



## October's IPCA: Upward Surprises Concentrated in Non-Core Items

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- **IPCA rose 0.59% MoM in October, above the consensus forecast (0.49%) and slightly above our call (0.52%). The YoY change reached 6.5%, down from 7.2% YoY previously, and the trend rose a bit, although remaining in negative territory (-1.6% 3MMA-saar vs. -4.6% in September).**
- **In the breakdown, the biggest upward surprise came in regulated prices (+7 bps of error on the headline). The surprise was concentrated in electrical energy (+2 bps) and gasoline (+4 bps). Industrial goods also surprised upward (+3 bps). On the other hand, services surprised downward (-3 bps), as did food-at-home (-2 bps).**
- **Broad qualitative measures also continued improving at the margin. It is worth noting that all five main core gauges decelerated at the margin—including the EX3, the one most correlated with the output gap, whose trend (3MMA-saar) is now also running below the YoY change. The less positive news in the qualitative measures was that the diffusion index did not fall but instead ticked up to 64.9% s.a. (from 63.3%).**
- **Although we recognize the preliminary signs of improvement in underlying inflation, we still believe the road toward the center of the target could be bumpy, with services inflation (more inertial) continuing to create challenges in a tight job market environment. Indeed, with October's upward surprise and with high-frequency price surveys accelerating at the margin, we updated our IPCA 2022 tracking to 5.8% (from 5.4%). For IPCA 2023 we still see our 5.0% tracking as reasonably balanced.**

IPCA rose 0.59% MoM in October, above the consensus (0.49%) and slightly above our call (0.52%). The YoY change reached 6.5%, down from 7.2% YoY previously, and the trend rose a bit, although remaining in negative territory (-1.6% 3MMA-saar vs. -4.6% in September).

In the breakdown, the biggest upward surprise came in regulated prices (+7 bps of error on the headline). The surprises in regulated prices were concentrated in electrical energy (+2 bps) and gasoline (+4 bps), because of a stronger-than-expected rebound after the effect of the fuel tax cuts started to fade. Industrial goods also surprised upward (+3 bps), but the reason was similar: ethanol, one of the fuels that had its taxes cut, is rebounding more sharply than expected. Finally, services surprised downward (-3 bps), as did food-at-home (-2 bps).

In trend (3MMA-saar) terms, regulated prices are rebounding, as the downward effects of the tax cuts are fading. Industrial goods saw some uptick in trend terms, too, reaching 5.8% 3MMA-saar (from 4.8% previously), with the core industrial goods gauge also remaining high at 13.7% 3mma-saar (from 12.8%). In the headline the movement was driven both by ethanol and by Black Friday related items (refers to prices rising in October before stores give discounts in November); the core gauge was affected by items related to Black Friday. As for services, the trend continued to decelerate, reaching 7.0% 3MMA-saar (from 7.9%), and services' core gauge also saw a sharper drop, to 7.4% 3MMA-saar (from 9.7%). Finally, food-at-home dropped to 0.6% 3MMA-saar (from 5.7%), with its core gauge cooling down to 9.0% 3MMA-saar (from 10.3%).

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Moreover, broad qualitative measures also continued to improve at the margin. The average of the main core gauges decelerated to 7.0% 3MMA-saar (from 7.5%), the third month in a row that it has run below the YoY change (9.7% YoY from 10.1%), reinforcing the assumption that core inflation has peaked and will continue decelerating in YoY terms. It is worth noting that all five main core gauges decelerated at the margin—including the EX3, the one most correlated with the output gap, whose trend (3MMA-saar) is now also running below the YoY change. The less positive news in the qualitative measures was that the diffusion index did not fall but instead ticked up to 64.9% s.a. (from 63.3%).

