

Economic Analysis

Colombia | In June, annual inflation reached 9.67%, the highest in 22 years

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Pressures remain, both in food and core inflation

In June, monthly inflation was 0.51% and 9.67% in annual variation, in line with market analysts' expectations (according to Banco de la República's survey), and that of BBVA Research. Core inflation (excluding food) stood at 6.84% in annual change (in line with expectations), accelerating 34 bps from the previous month's result and well above its pre-pandemic decade (2009-2019) average of 3.48%.

In the month, food inflation did not lose importance, with an annual change reaching 23.6%, driven by a monthly change of 0.65%, above the historical average of the pre-pandemic decade of -0.11%, reflecting that the transmission of high production costs in the agricultural sector continues. Within this division, perishables showed the highest acceleration, increasing by 9.7 percentage points in the annual comparison, reaching a variation of 35.8%; however, the result is due to important base effects associated with the 2021 strike. Processed foods accelerated by just 13 bps, with products such as rice (16.7%), bread (25.5%) and meals away from home (15.6%) taking the lead. On the other hand, meats showed a 55 bps reduction in their annual change against the previous month, to 20.7%, as a result of a base effect adjustment in poultry meat. Beef, on the other hand, maintained its price increase and contributed 7 bps to total inflation.

Core inflation, measured on the basis of the non-food basket, continues to show significant upward pressure. Among its components, the basket of administered prices accelerated by 111 bps to reach an annual change of 10.3%. This result was explained by increases in the prices of electricity services, due to adjustments in the regulatory framework for the transmission of losses; gas, due to the depreciation of the exchange rate; and sewerage and water supply.

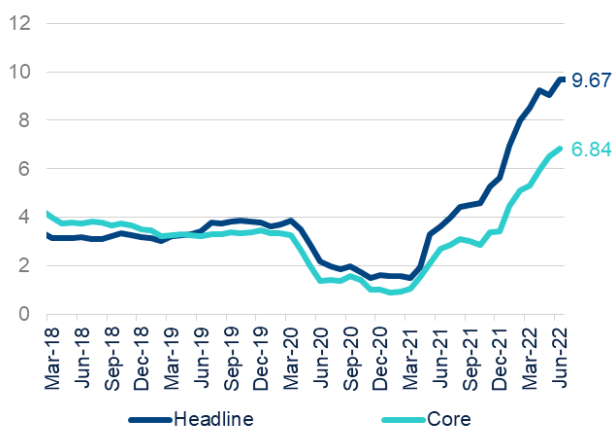
The basket of non-tradables accelerated by 20 bps, reaching an annual inflation rate of 2.86%, the lowest among the core inflation components. Within it, the acceleration in tourist packages stands out, which reached an annual variation of 10%, probably as a consequence of an increase in demand in the month of school holidays.

Finally, the tradable basket fell by 3 bps in June despite the fact that goods such as household cleaning and maintenance products and motorbikes and bicycles accelerated in their annual change (to 24.8% and 17.6%, respectively), in addition to a notable acceleration in air passenger transport prices, with a monthly increase of 10.2% due to the seasonal effects of the mid-year holiday period (bringing the annual change to 23.6%). This is due to the fact that products covered by the VAT-free day, such as clothing and information processing equipment and hardware offset these increases, which is essentially a temporary phenomenon.

Thus, we expect food inflation to continue to be pressured by high input costs in the remainder of 2022, showing moderate decelerations. Meanwhile, core inflation would continue to increase in annual terms until the end of this year, with additional pressures from bottlenecks, demand dynamics and upside risks from possible higher-than-anticipated increases in fuel prices. Administered prices and services could also continue to experience

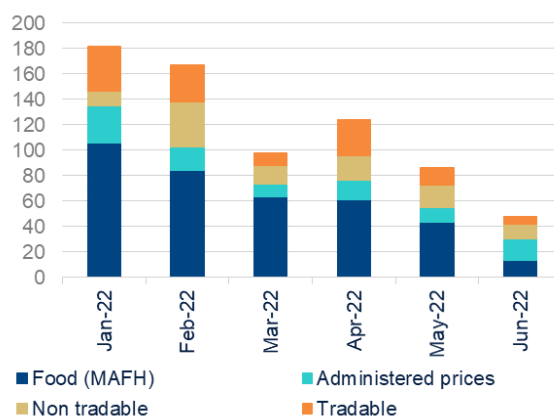
pressures associated with tariff adjustments. Although the inflationary outcome did not come as a major surprise to the market, it is expected that Banco de la República will maintain its bullish stance mainly due to the high inflationary expectations of market agents for the end of 2022.

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



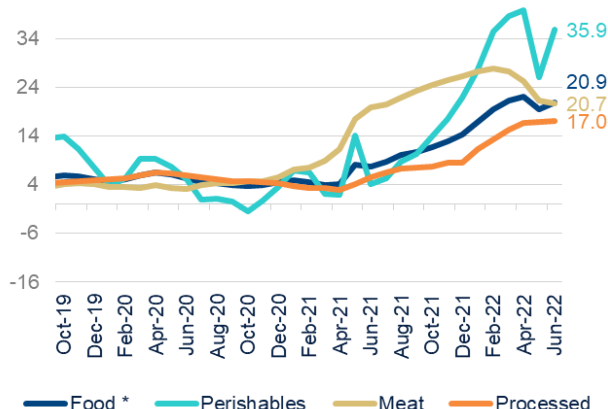
Source: BBVA Research with data from DANE

Figure 2. **CONTRIBUTION OF THE MAIN BASKETS**
(MONTHLY, PBS)



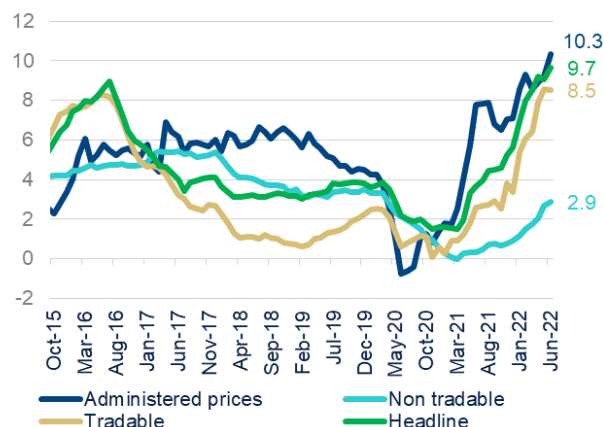
(MAFH): Meals away from home
Source: BBVA Research with data from DANE

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

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