

October's IPCA-15: Postponing the Peak of YoY Inflation, Again

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- **October's IPCA-15 registered a 1.20% MoM change (10.34% YoY), well over our estimate and the consensus forecast (both at 1.00%).**
- **A major part of the surprise came from services, an inertial and core-related group. As a result, the EX3 core cooled down less than we expected and the broad core measures continued to accelerate in trend (3MMA-saar) terms.**
- **All in all, we see this as yet another unfavorable reading and remain cautious on the inflation outlook. 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.**
- **We have revised our high-frequency tracking to 9.6% (from 9.1%) for IPCA 2021, to 5.2% (from 5.0%) for IPCA 2022 and to 3.5% for 2023 (from 3.25%).**

A major upside surprise, with underlying measures still under upward pressure

October's IPCA-15 registered a 1.20% MoM change (10.34% YoY), well above above our estimate and the consensus forecast (both at 1.00%). The headline accelerated to 14.1% 3MMA-saar (from 13.1%), highlighting that the upward pressure remained strong at the margin.

A major part of the surprise came from services, an inertial and core-related group. Services contributed +13 bps to the headline forecast error and the deviation was spread between its main four groups: services related to economic activity, inertial services, services related to wages, and volatile services. We highlight the +3 bps deviation of food-service, which is an item where we see upside risks—as it suffered a major cost-shock that might be passed-through to consumers with the economy reopening—exerting a heavy weight on the core services measure. Indeed, the core services gauge remained under considerable upward pressure at the margin, with the trend stable at 7.5% 3MMA-saar, contrary to our expectation of a relief for this reading (with part explained by the food-service upward surprise). Food-at-home was another upside surprise (contributing +6 bps to the headline forecast error), which pushed it to accelerate to 23% 3MMA-saar, signaling that the deceleration of the YoY measure might be slower than we anticipated. Finally, regulated prices almost did not surprise (+1 bp of contribution to the deviation), just as industrial goods (also +1 bp of contribution to the error). In industrial goods, despite the continuation of the headline trend at the very high level of 11.7% 3MMA-saar, the core saw a considerable relief, although to a still high level, of 7.9% 3MMA-saar (coming from 9.6%).

Broad qualitative measures deteriorated further at the margin, but the EX3 core at least saw a relief at the margin and the diffusion index also cooled down a bit. The average of the main five core measures followed by the Brazil Central Bank (BCB) rose to 9.3% 3MMA-saar (from 8.8% before) it is hovering above the target (and distancing further from it) for thirteen months now. This is an evidence of spreading of the primary shocks (commodities, FX, supply chain disruption, etc.) to the general prices and the persistency at these high levels is risky. **The EX3 core gauge (the combination of the services' and industrials' core), on the other side, cooled down from 8.1% to 7.5% 3MMA-saar; although this is a good sign, we were expecting a more relevant relief (our monthly forecast was 0.49% MoM vs. 0.69% realized) and the upside surprise was in core services,**

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which is not good for inflation dynamics (as the group is more inertial). Still on the “less negative” news side, the diffusion index fell considerably, from 69.8% (seasonally adjusted) to 59.3%, which might be a sign of a cooling down of the inflation spreading process.

All in all, we see this as another unfavorable reading and we remain cautious on the inflation outlook. We continue to see the balance of risks tilted to the upside (especially with the recent rise of domestic risk and with new global shocks happening constantly). We were cautiously expecting September’s IPCA and October’s IPCA-15 to be the YoY peaks for each series, but this did not happen—although we still believe there is not much room for further acceleration in YoY terms as base-effects start to play a relevant role from now on.

We have revised our high-frequency tracking to 9.6% (from 9.1%) for IPCA 2021, to 5.2% (from 5.0%) for IPCA 2022 and to 3.5% for 2023 (from 3.25%). It is worth remembering that the BCB’s target is 3.75% for 2021, 3.50% for 2022 and 3.25% for 2023 ($\pm 1.50\%$ tolerance interval for each year), and our forecasts are above the targets for all horizons.

