



July's IPCA-15: Tax Cut Measures Start to Take Effect

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- **July's IPCA-15 registered a 0.13% MoM change, in line with our call (0.11%) and a bit below the consensus expectation (0.16%). With this result, the headline trend saw relief to 8.3% 3MMA-saar (from 14.5%).**
- **Compared with our forecast, services surprised on the upside (+9 bps contribution to the headline forecast error) while industrial goods and food-at-home surprised on the downside (contributing -3 bps and -5 bps to the headline forecast error, respectively). Regulated prices came in line with our expectations.**
- **In our view, although this reading still paints a quite unfavorable picture, it was marginally better, with the diffusion index being relieved for the second time in a row, reaching 71.1% (from a peak of 76.4% in May) and the average of core gauges ticking down. Industrial goods and food-at-home also trended downward.**
- **Of course, many of the short-term positives relate to the tax cut measures. As a result, for the medium term, we remain cautious about the pace of deceleration, as some taxes are likely to be reinstated next year.**

July's IPCA-15 registered a 0.13% MoM change, in line with our call (0.11%) and a bit below the consensus expectation (0.16%). With this result, the headline trend saw a relief to 8.3% 3MMA-saar (from 14.5%). In YoY terms, the IPCA reached 11.39%, reinforcing our view, at least in terms of headline inflation, that the worst is behind us now, and the peak has already been reached.

Compared with our forecast, services surprised to the upside (+9 bps contribution to the headline forecast error), mainly because the expected effect of the tax cut in communication items did not yet appear in the reading. Still, a few services items related to salaries/more inertial (such as rents +0.95% MoM and housekeeper +1.25% MoM) surprised to the upside, which is more worrisome. Conversely, industrial goods and food-at-home surprised to the downside (contributing -3 bps and -5 bps to the headline forecast error, respectively), and regulated prices were in line with our expectations.

In our view, this reading was marginally better, with some positive points: the headline trend being relieved to 8.3% 3MMA-saar (from 14.5%); the diffusion index being relieved for the second time in a row, reaching 71.1% (from a peak of 76.4% in May, though this still means a high dissemination of inflation pressures from a historical perspective); the average of core gauges ticking down to 12.5% 3MMA-saar (from 13.2%); and industrial goods experiencing a more significant cool down, to 11.4% 3MMA-saar (from 14.5%). Food-at-home also trended down, to 17.0% 3MMA-saar (from 23.2%).

Of course, many of the short-term positives relate to the tax cut measures approved by the Congress, while services inflation is still a concern. For the medium term, however, we remain cautious about the pace of deceleration, as some taxes are likely to be reinstated next year. Moreover, the tax cut measures and the new round of income aid (fiscal expansion) could support demand, thereby keeping upward pressure on inflation in

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the medium term. We updated our high-frequency tracking to 7.7% for IPCA 2022 (from 7.9%) and kept IPCA 2023 unchanged, at 5.7%.

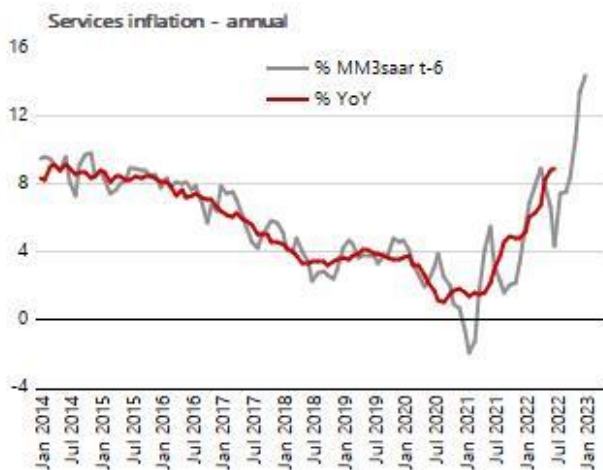
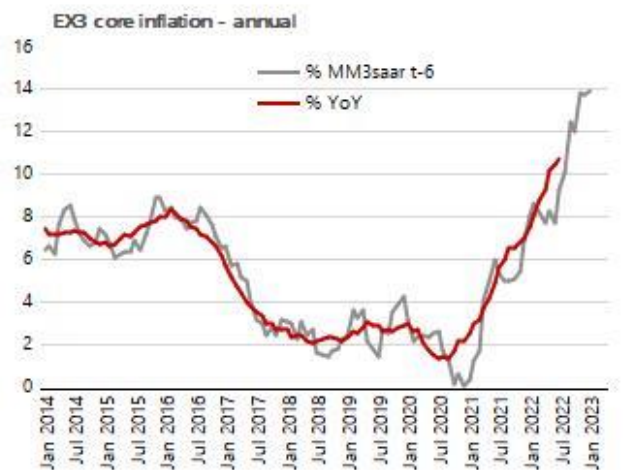
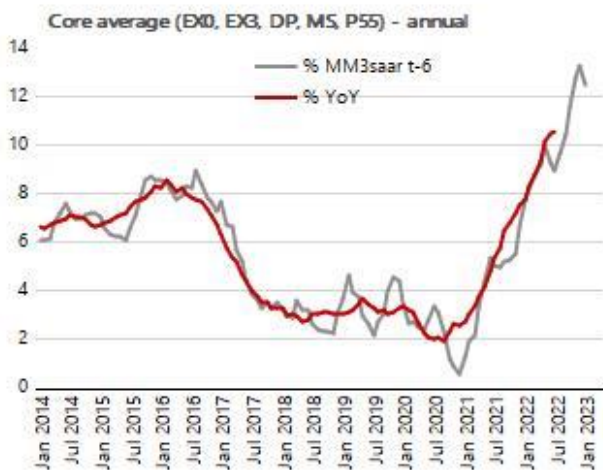
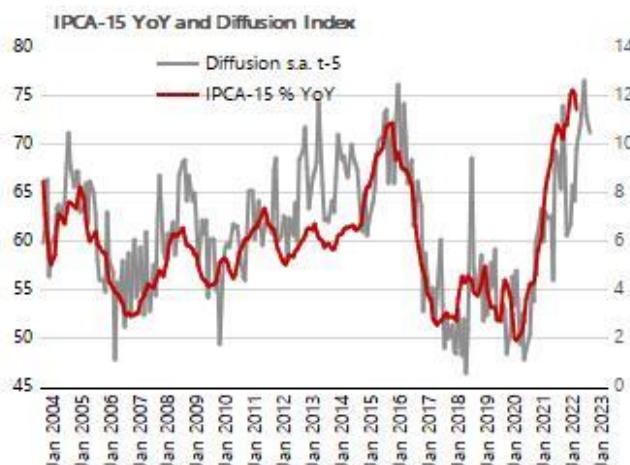
Figure 1. IPCA by Group and Forecasting Errors

