	10.4	10.4
Industrial goods	0.98	1.24	-0.06	11.1	11.4
Industrial goods core	-0.02	0.61	-0.09	7.9	7.9
Services	0.27	0.39	-0.04	4.9	4.8
Services core	0.42	0.59	-0.03	7.0	6.8
EX3 Core	0.24	0.60	-0.13	6.6	6.5

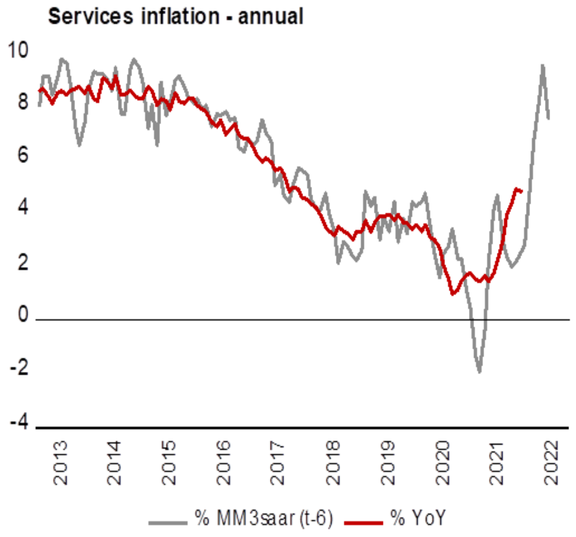
Sources: IBGE and Santander.

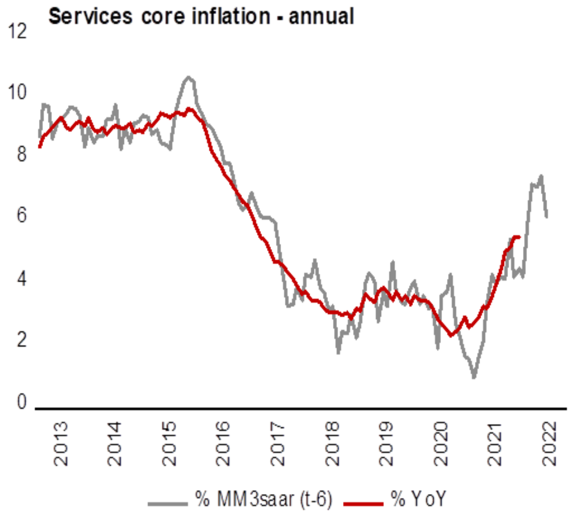
Figure 2. IPCA, Groups and Qualitative Measures

