

## May's IPCA-15: A Print with No Silver Lining

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

**Felipe Kotinda\***  
felipe.kotinda@santander.com.br  
+5511 3553 8071

- **May's IPCA-15 registered a 0.59% MoM change, above our call and the consensus expectation (0.45%). In YoY terms, the IPCA accelerated to 12.2%, which should be the peak of IPCA inflation, in our view.**
- **The main upward surprises relative to our forecast came from services and industrial goods. Administered prices also came above our forecast, driven by gasoline.**
- **Once again, broad qualitative measures remain solidly unfavorable. The average of the main core measures accelerated, reaching a new high. As for the diffusion index, it also reached a new high.**
- **All in all, this is another unfavorable print that reinforces our belief in a difficult outlook for inflation. However, we maintain our view that this should have been the peak of IPCA in YoY terms. IPCA 2022 tracking is now at 9.5% (from 9.2% before). We also revised IPCA 2023 tracking to 5.3% (from 4.8%).**

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**The main upward surprises relative to our forecast came from services (+8 bps) and industrial goods (+3 bps).** More specifically, services related to economic activity rose 1.1% MoM (vs 0.5% estimated), while services related to wages rose 0.7% MoM (vs 0.3% estimated). Meanwhile, industrial goods rose 1.6% MoM (vs. our estimate of 1.5%), with both new and used vehicles surprising to the upside, each contributing +1 bps to the headline error. Administered prices also exceeded our forecast, driven by gasoline's 1.2% MoM increase (vs. our estimate of 0.5%).

**Once again, broad qualitative measures remain solidly unfavorable.** The average of the main core measures accelerated to 13.1% from 11.9% 3MMA-saar, reaching a new high. As for the diffusion index, it continued to rise, reaching 77.3% (seasonally adjusted), also a new high and showing that inflation is widespread.

**All in all, this is another unfavorable print that reinforces our belief in a difficult outlook for inflation. However, we maintain our view that this should have been the peak of IPCA in YoY terms.** Leading indicators and high frequency inflation surveys point to some relief ahead. However, the pace of deceleration should be slow, sticky and risky, as the level and composition of inflation are likely to remain sources of concern, just as the latest shock from commodity prices is a new risk, keeping the balance of risks tilted to the upside (i.e., higher inflation). IPCA 2022 tracking is now at 9.5% (from 9.2% before). We also revised IPCA 2023 tracking to 5.3% (from 4.8%), on the back of inertial effects.



