Santander
Macroeconomic Research

BRAZIL MACRO — September 3, 2021

MACRO COMPASS

FALLING RETAIL SALES, EVER-RISING CPI

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- In the rolling week ended September 2, the BRL closed with a 1.4% gain versus the USD (at 5.18), registering the seventh best performance among a basket of 16 major currencies. The BRL has surfed the global wave of USD weakening in the period, on the back of a still patient tone from the Fed in the removal of stimulus. In FX, the favorable backdrop abroad partially offset an adverse news cycle on the domestic front. But the latter prompted the local yield curve to return to a bear-steepening pattern.
- Despite the looming risks from the Delta variant, the pandemic numbers continue to gradually improve in Brazil. The 7-day average of infections stood at 22k as of Wednesday (September 1), down 15% from last week and lowest level since November 2020. As for casualties, the 7-day average stood at 643, down 9% on the same comparison and the lowest level since January 2021.
- A report by the Brazilian Central Bank (BCB) showed higher nominal interest payments by the public sector in July, driven by a higher Selic rate and IPCA inflation. Pandemic relief expenses unrestricted by the constitutional spending cap added to BRL14.5 billion in August. On August 31, the government unveiled its 2022 Budget Proposal (PLOA 2022) without major surprises, as parameters and estimates still look preliminary. On September 1, the Lower House approved the income tax overhaul (PL 2337/2021), which is expected to reduce federal revenues by about BRL 20 billion per year from 2022 onwards.
- The US$7.7 billion trade surplus registered in August diverged marginally from our estimate (US$8.0 billion), revealing a positive dynamic for net exports. We continue to expect the trade balance to underpin the constructive prospects for the balance of payments.
- We calculate that the seasonally adjusted jobless rate decreased to 13.8% in June (14.1% in May). Once again, the recent batch of labor market reports point to improved conditions, especially for sectors that are more dependent on social interaction. We expect better urban mobility to lead to an employment recovery in coming months.
- The 2Q21 GDP headline surprised to the downside, with a decline of 0.1% QoQ-sa (consensus had 0.2%). The report reinforced our confidence on our projection of +5.1% for this year. IBGE has also released industrial production data for July, with the headline index retreating 1.3% MoM-sa, a weak start to 3Q21. We updated our IBC-Br tracking for July to +0.2% from +0.3%.
- For the coming week, the IBGE will release broad retail sales data for July (due on September 10). We are looking for a monthly retreat of 0.5%, which implies a -1.0% carryover for 3Q21.
- We expect August's IPCA (due on Thursday, September 9) to rise 0.71% MoM (+9.5% YoY). This should be another sour CPI data release, with continued deterioration in both level and composition. We expect the EX3 core trend to post a hefty 7.7% 3MMA-saar, much above the mid-target for IPCA in 2022 (3.5%).

Most of the information in this report is up to the end of Thursday, September 2, 2021.

Figure 1. Brazil Macro Agenda for the Week of September 06-10, 2021

Indicators / Events	Source	Reference	Date	Santander Estimate	Prior
National Holiday (Independence Day)	**--**	**--**	**Tue, 07-Sep**	**--**	**--**
IGP-DI Inflation (% MoM)	FGV	Aug/21	Wed, 08-Sep	--	1.45
IGP-DI Inflation (% YoY)	FGV	Aug/21	Wed, 08-Sep	--	33.35
Vehicle Production (thousands)	Anfavea	Aug/21	Wed, 08-Sep	--	164
IPCA Inflation (% MoM)	**IBGE**	**Aug/21**	**Thu, 09-Sep**	**0.71**	**0.96**
IPCA Inflation (% YoY)	**IBGE**	**Aug/21**	**Thu, 09-Sep**	**9.50**	**8.99**
Core Retail Sales (% MoM)	IBGE	Jul/21	Fri, 10-Sep	0.2	-1.7
Core Retail Sales (% YoY)	IBGE	Jul/21	Fri, 10-Sep	2.7	6.3
Broad Retail Sales (% MoM)	**IBGE**	**Jul/21**	**Fri, 10-Sep**	**-0.5**	**-2.3**
Broad Retail Sales (% YoY)	IBGE	Jul/21	Fri, 10-Sep	4.2	11.5

Source: Santander.

For details on Santander's economic forecasts for Brazil, please refer to our last scenario review[1].

