

## August's IPCA-15: Past the Headline Peak, Attentions Turn to Qualitative Measures

**Daniel Karp\***  
daniel.karp@santander.com.br  
+55 11 3553 9828

**Felipe Kotinda\***  
felipe.kotinda@santander.com.br  
+55 11 3553 8071

- **IPCA-15 fell 0.73% MoM, an upward surprise compared to our forecast (-0.90%) and to the market consensus (-0.83%). Despite the upward surprise, the headline trend dropped to 2.2% 3mma-saar (from 9%), and the YoY change fell to 9.6% (from 11.4%).**
- **Compared to our forecast, upward surprises came in regulated prices, food and industrial goods. On the other side, services—stickier and more related to core gauges—surprised to downside.**
- **Although IPCA-15 surprised upward, we believe the reading consolidates that the peak of headline inflation is past in YoY terms (a movement that was boosted by the tax-cut measures).**
- **Regarding the “quality” of the number, we are seeing early signs of improvement at the margin, but levels of core gauges and diffusion are still historically high.**
- **Moreover, risks related to stickier prices (more related to core gauges) are still in place—particularly because of the new round of income aid and because of the likely income effect coming from the tax-cut measures, as both can support demand in the short term and sustain prices.**

IPCA-15 fell 0.73% MoM, an upward surprise compared to our forecast (-0.90%) and to the market consensus (-0.83%). Despite the upward surprise, the headline trend dropped to 2.2% 3mma-saar (from 9%), and the YoY change fell to 9.6% (from 11.4%), with a substantial impact from the tax cut, but also with some preliminary relief for other items.

Upward surprises came in regulated prices (+9 bps, mostly concentrated on electrical energy, apparently because the tax-base change has yet to affect consumers), food (+6 bps) and industrial goods (+5 bps). Most of the surprises were in volatile items—for example, in food the surprises were concentrated in fresh food, while the industrialized ones (that enter the core gauge for food) decelerated; for industrial goods, a significant part of the surprise was in perfumes, which are known for being highly volatile.

In terms of annual changes, regulated prices decelerated to 3% YoY (from 9%), with the trend running below that, at -19% 3mma-saar (mostly due to the tax cuts in electrical energy and gasoline). Food remained unchanged, at 17% YoY, but the trend decelerated a bit, going to 17% 3mma-saar. Food's core gauge also remained unchanged, at 16% YoY, but its trend decelerated more sharply, reaching 13.5% 3mma-saar (from 18.9% 3mma-saar), which means it is now running below the YoY change, suggesting further deceleration ahead. Industrial goods posted a 12.8% YoY change coming from 13.5%, and its trend fell to 6% 3mma-saar (from 11.4%); however, this group is also being affected by the tax cut, because ethanol is part of the group. The industrial goods core gauge—which excludes, among other items, ethanol—rose a bit, going to 13.5% YoY from 13.1% previously, but its trend decelerated to 13.3% 3mma-ssar (from 15.4%). Despite the trend decelerating, it is still running above the YoY change, so further deceleration in the YoY change is still not clear.

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On the other side, services—stickier and more related to core gauges—surprised to the downside (-6 bps). A significant part of the surprise was airline tickets, which are highly volatile, but there were more substantial surprises, such as education, housekeeping services and some personal services, which are known for being more cyclical and inertial. The annual change rose just a tad, to 9.0% YoY (from 8.9%), but the trend decelerated (with a strong influence of the airfares drop) to 10.7% 3mma-saar (from 14.3%)—still above the YoY change, though. The services core gauge, which excludes, among other items, airfare, which rose to 9.4% YoY (from 9%). On the other side, the trend fell a bit to 11.9% 3mma-saar (from 12.4%), but it is still running considerably above the YoY change; so a deceleration in YoY terms is still not in sight.

Broad core gauges improved a bit more at the margin. The average of the five main cores was unchanged, at 10.5% YoY, but its trend fell to 10% 3mma-saar (from 12.4% previously). Additionally, the diffusion index saw a relief to 66.8% s.a. (from 70.3% previously). It is worth highlighting, however, that both measures are still hovering at high levels, far from being compatible with the Brazil Central Bank's target for headline inflation.

