

**Economic Analysis**

# Colombia | Inflation hasn't reached its peak yet, in October the annual variation was 12.2%

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## Non-food inflation accelerated faster than food inflation for first time in four months

In October, monthly inflation rose to 0.72% and annual inflation to 12.22%, slightly above market analysts' expectations, who according to the Banco de la República's survey expected a monthly change of 0.62%. The figure is much higher than the historical average, but still lower than in previous months, despite that, the annual inflation accelerated 78 bps. Within this, food inflation maintained a prominent role with an inflation of 27% in the annual variation, increasing by 40 bps in comparison to September, and core inflation (without food) also increased significantly to 9.15% in annual terms, accelerating by 83 bps in comparison to the previous month (Figure 1).

About food inflation, it is relevant to highlight that the sub-basket of perishable products decelerated in October in annual terms by almost 1 percentage point to 36.3% (Figure 2), which could suggest that future increases would moderate and reduce in the following months if cost pressures for agricultural production decreases and the weather does not substantially impact the supply of products (although the PPI does not yet show reductions in agricultural prices). Within this sub-basket, products such as potatoes, fresh fruit, eggs and milk made the largest contributions in the month, associated with supply declines due to the end of harvest cycles and weather factors. Likewise, within the food basket, meats also decelerated in annual terms by about 60 bps, reaching 19.3%, with lower pressures from beef and higher pressures from pork. Within food, only one sub-basket accelerated in October: processed products. This sub-basket accelerated by 184 bps with respect to the annual change of the previous month, reaching 26.9%, which may be associated with a continuity of transmission of high production costs, international prices and the depreciation of the exchange rate. Within this sub-basket, the contributions of goods such as rice, coffee-based products, bread and cheese stand out.

In annual terms, core inflation baskets (non-food inflation: goods, services and regulated) showed greater accelerations than the food basket. It is relevant, as it shows a significant acceleration in non-food inflation, whose persistence is greater over time. This is also evident from the comparison of the percentage of groups within each basket that are above total annual inflation in October, in which the percentage of the food basket above it fell in recent months to 92%, while that of goods accelerated to 49%, suggesting that total inflation pressures from the former are becoming general (Figure 3).

Within the core inflation baskets (Figure 4), the largest acceleration was in the basket of goods (143 bps) which stood at 13.0% in annual change. This could be associated with increases in the prices of imported products, in which the variations in vehicles (18.3%), household cleaning products (34.5%), body care products (14.3%), pharmaceuticals (10.2%) and alcoholic beverages stand out. Although the increases in these products are to some extent associated with the high exchange rate, the greater effect would be related to the high prices that these products have reached in the external market and the supply constraints of some.

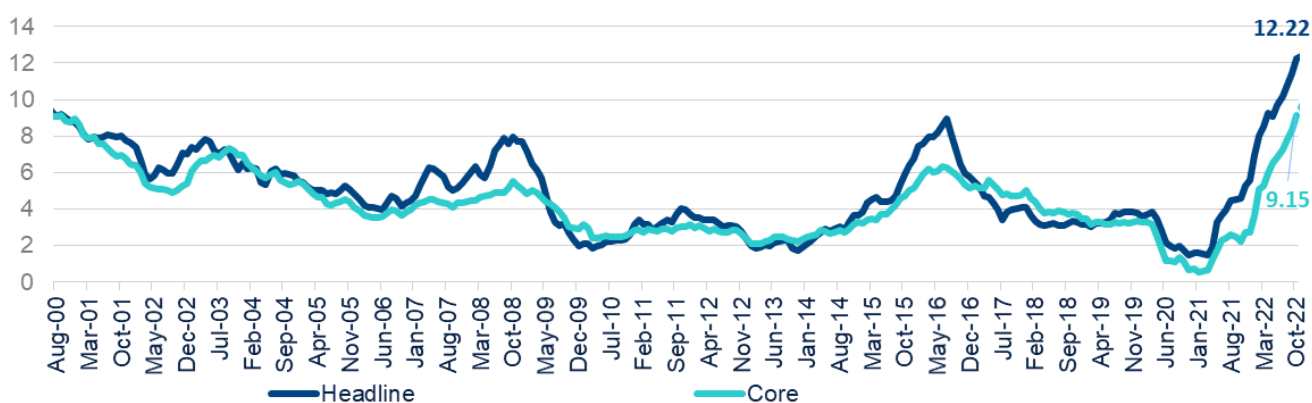
The second largest acceleration was in the basket of services (69 bps), which reached 6.6% in October. Within this, meals in service establishments and away from home exhibited the largest contributions (annual inflation of 17% and 18.3%), due to higher production costs associated with higher prices in food and utilities. In addition, package tours have also shown significant increases (10.8%) on par with air travel (33.23%), as purchases for the December season and November holidays started to be made from October onwards.

