

September's IPCA: Preliminary Improvement in Underlying Inflation Continues

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

Felipe Kotinda*
felipe.kotinda@santander.com.br
+55 11 3553 8071

- **IPCA fell -0.29% MoM in September, a bit above our call (-0.34%) and the market's consensus (-0.33%). The YoY change reached 7.2%, down from 8.7% YoY previously, and the trend fell to -5.7% 3MMA-saar (from -0.6%).**
- **The relevant upward surprises came in services (+3 bps) and industrial goods (+4 bps). Despite these unfavorable marginal surprises, both groups continue to decelerate in annual trend terms: services went down to 8.1% 3MMA-saar (from 9.7%) and industrial goods to 4.9% 3MMA-saar (from 6.9%).**
- **Moreover, qualitative measures improved further at the margin. The diffusion index fell to 63.6% s.a. (from 68.0%) and the average of the main core gauges decelerated to 7.5% 3MMA-saar (from 9.3%), both starting to run below the YoY change and suggesting further deceleration ahead.**
- **All in all, although a major part of the recent improvements in inflation is related to the ad-hoc tax cuts, we are seeing some improvements in underlying inflation as well, which makes our outlook a bit less gloomy for the short term. Indeed, our high-frequency tracking was revised to 5.5% (from 5.8%) for IPCA 2022.**
- **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. For IPCA 2023, we maintain the high-frequency tracking at 5.0%, above the 3.25% target for the year. We continue to foresee the convergence to the mid-target in IPCA 2024, at 3.0%.**

IPCA fell -0.29% MoM in September, a bit above our call (-0.34%) and the market's consensus (-0.33%). The YoY change reached 7.2%, down from 8.7% YoY previously, and the trend fell to -5.7% 3MMA-saar (from -0.6%).

The most relevant upward surprises came in services (+3 bps) and industrial goods (+4 bps). In services, tax cuts effects in some telecom items had a lower impact than we estimated. Also, some personal services came above expectations. In industrial goods, the main surprise was in clothing, as the sector is still lagging the pandemic-related shocks and was only able to start to pass-through them more intensely recently, after the economy re-opened. Additionally, regulated prices (+4 bps) also surprised upwards, as we overestimated the downward impact of tax cuts in these items for this reading. Finally, food-at-home surprised downwards (-5 bps).

The fact that the slight upward surprises were in services and industrial goods is marginally unfavorable, as these groups are more related to core gauges. However, in trend terms both groups continued to decelerate, showing a more favorable outlook at the margin. Services reached 8.1% 3MMA-saar (from 9.7%), running a tad below the 8.5% YoY change, while its core gauge (that excludes volatile items and telecom items impacted by tax cuts, for example) decelerated to 10.0% 3MMA-saar (from 11.1%), still running a bit above the 10.0% YoY change. Industrial goods decelerated to 4.9% 3MMA-saar (from 6.9%), well below the 11.5% YoY change,

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT. U.S. investors' inquiries should be directed to Santander Investment Securities Inc. at (212) 583-4629 / (212) 350-3918.

* Employed by a non-US affiliate of Santander Investment Securities, Inc. and is not registered/qualified as a research analyst under FINRA rules.



while its core gauge saw a smaller relief, reaching 13.3% 3MMA-saar (from 14.6%), still running around the 14.2% YoY change.

Moreover, broad qualitative measures also continued improving at the margin. The diffusion index fell to 63.6% s.a. (from 68.0%) and the average of the main core gauges decelerated to 7.5% 3MMA-saar (from 9.3%), the third month in a row running below the 10.1% YoY change, suggesting further deceleration ahead. It is worth noting that all the five main core gauges decelerated at the margin—including the EX3, the one more correlated to the output gap, although this is still running a bit above the YoY change.

All in all, although a major part of the recent improvements in inflation are related to the ad-hoc tax cuts, we are seeing 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 5.5% (from 5.8%) for IPCA 2022. We note that we consider oil prices coming back to above 100 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 kept the high-frequency tracking unchanged at 5.0%. For IPCA 2023, we see the risks more balanced: on one side, services (sticky prices) inflation could be higher than we estimate, on the back of the tight job market; on the other, we still consider a reinstatement of part of the tax cuts done this year (the PIS/Cofins in gasoline), which may not happen. For IPCA 2024, we continue to forecast inflation returning to the center of the target, at 3.0%, but we see upward risks coming from the possibility that the fiscal adjustment process falls short of what is needed to re-anchor expectations, creating more inertia and leading to a more difficult disinflation process ahead.