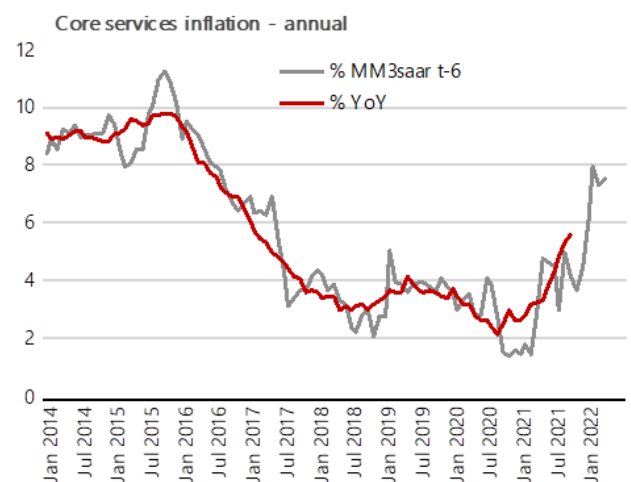
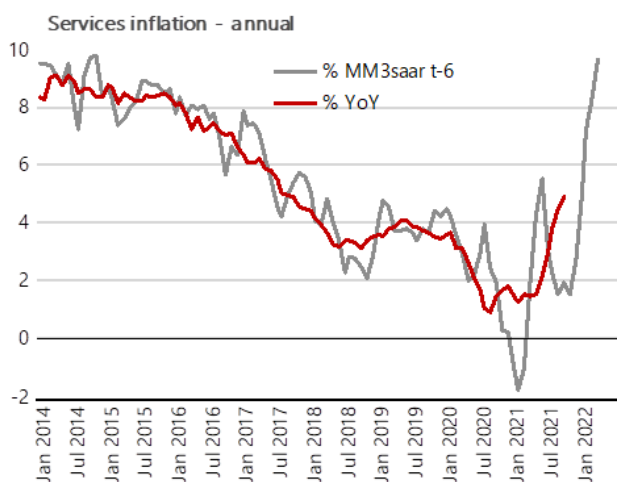
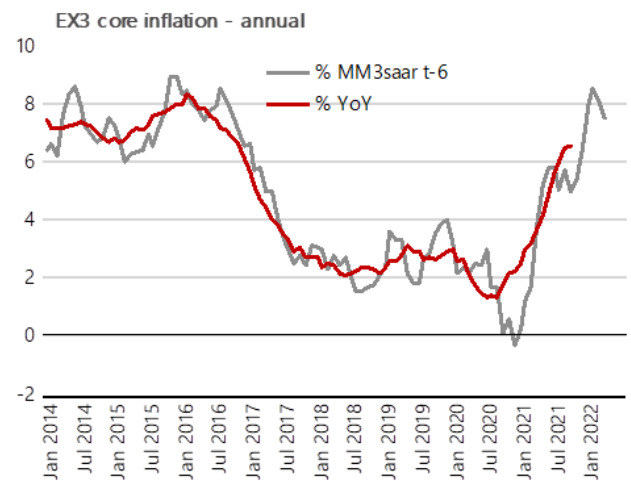
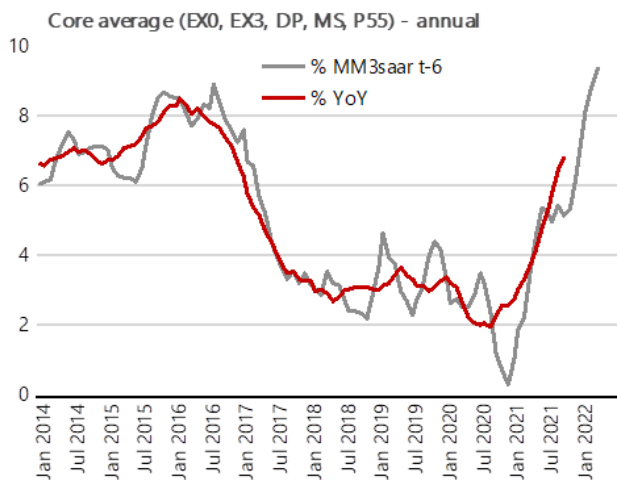
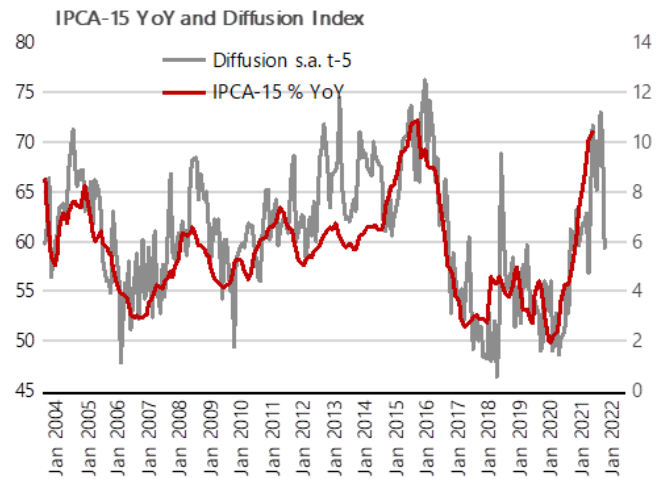
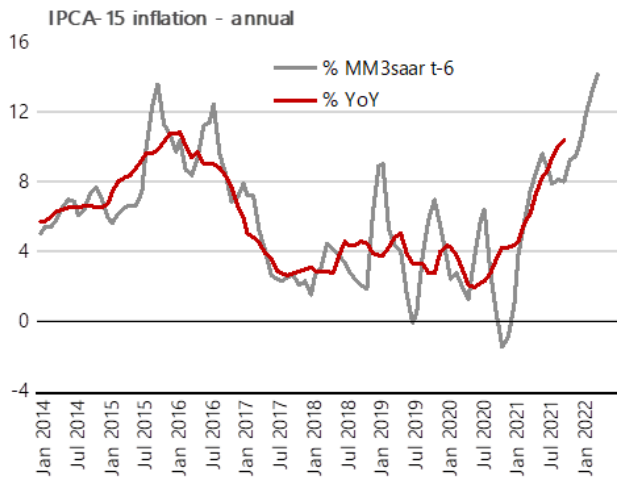
Figure 1. IPCA by Group and Forecasting Errors

