Economic Analysis

Colombia | Annual inflation in May falls to 9.07%, but still far from victory

Laura Katherine Peña

June 6, 2022

The high base of comparison in 2021 was one of the factors that led to lower annual inflation in May, but upward pressures are not fully dissipated

In May, monthly inflation was 0.84% and annual inflation was 9.07% (Graph 1), close to analysts' expectations (0.82% for average monthly inflation according to Banco de la República's survey) and those of BBVA Research (0.80% monthly change). Although annual inflation declined from the previous month, monthly inflation was more than twice the average of the 9 year pre-pandemic period (2011-2019) (Graph 2), so that the rise in the price level is still outstanding. Monthly core inflation was 0.68%, decelerating by 22 bps from the previous month compared to April, and reaching an annual inflation of 6.50%

Food inflation came in at 21.6% in annual variation, down 4.58 percentage points (pp) from April's figure. Part of the decline is explained by a high base of comparison in the reference month of 2021, and although the monthly figure in this division was lower than those seen in the first months of the year, monthly food inflation was five times its 9-year pre-pandemic average, reflecting that although prices have eased they still remain at high levels.

From the perspective of the main food baskets (Graph 3), processed foods registered a rise of 30 bps over its April figure, reaching 16.9% annual change, as a result of higher prices in goods such as rice, pasta, oats, wheat, corn and bread. The increases can be associated in large part to high international costs of cereals. Meanwhile, the annual inflation of meat slowed down again in May by 4.04pp with respect to April as a result of a high base of comparison in 2021 due to the national strike carried out in that month. However, it is worth noting that in the monthly variation this basket contributed positively to the final result with 11 bps, as higher prices of meat were recorded due to lower slaughtering of cattle, increased exports and higher prices of inputs for its production. Finally, perishables, which had seen the largest increases in recent months, showed a decrease of 13.7pp in comparison to the April figure, not only as a result of base effects (as in the case of meat), but also because there were decreases in the prices of products such as potatoes, onions, bananas and fresh fruit.

The restaurants and hotels division surprised on the upside with an annual inflation rate of 14.7%, 37 bps higher than in April. Restaurants, cafés and the like – with full service, fast food, and hot beverages showed the highest annual inflation within the division, increasing from the previous month but with a decelerating dynamic in its trend. The result is explained by the rise in the processed food and meat baskets, as some of their inputs such as rice, bread and meat became more expensive during the month, leading to a pass-through of these prices to the consumer.

Core inflation did not ease either, although the monthly variation decreased compared to April, annual inflation rose from 5.9% to 6.5%. Inflation without food and administered prices (used by the BanRep as core inflation for their

Taylor rule estimates), on the other hand, increased 61 bps in the annual variation in comparison to the previous months, standing at 5.9%, which reflects some acceleration in administered goods, as will be detailed below.

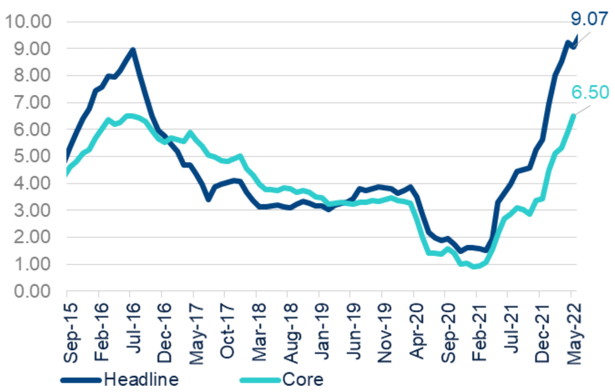
From the perspective of the main core inflation baskets (Graph 4), the largest increases in annual inflation were recorded in the tradable basket, which reached 8.56%. Within this basket, household cleaning products (23%) and personal hygiene products (15.7%) continue to lead the upward pressures, due to the high international prices of their inputs. In addition to the aforementioned goods, vehicles and motorbikes (13.2% and 15.9%) remain in high demand while there is a relative shortage in supply due to bottlenecks and scarcity in chips for their production.

The non-tradable basket accelerated in May (2.66%) from the comparatively low levels it has registered against the other baskets, increasing 30 bps in comparison to its April annual inflation. Washing and ironing of clothes, rentals for housing, services related to co-ownership and domestic services accumulated a higher annual inflation in May. The increase in the former is associated with input costs, while rental price increase is attributed to their indexation to inflation and the high inflation expectations of agents.

Administered prices showed a 9.2% annual change in May, 31 bps higher than in April. In this, utilities stood out with important contributions during the month, with water supply and sewage collection services reaching 9.8% inflation due to the increase in tariffs as a result of the triggers in the formula applied related to the strong accumulation of headline inflation in the current scenario. Electricity reached 17.3% annual inflation, mainly as a result of increases in tariffs in the Caribbean, where the transmission of losses from service providers to consumers continues.

