

July's IPCA: Preliminary Signs of Improvement

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- **July's IPCA fell 0.68% MoM, a tad below consensus (-0.65%) and below our forecast (-0.60%). The annual change fell to 10.1% YoY (from 11.9%).**
- **Compared with our forecast, the downward surprises came in regulated prices (contributing -5 bps to the headline forecast error) and industrial goods (contributing -6 bps to the headline forecast error). For the latter, we believe that it might reflect the beginning of a more consistent relief in the items related to the exchange rate, metal commodities and global supply chain issues.**
- **Qualitative measures improved a bit at the margin. All of the five main core gauges fell at the margin in trend terms. Moreover, the diffusion index fell for the third reading in a row.**
- **All in all, the reading reinforces our view that the worst is behind in terms of headline inflation. As for the quality of inflation, we have seen the first signs of improvement in general measures (cores and diffusion), but services inflation (the stickiest one) is still a source of concern for the medium term, especially with the job market still running hot.**

July's IPCA fell 0.68% MoM, a tad below the consensus (-0.65%) and below our forecast (-0.60%). The annual change fell to 10.1% YoY (from 11.9%) and the trend fell to 4.3% 3mma-saar (from 12.4%), suggesting the YoY change should continue decelerating.

Compared to our forecast, regulated prices brought downward surprises (contributing -5 bps to the headline forecast error), mostly concentrated in gasoline (for which the tax cuts' impact was greater than we had expected) and industrial goods (contributing -6 bps to the headline forecast error). In industrial goods, we highlight that the surprise was not concentrated in ethanol (which would be a reason to downplay it, as it was related to the tax cut) and might reflect the beginning of a more consistent relief in the items related to the exchange rate, metal commodities and global supply chain issues. With that result, the trend for industrial goods fell considerably, going to 8.6% 3mma-saar (from 13.3%), and industrial goods' core gauge fell to 13.2% 3mma-saar (from 15.6%). Services did not surprise and continued accelerating in trend terms, though at a slower pace, going to 13.4% 3mma-saar (from 13.1%). Finally, food surprised a bit to the upside, but its core gauge (related to industrialized food) kept falling in trend (3mma-saar) terms.

Qualitative measures improved a bit at the margin. The average of the core gauges fell to 11.0% 3mma-saar (from 12.9% previously), bringing the annual change a bit down to 10.4% YoY (from 10.5%). We highlight that all of the five main core gauges fell at the margin in trend terms. Moreover, the diffusion index fell for the third reading in a row, reaching 67.8% s.a. (although it is still a high level).

All in all, the reading reinforces our view that the worst is behind in terms of headline inflation. As for the quality of inflation, we have seen the first signs of improvement in general measures (cores and diffusion), but services inflation (the stickiest one) is still a source of concern for the medium term, especially with the job market still running hot. We updated our high-frequency tracking to 7.0% for IPCA 2022 (from 7.6%) and to 5.5% for IPCA 2023 (from 5.7%).