All in all, although IPCA-15 surprised upward, we believe the reading consolidates that the peak of headline inflation is past us in YoY terms (a movement that was boosted by the tax-cut measures). Regarding the "quality" of the number, we are seeing preliminary signs of improvement at the margin, but levels of core gauges and diffusion are still historically high. Moreover, risks related to stickier prices (more related to core gauges) are still at place—particularly because of the new round of income aid and because of the likely income effect coming from the tax-cut measures, as both can support demand in the short term and sustain prices. Our current IPCA tracking is at 6.8% for 2022YE and 5.3% for 2023YE. We see downward risks (particularly for 2022) coming from volatile prices, but we remain cautious about the composition of inflation, as services inflation, core gauges and inertial prices as whole could remain high for a while.



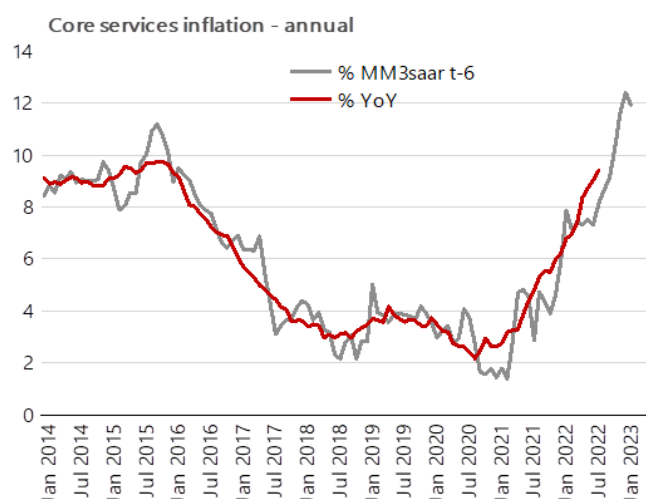
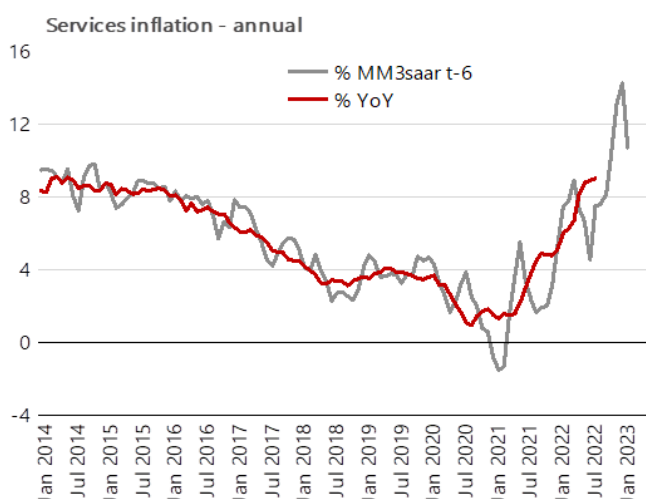
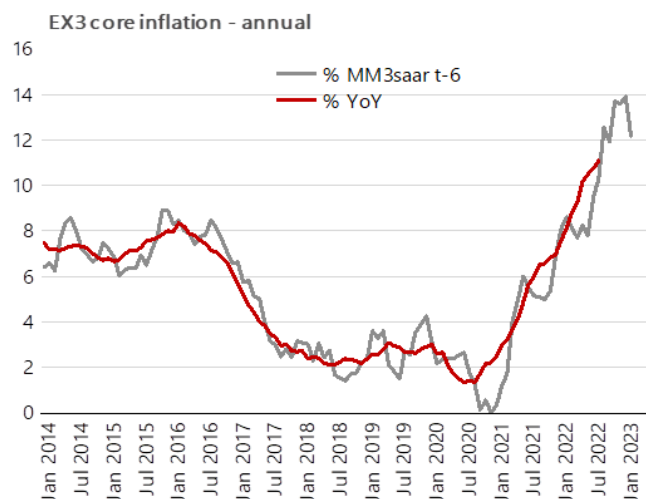
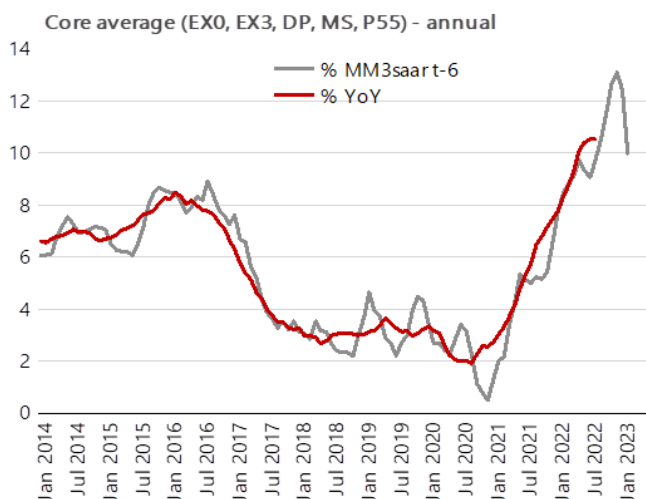
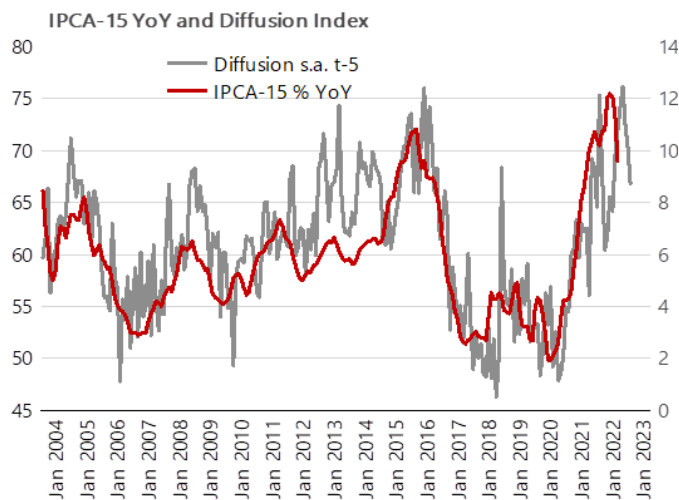
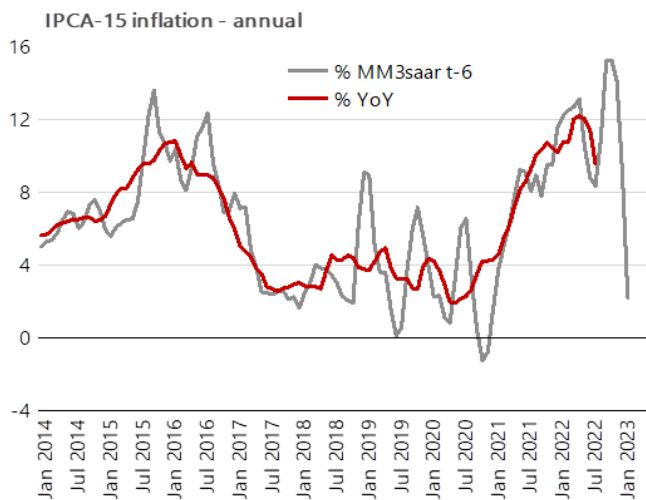
Figure 1. IPCA-15 by Group and Forecasting Errors