[1] **Santander Brazil - Macroeconomic Scenario: *"Advances in Controlling the Pandemic, Setbacks in Quelling Inflation"* –** Aug 12, 2021- Available on: http://bit.ly/Std-scenrev-081221

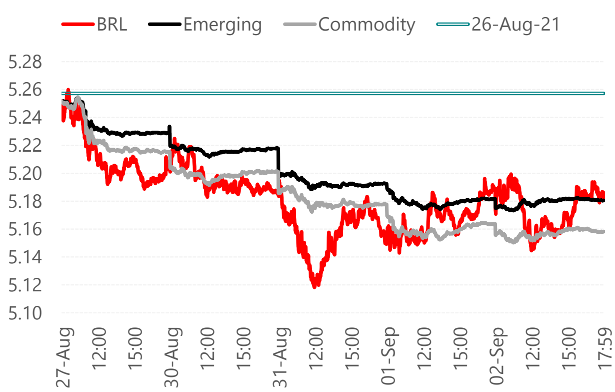
LOCAL MARKETS—FX

The USD/BRL pair closed the rolling week ended September 2 at 5.18, a 1.4% gain, as the BRL surfed the wave of USD weakening registered in the period, which offset the negative news cycle on the domestic front. Although nobody expected a hawkish message in the Fed's Jackson Hole Symposium last weekend, the FOMC chairman came up with a relatively more dovish tone than he had used lately, which sounded to markets as a confirmation of a cautious removal of monetary stimulus in the World's largest economy. This paved the way for a risk-on mode in the last few days and prevailed over negative developments on the domestic front, which ranged from additional inflationary pressure stemming from higher electricity tariffs, a lower-than-expected Q2 GDP reading and lingering uncertainties regarding the Brazilian fiscal front. Therefore, even though the international backdrop remains favorable for the BRL, we expect domestic circumstances to continue limiting the upside for the BRL in the medium term.

LOCAL MARKETS—Rates

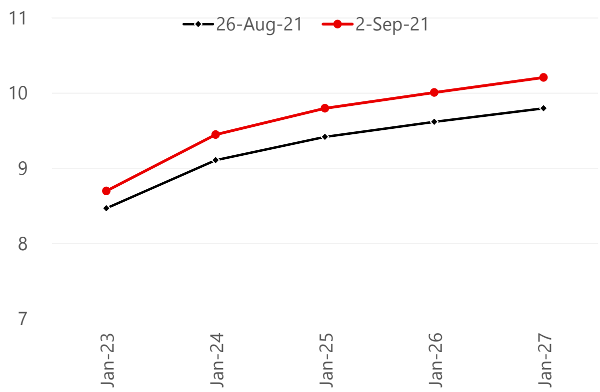
The nominal yield curve once again shifted higher with a bear-steepening pattern. Since last Thursday (August 26), the front end of the curve (Jan-23 DI future) rose 23 bps to 8.70%, while the back end of the curve (Jan-27 future) rose 41 bps to 10.21%. As a result, the curve's steepness in this segment rose 18 bps to 151 bps. At the front end, the market seems to keep digesting an ever-unfavorable inflation news flow. This week, authorities announced an increase in the extra charge for electricity bills (with an expected effect of 0.2 p.p. on this year's IPCA, which we now see around 8%). This worsening outlook prompts the market to see higher probability that the BCB will take an even more hawkish stance. In the options market the 100-bps hike remains the one with the highest implied probability, hovering around 75%, but the 125-bps hike gained some steam, rising from around 20% to 23% implied probability. At the back end, the market seems to have resumed the process of risk-premium building at this segment of the curve, amid persistent uncertainty about the fiscal consolidation process.

Figure 2.A. – USD/BRL Intraday Trends



Sources: Bloomberg, Santander.
Note1: As of the close Thursday, September 2, 2021.
Note2: For other currencies, we use USDBRL values as a base-index

Figure 2.B. – Brazilian Domestic Yield Curve (% p.a.)



Sources: Bloomberg, Santander.
Note: As of the close Thursday, September 2, 2021.

