



## March's IPCA-15: Another Upward Surprise But “Less Negative” Breakdown

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

- **March's IPCA-15 registered a 0.95% MoM change, above our call (0.83%) and the consensus expectation (0.85-0.86%). In year-over-year terms IPCA was flat at around 10.8%, reinforcing our call that the peak of IPCA 12-month will not be clear until May 2022.**
- **Upside surprises were concentrated in industrial goods, more specifically in perfume, which is a highly volatile item with a strong tendency toward mean reversion.**
- **Broad qualitative measures worsened even more at the margin. The average of the main core measures accelerated from 9.5% to 10.3% 3MMA-saar, reaching a new high. Finally, the diffusion index continued to rebound and went back to 71.6% (seasonally adjusted), close to its highs.**
- **All in all, this reading reinforces our concerns about the inflation outlook. We still project that a clear peak should come around May 2022, but the level and composition of inflation are likely to remain sources of concern, just as the latest shock from commodities prices is a new risk, keeping the balance of risks tilted to the upside (i.e., higher inflation).**

### Upward Surprises Concentrated in Volatile Items

**March's IPCA-15 registered a 0.95% MoM change, above our call (0.83%) and the consensus expectation (0.85-0.86%). In year-over-year terms IPCA was flat at around 10.8% reinforcing our call that the peak of IPCA 12-month will not be clear until May 2022.** As for the trend at the margin, it is around 9.6% 3MMA-saar, suggesting that the disinflation process will be a sticky, difficult and risky one.

**Upside surprises were concentrated in industrial goods and food-at-home, but services surprised to the downside.** Industrial goods contributed +12 bps to the headline forecast error, but we downplay that surprise as it was mostly concentrated in perfumes, a highly volatile item that tends to revert to the mean, so it is not necessarily an indication of further deterioration in the group. Food-at-home contributed +7 bps to the headline forecast error, but in that case the surprise reinforces the upward risk we see for the group after a new round of commodities shocks. On the bright side, services contributed -10 bps to the headline forecast error, which was enough to keep its trend relatively stable at 7% 3MMA-saar. Part of the surprise (-5 bps) was in airline tickets, which is a highly volatile item, so it is not as meaningful as a signal; however, the others were in rent (-2 bps) and education (-4 bps), which are stickier items, making them more relevant for the inflation outlook.

**Broad qualitative measures worsened even more at the margin.** The average of the main core measures accelerated from 9.5% to 10.3% 3MMA-saar, reaching a new high. Finally, the diffusion index continued to rebound and went back to 71.6% (seasonally adjusted), close to its highs.

**All in all, this is another unfavorable print that reinforces the difficult outlook we see for inflation, but we continue to believe that we are close to the peak of IPCA in YoY terms.** We still project that a clear peak should come around May 2022, but the level and composition of inflation will continue to be sources of concern and maintain the upside risk for the year-end forecast. Of course, the new round of commodities price shocks resulting from the Russia-Ukraine war is another source of upside risk. Our current high frequency tracking is at 7.5% for IPCA 2022 and 3.7% for IPCA 2023, but both with upside risks.