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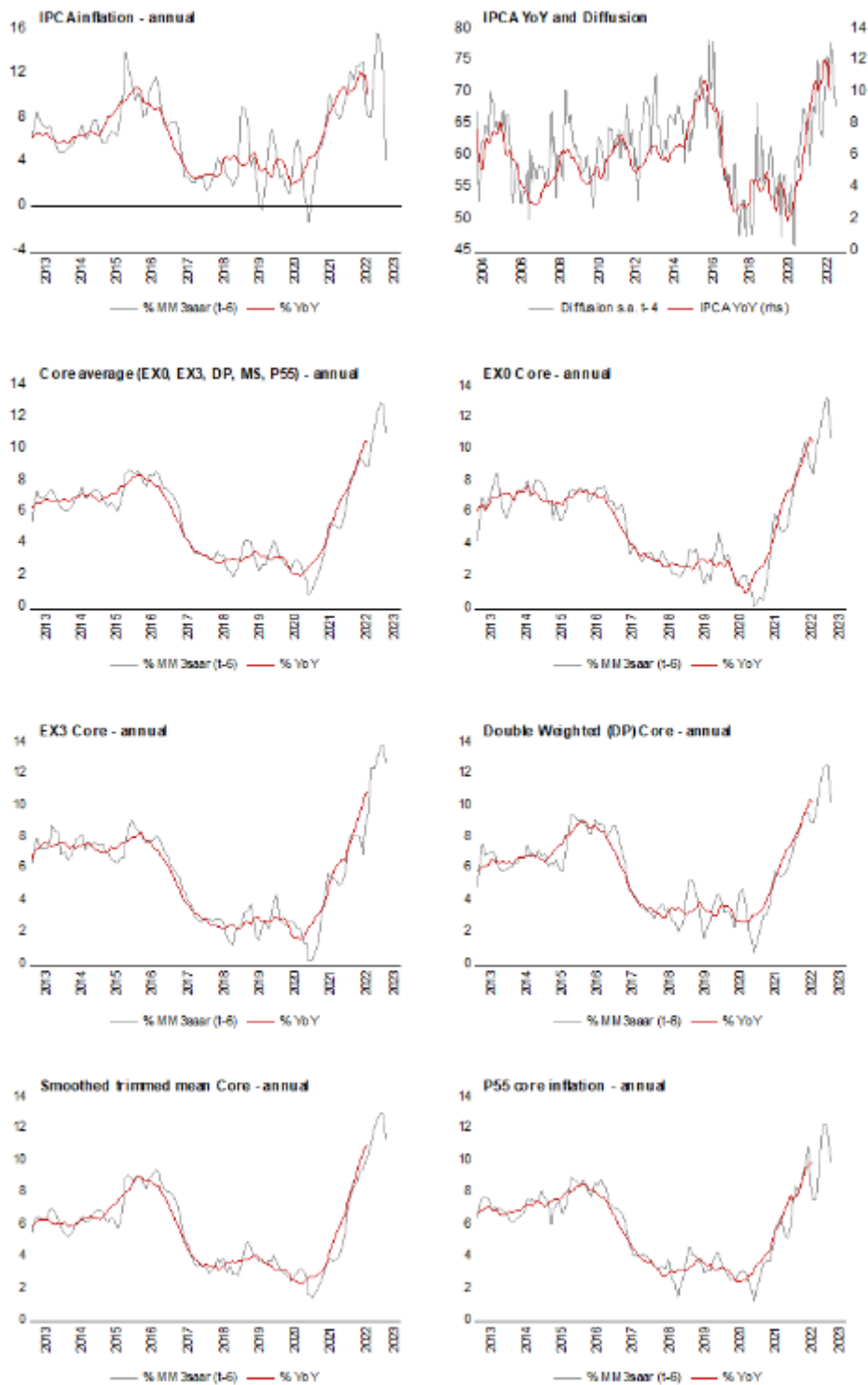
Figure 1. IPCA by Group and Forecasting Errors

	MoM			YoY	
	Jul-22	Santander	Dev.	Jun-22	Jul-22
IPCA	-0.68	-0.60	-0.08	11.9	10.1
Food and beverage	1.30	1.24	0.01	13.9	14.7
Food-at-home	1.47	1.29	0.03	16.7	17.5
Food service	0.82	1.10	-0.02	6.9	7.6
Housing	-1.05	-1.19	0.02	8.8	4.4
Electrical energy	-5.78	-5.88	0.00	2.2	-10.8
Household articles	0.12	0.35	-0.01	14.1	13.3
Apparel	0.58	0.91	-0.01	16.6	16.7
Transportation	-4.51	-4.07	-0.10	20.1	13.0
Airline tickets	8.02	8.13	0.00	122.4	77.7
Gasoline	-15.48	-14.14	-0.09	26.9	5.6
Health and personal care	0.49	0.71	-0.03	6.1	7.4
Personal spending	1.13	0.87	0.03	7.3	8.0
Education	0.06	0.07	0.00	6.9	6.7
Communication	0.07	-0.09	0.01	3.7	3.6
Administered	-4.35	-4.16	-0.05	11.7	5.1
Free	0.65	0.69	-0.03	11.9	11.9
Food-at-home	1.47	1.29	0.03	16.7	17.5
Industrial goods	-0.11	0.15	-0.06	13.7	12.8
Services	0.80	0.79	0.00	8.7	8.9
EX3 Core	0.63	0.79	-0.06	10.7	10.8
Average of cores	0.53	-	-	10.5	-

Sources: IBGE and Santander.