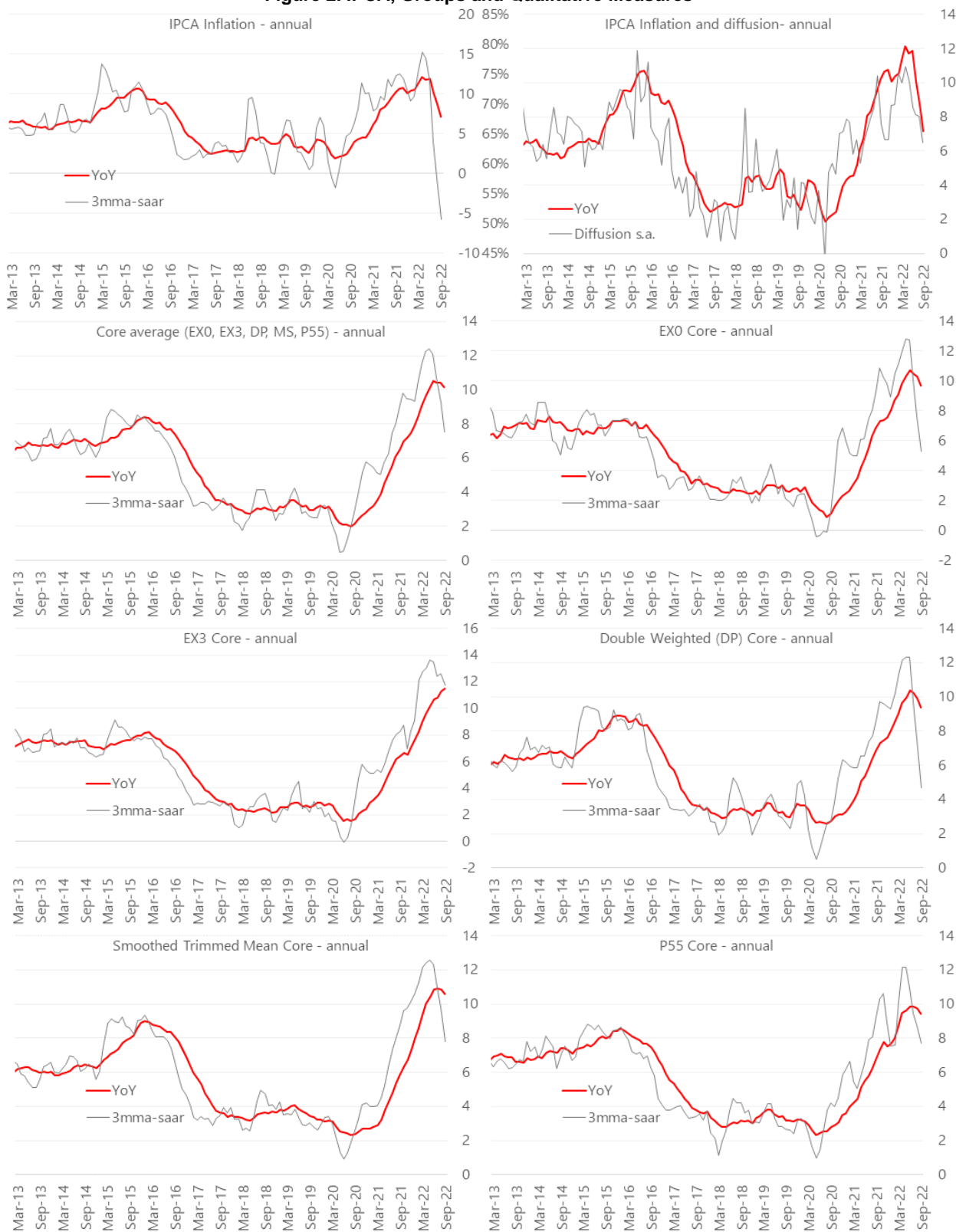
Figure 1. September's IPCA Details (%)

	MoM			YoY		3MMA-saar	
	Sep-22	Santander	Desv.	Aug-22	Sep-22	Aug-22	Sep-22
IPCA	-0.29	-0.34	0.05	8.7	7.2	-0.6	-5.7
Administered	-1.21	-1.36	0.05	1.5	-1.7	-24.0	-30.8
Free	0.02	0.00	0.01	11.4	10.4		
Food-at-home	-0.86	-0.52	-0.05	15.6	13.3	14.0	5.5
Industrial goods	0.05	-0.11	0.04	12.6	11.5	6.9	4.9
Services	0.40	0.32	0.03	8.8	8.5	9.7	8.1
EX3 Core	0.69	0.42	0.10	11.3	11.5	12.6	11.7
Average of cores	0.41	-	-	10.4	10.1	9.3	7.5

Sources: Brazilian Central Bank, IBGE, Santander.



