

**Economic Analysis**

# Colombia | Annual inflation reached double digits in July: 10.2%

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## Food inflation accelerated again while core inflation increased but to a lesser extent

In July, inflation reached an annual change of 10.2% and a monthly change of 0.81%, both above analysts' expectations (average of 0.53% in monthly change according to the Banco de la República survey) and BBVA Research (0.41% in monthly change). Annual core inflation accelerated by 45 bps to 7.3% in annual change (Figure 1). Food inflation accelerated again in July, surprising the average of market analysts. The result reached an annual change of 24.6%, 96 bps above the previous month's result, which in monthly terms meant an increase of 1.2%, well above its pre-pandemic historical average (2011-2019) of 0.02%.

The acceleration in food inflation was led by an increase in perishable food prices, whose annual change amounted to 38.2% (Figure 2), 236 bps higher than in June. Pressures continue despite the beginning of harvest cycles, with high prices probably associated with production costs that continue to be passed to the consumer. Processed products suffered a softer acceleration in prices than the first group (46 bps), with an annual inflation of 17.5% and pressures that may last longer. Meat recorded a slight acceleration in July of 8 bps reaching 20.8% in the annual change. This increase is explained by pressures on beef, despite the fact that its supply benefited from lower exports of this product. Likewise, production costs for poultry meat remain high.

Core inflation registered an annual change of 7.3% (Figure 3) and a monthly change of 0.73%, rising from June's results. Within its sub-baskets, the highest acceleration was seen in tradable goods, with an increase of 120 bps in comparison to the previous month and an annual inflation of 9.7%. Within these products, clothing, which in June had registered negative variations due to the VAT-free day, accelerated by more than 600 bps in the annual variation. In the same way, vehicles also recorded an outstanding contribution, accelerating 139 bps in the annual change, accompanied by cleaning products that increased 142 bps with respect to the previous month. Within this grouping, not only the exchange rate had an effect to local prices, the results were mainly affected by particular factors in each of those products, such as the aforementioned VAT-free day for clothing, the difficulties in the imported supply of new vehicles due to shortages of inputs and bottlenecks, as well as the high costs of chemical inputs for the production of cleaning products.

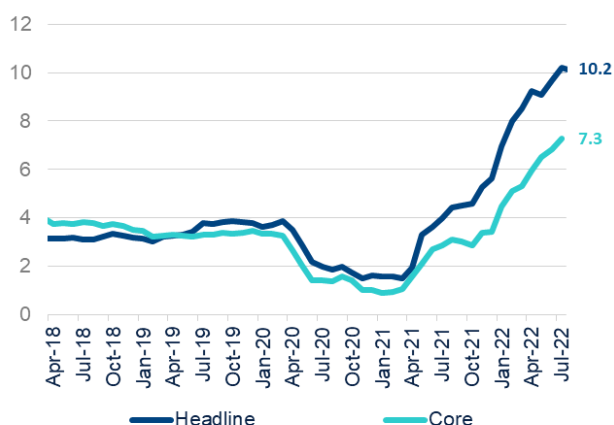
The second sub-basket with the biggest acceleration within core inflation group was that of administered prices, which reached an annual change of 11.2%, 84 bps above the previous month's figure. Electricity continues to take the main role within this group, with an annual inflation rate of 22.5% that increased by nearly 300 bps in comparison to June. Vehicle fuels also contributed to the result increasing by 194 bps from the previous month, following the increase decreed by the government as a measure to adjust the balance of the Fuel Price Stabilisation Fund.

Finally, the non-tradable sub-basket recorded a low acceleration of 2 bps in the month and a stable annual change of 2.8%. Within this sub-basket, shelter and spending on services in occupied housing moderated the increases

seen in previous months, while negative annual inflation in fixed and mobile communication services and higher education enrolment kept the sub-basket's inflation anchored at low levels.

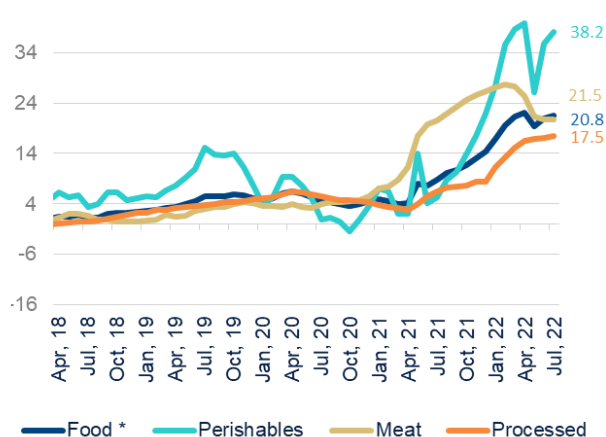
Thus, the onset of moderation in food prices seems to be delayed, while core inflation remains under pressure from both external and local factors (such as fuel increases). Nevertheless, we expect a very gradual moderation in agricultural production costs over the second half of the year, as well as some base effects that will help inflation to tame. In addition, the current outcome could imply that inflation will close 2022 above 9.2%. Therefore, inflation will register levels surrounding 10% till the end of the year.

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



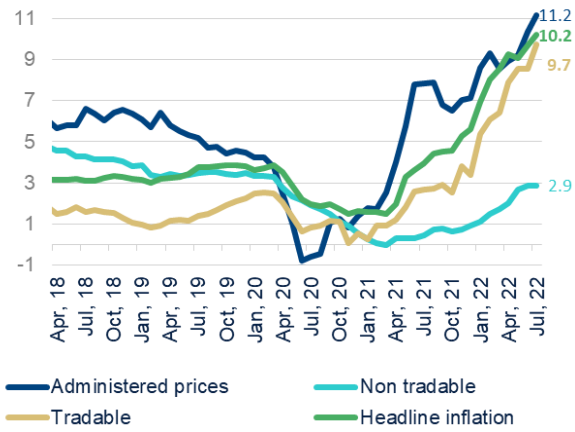
Source: BBVA Research with data from DANE

Figure 2. **FOOD INFLATION AND MAIN SUB-BASKETS**  
(ANNUAL CHANGE %)



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

Figure 3. **CORE INFLATION MAIN SUB-BASKETS**  
(ANNUAL CHANGE %)



Source: BBVA Research with data from DANE

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