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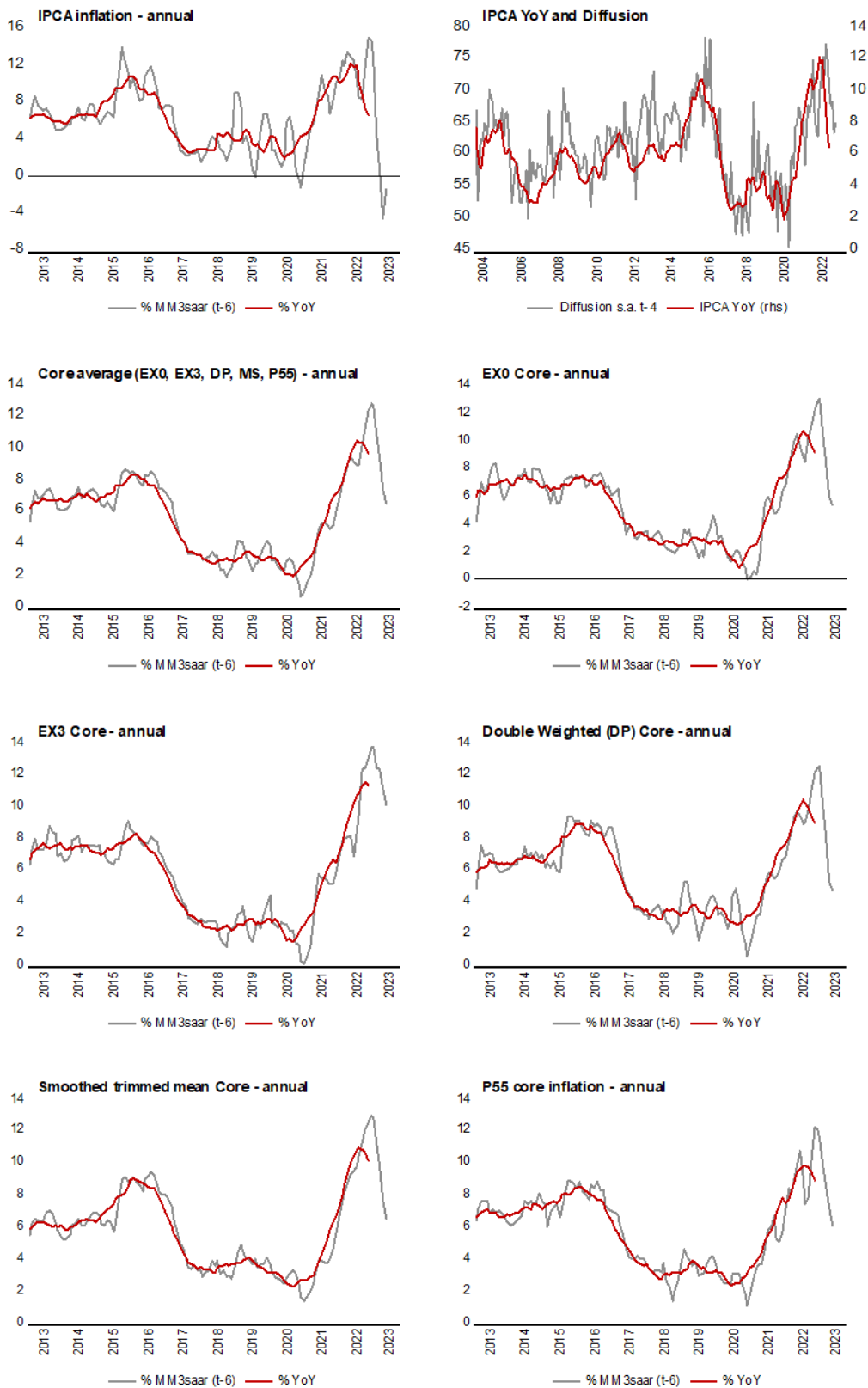
Figure 1. October's IPCA Details (%)