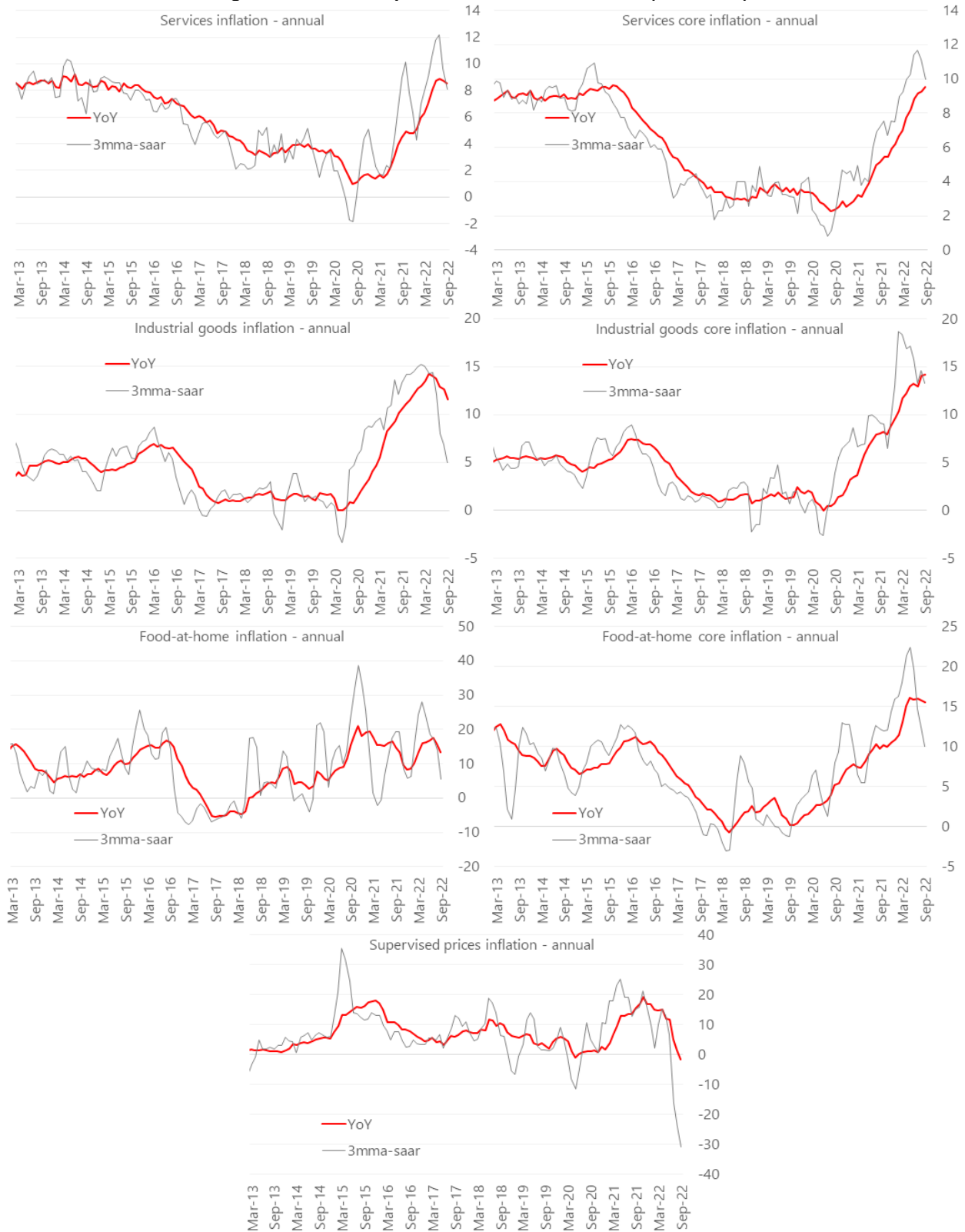
Figure 2. IPCA, Groups and Qualitative Measures



Sources for all charts: IBGE and Santander.



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



Sources for all charts: IBGE and Santander.



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

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Daniel Karp* and Felipe Kotinda*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2022 by Santander Investment Securities Inc. All Rights Reserved.

