



September's IPCA-15: Preliminary Improvement in Underlying Inflation (?)

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- **IPCA-15 fell -0.37% MoM in September, well below our call of -0.19% and the market's consensus of -0.20%. The YoY change reached +7.96%, down from +8.14% YoY previously, and the trend fell to -2.8% 3MMA-saar (from +1.9%).**
- **Services, food-at-home, and industrial goods surprised downward, while regulated prices compensated part of it.**
- **Moreover, qualitative measures improved further at the margin. The diffusion index fell to 61% s.a. (from 67%) and the average of the main core gauges decelerated to 8.3% 3MMA-saar (from 9.7%), starting to run below the YoY change, suggesting further deceleration ahead.**
- **All in all, although most of the recent improvements in inflation are related to the ad-hoc tax cuts, we are starting to see some improvements in underlying inflation, too, which makes the outlook a bit less gloomy for the short term.**
- **Our high-frequency tracking was revised down to 5.8% (from 6.1%) for IPCA 2022. For IPCA 2023, we revised the high-frequency tracking to 5.0% (from 5.3%), mostly on the back of lower inertia coming from 2022 and lower industrial goods prices. For IPCA 2024, we continue to forecast inflation coming back to the center of the target, at 3.0%.**

IPCA-15 fell -0.37% MoM in September, well below our call of -0.19% and the market's consensus of -0.20%. The YoY change reached +7.96%, down from +8.14% YoY previously, and the trend fell to -2.8% 3MMA-saar (from +1.9%).

Services (-12 bps), food-at-home (-9 bps), and industrial goods (-5bps) surprised downward, while regulated prices compensated part of it (+6 bps). In services, part of the downside surprise was related to the recent tax cuts (with some communications items that we did not expect to be affected by the tax cut.). Additionally, other parts of the downside surprise came in volatile prices, such as airline tickets. Notwithstanding, services core gauge, which exclude most of the effects of both the tax cut in communication and the volatile prices, decelerated in trend terms to 10.2% 3MMA-saar (from 11.0%). We also note that some services related to wages—as housekeeping—surprised downward.

Moreover, qualitative measures improved further at the margin. The diffusion index fell to 61% s.a. (from 67%) and the average of the main core gauges decelerated to 8.3% 3MMA-saar (from 9.7%), starting to run below the YoY change, suggesting further deceleration ahead. As a setback, the EX3 core gauge—a combination of the core gauges of services and industrial goods—which is more correlated to the output gap, is the one that improved the least, with the 3MMA-saar still running above the YoY change.

All in all, although most of the recent improvements in inflation are related to the ad-hoc tax cuts, we are starting to see some improvements in underlying inflation, too, which makes the outlook a bit less gloomy for the short-



term. However, we still believe the road towards the center of the target could be bumpy, with services inflation (more inertial) still putting challenges in a scenario of a tight job market.

Our high-frequency tracking was revised down to 5.8% (from 6.1%) for IPCA 2022. We note that we consider oil prices coming back to 115 USD/bbl by year-end with BRL at 5.30, but in simulation considering that oil prices remain stable in BRL terms, we estimate IPCA 2022 could reach as low as 5.3%. For IPCA 2023, we revised the high-frequency tracking to 5.0% (from 5.3%), mostly on the back of lower inertia coming from 2022 and lower industrial goods prices. For IPCA 2024, we continue to forecast inflation coming back to the center of the target, at 3.0%.