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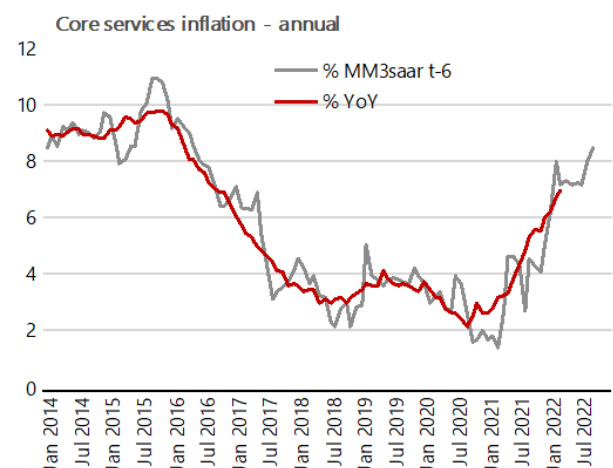
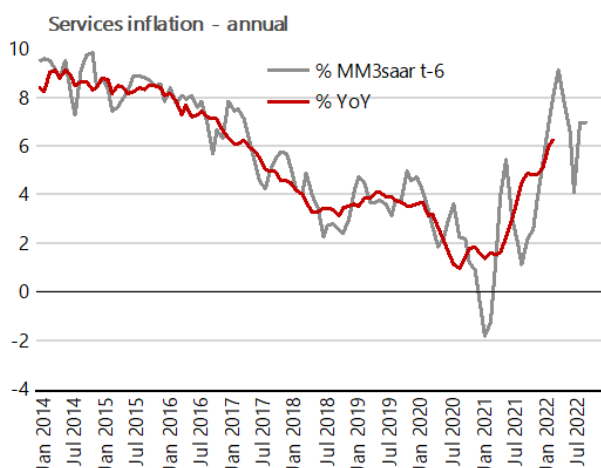
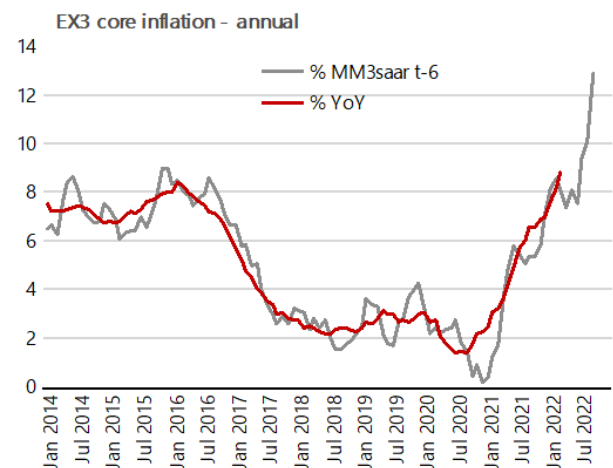
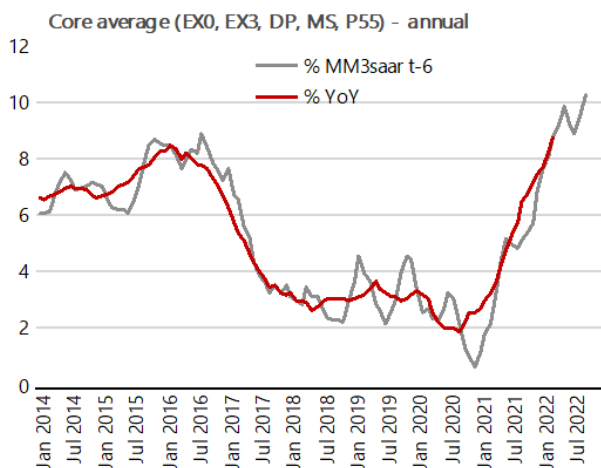
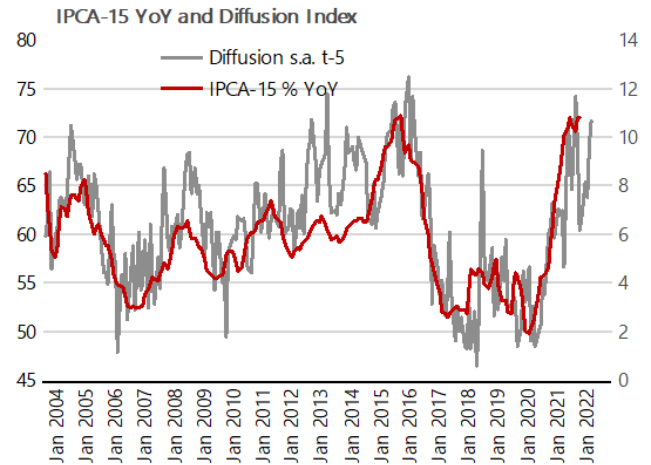
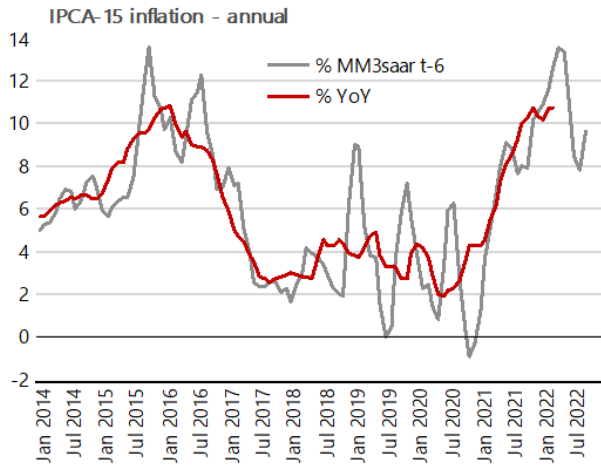
Figure 1. IPCA-15 by Group and Forecasting Errors