	MoM			YoY	
	Aug-22	Santander	Dev.	Jul-22	Aug-22
<b>IPCA-15</b>	<b>-0.73</b>	<b>-0.90</b>	<b>0.17</b>	<b>11.4</b>	<b>9.6</b>
<b>Food and beverage</b>	<b>1.12</b>	<b>0.79</b>	<b>0.07</b>	<b>14.6</b>	<b>14.7</b>
Food-at-home	1.24	0.84	0.06	17.5	17.4
Food service	0.80	0.66	0.01	7.6	8.1
<b>Housing</b>	<b>-0.37</b>	<b>-0.85</b>	<b>0.07</b>	<b>6.5</b>	<b>4.0</b>
Electrical energy	-3.29	-4.63	0.05	-4.8	-12.4
<b>Household articles</b>	<b>0.08</b>	<b>0.25</b>	<b>-0.01</b>	<b>14.5</b>	<b>13.4</b>
<b>Apparel</b>	<b>0.76</b>	<b>0.45</b>	<b>0.01</b>	<b>17.2</b>	<b>17.0</b>
<b>Transportation</b>	<b>-5.24</b>	<b>-5.28</b>	<b>0.01</b>	<b>18.0</b>	<b>10.5</b>
Airline tickets	-12.22	-6.00	-0.04	78.0	75.3
Gasoline	-16.80	-16.90	0.01	20.4	-1.9
<b>Health and personal care</b>	<b>0.81</b>	<b>0.63</b>	<b>0.02</b>	<b>7.1</b>	<b>8.3</b>
<b>Personal spending</b>	<b>0.81</b>	<b>1.00</b>	<b>-0.02</b>	<b>7.8</b>	<b>7.9</b>
<b>Education</b>	<b>0.61</b>	<b>0.86</b>	<b>-0.01</b>	<b>6.7</b>	<b>7.1</b>
<b>Communication</b>	<b>-0.30</b>	<b>-0.27</b>	<b>0.00</b>	<b>3.2</b>	<b>2.7</b>
<b>Administered</b>	<b>-4.28</b>	<b>-4.61</b>	<b>0.09</b>	<b>9.5</b>	<b>3.3</b>
<b>Free</b>	<b>0.53</b>	<b>0.45</b>	<b>0.06</b>	<b>12.1</b>	<b>11.9</b>
Food-at-home	1.24	0.84	0.06	17.5	17.4
Industrial goods	0.28	0.05	0.05	13.5	12.8
Services	0.38	0.54	-0.06	8.9	9.0
<b>EX3 Core</b>	<b>0.84</b>	<b>0.56</b>	<b>0.10</b>	<b>10.7</b>	<b>11.1</b>

Sources: IBGE and Santander.