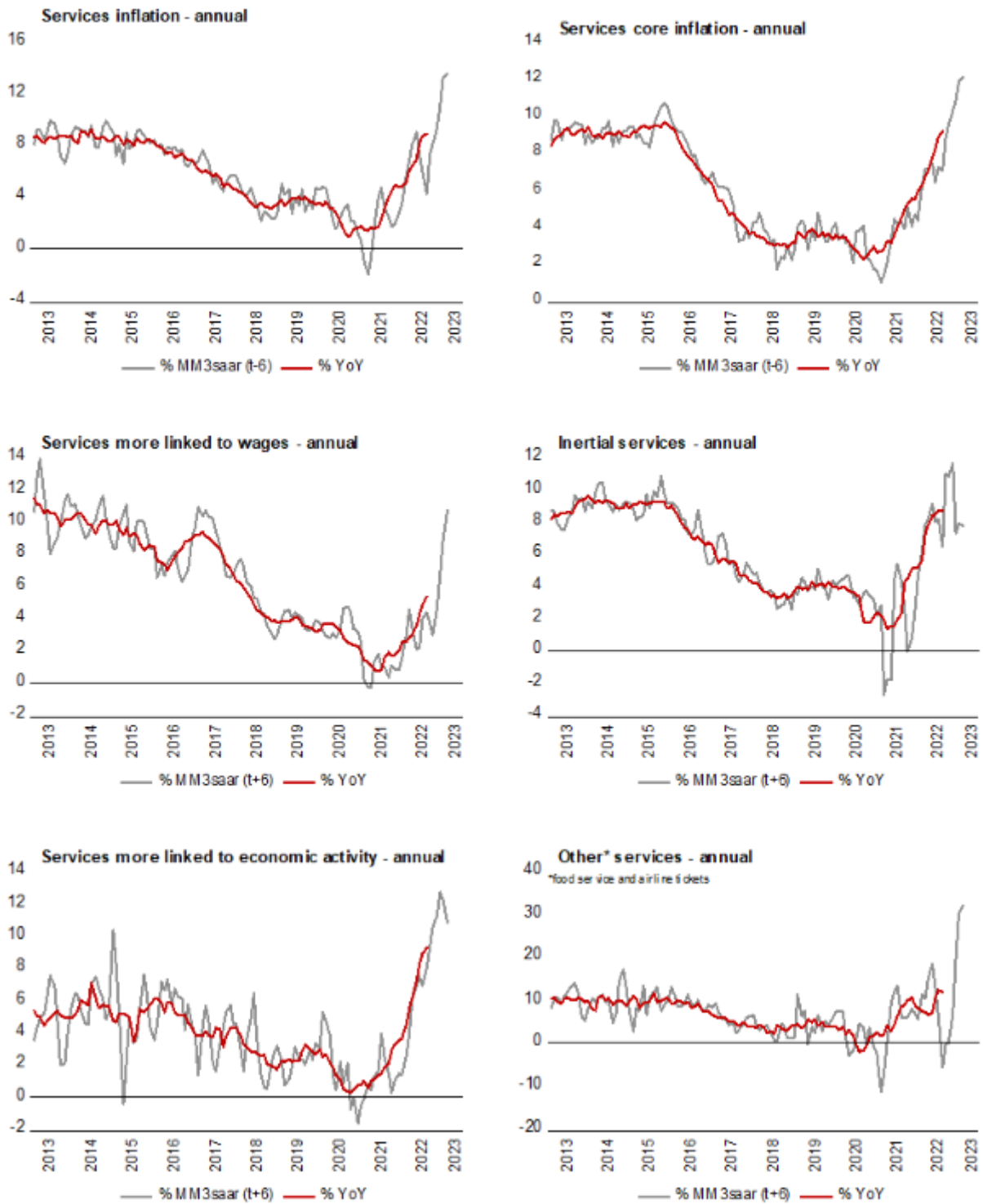
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



