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DATA ANALYSIS – INFLATION

January's IPCA-15: Upside Surprise in First Print of the Year

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- **January's IPCA-15 registered a 0.58% MoM change, above our forecast (0.43% and market consensus [0.44%]). With that result, the YoY change reaches 10.20%, still quite close to the highs of 4Q15-1Q16, and well above this year's target of 3.50% and its upper limit of 5.00%.**
- **The major upside surprise came in industrial goods, due to some leftover rebound from Black Friday related discounts. Core industrial goods rose 1.90% MoM, enough to push the trend higher to 9.3% 3MMA-saar. As for core services, the 3MMA-saar remained flat, at 7.1%. Moreover, the diffusion index rose to 71.3% from 71.0% (seasonally adjusted).**
- **Another highlight was the surprise in registration and license (owing to the annual auto ownership tax, IPVA), which rose 1.7% MoM. This item rate of change maintains throughout the year, implying upside risk to our 2022 forecast.**
- **All in all, this reading increases our concerns about the inflation outlook, and we continue to project a "plateau" at ~10.0% YoY until April 2022. Our IPCA 2022 high frequency tracking is at 6.0%, while for IPCA 2023 it is at 3.5%. Both numbers are above the target of the BCB (3.5% for 2022 and 3.25% for 2023, both with +/-1.5% tolerance band).**

Another unfavorable monthly print

January's IPCA-15 registered a 0.58% MoM change, above our forecast (0.43% and market consensus [0.44%]). With that result, the YoY change reaches 10.20%, still quite close to the highs of 4Q15-1Q16, and well above this year's target of 3.50% and its upper limit of 5.00%. Although the peak—strictly speaking—of IPCA-15 YoY was in November 2021, at 10.73%, we believe inflation will continue hovering around 10.0% until April 2022, implying a plateau rather than a clear peak. As for the trend at the margin, it decelerated to 8.4%% 3MMA-saar from 10.5%. We believe the 3MMA-saar measure should continue to cool down until it reaches around 5.0%, but then it should remain at that lofty level for most of the year, suggesting that the disinflation process will be sticky, difficult and risky.

The major upside surprise came in industrial goods, due to some leftover rebound of Black Friday related discounts. Industrial goods rose 1.46% MoM (vs. 0.90% expected), contributing +13 bps with the headline forecast error. This was enough to push the trend to 15.5% 3MMA-saar from 13.7%. Services rose 0.51% (contributing +6 bps to the headline forecast error), meaning its trend decelerated to 4.9% from 6.7% 3MMA-saar. As for core services, the 3MM-saar remained flat at 7.1%. We highlight that services more inertial and those more related to activity accelerated at the margin. Food-at-home actually was below our expectation, rising 1.03% MoM and continuing its decelerating trend both in YoY and 3MMA-saar terms. Finally, regulated prices were in line with our expectation (-0.32% MoM), but communication was a surprise, contributing +4 bps to the headline forecast error.

Another highlight was the surprise in registration and license (owing to the annual auto ownership tax, IPVA), which rose 1.7% MoM. This item rate of change maintains throughout the year, implying upside risk to our 2022 forecast.

In general, qualitative measures remained unfavorable. The average of the main core gauges rose 0.90% MoM, and the trend remained basically stable, at 9.1% 3MMA-saar. Moreover, the diffusion index rose to 71.3% from 71.0% (seasonally adjusted).

All in all, this reading reinforces our concerns about the inflation outlook. We think it is still too soon to be convinced that inflation is already in a consistent deceleration trend, especially because the qualitative measures are still quite unfavorable: services accelerating, while industrial goods remain under upward pressure (and surprising to the upside). Although our view is that inflation has no room to accelerate further in YoY terms, we think it should also not peak until April 2022. So, the dynamic we envision is a plateau at ~10.0%, followed by more clear relief, to around 9.0% only in May 2022 (mainly because of the base effect coming from the end of the Red 2 "Hydro Scarcity" tariff flag in electrical energy; the peak could become clear before that if this exceptional flag is dropped before May). Moreover, the disinflation process afterwards should be difficult and sticky, and not a sharp deceleration.