	MoM			YoY	
	Oct-21	Santander	Contrib.	Sep-21	Oct-21
IPCA-15	1.20	1.00	0.20	10.1	10.3
Food and beverage	1.38	0.97	0.09	13.4	12.4
Food-at-home	1.54	1.15	0.06	15.5	13.9
Food service	0.97	0.53	0.03	8.2	8.7
Housing	1.87	1.71	0.03	12.9	14.5
Electrical energy	3.91	3.53	0.02	25.2	30.0
Household articles	0.53	0.76	-0.01	13.2	12.2
Apparel	1.32	0.53	0.03	7.0	7.5
Transportation	2.06	1.69	0.08	17.3	18.1
Airline tickets	34.35	31.00	0.01	56.6	50.4
Gasoline	1.85	2.05	-0.01	39.1	40.4
Health and personal care	-0.01	0.30	-0.04	3.8	3.5
Personal spending	0.77	0.64	0.01	3.3	4.0
Education	0.09	0.03	0.00	2.8	3.0
Communication	0.34	0.16	0.01	1.0	1.1
Administered	1.42	1.39	0.01	14.8	16.1
Free	1.12	0.85	0.20	8.4	8.4
Food-at-home	1.54	1.15	0.06	15.5	13.9
Industrial goods	0.98	0.95	0.01	10.3	10.4
Services	1.03	0.66	0.13	4.5	4.9
EX3 Core	0.69	0.49	0.07	6.5	6.5

Sources: IBGE and Santander.