Finally, the basket of administered prices recorded an annual inflation rate of 12%, 58 bps higher than in September. Electricity continues to be an important contributor to this, although its monthly variation was lower than in previous months, suggesting that the moderation in the costs of this service is beginning to occur, which nevertheless reaches an annual inflation rate of 28.53%. Likewise, fuels registered a positive contribution, reaching an annual change of 7.8%.

BBVA Research expects inflation to continue to rise to close the year at 12.5%. In 2023, food inflation is expected to ease over the course of the year, while core inflation will still have room to rise, peaking in the second quarter of the year. With this, the moderation of total inflation will be accentuated towards the second half of 2023 and continue on an adjustment path in 2024, without reaching the Bank of the Republic's target.

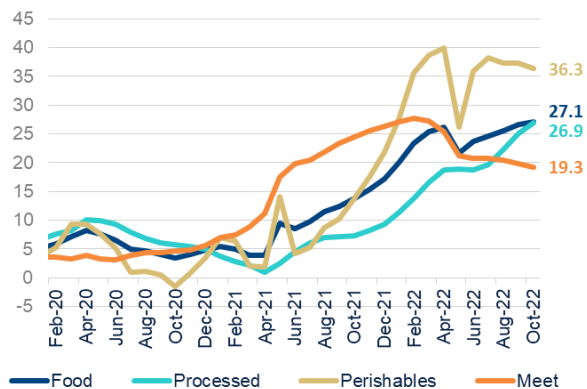
Given that the most recent inflation figure was close to the figure forecasted by market analysts, no readjustments in expectations for 2023 and 2024 are expected, which will make it easier for expectations to remain seemingly anchored if no additional surprises are perceived. However, the Bank of the Republic is still expected to act with policy rate increases to control high inflation levels in December.

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



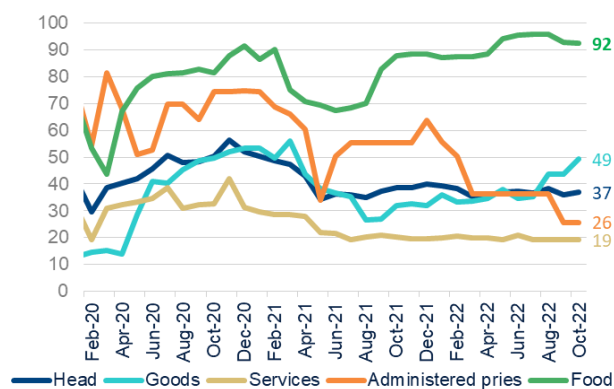
Source: BBVA Research with data from DANE

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



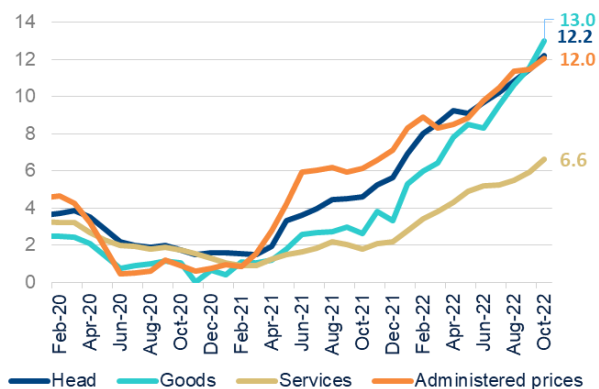
Source: BBVA Research with data from DANE

Figure 3. **PERCENTAGE PER BASKET ABOVE HEADLINE INFLATION IN OCTOBER (%)**



Source: BBVA Research with data from DANE

Figure 4. **HEAD INFLATION MAIN SUB-BASKETS (ANNUAL CHANGE %)**



Source: BBVA Research with data from DANE

Inflation still hasn't reached its peak, in October the annual variation was 12.2% / November 8th, 2022

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