COVID-19 MONITORING

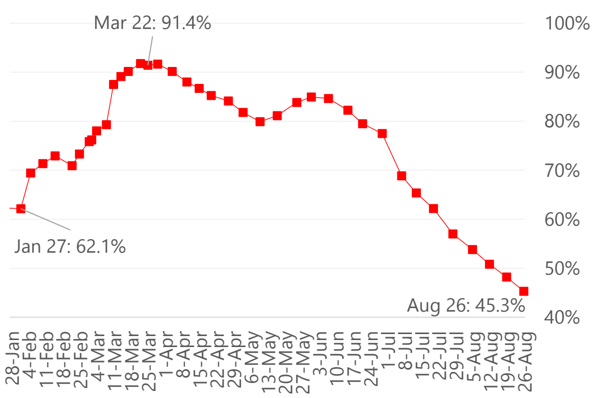
Brazil's vaccination pace eased back to 1.6 million doses a day on average as of Wednesday, September 1. We expect the average pace to hold around 1.5 million throughout 2H21 as vaccine inventories remain high (61 million doses) and deliveries are expected to remain above the levels of vaccine administration.

Health conditions are gradually improving in Brazil, though the risk from the Delta variant remains. Based on the last available data (August 26), our proxy[2] for a nationwide average ICU occupancy rate has fallen further to 45%, the lowest level in our series (begun in January). That number compares to a previous peak of 92% (late March). Data from Brazil's Health Ministry showed that the 7-day average of infections stood at 22k as of Wednesday (September 1), down 15% from last week and the lowest level since November 2020; as for casualties, the 7-day average stood at 643, down 9% on the same comparison and the lowest level since January 2021.

Urban mobility remains high. August data so far indicates a slight retreat of mobility since last week, with our lockdown index now moving to 3.0 points (as of August 28, 2021) from 2.0 points (as of August 21, 2021). This move stems mainly from a decrease of mobility in the Transit Station segment, giving back previous gains. The Workplaces segment still shows high levels of mobility and has been running above the pre-pandemic mark since June. All in all, despite the slight retreat at the margin, our lockdown index is trending at low levels, even considering last year's Christmas period (December 22 to 24), meaning a fast convergence to "normality" as vaccinations advance. Everybody's hope is that the Delta variant will not derail that path.

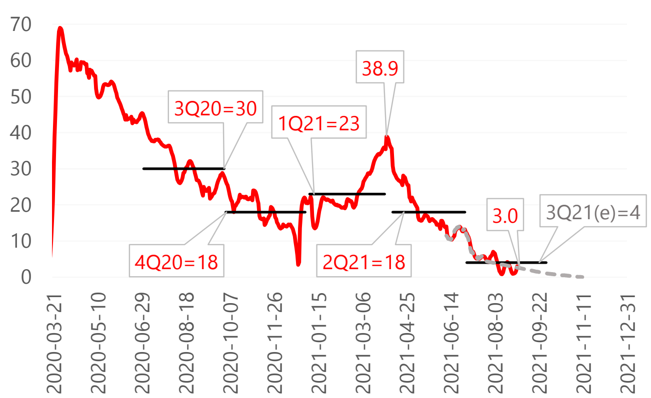
Our daily activity index seems to have gained momentum in August. The index—based on daily data on energy consumption, car sales, and mobility—showed an upward trend from April to June; on a monthly basis, and adjusted for seasonality, the index expanded by 5.6%, 3.0% and 4.2% in April, May and June, respectively. The index seems to have started 3Q21 at a slower pace, with a 0.8% drop in July. However, considering the average so far in August (up to the 24th), we calculate a 2.4% expansion, more than offsetting the previous month's fall. With this figure, the index is 2.2% below February 2021 levels (i.e., before the pandemic's resurgence seen earlier this year).

Figure 3.A. – Our Proxy for a Nationwide ICU Occupancy Rate (%)



Sources: @coronavirusbra1, Santander.

Figure 3.B. – Lockdown Index*, Mobility Forecasts (Feb/20=0, 7-day average)



Sources: Google, Santander.
* This index is built as an average of selected segments from Google Mobility Report with inverted scales. Data are available until August 28, 2021.

[2] The nationwide average proxy is a weighted average (by state population) of state ICU occupancy rates. Hence, it is does not reflect the actual national occupancy rate = Total beds occupied in Brazil / Total beds available in Brazil.