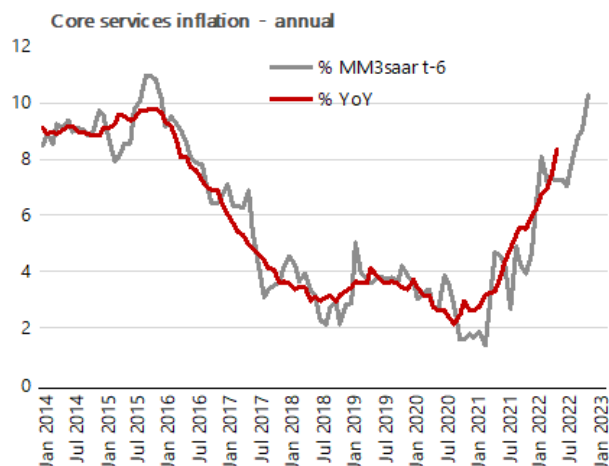
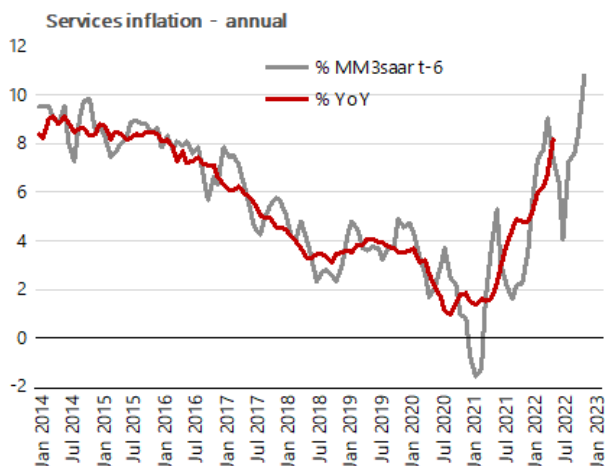
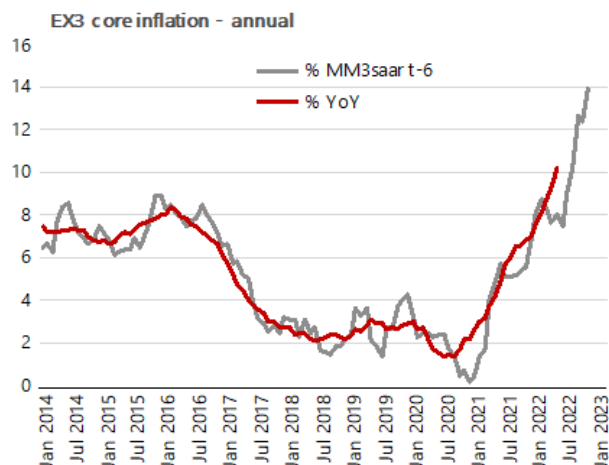
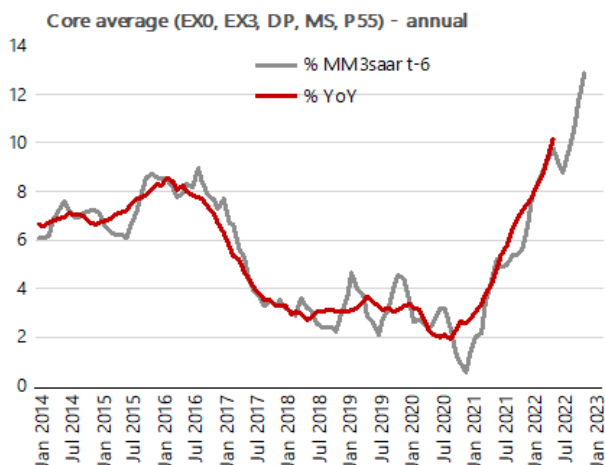
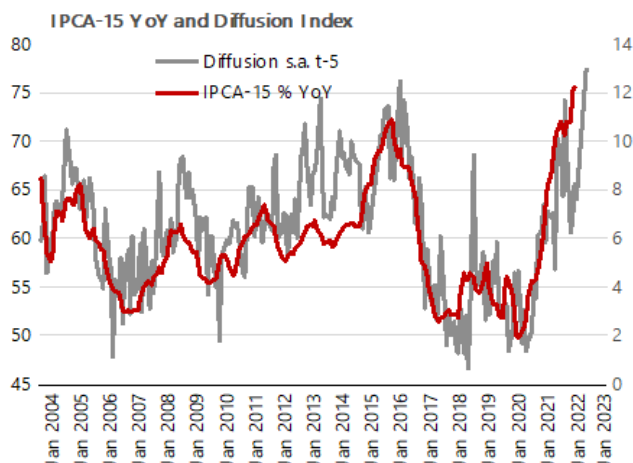
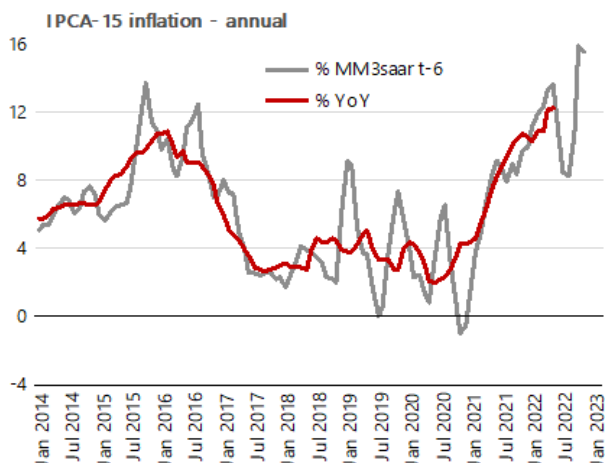
Figure 1. IPCA by Group and Forecasting Errors