	MoM			YoY		3MMA-saar	
	Oct-22	Santander	Desv.	Sep-22	Oct-22	Sep-22	Oct-22
<b>IPCA</b>	<b>0.59</b>	<b>0.52</b>	<b>0.07</b>	<b>7.2</b>	<b>6.5</b>	<b>-4.6</b>	<b>-1.6</b>
<b>Food and beverage</b>	<b>0.72</b>	<b>0.79</b>	<b>-0.01</b>	<b>11.7</b>	<b>11.2</b>		
Food-at-home	0.80	0.90	-0.02	13.3	12.7	5.7	0.6
Food service	0.49	0.48	0.00	7.6	7.3		
<b>Housing</b>	<b>0.34</b>	<b>0.17</b>	<b>0.03</b>	<b>1.8</b>	<b>1.1</b>		
Electrical energy	0.30	-0.30	0.02	-17.5	-18.2		
<b>Household articles</b>	<b>0.39</b>	<b>-0.23</b>	<b>0.02</b>	<b>11.5</b>	<b>10.5</b>		
<b>Apparel</b>	<b>1.22</b>	<b>1.11</b>	<b>0.01</b>	<b>19.1</b>	<b>18.5</b>		
<b>Transportation</b>	<b>0.58</b>	<b>0.48</b>	<b>0.02</b>	<b>3.6</b>	<b>1.5</b>		
Airline tickets	27.38	28.17	0.00	47.7	40.5		
Gasoline	-1.56	-2.40	0.04	-18.7	-22.3		
<b>Health and personal care</b>	<b>1.16</b>	<b>1.15</b>	<b>0.00</b>	<b>9.0</b>	<b>9.8</b>		
<b>Personal spending</b>	<b>0.57</b>	<b>0.46</b>	<b>0.01</b>	<b>8.3</b>	<b>8.1</b>		
<b>Education</b>	<b>0.18</b>	<b>0.19</b>	<b>0.00</b>	<b>7.2</b>	<b>7.3</b>		
<b>Communication</b>	<b>-0.48</b>	<b>-0.43</b>	<b>0.00</b>	<b>0.1</b>	<b>-0.9</b>		
Administered	0.18	-0.11	0.07	-1.7	-2.8	-27.8	-12.5
Free	0.73	0.73	-0.01	10.4	9.9		
Food-at-home	0.80	0.90	-0.02	13.3	12.7	5.7	0.6
Industrial goods	0.75	0.61	0.03	11.5	10.8	4.8	5.8
Services	0.67	0.75	-0.03	8.5	8.1	7.9	7.0
EX3 Core	0.71	0.68	0.01	11.5	11.3	11.2	10.9
Average of cores	0.55	-	-	10.1	9.7	7.5	7.0

Sources: Brazilian Central Bank, IBGE, Santander.