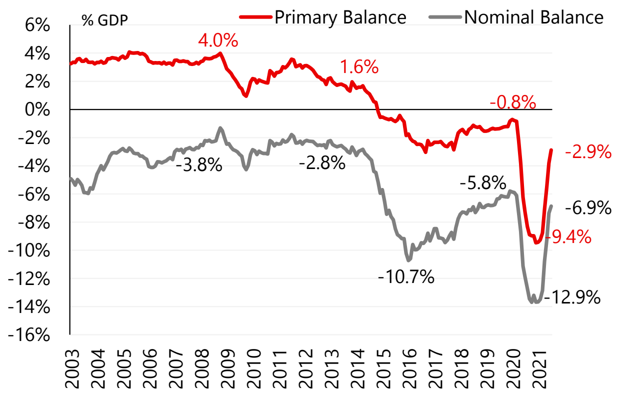
FISCAL POLICY INDICATORS

In July, public sector data showed higher nominal interest payments driven by rise in Selic and IPCA. According to Brazilian Central Bank (BCB) data published on August 31, the public sector posted a primary deficit of BRL10.3 billion in July, slightly below our forecast (BRL12.3 billion) and the market's median estimate (BRL16.0 billion). In year-to-date terms, the deficit reached BRL15.5 billion (0.3% of GDP) in July, compared to BRL483 billion (11.6% of GDP) in 2020, affected by a massive fiscal stimulus in 2020, and BRL8.5 billion (0.2% of GDP) in 2019. Surplus of regional governments continues to register positive primary results, reaching an all-time high in real terms and as a percentage of GDP. In July, we witnessed a rise in nominal result, affected by an increase in the interest account, which reached BRL45.1 billion in July, compared to BRL5.8 billion in 2020. The result was affected by higher inflation and Selic rate, leading to a rise in the cost of debt, in addition to a loss in foreign exchange swap operations. In 12-months, the nominal deficit reached 6.9% of GDP in July, compared to 7.4% in June. Debt indicators reduced marginally. Gross debt reached 83.8% of GDP in July, a reduction of 0.1 pp from the June reading—on the heels of the increase in nominal GDP (-0.9pp of impact). Meanwhile, net debt was 60.3% of GDP, 0.5 pp lower on the same basis of comparison. For the coming months, we continue to expect a sequence of primary deficits, the consolidated public sector deficit should likely reach BRL135 billion in 2021 (1.6% of GDP). See details in the link[3].

We calculate that pandemic relief expenses that were exempted from compliance with the constitutional spending cap (so-called "extra-cap" spending) totaled BRL14.5 billion in August, most of which was spending on the emergency aid totaling BRL8.5 billion. According to the government, 1.1 million in benefits were canceled or blocked since June, reducing in ~BRL0.5 billion the monthly disbursement. Health expenses totaled BRL14.2 billion in the year up to August. On August 10, the government published a provisional measure to include an additional extraordinary (extra-cap) budget of BRL9.1 billion for the Minister of Health, the value allocates resources to maintain the financing of exceptional pandemic-related health services. For the time being, the total of "extra-cap" expenses budgeted for 2021 (including 2020 leftovers and 2021 stimulus) is BRL137.2 billion. Our estimates consider the execution of extra-cap spending close to BRL115 billion (~1.3% of GDP).

On September 1, we published our Fiscal Policy chartbook, bringing details about the outlook for the fiscal accounts, as per our latest Scenario Review, released on August 12 - "Advances in Controlling the Pandemic, Setbacks in Quelling Inflation". See details in the link[4].

Figure 4.A. – Public Sector Primary Balance



Sources: Brazilian Central Bank, Santander.

Figure 4.B. – Extra-Cap Expenditures in 2021

BRL Billion - Accumulated	Jun-21	Jul-21	Aug-21	Total Budgeted	Executed
Emergency Aid (MP 1.037 and 1.056/2021)	27.4	35.8	44.3	64.9	**55.2%**
Health expenditures	9.7	11.4	14.2	25.9	**44.1%**
BEm - Employment Program (MP 935/220 and MP 1.044/2021)	4.0	6.4	7.6	11.7	**54.6%**
Turism Infraestructure (MP 963/2020)	0.4	0.4	0.5	1.9	22.9%
Vaccine Acquisition (MP 994, 1,004 and 1,015/2020)	8.0	9.6	11.7	27.8	34.7%
Pronampe (credit support for SMEs) (MP 1,053/2021)	0.0	5.0	5.0	5.0	100.0%
Accumulated Total	49.4	68.7	83.2	137.2	50.1%

Updated in 09/03/2021

Sources: National Treasury, Santander.