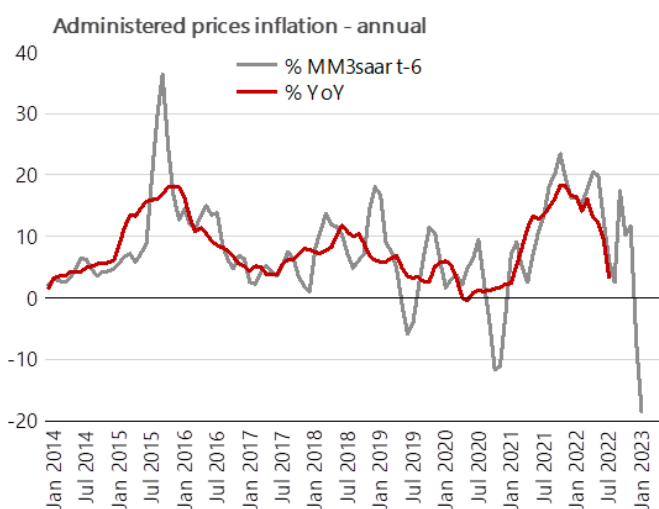
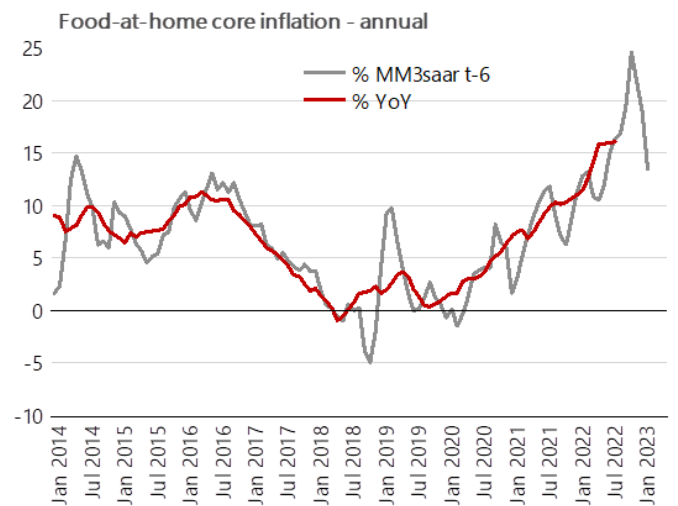
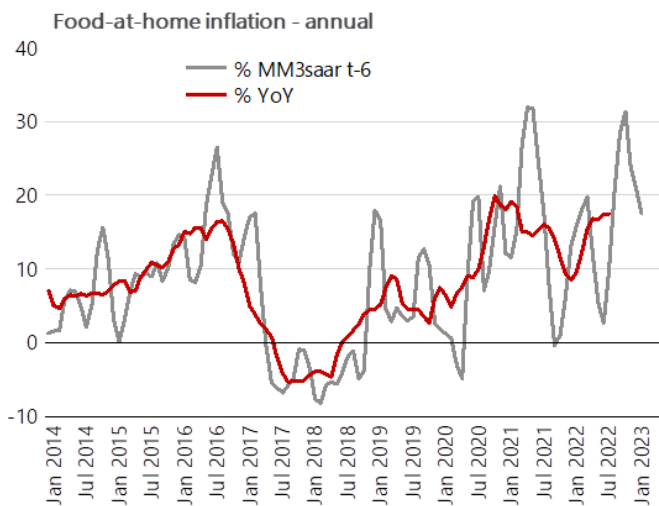
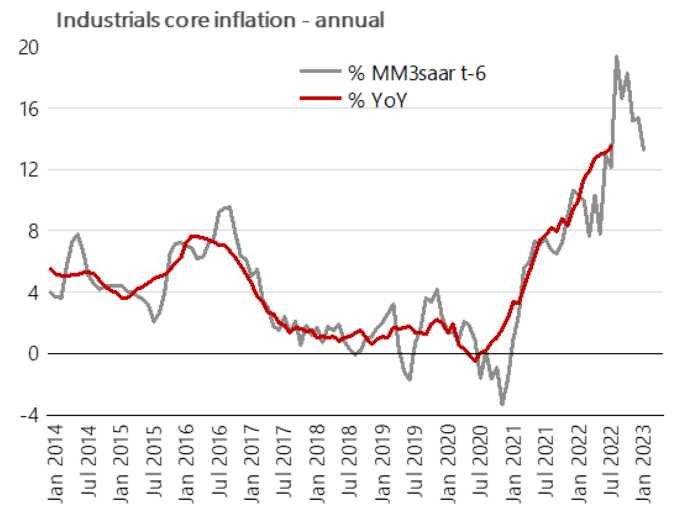
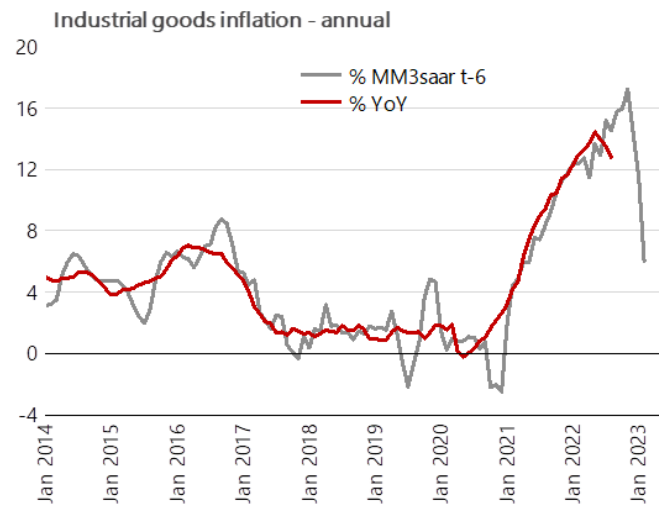
Figure 2. IPCA-15, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



Figure 3. IPCA-15, Groups and Qualitative Measures (continued)



Sources for all charts: IBGE and Santander.



## 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*	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 – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
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
Rodrigo Park *	Economist – Argentina	rpark@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
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684
Murilo Riccini*	Head, Chile	murilo.riccini@santander.cl	56 22336 3359

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