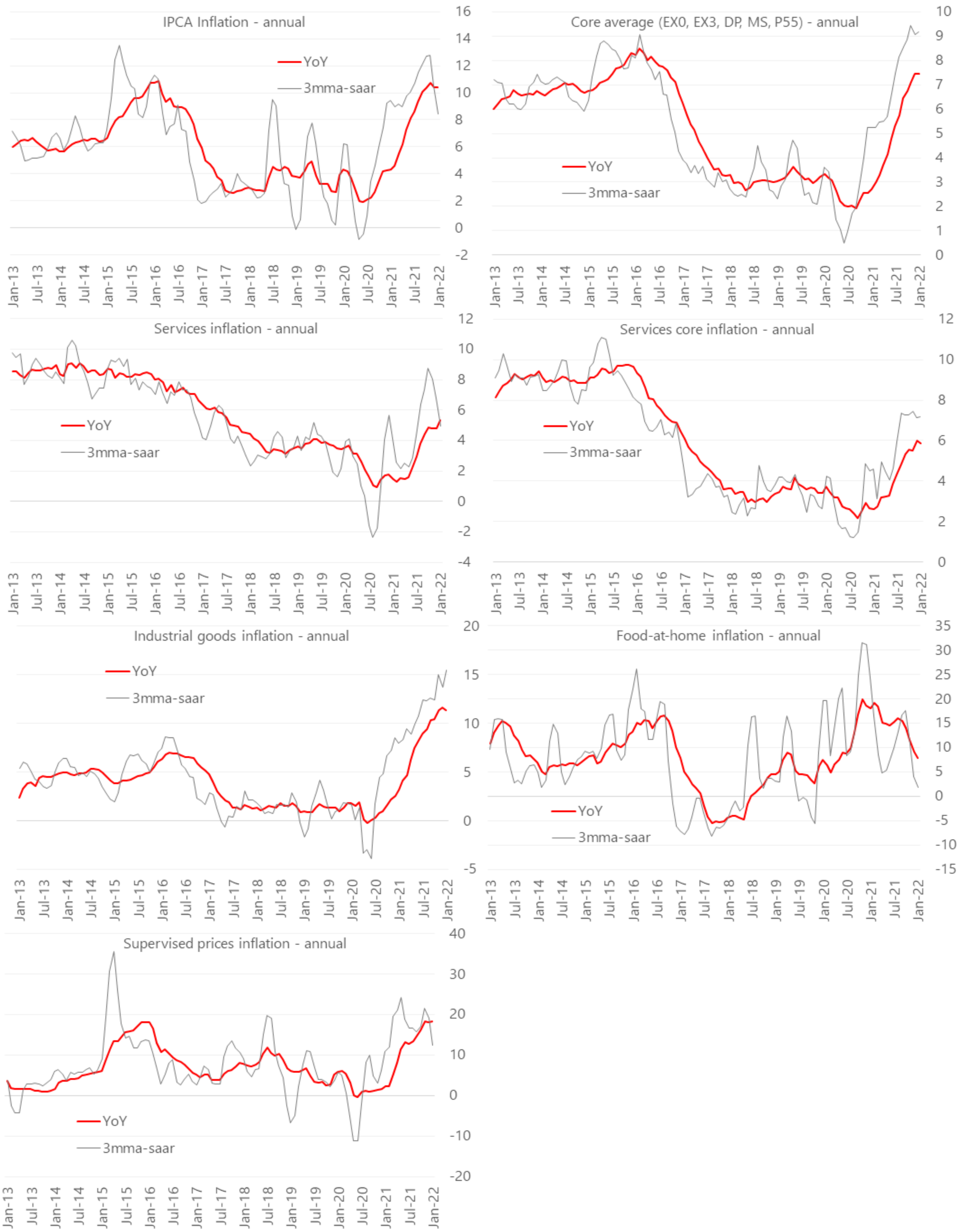
Our IPCA 2022 high frequency tracking is at 6.0%, while for IPCA 2023 it is at 3.5%. Both numbers are above the target of the BCB (3.5% for 2022 and 3.25% for 2023, both with +/-1.5% tolerance band).

Figure 1. IPCA by Group and Forecasting Errors

	MoM			YoY	
	Jan-22	Santander	Dev.	Dec-21	Jan-22
IPCA-15	0.58	0.43	0.15	10.4	10.2
Food and beverage	**0.97**	**1.26**	**-0.06**	**8.7**	**8.1**
Food-at-home	1.03	1.29	-0.04	9.2	8.5
Food service	0.81	1.20	-0.02	7.4	7.1
Housing	**0.62**	**0.55**	**0.01**	**14.7**	**13.8**
Electrical energy	0.03	-0.15	0.01	27.3	23.5
Household articles	**1.40**	**1.11**	**0.01**	**12.2**	**12.8**
Apparel	**1.48**	**0.97**	**0.02**	**9.8**	**10.5**
Transportation	**-0.41**	**-0.69**	**0.06**	**21.4**	**20.7**
Airline tickets	-18.21	-20.00	0.01	16.8	20.1
Gasoline	-1.78	-2.00	0.01	49.6	45.5
Health and personal care	**0.93**	**0.44**	**0.06**	**3.5**	**3.7**
Personal spending	**0.63**	**0.66**	**0.00**	**4.6**	**4.9**
Education	**0.25**	**0.10**	**0.01**	**2.6**	**2.8**
Communication	**1.09**	**0.29**	**0.04**	**1.0**	**2.2**
Administered	**-0.32**	**-0.33**	**0.00**	**18.2**	**16.6**
Free	**0.92**	**0.71**	**0.15**	**7.8**	**8.0**
Food-at-home	1.03	1.29	-0.04	9.2	8.5
Industrial goods	1.46	0.90	0.13	11.6	12.3
Services	0.51	0.33	0.06	4.8	5.1
EX3 Core	**1.37**	**1.04**	**0.12**	**6.9**	**7.5**
Average of cores	**0.87**	-	-	**7.4**	-

Sources: IBGE and Santander.

Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.

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