	MoM			YoY	
	Mar-22	Santander	Contrib.	Feb-22	Mar-22
<b>IPCA-15</b>	<b>0.95</b>	<b>0.83</b>	<b>0.12</b>	<b>10.8</b>	<b>10.8</b>
<b>Food and beverage</b>	<b>1.95</b>	<b>1.60</b>	<b>0.07</b>	<b>8.8</b>	<b>10.8</b>
Food-at-home	2.51	2.05	0.07	9.5	12.3
Food service	0.52	0.45	0.00	7.0	7.1
<b>Housing</b>	<b>0.53</b>	<b>0.66</b>	<b>-0.02</b>	<b>14.8</b>	<b>14.6</b>
Electrical energy	0.37	0.73	-0.02	27.9	28.3
<b>Household articles</b>	<b>1.47</b>	<b>1.61</b>	<b>-0.01</b>	<b>13.8</b>	<b>14.9</b>
<b>Apparel</b>	<b>0.95</b>	<b>0.83</b>	<b>0.01</b>	<b>11.7</b>	<b>12.8</b>
<b>Transportation</b>	<b>0.68</b>	<b>0.73</b>	<b>-0.01</b>	<b>20.4</b>	<b>16.8</b>
Airline tickets	-7.55	2.00	-0.05	17.0	10.4
Gasoline	0.83	0.30	0.03	40.8	27.7
<b>Health and personal care</b>	<b>1.30</b>	<b>0.26</b>	<b>0.13</b>	<b>3.2</b>	<b>4.3</b>
<b>Personal spending</b>	<b>0.44</b>	<b>0.44</b>	<b>0.00</b>	<b>5.5</b>	<b>5.9</b>
<b>Education</b>	<b>0.14</b>	<b>0.90</b>	<b>-0.04</b>	<b>6.0</b>	<b>6.7</b>
<b>Communication</b>	<b>0.04</b>	<b>0.17</b>	<b>-0.01</b>	<b>2.5</b>	<b>2.5</b>
<b>Administered</b>	<b>0.65</b>	<b>0.48</b>	<b>0.05</b>	<b>16.4</b>	<b>14.1</b>
<b>Free</b>	<b>1.06</b>	<b>0.96</b>	<b>0.07</b>	<b>8.8</b>	<b>9.6</b>
Food-at-home	2.51	2.05	0.07	9.5	12.3
Industrial goods	1.26	0.81	0.10	13.0	13.2
Services	0.31	0.59	-0.10	6.0	6.2
<b>EX3 Core</b>	<b>1.11</b>	<b>0.77</b>	<b>0.12</b>	<b>8.1</b>	<b>8.8</b>
<b>Average of cores</b>	<b>0.83</b>	<b>-</b>	<b>-</b>	<b>8.3</b>	<b>-</b>

Sources: IBGE and Santander.



