

June's IPCA: The Beginning of Relief from Volatile Prices?

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- **June's IPCA registered a 0.67% MoM change, in line with our call (0.69%) and a bit below the consensus expectation (0.71%). With this result, the headline trend saw slight relief, to 13.0% 3MMA-saar.**
- **Compared with our forecast, surprises to the downside came in regulated prices (-7 bps contribution to the headline forecast error), while market-set prices—industrial goods, services, and food-at-home—contributed +2 bps each to the headline forecast error.**
- **In qualitative terms, the report was unfavorable from a monetary policy standpoint, although we highlight that industrial goods and core gauges in general saw some marginal relief. Moreover, the diffusion index also cooled down a bit.**
- **All in all, we believe the report reinforces our view that inflation has peaked in YoY terms. However, the pace of deceleration ahead is still likely to be slow.**

June's IPCA registered a 0.67% MoM change, in line with our call (0.69%) and a bit below the consensus expectation (0.71%). With this result, the headline trend saw slight relief, to 13.0% 3MMA-saar. In year-over-year terms, the IPCA reached 11.89%, which reinforces our view that the April reading (of 12.13% YoY) was the peak in this cycle.

Compared with our forecast, surprises to the downside came in regulated prices (-7 bps contribution to the headline forecast error), particularly in electricity and fuel, as the recent tax cuts approved by Congress had a faster impact than we anticipated. Small upside surprises were scattered among services (+2 bps of contribution to the headline forecast error), industrial goods (+2 bps of contribution to the error), and food-at-home (+2 bps of contribution to the error).

Trend-wise, industrial goods saw its first material relief since the end of 2020, reaching 13.5% 3MMA-saar (from 15.4%); its core gauge also cooled down a bit, falling to 15.8% 3MMA-saar (from 17.7% previously). Food-at-home and regulated prices also decelerated in trend terms at the margin. We expect the inflation from those three groups—more related to volatile prices—to continue to decline from now on. On the negative—but expected—side, services continued to accelerate, reaching 13.3% 3MMA-saar (from 11.0%), with the core rising to 11.8% 3MMA-saar (from 10.8%). This group is still lagging the other sectors' upward price adjustments, and we think it is likely to accelerate for a few more months until it reverses into a deceleration.

In qualitative terms, the report was unfavorable from the monetary policy standpoint, although we highlight some marginally positive news. Some core gauges decelerated in trend terms, and the average of the main five cores no longer seems to be accelerating at the margin (although it continued at the high level of 13% 3MMA-saar). Moreover, the diffusion index fell to 71.1% s.a. (from 75.5% previously), even as this still means a high dissemination of inflation pressures from a historical perspective.

All in all, we believe the report reinforces our view that inflation has peaked in YoY terms, and the recent tax cut measures approved by Congress give us even more confidence in that regard, as the tax cuts will push

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prices downward in the short term. For the medium term, however, we remain cautious about the pace of deceleration, as some taxes are likely to be reinstated next year; besides that, the tax cut measures, and the new round of income aid (fiscal expansion,) could support demand and thereby keep upward pressure on inflation in the medium term.