	MoM			YoY	
	May-22	Santander	Dev.	Apr-22	May-22
<b>IPCA-15</b>	<b>0.59</b>	<b>0.45</b>	<b>0.14</b>	<b>12.0</b>	<b>12.2</b>
<b>Food and beverage</b>	<b>1.52</b>	<b>1.55</b>	<b>-0.01</b>	<b>12.8</b>	<b>14.0</b>
Food-at-home	1.71	1.89	-0.03	15.4	16.8
Food service	1.02	0.66	0.02	6.5	7.1
<b>Housing</b>	<b>-3.85</b>	<b>-3.79</b>	<b>-0.01</b>	<b>16.0</b>	<b>10.7</b>
Electrical energy	-14.09	-13.85	-0.01	30.2	9.3
<b>Household articles</b>	<b>0.98</b>	<b>1.28</b>	<b>-0.01</b>	<b>15.3</b>	<b>15.4</b>
<b>Apparel</b>	<b>1.86</b>	<b>1.25</b>	<b>0.03</b>	<b>14.8</b>	<b>15.3</b>
<b>Transportation</b>	<b>1.80</b>	<b>1.50</b>	<b>0.07</b>	<b>18.7</b>	<b>21.1</b>
Airline tickets	18.40	24.00	-0.03	13.7	89.2
Gasoline	1.24	0.50	0.05	30.1	31.4
<b>Health and personal care</b>	<b>2.19</b>	<b>2.02</b>	<b>0.02</b>	<b>4.4</b>	<b>5.4</b>
<b>Personal spending</b>	<b>0.74</b>	<b>0.47</b>	<b>0.03</b>	<b>6.4</b>	<b>7.1</b>
<b>Education</b>	<b>0.06</b>	<b>0.05</b>	<b>0.00</b>	<b>6.8</b>	<b>6.7</b>
<b>Communication</b>	<b>0.50</b>	<b>0.10</b>	<b>0.02</b>	<b>2.5</b>	<b>3.0</b>
<b>Administered</b>	<b>-1.44</b>	<b>-1.68</b>	<b>0.06</b>	<b>16.0</b>	<b>13.1</b>
<b>Free</b>	<b>1.34</b>	<b>1.23</b>	<b>0.08</b>	<b>10.6</b>	<b>11.9</b>
Food-at-home	1.71	1.89	-0.03	15.4	16.8
Industrial goods	1.62	1.49	0.03	13.7	14.4
Services	1.00	0.76	0.08	6.7	8.2
<b>EX3 Core</b>	<b>1.30</b>	<b>1.05</b>	<b>0.09</b>	<b>9.2</b>	<b>10.2</b>
<b>Average of cores</b>	<b>1.10</b>	<b>-</b>	<b>-</b>	<b>9.3</b>	<b>-</b>

Sources: IBGE and Santander.



