

**Economic Analysis**

# Colombia | In March annual headline inflation continued on the rise, reaching 8.5%

Laura Katherine Peña  
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## **Inflation continues on the rise, though its monthly change and annual acceleration moderate**

March monthly inflation was 1.0%, more than double its historical average (0.41% average between 2011-2019) and annual inflation was 8.53%, placing it above analysts' expectations (0.90% monthly according to the BanRep survey) and BBVA Research's projection (0.84%). In line with the results of recent months, the greatest pressure came from food prices, with a monthly inflation of 2.84% and a deceleration compared to February of 42bp. On the other hand, core inflation also presented an annual increase, reaching 5.31% with monthly inflation of 0.59% exceeding its recent monthly average by 22bp (average between 2011-2019 for March).

The food division surprised to the upside with an annual variation of 25.4%, affected by the continuity in cost increases for agricultural producers that were reflected in a Producer Price Index - PPI, - that reached 45.46% in annual variation in March for the agricultural sector. Within this division, meat products decelerated both in the annual variation (at 27.6%) and in the monthly variation, mainly favored by a reduction in costs for the producer, where balanced feedstuffs began to regulate their costs. However, perishable foods maintain the greatest pressure, registering an annual variation of 38.7%, in spite of a slowdown in their monthly variation, a behavior similar to that of the rest of processed foods, which reached an annual inflation of 15.2%.

Another of the divisions of relevance for its contribution to the month's result was shelter. This registered a monthly variation of 0.58%, in line with BBVA Research's expected figure of 0.59%. In this division, water, sewage and garbage services increased by 2.41% in the month, as an adjustment of the rates that, by regulation, had the space to increase in line with headline accumulated inflation. Electricity services again showed variations in their rates, with a monthly increase of 1.44%, but below the significant increase in February, which had reached 2.62%.

In spite of the upward pressures on public services contained in the previous division, in the aggregate, the basket of regulated services showed an annual deceleration due to lower inflation in transportation (0.37% m/m) and gas (-1.65% m/m). These results are explained by price decreases in air transportation and inter-municipal transportation, affected by the low season in terms of tourism, while gas had a new tariff adjustment.

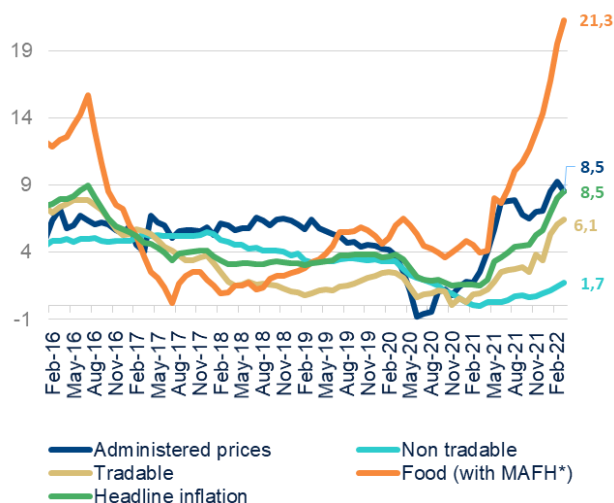
In contrast to the above, the basket of tradable goods accelerated in annual variation. These results are explained by increases in cleaning and household maintenance products, toiletries and body hygiene items, which is significantly related to the increase in the international cost of chemicals associated with these products. Another relevant product was vehicles, whose prices increased due to a decrease in international supply in the midst of bottlenecks and shortages of chips in producing countries.

Non-tradable goods, on the other hand, also accelerated, but to a lesser extent, in the annual variation, reaching 1.7% (from 1.5% reported in February) due to lower increases in rent, one of the basic expenses of greater weight in the basket.

On the other hand, the first VAT-free day of the year generated negative contributions to total inflation, offsetting the total result by 7 basis points. The main effects were seen in the clothing and footwear (-1.78% m/m) and information and communication (-0.19% m/m) divisions. Within the former, men's and women's clothing showed variations that were close to those of the first day without VAT, reaching -3.9% approximately. The information and communication division, on the other hand, showed an important impact in the subdivision of mobile telephone equipment, which had a monthly variation of -2.8%.

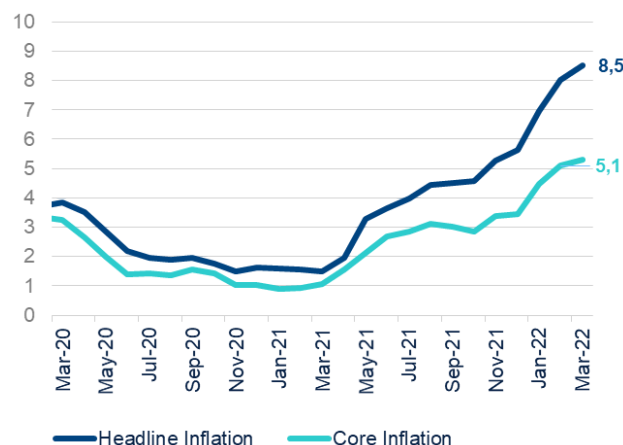
To this extent, inflation is expected to remain under pressure from food, while costs may still take time to ease, as both international bottlenecks and high commodity prices continue. The second round effects of these increases will continue to be seen in divisions such as restaurants and hotels. From the point of view of tradables, several products will continue to be impacted as long as global production chains continue to be affected. However, relief for headline inflation will come in the second half of the year, when food inflation eases from its current high levels and offsets an expected rise in annual core inflation. Meanwhile, one of the main risks is tied to the behavior of inflation expectations, whereby the spate of upward inflation surprises in recent months will keep pressure on the formation of expectations. In this context, we expect Banco de la República to continue with its interest rate adjustment in the coming months to bring the rate into contractionary territory, seeking to anchor expectations and moderate spending, especially by households.

Figure 1. **MAIN INFLATION BASKETS**  
(ANNUAL CHANGE %)



(\*) Meal Away From Home  
Source: BBVA Research with data from DANE

Figure 2. **HEADLINE AND CORE INFLATION**  
(ANNUAL CHANGE %)



Source: BBVA Research with data from DANE

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