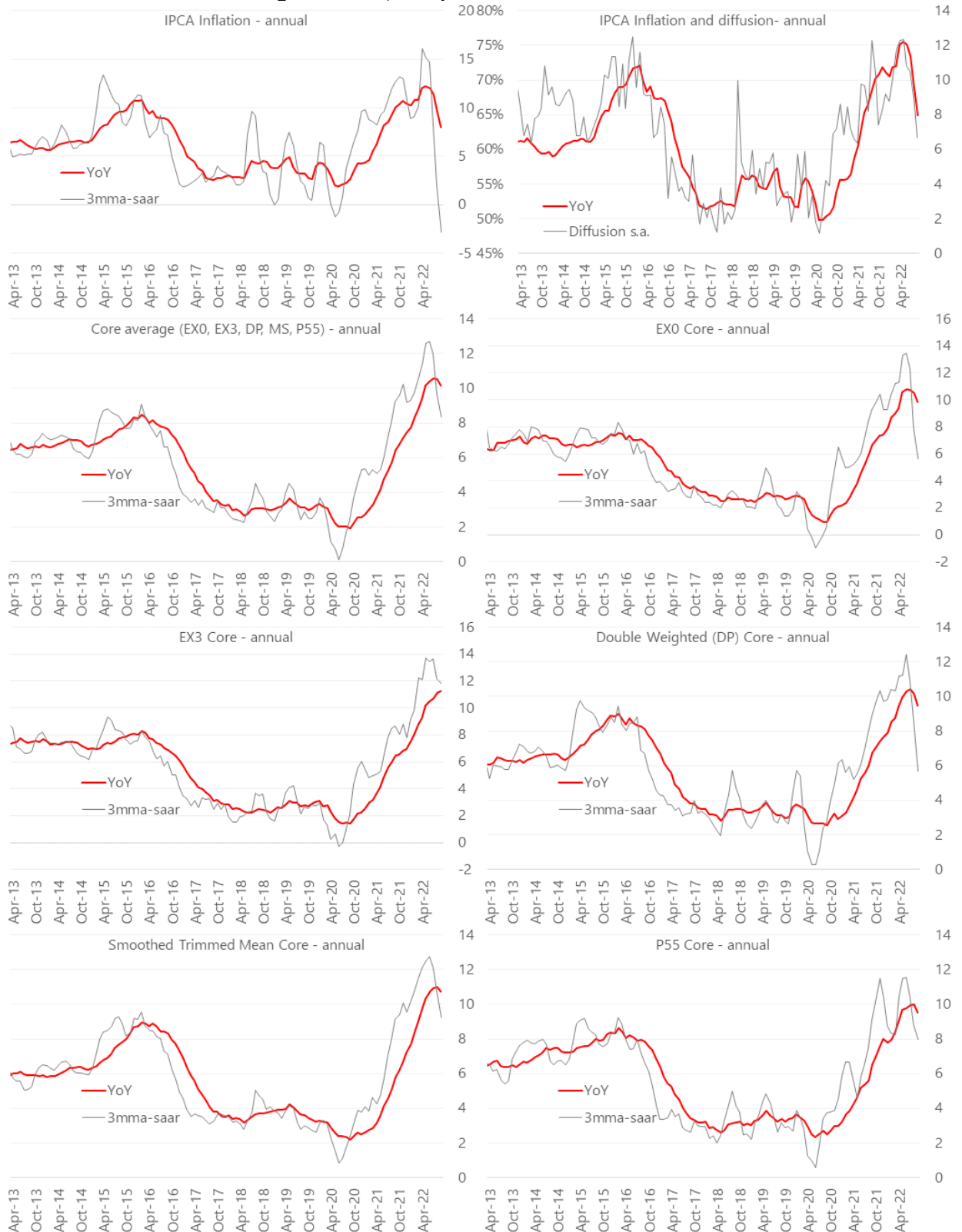
Figure 1. September's IPCA-15 Details (%)

	MoM			YoY		3MMA-saar	
	Sep-22	Santander	Desv.	Aug-22	Sep-22	Aug-22	Sep-22
IPCA-15	-0.37	-0.19	-0.18	9.6	8.0	2.0	-2.9
Administered	-1.66	-1.92	0.08	3.3	0.1	-18.5	-26.4
Free	0.07	0.42	-0.26	11.9	10.8		
Food-at-home	-0.86	-0.31	-0.09	17.4	14.7	15.0	8.4
Industrial goods	0.32	0.52	-0.05	12.8	11.9	7.5	6.1
Services	0.32	0.67	-0.12	9.0	8.5	9.1	6.0
EX3 Core	0.76	0.84	-0.02	11.1	11.3	12.2	11.8
Average of cores	0.46	-	-	10.5	10.2	9.7	8.3

Sources: Brazilian Central Bank, IBGE, Santander.



