

## IPCA-15 March: Core Measures Remain Under Pressure

Daniel Karp\*  
daniel.karp@santander.com.br  
+5511 3553 9828

- March's IPCA-15 registered a 0.93% MoM change (5.52% YoY), basically in line with the market's median expectation of 0.96% but well below our forecast of 1.03%.
- Core measures continued to experience upward pressure. In particular, core industrial goods and core services remained at high levels.
- Therefore, March's IPCA-15 reading reinforces an unfavorable outlook for short-term inflation, in our view, indicating that upward pressures remain strong.
- Looking ahead, we believe most of the pressures (commodity prices rising, a depreciated BRL, supply chain disruption, etc.) should continue for a while, causing the IPCA 2021 to end above the target at around 5%, per our tracking (although shocks should start to fade from 2H21 onward).

### Downside Surprise on the Headline, but an Unfavorable Reading for Core Measures

March's IPCA-15 registered a 0.93% MoM change (5.52% YoY), basically in line with market's median expectation of 0.96% but well below our forecast of 1.03%.

**Downside surprises were spread among free prices groups.** Services were a highlight, contributing -5 bps of deviation to the headline forecast error because of an unexpected downward price adjustment in school/college fees. Food-at-home was another group, contributing -5 bps to the error and, from anecdotal news, it seems supermarkets are facing difficulties in passing-through more of the cost shocks to consumers (from our wholesale price survey, inflation to consumers should have been higher), as the price level is already high and emergency income aid has not been in place since the end of last year (although another – much smaller – round was approved and will start to kick in soon). Industrial goods contributed a very slight -2 bps to the forecast error, but posted a very high change of 1.07% MoM. Finally, administered prices surprised in the other direction adding +2 bps to the forecast error.

**Core measures were a lowlight, as expected.** Indeed, the average of core measures saw its trend (3mma-saar) rise from 5.1% to 5.6%, a considerably high level. Particularly, industrial goods continue to add upward pressure, as they accelerated from 8.6% to 9.2% in 3mma-saar levels—the industrial's core measure remained at a high level also (close to 8% 3mma-saar). It is worth noting that the rise in the average of core measures happened despite the downside surprise in services and the deceleration of its 3mma-saar trend (from 2.3% to 1.6%); the reason is because the core of services actually accelerated in 3mma-saar terms (from 3.3% to 4.8%). Finally, diffusion stood almost steady at 61.7%, a level higher than in pre-pandemic times.

**In our view, despite the downside surprise, March's IPCA-15 reinforce the unfavorable scenario for short-term inflation,** indicating that shocks seem to be affecting core measures—a sign, in our view, that the risk of secondary effects on inflation is rising. Another sign in that direction is the diffusion index in high levels are also a sign on that direction.

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## Forecasts: Short-Term Remains Upwardly Pressured

We revised our short-term forecasts to 1.08% (from 1.05%) for March, 0.47% (from 0.68%) for April, and 0.25% (from 0.21%) for May. **We highlight that the uncertainty regarding April's number is considerable**, mainly because of: (i) doubts about what tariff flag will be decided for electrical energy (due tomorrow, so that uncertainty should end soon); and (ii) doubts surrounding gasoline inflation, as domestic gasoline prices at refineries have fallen since last week, though the current gap to international prices widened to the positive camp again, suggesting risks of upward adjustments and making it considerably difficult to envision gasoline inflation for April.

Looking ahead, we believe most of the pressures (commodity prices rising, a depreciated BRL, supply chain disruption, etc.) should continue for a while, **causing IPCA 2021 to end above the target at around 5%, per our tracking (although shocks should start to fade from 2H21 onwards)**. For the IPCA 2022, we still believe that most of the pandemic-related influences will have faded and that prices will return to being more determined by weak demand, **causing the IPCA 2022 to stay close to the target**. However, greater inertia from 2021 onward and a trickier fiscal scenario tilt the risks to the upside, in our view.

