

**Economic Analysis**

# Colombia | As expected, inflation continued to rise, standing at 11.4% in September

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## Food inflation remains at high levels, but this time the surprise against market expectations was smaller

Inflation continues to rise and in September stood at 0.93% in monthly variation and 11.44% in annual variation. The figure was higher than expected by market analysts (0.75% in monthly change, according to the Banco de la República's survey) and by BBVA Research, although the monthly change was somewhat lower than that reported in August. Food inflation remained at a high level, reaching an annual change of 26.6%, driven by a lagged effect in cost pressures for agricultural products. Core inflation reached 8.32% in annual terms, accelerating 49 bps from the previous month and remaining above the average analysts' expectations (8.15% annual change).

Within food inflation, the sub-basket of processed products showed the largest increase, accelerating by 268 bps compared to August's result, reaching an annual change of 25%. Within this sub-basket, the contribution of rice, bread and eggs stands out, with inflation rates above 30% (33.6%, 31.5% and 30.9% respectively). The sub-basket of perishables presented a slight acceleration in September compared to that perceived in previous months: only 5 bps above the previous month in the annual comparison. In this subbasket, the inflation of products such as milk (36.7%), fresh fruits (28.9%) and vegetables (29.2%) stand out. It is also interesting to highlight the highest annual inflation rates within this subbasket: cassava and onions show an annual inflation above 100% (121.4% and 105.7% respectively). On the other hand, meat inflation decelerated by 57 bps, reaching an annual inflation of 19.9%, which may be a sign of the possible future behaviour of the food basket, as it should be recalled that meat was one of the first components to start its strong upward cycle. This dynamic reflects a decrease in pressures from perishable food, while processed food would be reflecting lagged effects of the impacts of high external costs in both agro-inputs and cereals, in addition to climatic conditions that have limited the supply of some products.

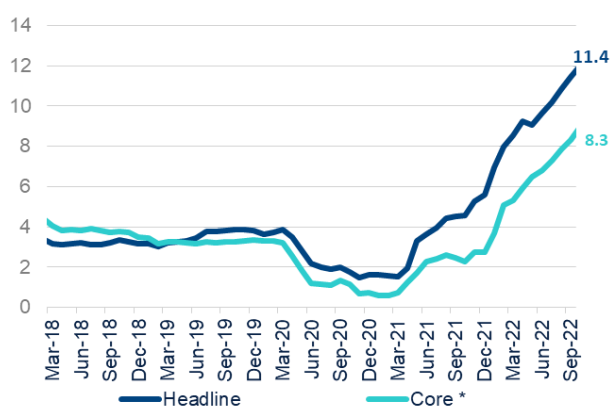
With regard to core inflation, all baskets recorded increases in their annual change in September. Goods inflation accelerated the most, increasing by 97 bps compared with the previous month's figure, bringing annual inflation to 11.6%. Within this, the contributions to annual inflation of goods such as vehicles, beer, clothing and household cleaning and maintenance products stand out. The basket of services increased by 44 bps with respect to the previous month, with an annual change of 5.9%. Within this, the largest contribution was associated with expenditure on housing services, imputed rent and fixed and mobile communication services. In addition, administered prices inflation accelerated by 11 bps with respect to August, reaching 11.5% in annual inflation.

BBVA Research expects inflation to continue rising and to peak in the fourth quarter of this year (most likely in October). In food inflation, cost pressures will moderate as international prices of agro-inputs as well as cereals (such as wheat, of which the country imports most of what it consumes) are already declining, although they still remain at high levels. Despite the lagged effect of the rise in products such as processed goods, the aforementioned is expected to allow the food path to start declining in the fourth quarter of the year (albeit very gradually). However, core inflation still has room for increases, especially from services that maintain relatively low inflation, associated with specific items that are still returning their prices to normalcy after particularities that

prevented rapid adjustments. Likewise, pressures from goods will continue, associated with the lagged effects of bottlenecks, which, although they are beginning to diminish, are not yet reflected in local prices, an effect that is deepened by a depreciated exchange rate.

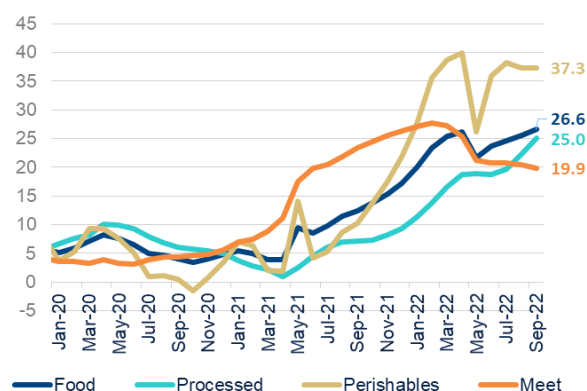
The current inflationary results are within the range of market analysts' expectations, with a surprise that was more limited than those recorded in previous months and that, although possibly implying a short-term increase in some analysts' forecasts, does not necessarily put pressure on expectations. In our particular case, it can be read as an anticipation of inflationary pressures that we had already incorporated in our year-end forecasts. Thus, Banco de la República would not have additional pressures (more than those that existed previously) in this respect. It is important to emphasise that the central bank has one eye on the behaviour of inflation and another on its expectations or projections, so it will surely continue to weigh these short-term surprises with the expectation of declines in inflation by the beginning of 2023 in its policy decisions.

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



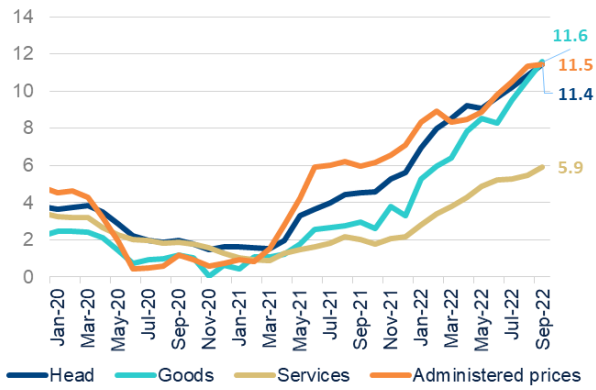
Source: BBVA Research with data from DANE

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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