

June's IPCA-15: Little Relief with Still Unfavorable Print

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- **June's IPCA-15 rose 0.69%, in line with our call (0.70%) and the consensus forecast (0.67-0.68%). In YoY terms the change was 12.04%, below the 12.20% change in May's reading.**
- **Surprises to the downside came in food (-8 bps) and regulated prices (-5 bps), while an upside surprise came in services (+13 bps), and industrial goods was in line.**
- **In terms of trends, industrial goods decelerated to 14.7% from 17.2% 3MMA-saar, and its core gauge also fell, to 15.6% from 18.5% 3MMA-saar.**
- **In services, much of the upward surprise is not significant, as it came from airline tickets, an extremely volatile item, but there were also upward surprises in other more worrisome (sticky/inertial) items: rents, car insurance, and car repair.**
- **All in all, we believe the reading reinforces our view that inflation has peaked in YoY terms, but that underlying measures remain quite unfavorable, suggesting upward risks. However, we highlight that the potential tax cuts are a major downward risk for the short term (but possibly leading to a rebound in inflation in 2023), which makes the outlook even more uncertain.**

June's IPCA-15 rose 0.69%, in line with our call (0.70%) and the consensus forecast (0.67-0.68%). In YoY terms the change was 12.04%, below the 12.20% change in May's reading, reinforcing our view that the peak is behind us.

Surprises to the downside came in food (-8 bps) and regulated prices (-5 bps), while an upside surprise came in services (+13 bps), and industrial goods was in line. In terms of trends, industrial goods decelerated to 14.7% from 17.2% 3MMA-saar, and its core gauge also fell, to 15.6% from 18.5% 3MMA-saar. Looking at the individual items, however, the industrial goods reading is not as encouraging: while perfumes, an extremely volatile item, surprised downward, prices of new cars surprised upward, which is more worrisome.

In services, the trend continued to accelerate, rising to 13.6% 3mma-saar from 10.8%, while its core also accelerated, but less, reaching 11.6% 3mma-saar from 10.2%. Much of the upward surprise is not significant, as it came from airline tickets, an extremely volatile item, but there were also upward surprises in other more worrisome (sticky/inertial) items: rents, car insurance, and car repair.

In general, qualitative terms, the reading continued to be quite unfavorable, although some inflation core measures that assign a higher weight to industrial goods saw some relief. The average of the main core gauges accelerated a bit to 13.2% 3mma-saar (from 12.8%). The diffusion index saw some relief, reaching 73.6% s.a. (previously 76.9%).

All in all, we believe the reading reinforces our view that inflation has peaked in YoY terms, but underlying measures remain quite unfavorable, suggesting upward risks. However, we highlight that the potential tax cuts are a major downward risk for the short term (but possibly leading to a rebound in inflation in 2023), which makes the outlook even more uncertain.