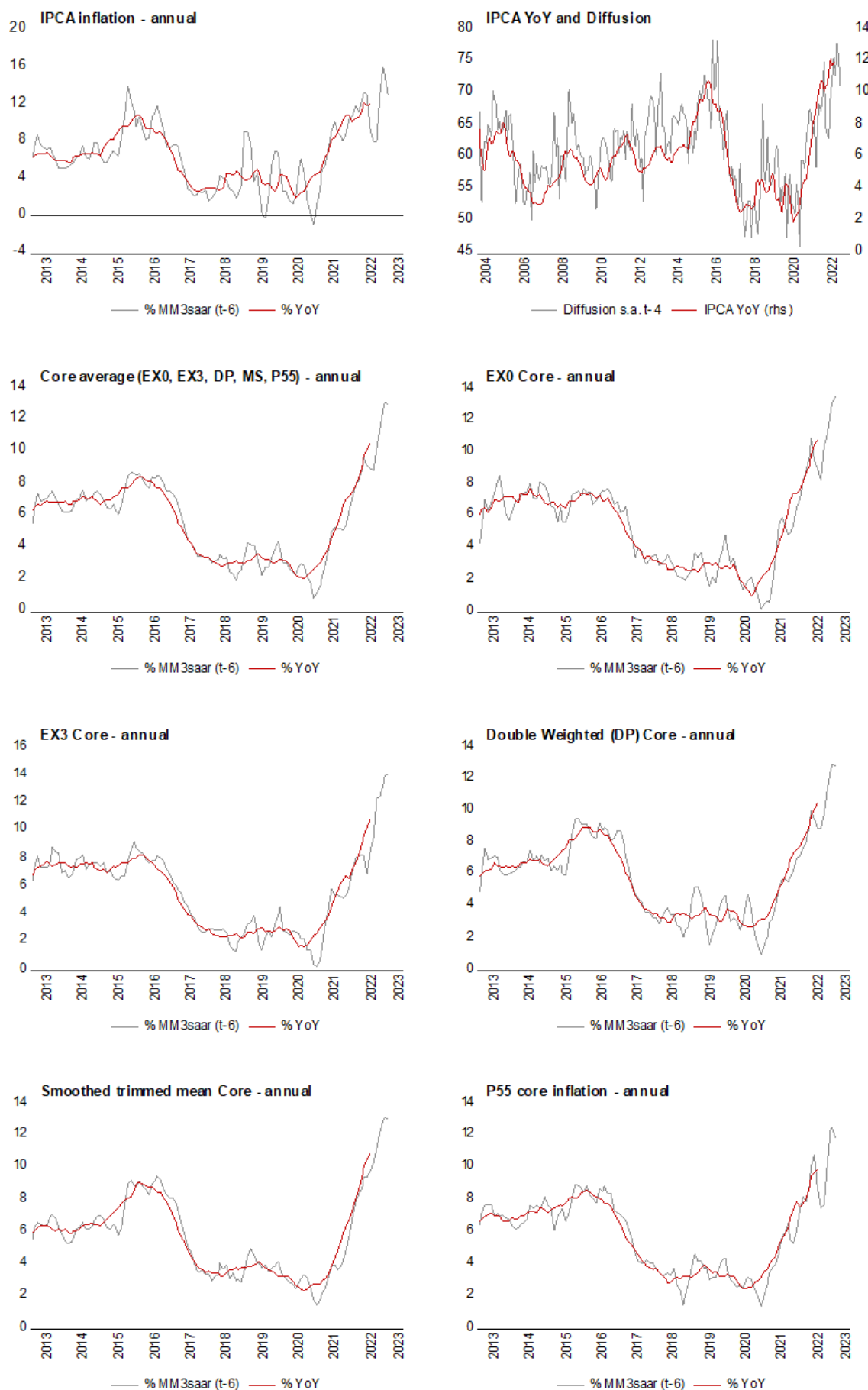
Figure 1. IPCA by Group and Forecasting Errors

	MoM			YoY	
	Jun-22	Santander	Contrib.	May-22	Jun-22
IPCA	0.67	0.69	-0.02	11.7	11.9
Food and beverage	0.80	0.61	0.04	13.5	13.9
Food-at-home	0.63	0.52	0.02	16.3	16.7
Food service	1.26	0.85	0.02	6.3	6.9
Housing	0.41	0.55	-0.02	9.6	8.8
Electrical energy	-1.07	-0.42	-0.03	5.3	2.2
Household articles	0.55	1.11	-0.02	14.7	14.1
Apparel	1.67	1.50	0.01	16.1	16.6
Transportation	0.57	0.72	-0.03	19.9	20.1
Airline tickets	11.32	11.36	0.00	88.7	122.4
Gasoline	-0.72	-0.35	-0.03	28.7	26.9
Health and personal care	1.24	0.87	0.05	5.4	6.1
Personal spending	0.49	0.81	-0.03	7.0	7.3
Education	0.09	0.07	0.00	6.8	6.9
Communication	0.16	0.30	-0.01	3.4	3.7
Administered	0.48	0.74	-0.07	12.1	11.7
Free	0.74	0.67	0.05	11.6	11.9
Food-at-home	0.63	0.52	0.02	16.3	16.7
Industrial goods	0.58	0.51	0.02	14.0	13.7
Services	0.90	0.85	0.02	8.0	8.7
EX3 Core	1.01	0.83	0.06	10.2	10.7
Average of cores	0.89	-	-	10.1	-

Sources: IBGE and Santander.



