

## Brazil Watch

## February IPCA: imminent benign sign

Announced: 12 March, 8:00am ET  
 Actual: 0.83% mom  
 Previous: 0.42% mom  
 Consensus: 0.79% mom  
 BofA: 0.83% mom

**February IPCA in line with our expectation**

Inflation in the month was 0.83% mom, from 0.42% mom in January. The result was in line with our expectation, but above market consensus of 0.79%. In 12 months, inflation was stable at 4.5% yoy, at the upper bound of inflation target (3.0% + 1.5%). The average of five core measures continued to decelerate in annual terms, now at 4.0% (from 4.2%). Also, seasonal adjusted inflation core returned to decelerate in the margin. However, momentum is not fully benign yet, as 3mma of core inflation was up to 4.1% annualized rate (from 3.9% in January) and core services went up to 5.8% (from 5.6%). See Exhibit 1 for more details.

**Seasonal print: Education up**

The main upward pressure came from the seasonality on Education, with 4.98% mom, given the annual school tuition readjustment. Also, there was a significant increase in the Communication group (1.56% mom), due to internet, tv and phone bundle. Food and beverages remain pressuring up (highlights to tubers and fruits), but decelerated compared to January (0.95% mom, from 1.38% mom). On the other hand, the Clothing group represented the main downward pressure (-0.44% mom). The diffusion index (percentage of items that recorded inflation in the month) declined to 57.0% (vs 65.1%), in addition to the drop of the ex-food index – now at 57.9% (vs 65.1%).

**We continue to expect the IPCA to end this year at 3.7%**

After core services inflation (BCB's largest concern) surprising to the upside in the last two prints, February IPCA showed a more benign composition. The print is supportive of a continued reduction in interest rate by 50bp per meeting, with a last clip of 25bp, reaching a terminal rate of 9.50% in July. For inflation, we continue to see it decelerating until reach 3.7% in 24YE and 3.5% in 25YE.

**12 March 2024**

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**Exhibit 1: IPCA Breakdown**

February IPCA at 0.83% mom

	Feb-24		Jan-24	
	% mom	Impact (bp)	% mom	Impact (bp)
<b>IPCA (mom)</b>	<b>0.83</b>		<b>0.42</b>	
Food and beverages	0.95	20	1.38	29
Housing	0.27	4	0.25	4
Home articles	-0.07	0	0.22	1
Clothing	-0.44	-2	0.14	1
Transportation	0.72	15	-0.65	-14
Healthcare	0.65	9	0.83	11
Personal expenses	0.05	1	0.82	8
Education	4.98	29	0.33	2
Communication	1.56	7	-0.08	0

<b>IPCA (yoy)</b>	<b>4.50%</b>	<b>4.51%</b>
Avg core inflation	4.00%	4.24%
Market-driven	3.13%	3.17%
Regulated	8.59%	8.55%
Services	5.25%	5.62%

Source: IBGE

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