	MoM			YoY	
	Jul-22	Santander	Dev.	Jun-22	Jul-22
IPCA-15	0.13	0.11	0.02	12.0	11.4
Food and beverage	1.16	1.27	-0.02	13.8	14.6
Food-at-home	1.12	1.32	-0.03	16.7	17.5
Food service	1.27	1.13	0.01	6.8	7.6
Housing	-0.78	-0.56	-0.03	9.6	6.5
Electrical energy	-4.61	-3.77	-0.03	4.5	-4.8
Household articles	0.39	0.39	0.00	14.9	14.5
Apparel	1.39	1.38	0.00	16.3	17.2
Transportation	-1.08	-1.11	0.01	20.5	18.0
Airline tickets	8.13	6.00	0.01	123.3	78.0
Gasoline	-5.01	-5.50	0.03	27.4	20.4
Health and personal care	0.71	0.79	-0.01	6.1	7.1
Personal spending	0.79	0.70	0.01	7.3	7.8
Education	0.07	0.08	0.00	6.8	6.7
Communication	-0.05	-1.44	0.07	3.2	3.2
Administered	-1.50	-1.54	0.01	12.2	9.5
Free	0.72	0.71	0.01	12.0	12.1
Food-at-home	1.12	1.32	-0.03	16.7	17.5
Industrial goods	0.28	0.48	-0.05	14.0	13.5
Services	0.84	0.59	0.09	8.8	8.9
EX3 Core	0.87	0.94	-0.02	10.5	10.7
Average of cores	0.72	-	-	10.4	-

Sources: IBGE and Santander.



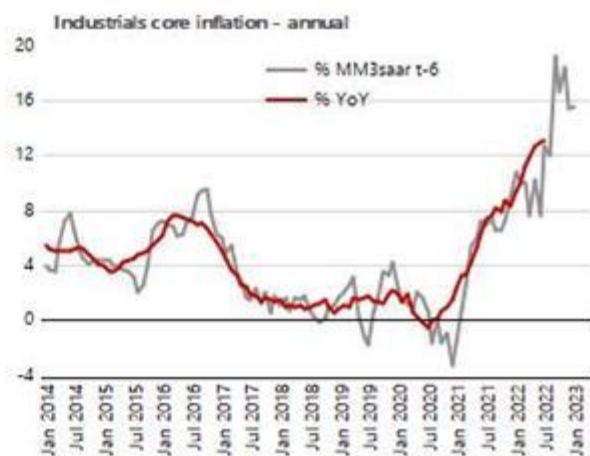
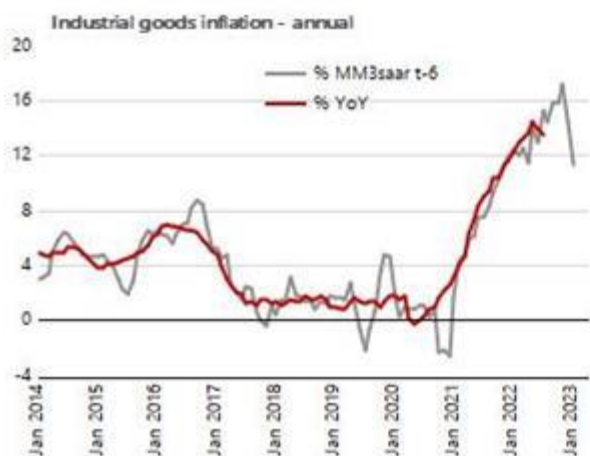
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



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



Sources for all charts: IBGE and Santander.



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