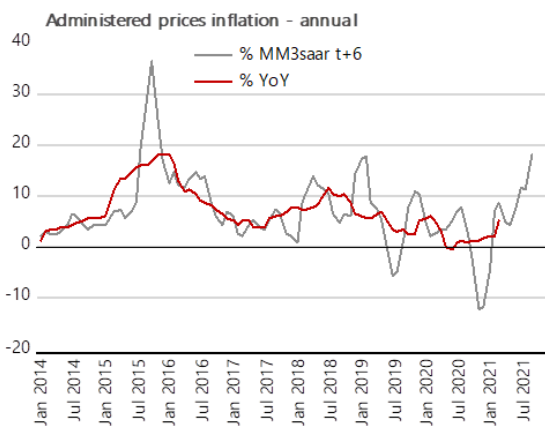
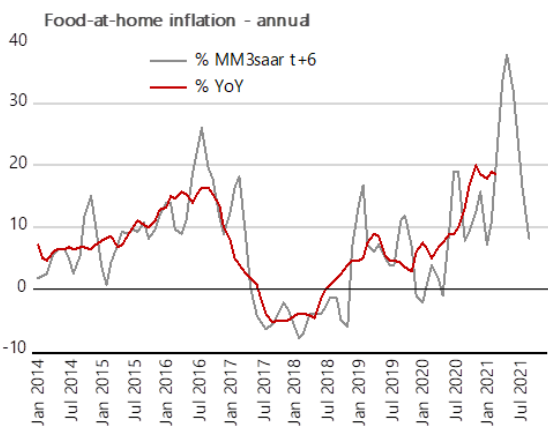
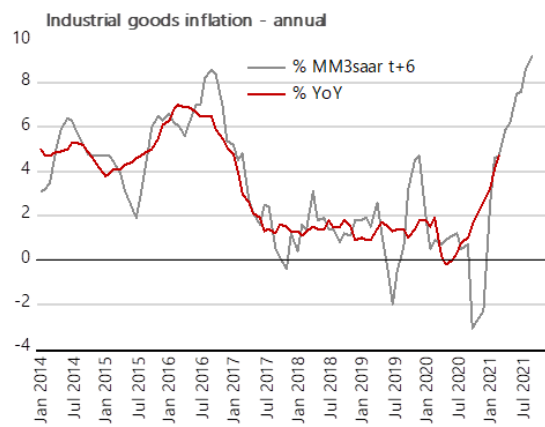
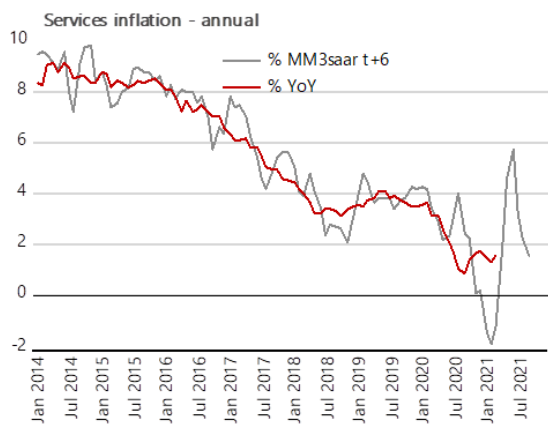
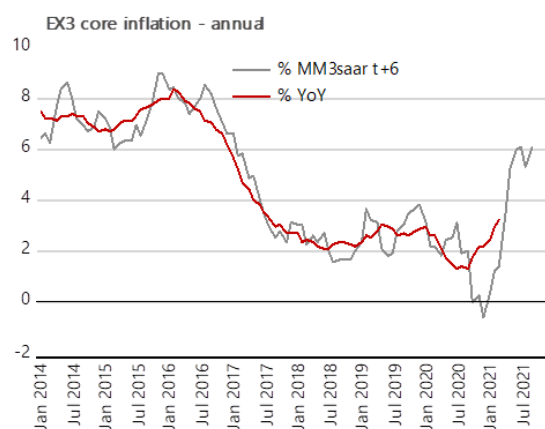
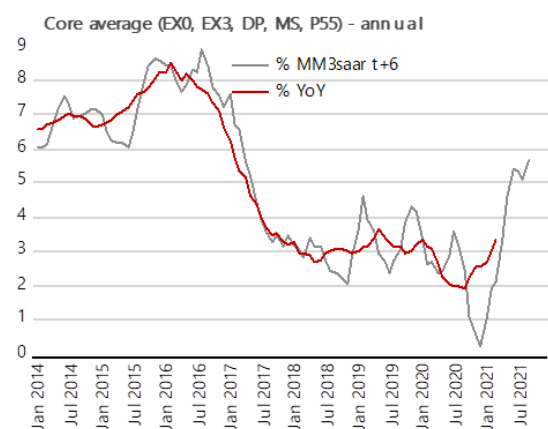
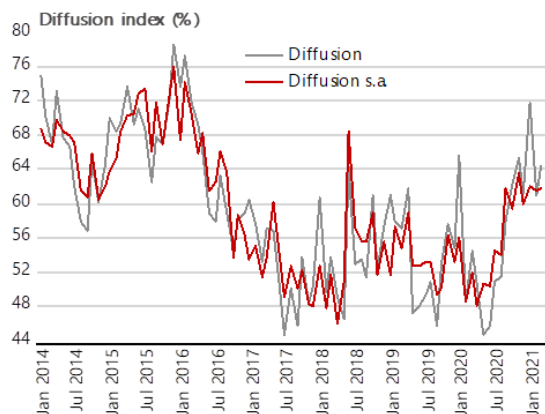
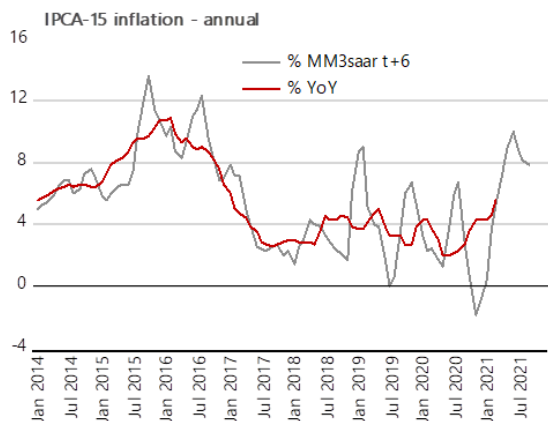
Figure 1. IPCA-15 Inflation by Group