[3] **Santander Brazil Fiscal Policy -** ***"Higher Nominal Interest Result Driven by Rise in Selic and IPCA"*** **–** August 31, 2021 - Available on: https://bit.ly/Std-fiscal-083121

[4] **Santander Brazil Fiscal Policy -** ***"Chartbook – Short-Term Improvement Amid Higher Risks"*** **–** September 01, 2021 - Available on: https://bit.ly/Std-chart-fiscal-sep21

FISCAL POLICY LEGISLATION

On August 31, the government unveiled its 2022 Budget Proposal (PLOA 2022), which was in line with expectations. The Budget Proposal for 2022 brought no major surprises and will probably need adjustments during the congressional debate, forecasting a primary deficit for the following reasons: (i) macroeconomic parameters could be changed, especially the inflation numbers (PLOA 2022 inflation index – INPC for 2021: 6.2%, compared to 8.2% in our tracking), a possible change could affect official estimates of revenues and expenditures, (ii) the budget for the welfare program was maintained at ~BRL35 billion, and its possible expansion will depend on the spending cap margin for 2022, (iii) the judicial claims budget was disclosed at BRL89.1 billion, a value that the government intends to reduce for 2022. We also envision some pressures that could increase the expenditures for coming years, such as extending the payroll tax exemption for 17 labor-intensive sectors, which will cost extra BRL6 billion for 2022. Besides that, PLOA 2022 presented a primary deficit for the Central Government of BRL 49.6 billion, way below the primary target considered in the Budget Guidelines (LDO 2022) of BRL 170.5 billion. Our scenario projects a deficit of BRL 120 billion (1.3% of GDP).

On September 1, the Lower House approved the income tax overhaul (PL 2337/2021). The bill was approved by 398 votes (out of 513 deputies). The legislation kept the main provisions of the proposal submitted by the administration earlier this year: it reduces corporate taxes but creates the taxation of dividends, increases income tax exemption brackets to low and middle-income workers, and proposes some other changes in income tax rules on financial investments. The main changes made were: (i) a less ambitious corporate tax (IRPJ/CSLL) cut of 8 p.p. (from the previous draft which included a 10-point reduction), to an average of 26% (from the current 34%), and (ii) the dividends tax bracket was set at 15%, down from 20% in the original proposal. In our view, according to our preliminary estimates, the fiscal impact of the reform on revenues should be negative by about BRL22 billion in 2022 (based on one-off revenues mitigating the revenue-loss). From 2023 onwards, the expected revenue loss is around BRL20 billion/year. For states and municipalities, we estimate a revenue reduction between BRL10-15 billion a year, through federal transfers and indirect effects in the public servants' payroll. After the Lower House approval, the bill will head to the Senate, which is currently debating a broader tax reform to simplify the VAT regime (PEC110/2019), which comprises Brazil's most complex tax rules.

On the same day, the senate rejected by 47 to 27 votes the provisional measure that changed some labor policies (MP1045) and reintroduced the employment benefit program (BEm). That legislation had already been approved by the Lower House and included three new job creation programs; some labor rules were also eased in the proposal.

Figure 5.A. – 2022 Budget Proposal

Fiscal Items BRL- Billion	2020		2021e Gov. Estimates		2022e PLOA 2022	
	BRL bn	% GDP	BRL bn	% GDP	BRL bn	% GDP
I. Total Revenue	1467.8	19.7	1816.3	21.0	1958.8	20.8
II. Transfers by Revenue Sharing	263.8	3.5	339.9	3.9	361.8	3.9
III. Net Revenue	1203.9	16.2	1476.4	17.1	1596.9	17.0
IV. Total Expenditure	1947.0	26.1	1631.5	18.9	1646.5	17.5
Social Security Benefits	*663.9*	*8.9*	*705.7*	*8.2*	*765.6*	*8.1*
Payroll	*321.3*	*4.3*	*332.4*	*3.8*	*342.8*	*3.6*
Others Mandatory	*735.2*	*9.9*	*348.6*	*4.1*	*275.0*	*3.0*
Mandatory with flow control	*133.5*	*1.8*	*145.6*	*1.7*	*164.6*	*1.8*
Discretionary Expenses	*93.1*	*1.2*	*99.2*	*1.1*	*98.6*	*1.0*
Central Government's Primary Balance	-743.1	-10.0	-155.1	-1.8	-49.6	-0.5
Primary Target	-124.1	-1.7	-247.1	-3.2	-170.5	-1.8

Sources: Ministry of Economy, Santander.