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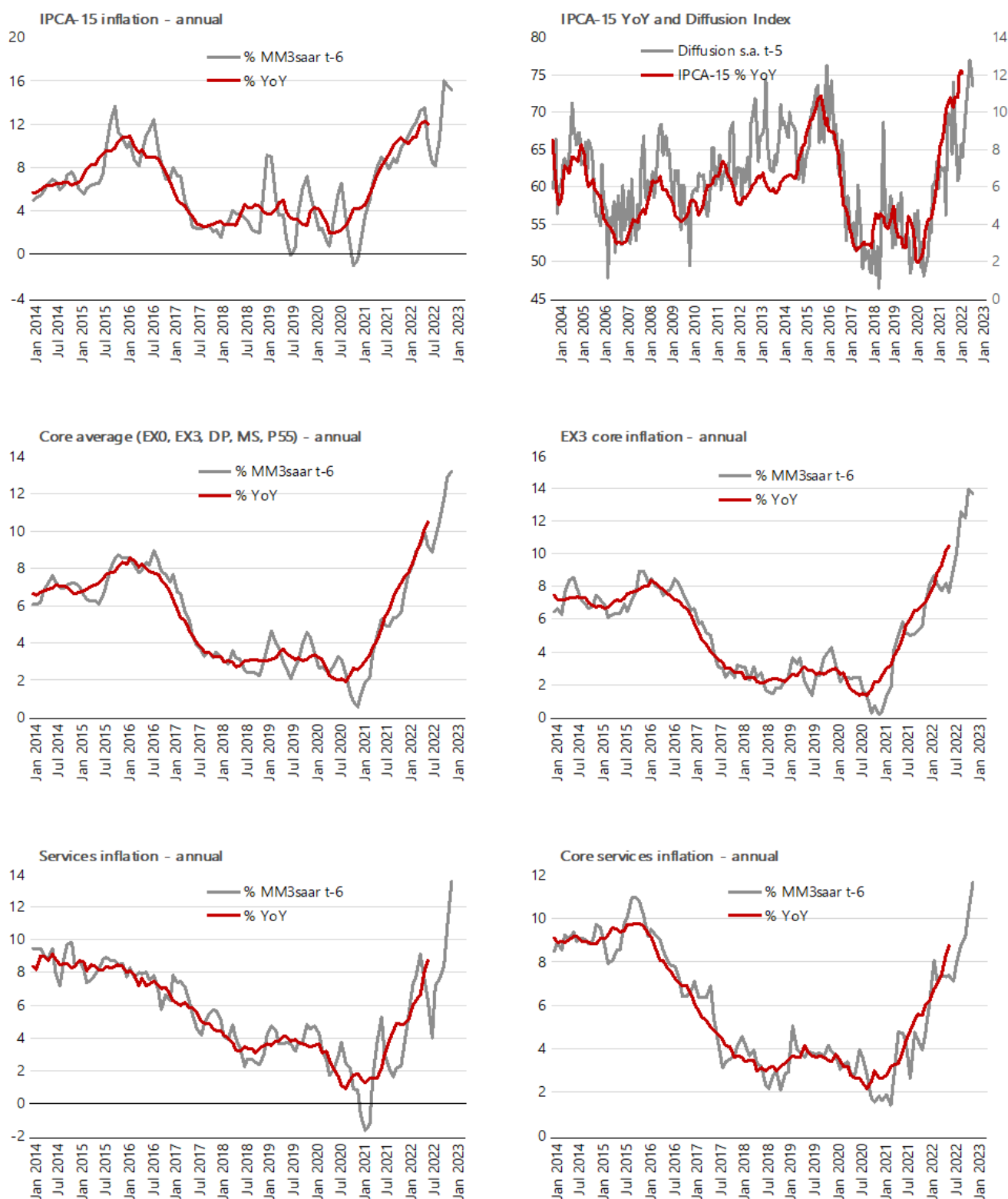
Figure 1. IPCA by Group and Forecasting Errors

	Jun-22	Santander	Contrib.	May-22	Jun-22
IPCA-15	0.69	0.70	-0.01	12.2	12.0
Food and beverage	0.25	0.57	-0.07	14.0	13.8
Food-at-home	0.08	0.61	-0.08	16.8	16.7
Food service	0.74	0.45	0.02	7.1	6.8
Housing	0.66	0.63	0.01	10.7	9.6
Electrical energy	-0.68	-0.41	-0.01	9.3	4.5
Household articles	0.94	0.59	0.01	15.4	14.9
Apparel	1.77	1.91	-0.01	15.3	16.3
Transportation	0.84	0.51	0.07	21.1	20.5
Airline tickets	11.36	-1.00	0.07	89.2	123.3
Gasoline	-0.27	0.20	-0.03	31.4	27.4
Health and personal care	1.27	1.49	-0.03	5.4	6.1
Personal spending	0.54	0.58	0.00	7.1	7.3
Education	0.07	0.06	0.00	6.7	6.8
Communication	0.36	0.42	0.00	3.0	3.2
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Administered	0.86	1.04	-0.05	13.1	12.2
Free	0.63	0.57	0.04	11.9	12.0
Food-at-home	0.08	0.61	-0.08	16.8	16.7
Industrial goods	0.65	0.66	0.00	14.4	14.0
Services	0.86	0.49	0.13	8.2	8.8
EX3 Core	0.89	0.86	0.01	10.2	10.5
Average of cores	0.89	-	-	9.7	-

Sources: IBGE and Santander.