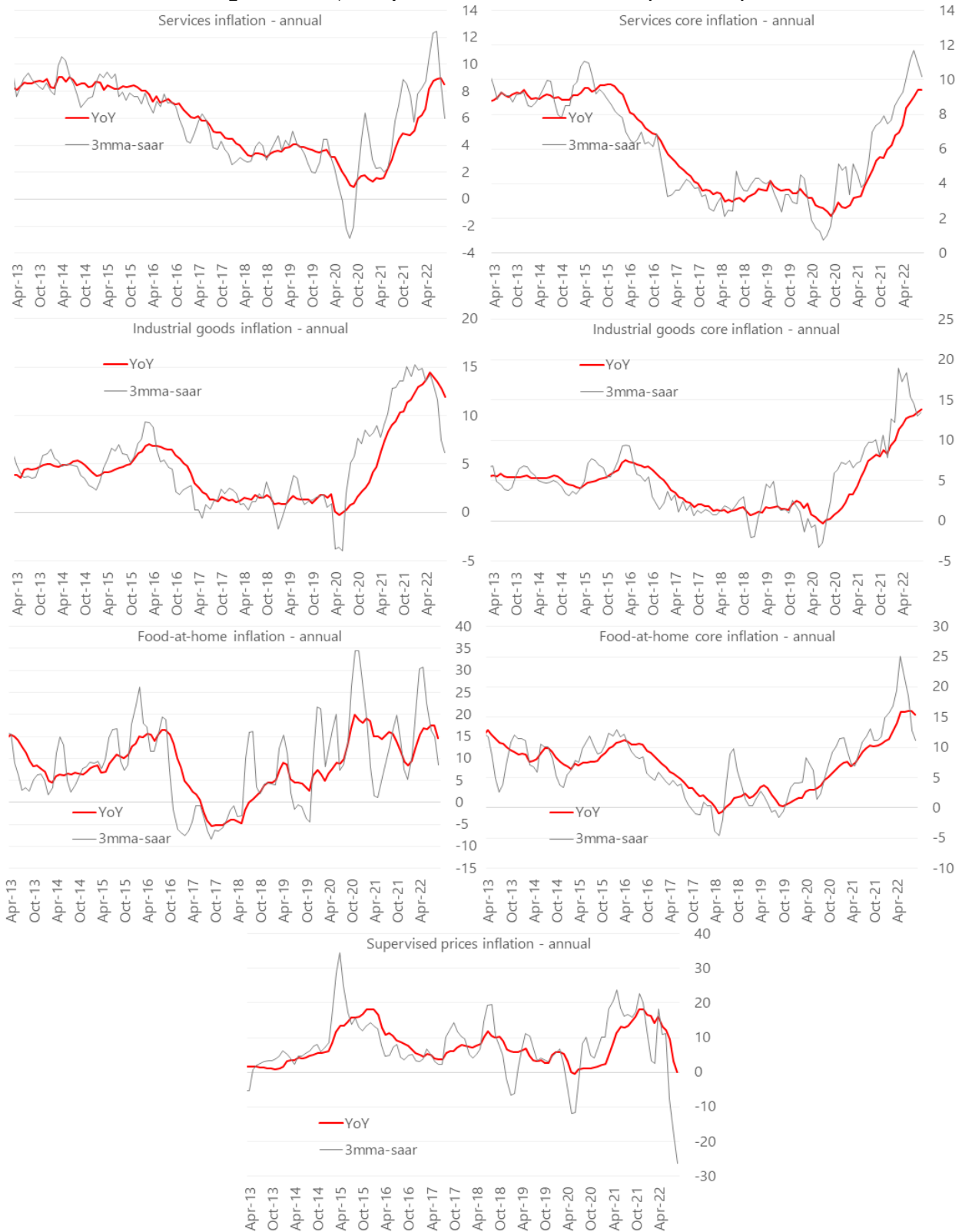
Figure 2. IPCA, Groups and Qualitative Measures



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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