Figure 5.B. – Income Tax Overhaul - Preliminary

Federal Revenue Impact of the Proposal - Estimates		
BRL Billion	2022	2023
Changes in Personal Income tax	-19	-23
Changes in Corporate Income Tax	-60	-64
CFME - Mining Royalty Tax (+1.5pp)	2	2
End of Tax Benefits	18	19
Dividends (Tax on 15%)	9	30
End of interest on equity (JCP)	4	13
Tax on earnings abroad (optional 6%)	18	-
Others	7	5
Total	**-22**	**-18**

Sources: Federal Revenue of Brazil, Santander.

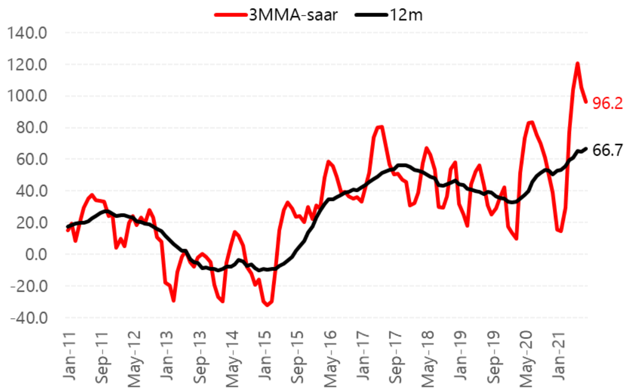
TRADE BALANCE

The August 2021 trade surplus fell slightly short of what we expected (US$7.7 billion vs US$8.0 billion, respectively), and translated into a US$66.7 billion surplus on a 12-month basis. However, if we annualize the daily average of the last three seasonally adjusted readings (3MMA-saar), we obtain an indication of an annual US$96.2 billion surplus, which is higher than the US$86.0 billion positive figure we project for 2021. Thus, we continue to believe there is room for the trade surplus to continue increasing on a 12-month basis.

Last month, export proceeds were US$27.2 billion vs. our estimate of US$27.3 billion, and import outlays were US$19.5 billion vs. our US$19.3 billion estimate. After decreasing 13.9% on a MoM seasonally adjusted basis in July 2021, daily average exports increased 6.9% last month, thus sustaining the generation of a relatively high level of external revenue. With respect to imports, the 11.1% MoM sa expansion in the daily average underpins our view that the Brazilian economy should remain on a recovery path in the coming months, although we do not believe imports are likely to keep the pace shown in August 2021. See details in the link[5].

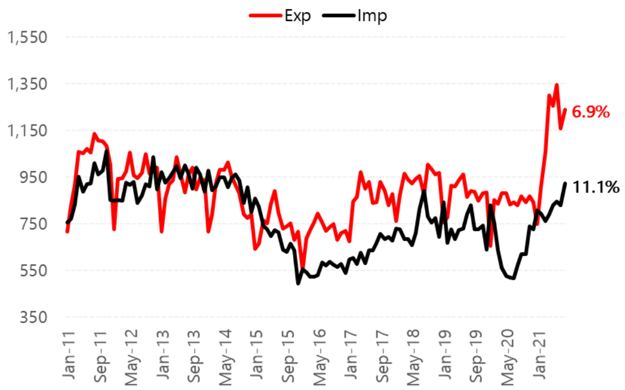
Through August, the trade surplus was US$66.7 billion on a 12-month basis, which is below the average of the last-three-month annualized surplus (3MMA-saar) of US$96.2 billion for 2021. However, this figure is above our forecast of a US$86.0 billion surplus for this year as a whole. The difference between the level indicated by the 3MMA-saar gauge and our forecast stems chiefly from the unfavorable seasonal pattern of Brazilian exports in the second half of any given year. Thus, albeit smaller than the 3MMA-saar, we continue to see room for the trade surplus to increase on a 12-month basis and meet our forecast, which keeps us confident that the Brazilian foreign trade should continue to collaborate for constructive prospects for its balance of payments.

Figure 6.A. – Trade balance (USD billion, 12-month)



Source: SECINT, Santander.

Figure 6.B. – Exports vs. Imports (USD million/working day, sa)



Source: SECINT, Santander.