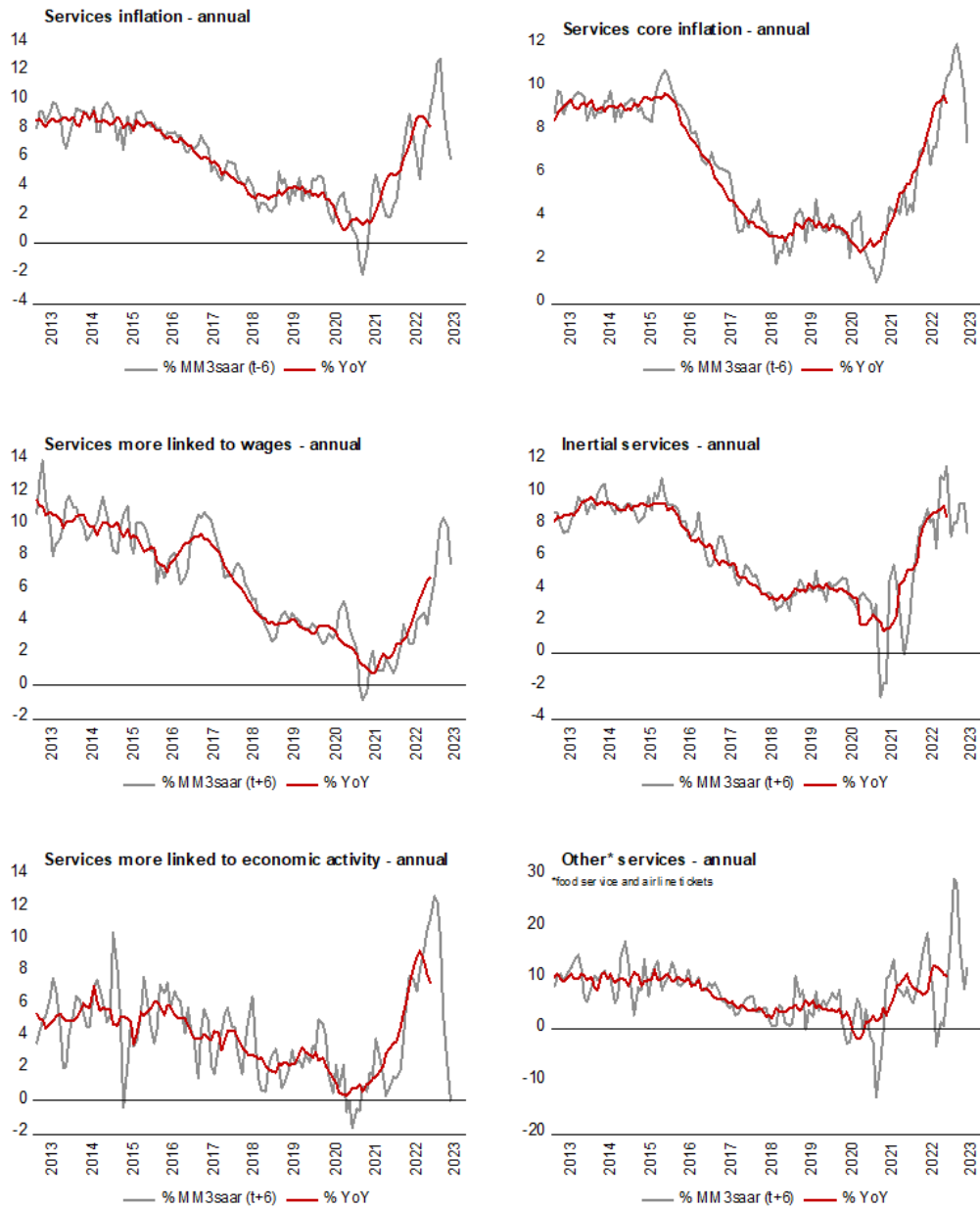
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