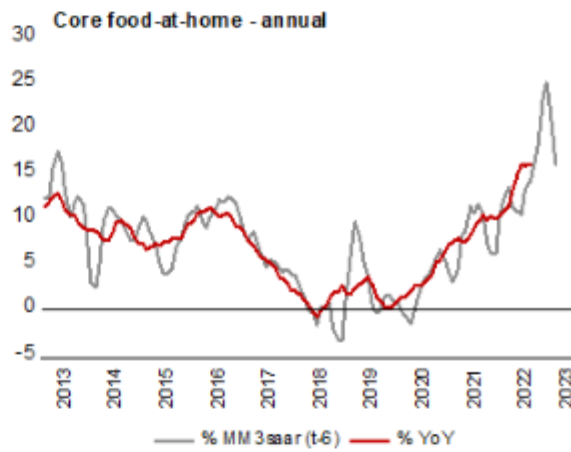
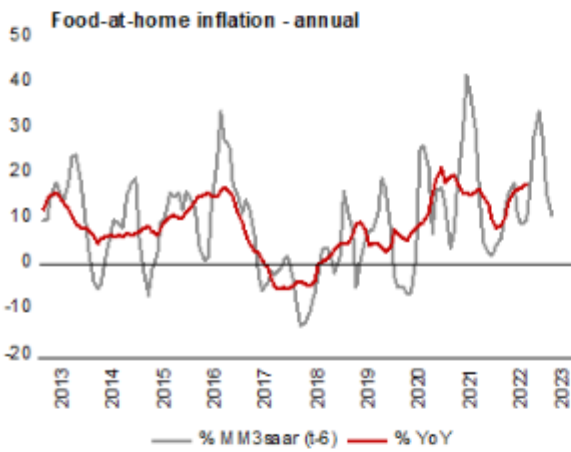
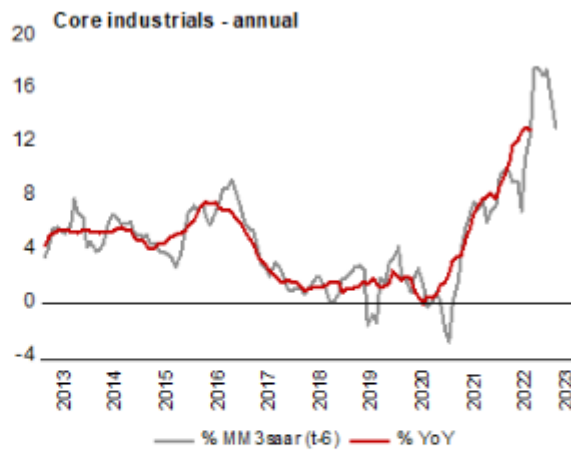
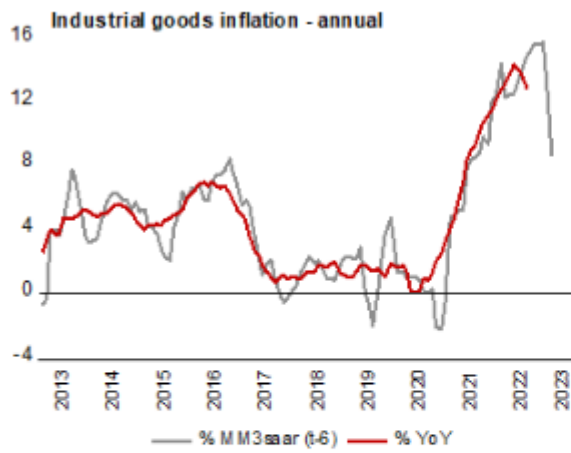
Figure 3. IPCA, Groups and Qualitative Measures (continued)



Sources for all charts: IBGE and Santander.



Figure 4. IPCA, Groups and Qualitative Measures (continued)





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