	MoM			YoY	
	Mar-21	Santander	Dev.	Feb-21	Mar-21
<b>IPCA-15</b>	<b>0.93</b>	<b>1.03</b>	<b>-0.10</b>	<b>4.6</b>	<b>5.5</b>
<b>Food and beverage</b>	<b>0.12</b>	<b>0.27</b>	<b>-0.03</b>	<b>14.8</b>	<b>14.5</b>
Food-at-home	-0.03	0.30	-0.05	19.1	18.5
Food service	0.49	0.18	0.02	5.1	5.6
<b>Housing</b>	<b>0.71</b>	<b>0.61</b>	<b>0.02</b>	<b>3.9</b>	<b>4.9</b>
Electrical energy	0.05	0.25	-0.01	2.8	4.3
<b>Household articles</b>	<b>0.55</b>	<b>0.52</b>	<b>0.00</b>	<b>7.0</b>	<b>7.7</b>
<b>Apparel</b>	<b>0.03</b>	<b>0.48</b>	<b>-0.02</b>	<b>-0.2</b>	<b>0.1</b>
<b>Transportation</b>	<b>3.79</b>	<b>3.64</b>	<b>0.03</b>	<b>1.5</b>	<b>6.2</b>
Airline tickets	-2.01	-2.50	0.00	-26.1	-12.9
Gasoline	11.18	10.90	0.01	2.9	15.8
<b>Health and personal care</b>	<b>0.24</b>	<b>0.65</b>	<b>-0.05</b>	<b>2.2</b>	<b>1.6</b>
<b>Personal spending</b>	<b>0.10</b>	<b>0.09</b>	<b>0.00</b>	<b>0.7</b>	<b>0.8</b>
<b>Education</b>	<b>-0.51</b>	<b>0.47</b>	<b>-0.06</b>	<b>-0.1</b>	<b>-1.2</b>
<b>Communication</b>	<b>0.02</b>	<b>-0.08</b>	<b>0.01</b>	<b>3.1</b>	<b>2.7</b>
<b>Administered</b>	<b>2.66</b>	<b>2.59</b>	<b>0.02</b>	<b>2.3</b>	<b>5.3</b>
<b>Free</b>	<b>0.34</b>	<b>0.50</b>	<b>-0.12</b>	<b>5.4</b>	<b>5.6</b>
Food-at-home	-0.03	0.30	-0.05	19.1	18.5
Industrial goods	1.00	1.07	-0.02	4.1	4.7
Services	0.08	0.22	-0.05	1.3	1.6
<b>EX3 Core</b>	<b>0.46</b>	<b>0.42</b>	<b>0.04</b>	<b>3.0</b>	<b>3.2</b>
<b>Average of cores</b>	<b>0.46</b>	<b>-</b>	<b>-</b>	<b>3.0</b>	<b>3.3</b>

Sources: IBGE, BCB, and Santander.



**Figure 2. IPCA Inflation and Qualitative Measures**





Sources: IBGE, BCB and Santander.

