

**Economic Analysis**

# Colombia | Inflation surprised on the upside again in August, reaching 10.8%

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## The surprise in inflation came from both food and core inflation. Supply and demand pressures are identified

In August, monthly inflation was 1.02% and annual inflation was 10.84%, above the average expectations of market analysts and BBVA Research (0.54% and 0.52% in the monthly variation, respectively) according to the survey of the Banco de la República, and even exceeding the maximum forecast in the survey (0.79%). Food inflation again surprised on the upside by showing a monthly change of 1.85%, pushing the annual change up to 25.6%. Meanwhile, core inflation did not lag behind, with a monthly change of 0.83% and an annual change of 7.83%, accelerating by 54 bps from the previous month and above market analysts' expectations of 7.48%.

Food inflation showed an acceleration of 92 bps in annual inflation (25.6%) when compared with July, reaching the second highest level so far this year. As we expected, processed food had the strongest pressures during the month, with increases in products such as bread, rice and eggs, whose annual inflations exceeded 20% (30.3%, 26.0% and 20.1% respectively). Thus, this sub-basket boasts an annual inflation rate of 19%, accelerating by 154 bps compared to the previous month's figure. Perishable goods, which had led the increases in previous months, decelerated by 94 bps, with annual inflation reaching 37.3%. However, this variation is strongly explained by the deceleration of potatoes of 969 bps with respect to the previous month, despite increases in products such as onions, dried vegetables and vegetables (with annual inflation of 92.8%, 47.2% and 27.1% respectively). On the other hand, meat prices decelerated by 38 bps in August, reaching an annual inflation rate of 20.4%, due to moderations in beef and poultry price and despite accelerations in pork prices. The rise in processed food prices may be associated with lagged pass-throughs of input costs such as cereals, and weather-related factors, so these pressures could extend for a few more months.

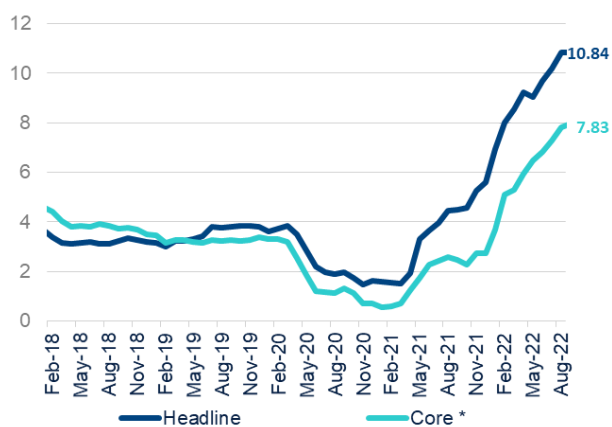
The increase in food prices continues to be reflected in transmissions to restaurant costs, which during August showed an outstanding increase in consumer prices with an annual inflation rate of 15.7% (53 bps higher than the previous month). Within these, meals in service establishments stand out, reaching an annual inflation rate of 16.5%.

Core inflation (excluding food), on the other hand, increased in August by 54 bps to 7.8%, with significant accelerations in the basket of administered goods and in the basket of tradable goods (of about 111 bps and 107 bps respectively), bringing annual inflation to 12.3% and 10.8%. In the former, the accelerations were driven by increases in utility prices, where tariff adjustments led to annual inflation rates of 25.6%, 14.8% and 11.9% for electricity, gas and water, respectively. As expected, within the basket of tradable goods, personal care, personal hygiene and household cleaning and maintenance products made the largest contributions in the month, driven by high international producer price costs. In addition, vehicles also made an important contribution, reaching an annual inflation rate of 16.5% in the face of limited supply and still buoyant demand for this type of transport. Finally, the basket of non-tradables showed the slowest acceleration, of only 8 bps in the month, maintaining a drastic difference compared to its peers with an annual inflation that barely reached 3%. However, this division will

start to show more pronounced increases in the coming months, when education measurements are integrated, which are expected to show upward adjustments between September and October.

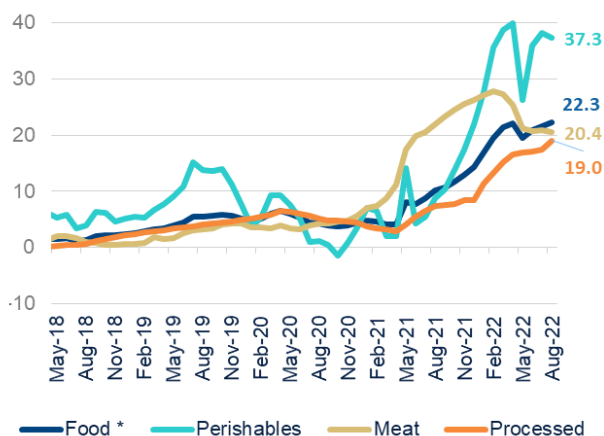
In the coming months, food prices can be expected to remain under pressure from processed goods that pass on to consumers the cost increases in their production chain in a lagged manner. The August result marks a significant pressure on expectations regarding the path of inflation and will lead to an upward revision of analysts' year-end forecasts.

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



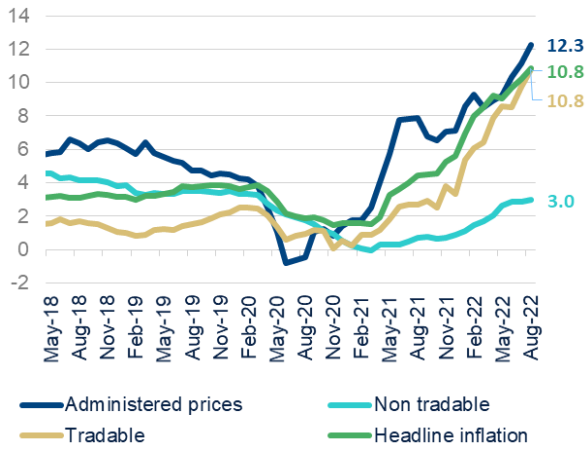
Source: BBVA Research with data from DANE

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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