

Economic Analysis

Colombia | Inflation hits two-decade high in April at 9.23%

Laura Katherine Peña
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Monthly inflation in April was three times the average of the last 10 years

Inflation in April was 1.25% m/m and 9.23% y/y, consolidating as the highest in the last two decades (Graph 1). The average of market analysts expected a monthly variation of 0.77% (according to the survey of the Banco de la República), however, the figure was not only above the estimated average, but also exceeded the maximum of the survey's range of expectations (1.1% monthly). This time, the surprise was twofold: food inflation was 48 bps above the expected average (2.75% m/m) and core inflation 38 bps above the market estimate (0.90%).

The food and non-alcoholic beverages division was once again one of the major players in April's result, with annual inflation of 26.2% (Graphs 2 and 3). Within this, perishable products reached an inflation rate of 39.9% YoY, where the highest monthly contributions were made by products such as dairy, onions, bananas and fresh fruits, whose annual inflation rates are above 25% (32.1%, 27.8%, 78.6% and 32.7% respectively). The processed food basket (including meals away from home) reached an annual variation of 16.6%, with a leading role in the monthly contribution of foods such as rice, eggs and bread, in addition to meals away from home. The meat basket, on the other hand, showed an annual variation of 25.33%, mainly as an effect of a monthly contribution in pork and beef with annual inflations of 16.2% and 32.0% respectively (Graph 4).

The second largest contribution came from the shelter and utilities division, which reached an annual inflation of 4.7% (Graphs 2 and 3). The variation in shelter is largely explained by higher prices in rents, which continue to adjust their prices in line with the higher inflation at the end of 2021; in electricity, the rise in tariffs is associated with tariff adjustments in the Caribbean due to the regulatory transmission of losses from the service provider to consumers; while variations in gas are largely explained by price adjustments in Bogota, which in the previous month had registered a negative variation; on the other hand, water and sewerage services rose again significantly as a result of the regulation that allows their price adjustment once accumulated inflation reaches 3%.

In line with the increase in food prices, the restaurants and hotels division was the third largest contributor to the April result (Graphs 2 and 3). This accumulated inflation of 14.4% y/y with a momentum that in this month is not only associated with the level of food prices and indexation effects, but also with a higher demand due to the calendar effect of Easter celebrations.

Within core inflation (Graph 5), tradable goods accelerated their inflation by 148 bps with respect to the previous month, reaching an annual variation of 7.9%. Among the items in the division, cleaning and household maintenance products continue to generate the greatest pressure along with body care items, amid high prices of chemicals for their production, followed by new and used vehicles. These goods exhibit annual price changes of 22%, 7.9% and 12.1% respectively. In addition, clothing also recorded important contributions during the month as a rebound effect of prices, which had declined in March by about 4% m/m and in April showed a monthly increase

of more than 5%, associated not only with the transitory effects of the No- VAT-day in March, but also with higher inventory renewal costs.

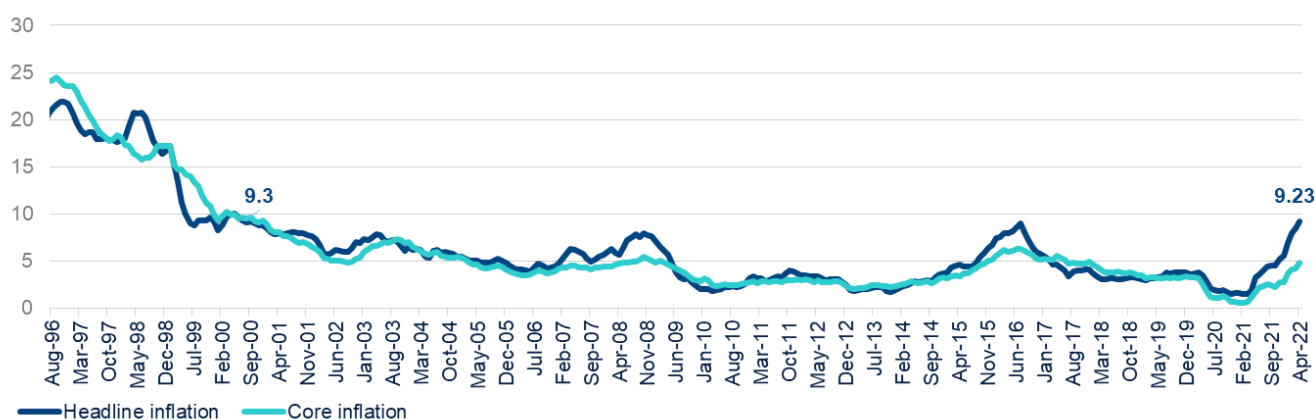
Meanwhile, the basket of administered prices showed a lower acceleration, increasing 36 bps with respect to March and reaching 8.9% y/y. In this basket, utilities have led the increase in the annual variation, with electricity reaching 14.9%, gas 12.5% and water supply 10.2%, due to tariff adjustments as previously explained.

Finally, the non-tradables basket accelerated by 30 bps and maintained a lagged inflation compared to the two previous ones, with an annual inflation rate of 2%. The rise is associated with the increase in accommodation mentioned above, as well as an increase in management services in residential complexes and higher prices in tourist packages due to the seasonal effect of Easter celebrations.