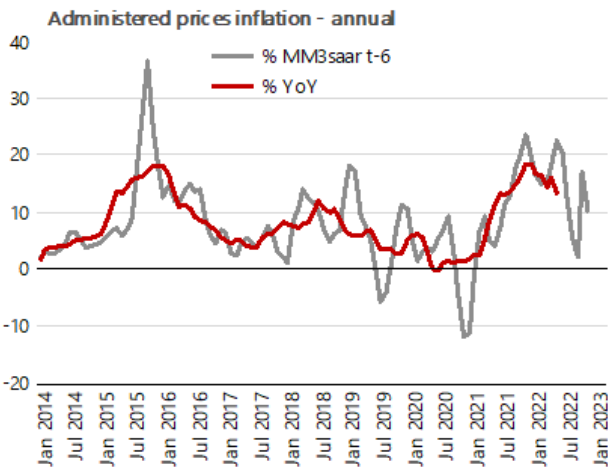
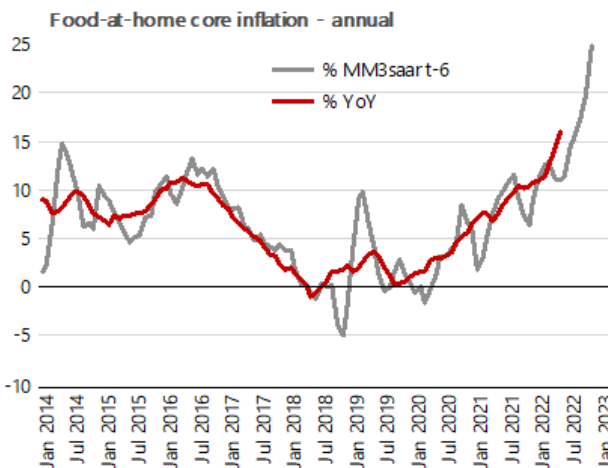
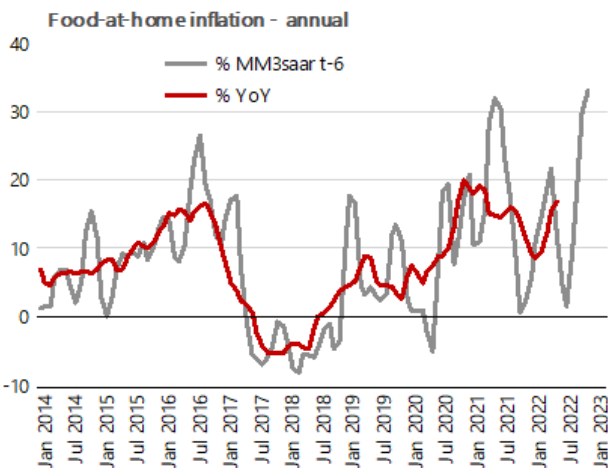
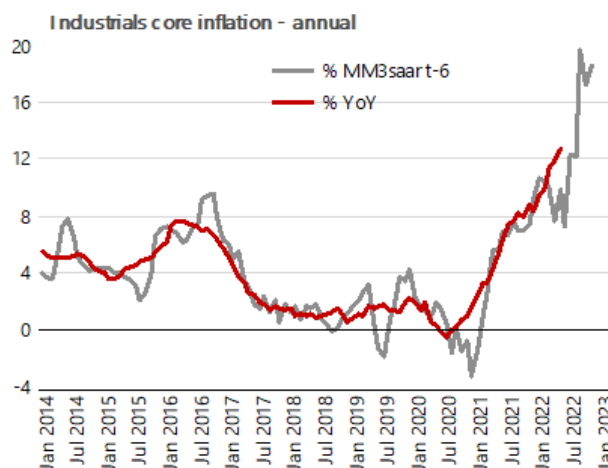
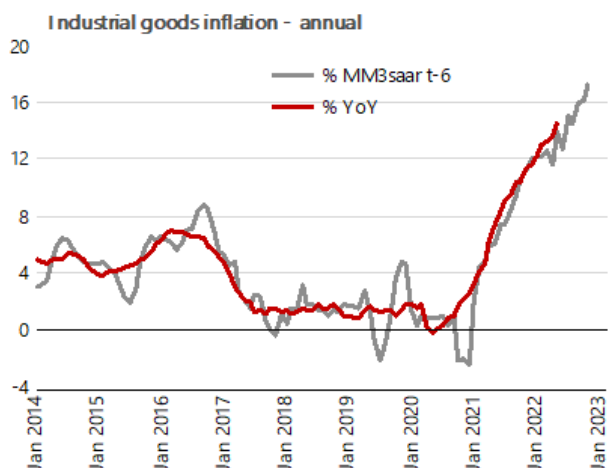
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



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



Sources for all charts: IBGE and Santander.



## 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 – 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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