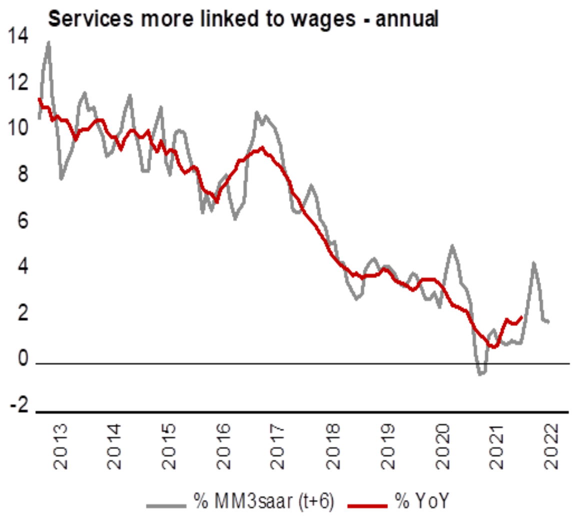


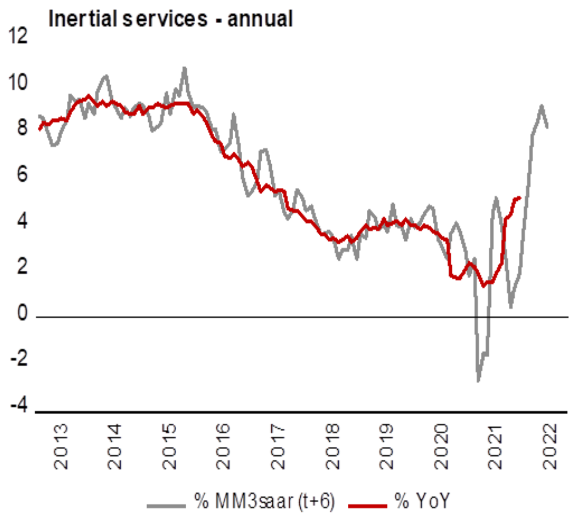
Sources for all charts: IBGE and Santander.

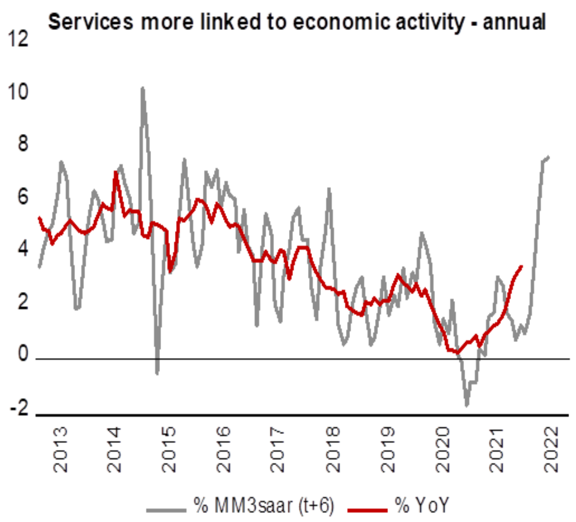
Figure 3. IPCA, Groups and Qualitative Measures continuation