[5] **Santander Brazil – External Sector:** ***"Out of the List of Concerns"*** **–** September 1, 2021- Available on: https://bit.ly/Std-extsec-090121

ECONOMIC ACTIVITY

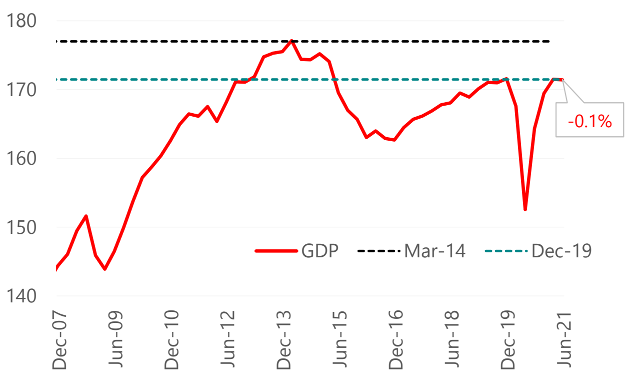
The 2Q21 GDP data surprised to the downside. Brazilian GDP retreated 0.1% QoQ-sa (12.4% YoY) in 2Q21, below our projection and market consensus (both at 0.2%). This result pulled the economy back to below pre-pandemic levels (down by 0.1% since 4Q19) and implies a 4.9% carryover for 2021. On the supply side, the services sector posted a solid and widespread expansion of 0.7%, with other services (up 2.1%) and information (up 5.6%) as the highlights. Despite the positive growth, the sector still shows a gap, compared to the pre-pandemic mark (down 0.9%). Moreover, as expected, farm and industry output dragged activity in the short term, retreating 2.8% and 0.2%, respectively. This headline result reinforces the likelihood of our current 2021 GDP projection (5.1%), mainly considering that important services segments are still at depressed levels, and we expect these to recover as the economy reopens and the health crisis is surmounted. However, we acknowledge the downside risks wrought by the drought for both electricity generation and agriculture output in 2H21. See details in the link[6].

July industrial production figures, which inaugurated the release of 3Q21 activity data, posted a weak start in the quarter. The headline index was down by 1.3% in July, below the market consensus (-0.7%) and our estimate (-1.0%). July's figure stems from decreases in both manufacturing (-1.2%) and mining (-1.2%). Looking at the breakdown, durable goods stood out by retreating 2.7%, while intermediate goods were down 0.6%, the fourth decline in a row. July's figure brought industrial production back to levels below the pre-pandemic mark: the index is down by 2.1% since February 2020. We updated our IBC-Br tracking for July to +0.2% from +0.3%. See details in the link[7].

Based on IBGE's National Household Survey (PNAD), we calculate that the seasonally adjusted jobless rate fell to 13.8% in the three months to June (14.1% in May). The unadjusted unemployment rate stood at 14.1%. This result stemmed from increases of 1.5% MoM-sa and 1.2% MoM-sa in the employed population and the labor force, respectively. This means a favorable composition, as joblessness falls as the participation rate increases. Once again, the batch of labor market data indicates an improvement for some sectors that are more dependent on social interaction, particularly favoring informal workers. We expect urban mobility to be crucial for employment recovery in coming months, with these sectors gaining traction. See details in the link[8].

Next week, the IBGE will release the broad retail sales data for July, on Friday (September 10). We expect a sequential monthly retreat of 0.5% MoM-sa, which implies a -1.0% carryover for 3Q21. **For details on Santander's activity outlook, please refer to our last chartbook[9].**

Figure 7.A. – Real GDP (sa, average 1995=100)



Sources: IBGE, Santander.

Figure 7.B. – GDP Breakdown

	1Q21		2Q21	
	% YoY	% QoQ	% YoY	% QoQ
GDP	1.0	1.2	12.4	-0.1
Supply				
Taxes	1.9	1.4	16.8	-0.7
Agriculture	5.2	6.5	1.3	-2.8
Industry	3.0	0.7	17.8	-0.2
Services	-0.8	0.7	10.8	0.7
Demand				
Consumption	-1.7	0.1	10.8	0.0
Government	-4.9	-0.8	4.2	0.7
Investments	17.0	4.8	32.9	-3.6
Exports	0.8	4.9	14.1	9.4
Imports	7.7	10.0	20.2	-0.6

Sources: IBGE, Santander.