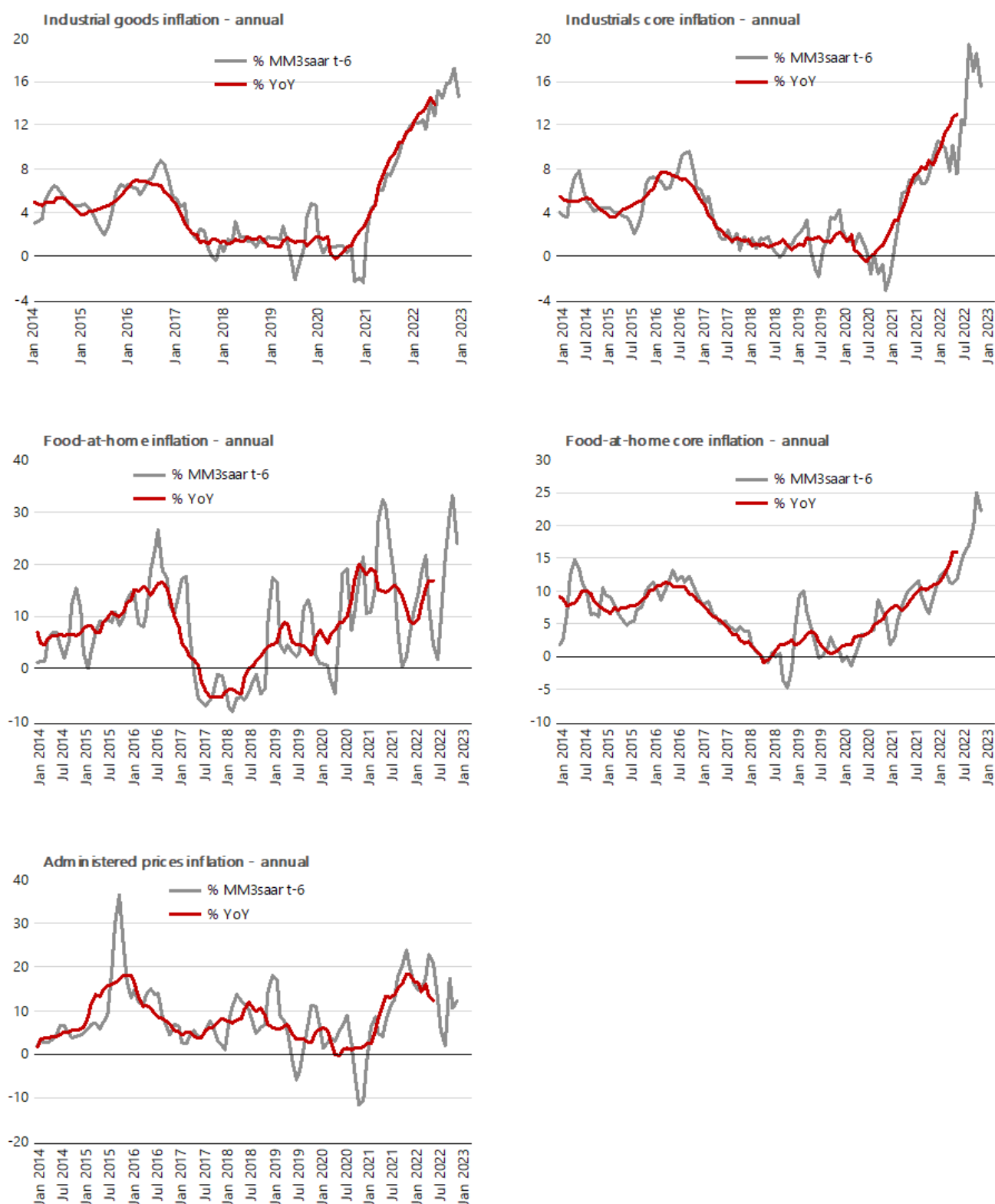
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



Figure 2. IPCA, Groups and Qualitative Measures (continued)



Sources for all charts: IBGE and Santander.



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