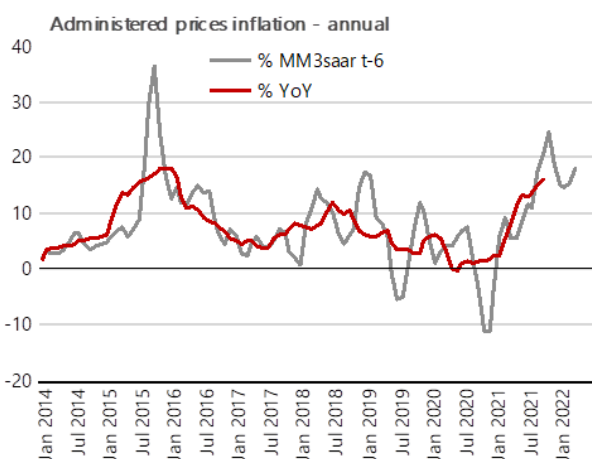
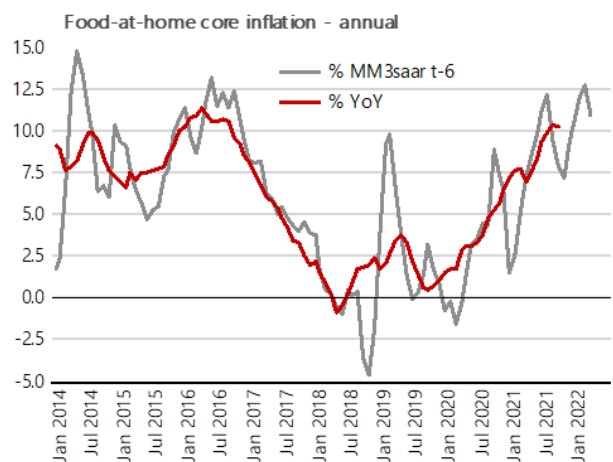
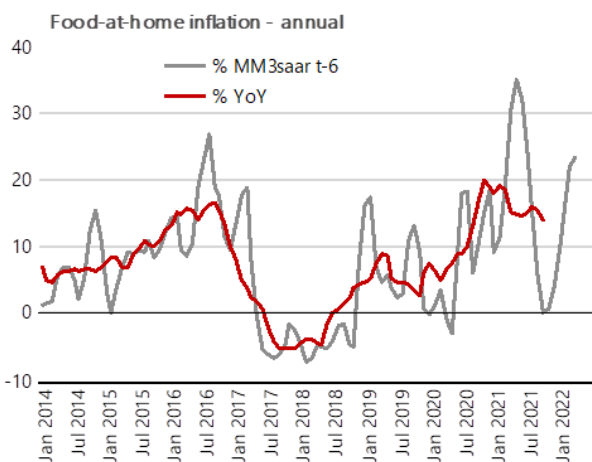
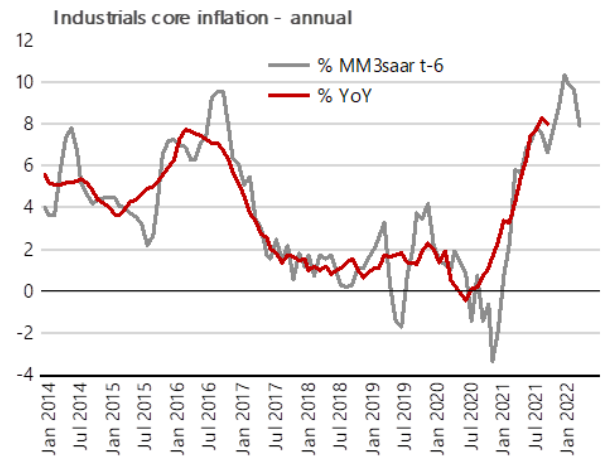
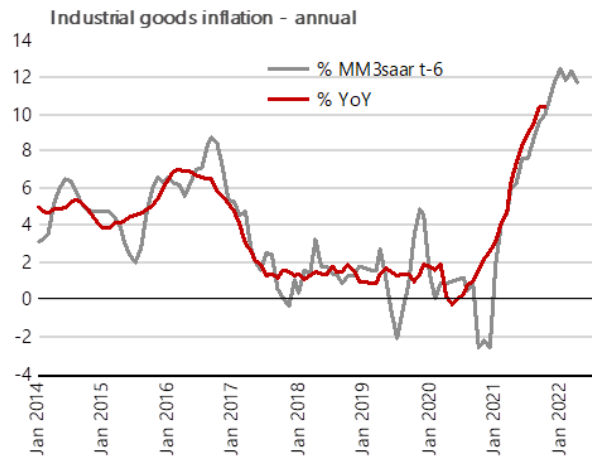
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



Figure 3. IPCA, Groups and Qualitative Measures continuation



Sources for all charts: IBGE and Santander.



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