[6] **Santander Brazil Economic Activity - *"Weaker-than-Expected 2Q21 GDP Growth"* –** September 01, 2021 - Available on: https://bit.ly/Std-GDP-090121
[7] **Santander Brazil Economic Activity - *"Weak Industrial Output at the Start of 3Q21"* –** September 02, 2021 - Available on: https://bit.ly/Std-Econact-090221
[8] **Santander Brazil Labor Market - *"Another Step Toward Labor Market Normalization"* –** August 31, 2021 - Available on: https://bit.ly/Std-labor-083121
[9] **Santander Brazil Economic Activity - *"Chartbook – A Brighter Outlook for Mobility and Services"* –** August 18, 2021 - Available on: https://bit.ly/Std-chart-econact-aug21

INFLATION

We expect August's IPCA (due on Thursday, September 9) to rise 0.71% MoM, meaning an acceleration in annual terms to +9.5% YoY (from +9.0% YoY in July). Our forecast implies a fresh new multi-year high in YoY terms, with the trend pace still moving fast, at 10.5% 3MMA-saar (from 11.0%).

Compared to the July IPCA (+0.96% MoM), August data should moderately slow in monthly terms, mainly driven by a deceleration of regulated prices to 0.68% MoM (from 1.68%), because of the fading of recent effects of a rise in electricity costs (note: we envision a sharp re-acceleration for September, on the heels of a rise in the extra charge of electricity bills). Services will also contribute to the monthly deceleration, but mainly driven by a downward payback of the highly volatile item of airline tickets. But that may not be enough to curb a trend acceleration: headline services should go up to 6.4% 3MMA-saar (from 5.3%), and, more important, the core services gauge should rise even further, to 6.8% 3MMA-saar (from 6.3%).

Industrial goods should accelerate to 0.92% MoM. However, despite the acceleration in monthly terms, there should be a slight deceleration on the trend, to 11.3% 3MMA-saar from 12.6%. But that is still a very high level. Moreover, the deceleration of the core industrial goods gauge in trend terms should be less pronounced, to 9.6% from 10.1% 3MMA-saar. We are still cautious to pinpoint that industrial goods are peaking, as we continue to see problems in global supply chains. Finally, food-at-home will also accelerate in monthly terms, to 1.28% MoM, which will result in the trend going up to 15.0% 3MMA-saar (from 11.0%), with this metric getting closer to the year-over-year change (16.0% YoY), signaling some resiliency at a high level.

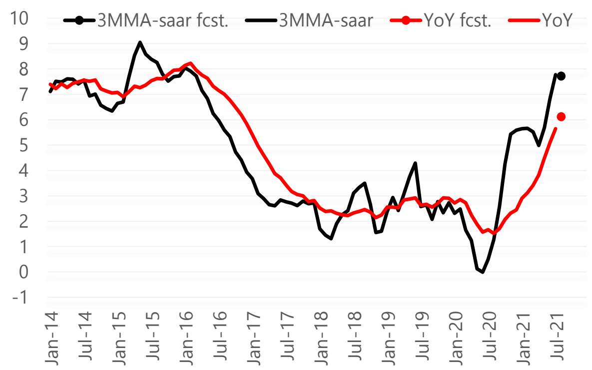
Finally, in terms of broad underlying inflation measures, we estimate the EX3 core will rise around +0.55% MoM, meaning stability at a hefty level (7.7% 3MMA-saar) in trend terms. This is the eleventh month the EX3 core runs above the BCB's mid-target in 3MMA-saar terms (headline CPI target is 3.75% for 2021 and 3.50% for 2022)—signaling a risky spread of primary shocks to general prices. All in all, we project this should be another unfavorable IPCA reading, with a deterioration of both the level of inflation and its composition.

Figure 8.A. – August's IPCA: Forecast Details (%)

	Aug-21	Contrib.	Jul-21	Aug-21
IPCA	0.71	0.71	9.0	9.5
Administered	0.68	0.18	13.5	13.4
Free	0.71	0.52	7.4	8.1
Food-at-home	1.28	0.19	16.0	16.2
Industrial goods	0.92	0.21	9.2	10.0
Services	0.34	0.12	3.0	3.9
EX3 Core	0.55	0.55	5.6	6.1

Source: Brazilian Central Bank, Santander.

Figure 8.B. – Core Inflation Forecast (IPCA EX3 %)



Source: Brazilian Central Bank, Santander.

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