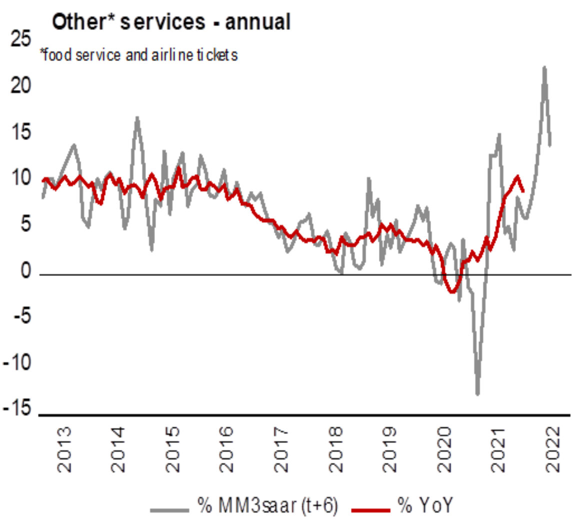






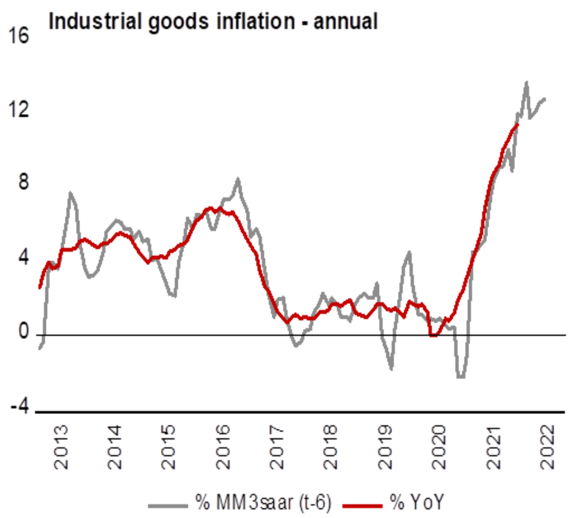


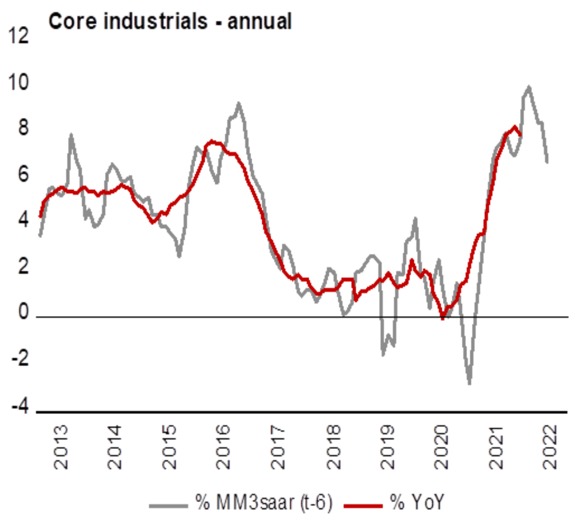


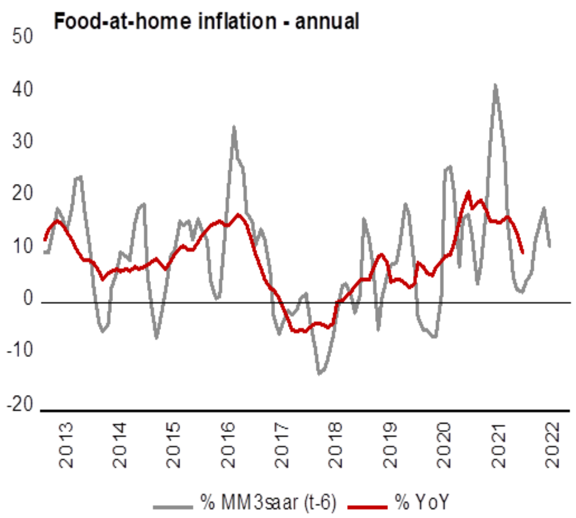


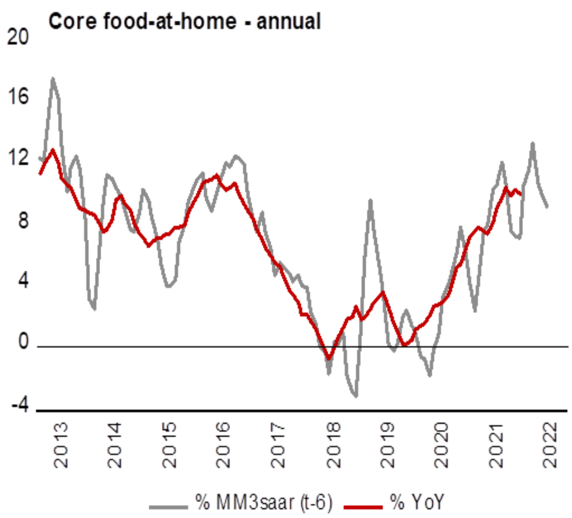
Sources for all charts: IBGE and Santander.

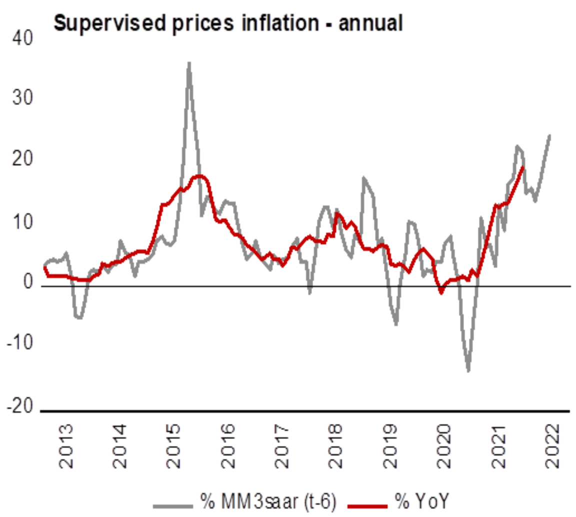
Figure 4. IPCA, Groups and Qualitative Measures continuation











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