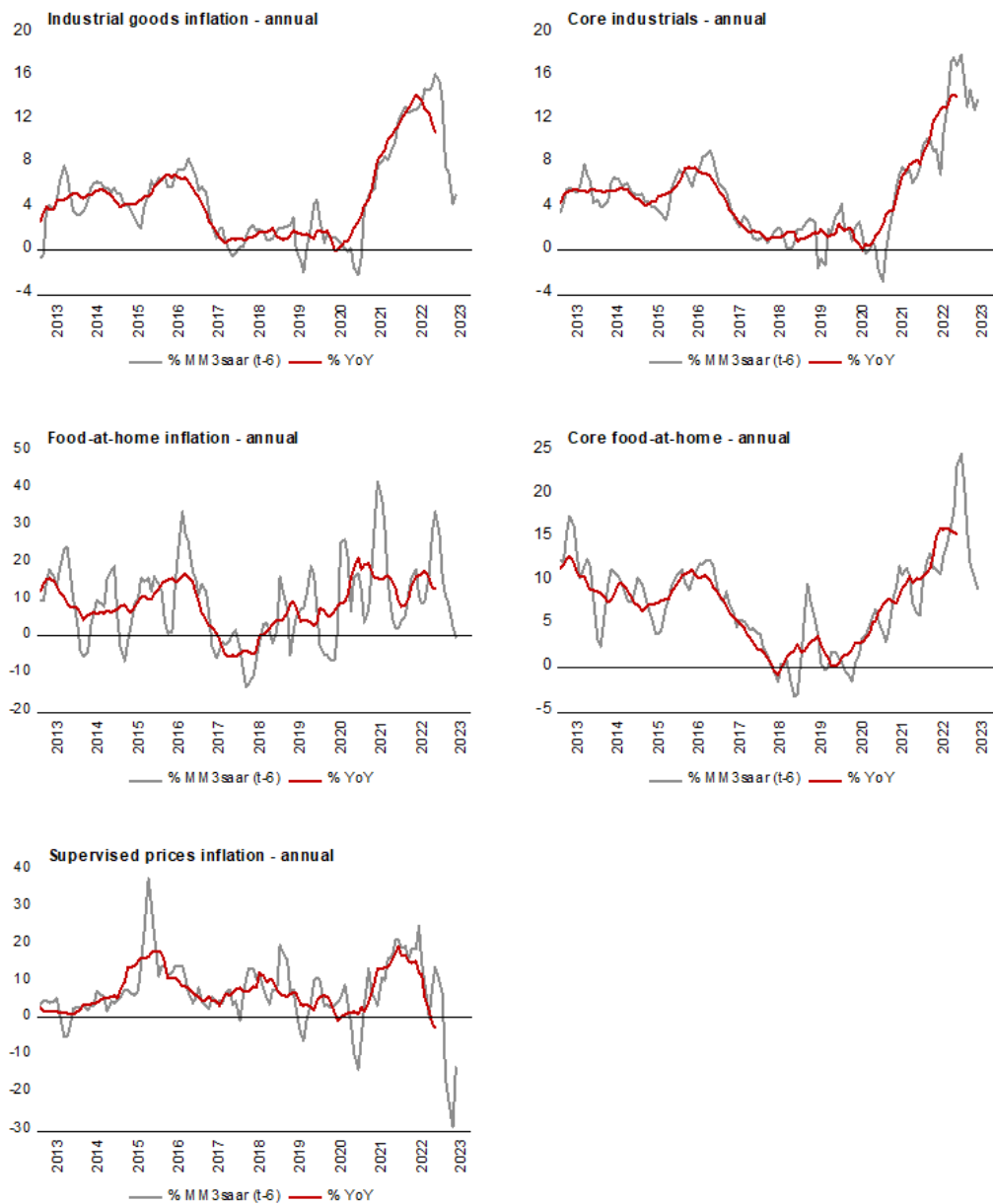
**Figure 3. IPCA, Groups and Qualitative Measures (continued)**



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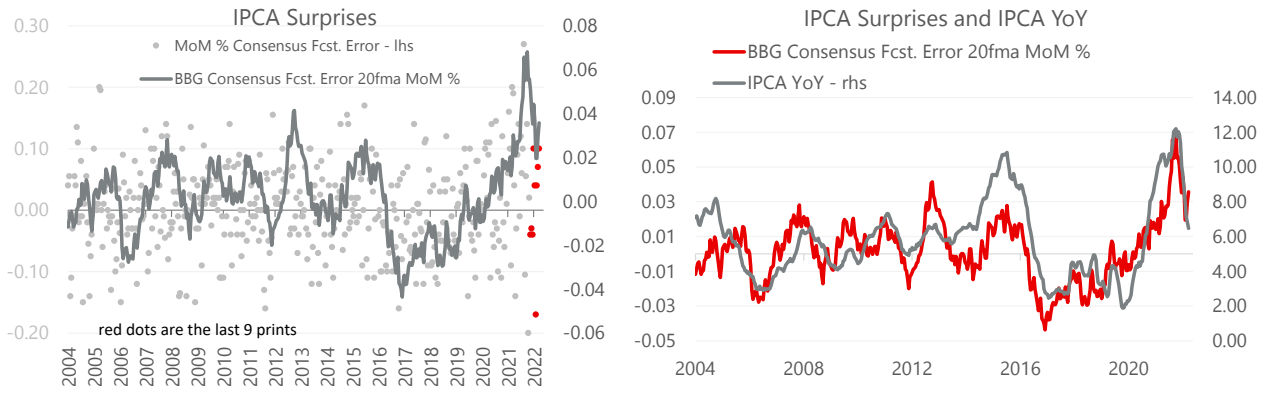
**Figure 4. IPCA, Groups and Qualitative Measures (continued)**



Sources for all charts: IBGE and Santander.



**Figure 5. IPCA, Groups and Qualitative Measures (continued)**



Sources for all charts: IBGE and Santander.



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