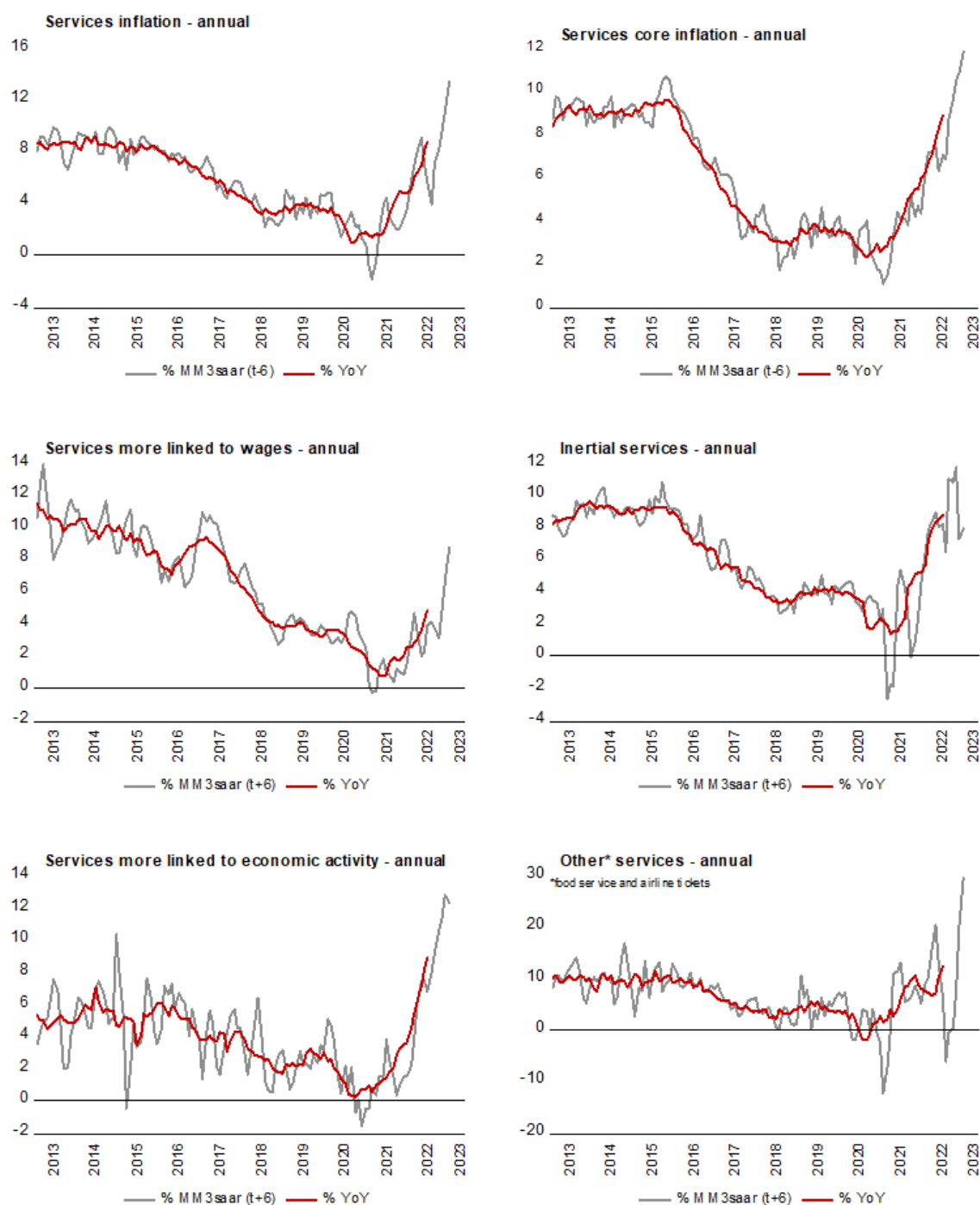
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



