

Brazil Watch

January IPCA: bad news all over

Announced: 8 February, 8:00am ET
 Actual: 0.42% mom
 Previous: 0.56% mom
 Consensus: 0.34% mom
 BofA: 0.27% mom

January IPCA surprised to the upside

Inflation in the month was 0.42% mom, from 0.56% mom in December. The result was above market expectations of 0.34% mom, after mid-month IPCA had surprised to the other side. In 12 months, inflation decelerated to 4.51% yoy (from 4.62% previously). The average of five core measures continued to decelerate in annual terms, now at 4.2% (from 4.3%). However, after seasonal adjustment, inflation momentum ticked up, as 3mma of core inflation is running at 4.0% annualized rate (from 3.4% in December) and core services went up to 5.6% (from 4.5%). See Exhibit 1 for more details.

Inflation is spreading among groups

Compared to our forecast, main upward pressures came from Healthcare (personal hygiene) and Personal Expenses (banking services). On the release, the main upward pressure came again from Food group (1.38% mom, from 1.11% in December), due to climate impacts on perishable items prices (notably, tubers, fruits and vegetables) - intensified by El Niño effect. On the other hand, the Transportation group now represented the main downward pressure (-0.65% mom, from 0.48%), as airfares registered deflation of 15.2% mom (after a cumulative increase of 82.0% in the last four months of 2023). The diffusion index (percentage of items that recorded inflation in the month) remained unchanged at 65.3%, while the ex-food index increased to 65.1% (vs 63.6%). Diffusion among services also increased to 63.2%, from 60.3% in January.

We continue to expect IPCA of 3.7%yoy at YE24

Core services inflation – the most closely watched metric by the Brazilian Central Bank - accelerated at the margin by 0.76%mom, from 0.51%, reaching 5.0%yoy and interrupting a downward trend that began in November 2022. Given the explicit concern the BCB registered with the labor market resilience and its impacts on services inflation in the latest minutes (For more, see: [Brazil Watch: Copom minutes: eyes wide open](#)), this uptick should reinforce the COPOM view of cautious easing cycle and maintain the pace of 50bp cut in the selic rate per meeting ahead. Still, today's print does not alter our view on inflation for the year and we continue to expect the IPCA to decelerate to 3.7% at 2024YE.

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Exhibit 1: IPCA Breakdown

January IPCA at 0.42% mom

	Jan-24		Dec-23	
	% mom	Impact (bp)	% mom	Impact (bp)
IPCA (mom)	0.42		0.56	
Food and beverages	1.38	29	1.11	23
Housing	0.25	4	0.34	5
Home articles	0.22	1	0.76	3
Clothing	0.14	1	0.70	3
Transportation	-0.65	-14	0.48	10
Healthcare	0.83	11	0.35	5
Personal expenses	0.82	8	0.48	5
Education	0.33	2	0.24	1
Communication	-0.08	0	0.04	0

IPCA (yoy)	4.51%	4.62%
Avg core inflation	4.24%	4.34%
Market-driven	3.17%	3.13%
Regulated	8.55%	9.12%
Services	5.62%	6.22%

Source: IBGE

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