With the perceived surprises, inflationary pressures remain expected in the food division, which could continue to be visibly affected by the external price level for final products and agricultural inputs. The persistence of closures in China due to the "zero tolerance" policy towards Covid-19 adds risks to inflation results due to the impacts on global production chains and the uncertainty caused by the war in Ukraine. On the other hand, at the domestic level, upside risks remain due to the government's decision regarding gasoline prices, a greater or more persistent shock due to price increases at the external level, among others.

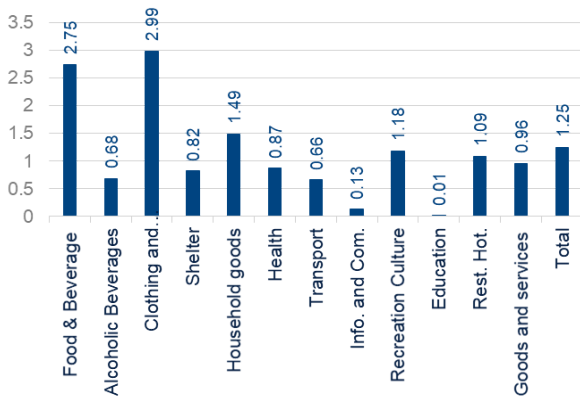
The high inflationary result could once again impact the inflationary expectations of economic agents, thus increasing the risks of expectations de-anchoring. This will surely play an important role in the Banco de la República's assessment at its upcoming meetings, ratifying the need to continue the upward adjustment in rates but increasing the discussion around the appropriate size of the adjustment and the final rate of the upward cycle. In our case, it is too early to determine whether this data will have any impact on the final rate in the upward cycle (8.0% in our forecast), as it will depend among other things on the revision of the inflation and activity forecast. But we believe it could have an impact on the average rate expected by analysts (7.5%).

Figure 1. **HEADLINE AND CORE INFLATION (ANNUAL CHANGE %)**



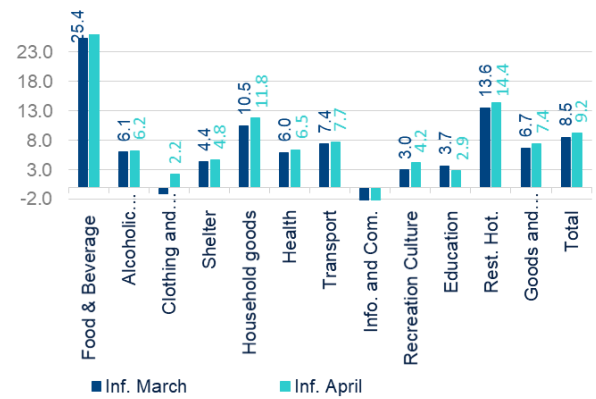
Source: BBVA Research with data from DANE

Figure 2. **MAIN INFLATION DIVISIONS**
(MONTHLY CHANGE %)



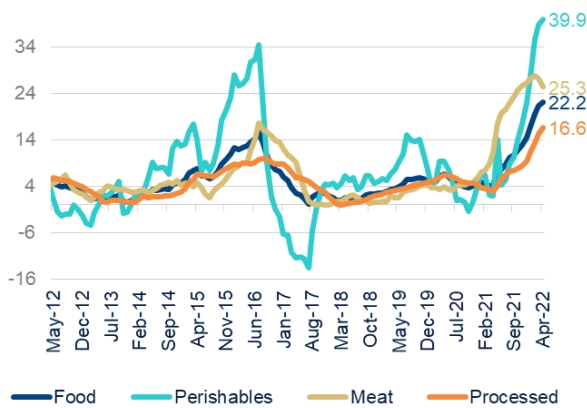
Source: BBVA Research with data from DANE

Figure 3. **MAIN INFLATION DIVISIONS**
(ANNUAL CHANGE %)



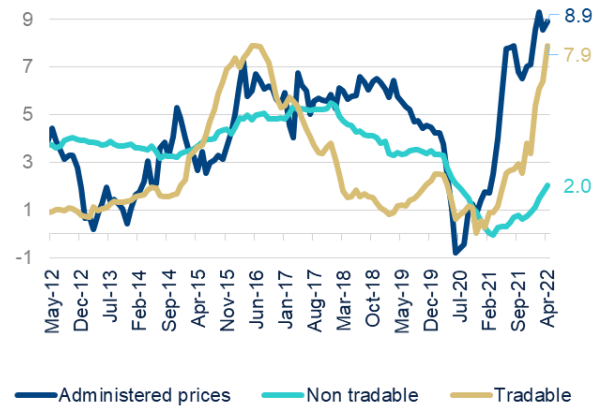
Source: BBVA Research with data from DANE

Figure 4. **FOOD INFLATION**
(ANNUAL CHANGE %)



Source: BBVA Research with data from DANE

Figure 5. **CORE INFLATION MAIN BASKETS**
(ANNUAL CHANGE %)



Source: BBVA Research with data from DANE

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