

Brazil Watch

December IPCA: ending 2023 within target

Announced: 11 January, 8:00am ET
 Actual: 0.56% mom
 Previous: 0.28% mom
 Consensus: 0.50% mom
 BofA: 0.64% mom

December IPCA surprised to the upside

Inflation in December 2023 was 0.56% mom, versus 0.28% mom in November 2023. The result was above market expectations of 0.50% mom. In 12 months, inflation decelerated to 4.62% yoy (from 4.68% previously), within the tolerance band (3.25%+1.5%) of the inflation target, after two years of misses. Average core measures continued to decelerate in annual terms, now at 4.3% (from 4.6%), while core industrial goods decelerated to 2.3% yoy (from 3.7%), and core services remained 4.8% yoy. After seasonal adjustment, we see underlying inflation momentum as well behaved, as the 3-month moving average (3mma) of core is running at 3.3% annualized rate (from 3.5% in November). See Exhibit 1 for more details.

Food prices up (again)

Compared to our forecast, the main downward pressures came from Healthcare (as Black Friday item discounts did not return as strongly as expected) and Transportation (gasoline deflation). On the upside, the main upward pressure came from Food group, due to the impact of higher temperatures and rainfall on perishable item prices – notably, tubers and vegetables. Regarding 2023, gasoline prices (55bps) were the main upward contributor, while meat (-26bps) pressured to the downside (for more details, see Exhibit 2). The diffusion index (percentage of items that recorded inflation in the month) rose to 65.3% (from 51.7%), in addition to the increase of the ex-food index – now 63.6% (versus 46.4% previously).

Tamed inflation reinforces our forecasts

Though a higher-than-expected print, headline and underlying measures remain well behaved and compatible with inflation within the target band. For 2024, we see IPCA decelerating to 3.7% by year-end 2024, due to more benign underlying measures and lower administered prices (especially electricity and gasoline). We view today's print as supportive of a continued reduction in base rates by 50bp clip per meeting, with a final cut of 25bps in July, as we see the selic rate at 9.50% at 2024 year-end.

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Timestamp: 11 January 2024 08:50AM EST

11 January 2024

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Exhibit 1: IPCA Breakdown

December IPCA at 0.56% mom

	Dec-23		Nov-23	
	% mom	Impact (bp)	% mom	Impact (bp)
IPCA (mom)	0.56		0.28	
Food and beverages	1.11	23	0.63	13
Housing	0.34	5	0.48	7
Home articles	0.76	3	-0.42	-2
Clothing	0.70	3	-0.35	-2
Transportation	0.48	10	0.27	6
Healthcare	0.35	5	0.08	1
Personal expenses	0.48	5	0.58	6
Education	0.24	1	0.02	0
Communication	0.04	0	-0.50	-2

IPCA (yoy)	4.62%	4.68%
Avg core inflation	4.34%	4.56%
Market-driven	3.13%	3.23%
Regulated	9.12%	9.06%
Services	6.22%	6.05%

Source: IBGE

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Exhibit 2: Main contribution to 2023 IPCA

Impact (in bps)

Main Positive Contributions	YE23
Gasoline	55
License Plate	52
Health Insurance	42
Main Negative Contributions	YE23
Meat	-26
Bottled gas	-9
Soybean oil	-9

Source: IBGE

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