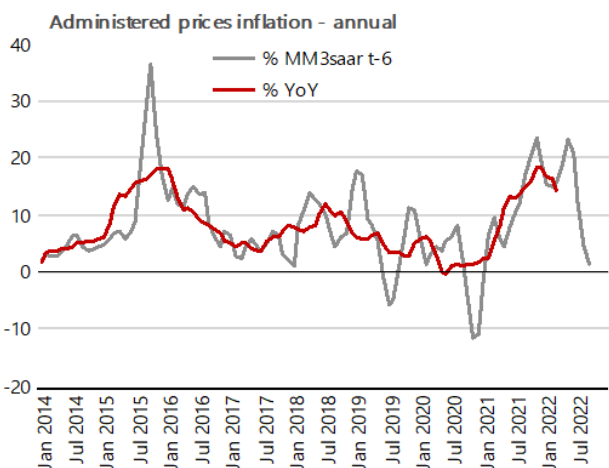
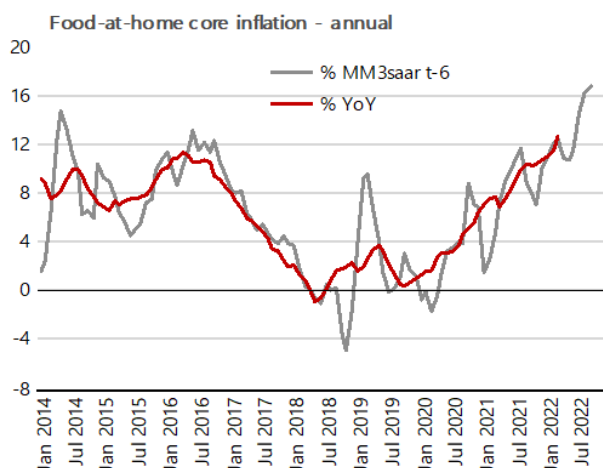
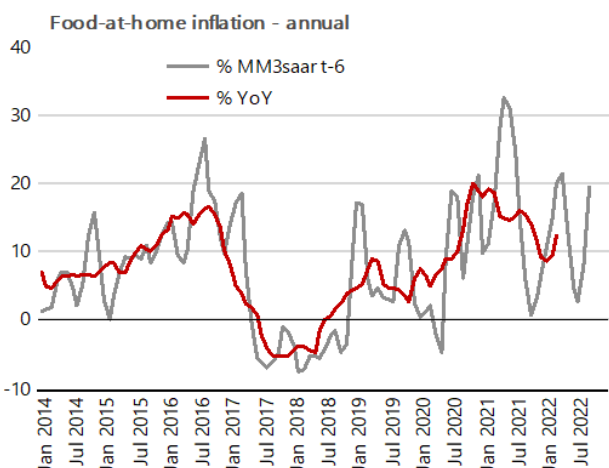
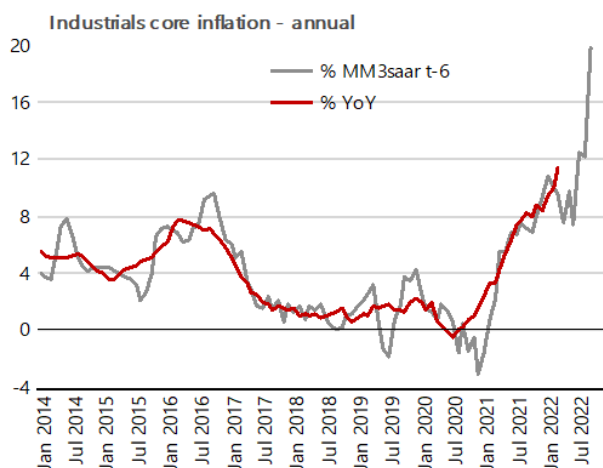
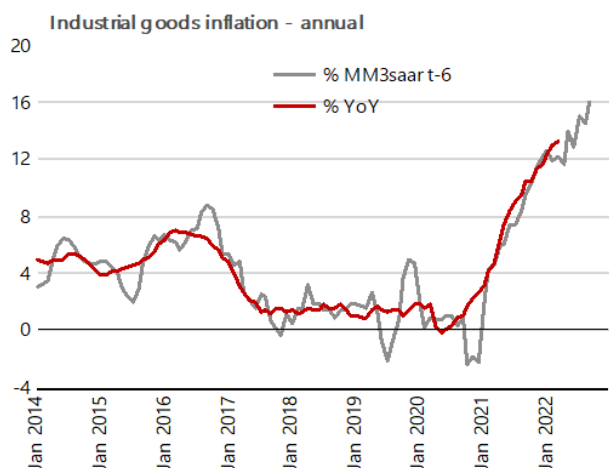
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



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



Sources for all charts: IBGE and Santander.



## 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

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