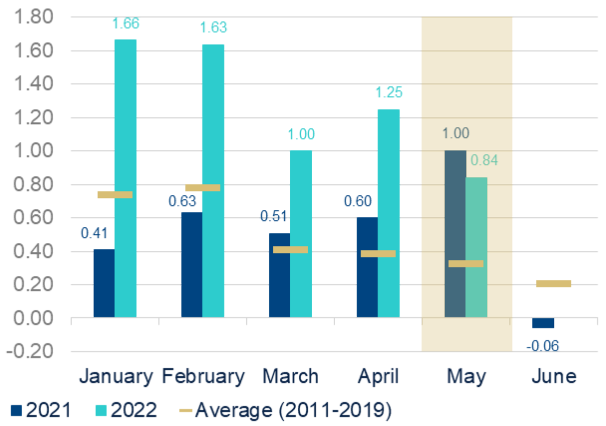
Although the base effect led to a deceleration in inflation in May, the opposite effect will occur in June, as the base in that month is lower (Graph 2), so annual inflation is expected to increase in June. Likewise, despite the fact that some food items have fallen in price, cost pressures still remain strong, so it is expected that this trend will not be long-lasting and pressures will return when the harvests of these products end. Meanwhile, core inflation will still have lagged effects from the high exchange rate in recent months, as well as cost shocks from imported goods due to remaining international bottlenecks. As a result, the expectations of economic agents will still not be adjusted, so monetary policy decisions will continue to be geared towards increases in the intervention rate.

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



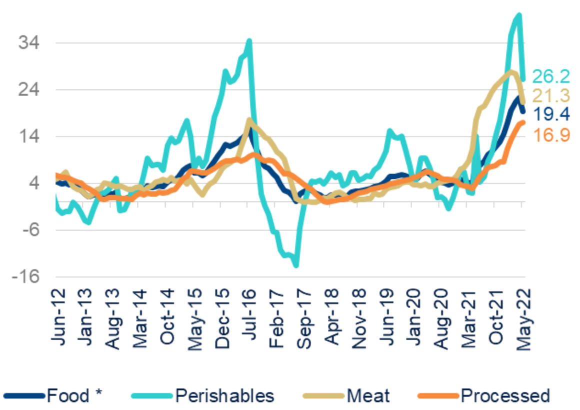
Source: BBVA Research with data from DANE

Figure 2. **HEADLINE INFLATION: 2021, 2022 AND AVERAGE**
(MONTHLY CHANGE %)



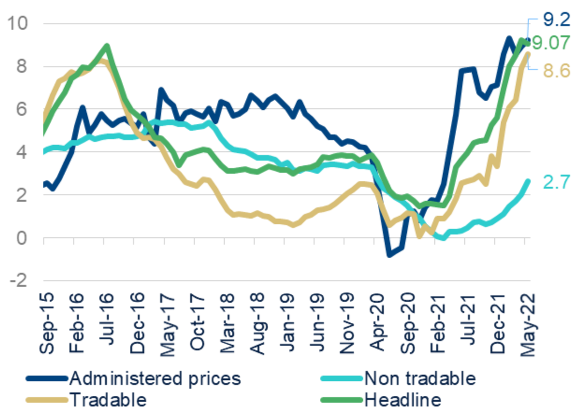
Source: BBVA Research with data from DANE

Figure 3. **FOOD INFLATION**
(ANNUAL CHANGE %)



(*) Food: With Meals away from home
Source: BBVA Research with data from DANE

Figure 4. **HEADLINE AND CORE INFLATION MAIN BASKETS**
(ANNUAL CHANGE %)



Source: BBVA Research with data from DANE

DISCLAIMER

This document, prepared by the BBVA Research Department, is informative in nature and contains data, opinions or estimates as at the date of its publication. These arise from the department's own research or are based on sources believed to be reliable and have not been independently verified by BBVA. BBVA therefore offers no express or implicit guarantee regarding its accuracy, completeness or correctness.

Any estimates contained in this document have been made in accordance with generally accepted methods and are to be taken as such, i.e. as forecasts or projections. Past trends for economic variables, whether positive or negative, are no guarantee of future trends.

This document and its contents are subject to change without prior notice, depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating this content or for giving notice of such changes.

BBVA accepts no liability for any direct or indirect loss that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or request to acquire, disinvest or obtain any interest in assets or financial instruments, nor can they form the basis for any kind of contract, undertaking or decision.

The content of this communication or message does not constitute a professional recommendation to make investments under the terms of Article 2.40.1.1.2 of Decree 2555 of 2010 or the regulations that modify, replace or supplement it.

With particular regard to investment in financial assets that could be related to the economic variables referred to in this document, readers should note that under no circumstances should investment decisions be made based on the contents of this document; and that any persons or entities who may potentially offer them investment products are legally obliged to provide all the information they need to make such decisions.