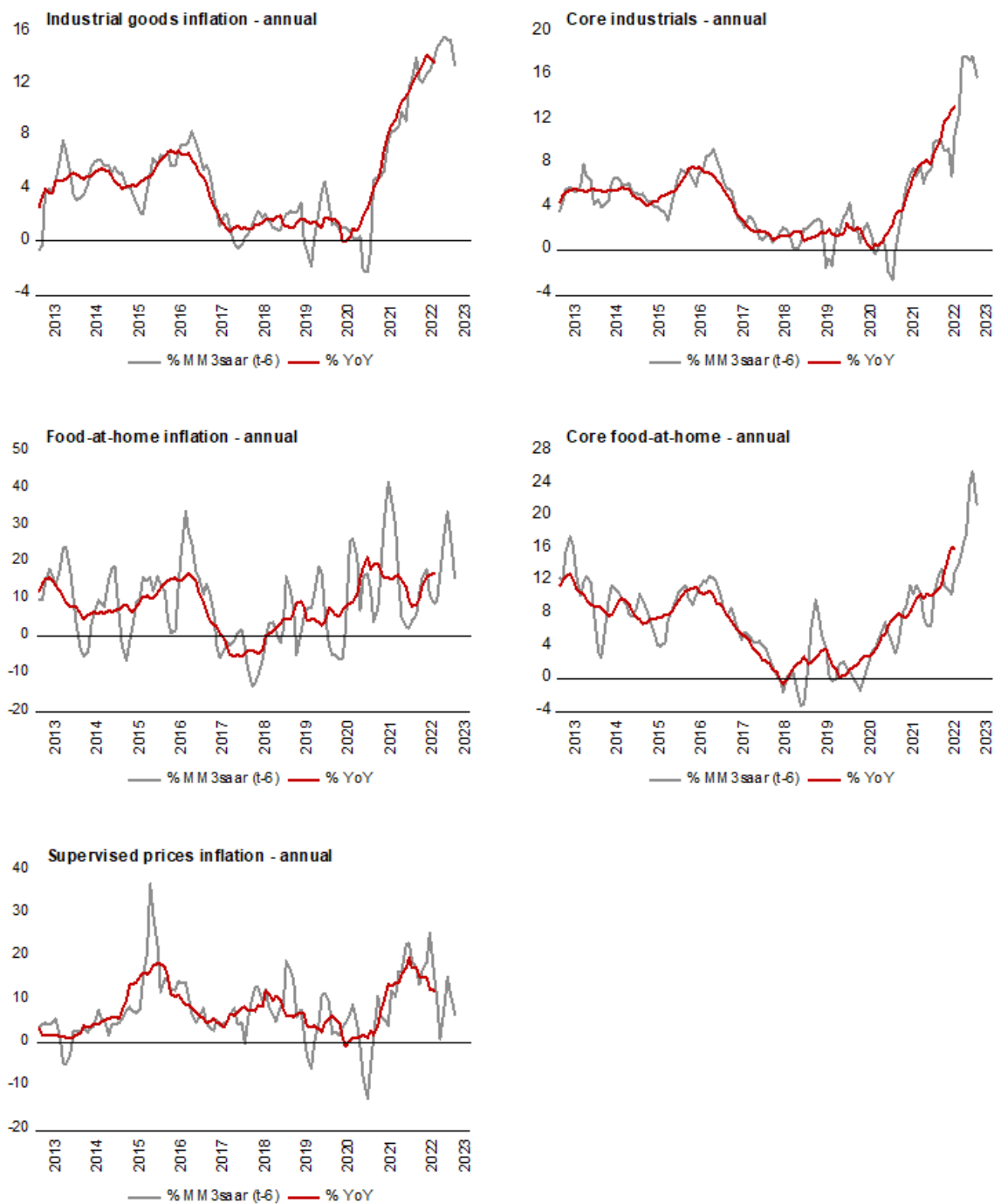
Figure 2. IPCA, Groups and Qualitative Measures (continued)



Sources for all charts: IBGE and Santander.



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