Figure 3. IPCA Inflation Forecasts\*

	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	2021e
<b>IPCA</b>	<b>1.08</b>	<b>0.47</b>	<b>0.25</b>	<b>0.44</b>	<b>0.41</b>	<b>-0.04</b>	<b>0.19</b>	<b>0.26</b>	<b>0.24</b>	<b>0.45</b>	<b>5.0</b>
<b>Food and beverage</b>	<b>0.18</b>	<b>0.37</b>	<b>0.37</b>	<b>0.37</b>	<b>0.31</b>	<b>0.13</b>	<b>0.13</b>	<b>0.43</b>	<b>0.54</b>	<b>0.79</b>	<b>5.0</b>
Food-at-home	0.02	0.35	0.43	0.40	0.30	0.00	0.00	0.40	0.50	0.80	4.6
Food service	0.60	0.40	0.22	0.30	0.35	0.45	0.45	0.50	0.65	0.75	6.0
<b>Housing</b>	<b>0.83</b>	<b>0.82</b>	<b>0.62</b>	<b>1.61</b>	<b>0.89</b>	<b>-0.99</b>	<b>0.18</b>	<b>0.13</b>	<b>-0.43</b>	<b>0.11</b>	<b>3.1</b>
Electrical energy	0.74	1.51	1.47	4.83	2.61	-4.11	0.27	0.15	-1.94	-0.04	-1.3
<b>Household articles</b>	<b>0.56</b>	<b>0.39</b>	<b>0.25</b>	<b>0.17</b>	<b>0.25</b>	<b>0.30</b>	<b>0.10</b>	<b>0.19</b>	<b>0.14</b>	<b>0.19</b>	<b>4.1</b>
<b>Apparel</b>	<b>0.15</b>	<b>0.39</b>	<b>0.45</b>	<b>0.14</b>	<b>-0.15</b>	<b>0.11</b>	<b>0.35</b>	<b>0.52</b>	<b>0.27</b>	<b>0.59</b>	<b>3.2</b>
<b>Transportation</b>	<b>4.25</b>	<b>0.15</b>	<b>-0.33</b>	<b>-0.03</b>	<b>0.30</b>	<b>-0.31</b>	<b>0.15</b>	<b>0.15</b>	<b>0.38</b>	<b>0.66</b>	<b>8.3</b>
Airline tickets	-2.01	-1.00	-3.50	10.50	19.00	-15.00	4.50	2.00	11.00	21.00	16.3
Gasoline	12.00	0.00	-1.00	-1.00	-0.70	-0.40	-0.20	-0.10	0.00	0.00	18.5
<b>Health and personal care</b>	<b>0.41</b>	<b>1.51</b>	<b>0.68</b>	<b>0.51</b>	<b>0.50</b>	<b>0.50</b>	<b>0.49</b>	<b>0.49</b>	<b>0.50</b>	<b>0.51</b>	<b>7.3</b>
<b>Personal spending</b>	<b>0.09</b>	<b>0.04</b>	<b>0.13</b>	<b>0.29</b>	<b>0.15</b>	<b>0.12</b>	<b>0.16</b>	<b>0.17</b>	<b>0.22</b>	<b>0.27</b>	<b>2.2</b>
<b>Education</b>	<b>-0.50</b>	<b>0.02</b>	<b>0.02</b>	<b>0.03</b>	<b>0.01</b>	<b>0.29</b>	<b>0.04</b>	<b>0.02</b>	<b>0.03</b>	<b>0.07</b>	<b>2.6</b>
<b>Communication</b>	<b>0.11</b>	<b>0.03</b>	<b>0.05</b>	<b>0.06</b>	<b>1.04</b>	<b>0.60</b>	<b>0.08</b>	<b>0.14</b>	<b>0.06</b>	<b>0.08</b>	<b>2.1</b>
<b>Administered</b>	<b>2.97</b>	<b>1.13</b>	<b>0.43</b>	<b>0.91</b>	<b>0.56</b>	<b>-0.54</b>	<b>0.21</b>	<b>0.22</b>	<b>-0.13</b>	<b>0.19</b>	<b>7.6</b>
<b>Free</b>	<b>0.44</b>	<b>0.25</b>	<b>0.18</b>	<b>0.28</b>	<b>0.36</b>	<b>0.13</b>	<b>0.18</b>	<b>0.27</b>	<b>0.36</b>	<b>0.54</b>	<b>4.1</b>
Food-at-home	0.02	0.35	0.43	0.40	0.30	0.00	0.00	0.40	0.50	0.80	4.6
Industrial goods	1.28	0.34	0.23	0.12	0.13	0.25	0.24	0.30	0.28	0.39	4.8
Services	0.07	0.14	0.05	0.32	0.53	0.10	0.23	0.20	0.36	0.53	3.2
<b>EX3 Core</b>	<b>0.47</b>	<b>0.32</b>	<b>0.24</b>	<b>0.23</b>	<b>0.19</b>	<b>0.23</b>	<b>0.26</b>	<b>0.28</b>	<b>0.31</b>	<b>0.39</b>	<b>4.0</b>

Sources: IBGE, BCB and Santander.

\*2021e is the high-frequency tracking for the end of the year.



## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
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 Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

### Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@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
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
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
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

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