

Economic Analysis

Colombia | Inflation continues to surprise, in November it reached 12.53%

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Food continues to leverage total output

Monthly inflation in November rose to 0.77% and annual inflation to 12.53%, up 31 bps from October's annual figure. The results were again above the average of market analysts' expectations of 12.27% and what we expected at BBVA Research (12.42%). Food inflation again surprised on the upside, reaching an annual change of 27.1% and accelerating by 5 bps from the previous month. Core inflation reached an annual rate of 9.48%, 33 bps higher than the previous figure.

Food inflation remained at high levels in November. The leading role was taken by processed products, which increased by 103 bps with respect to the annual figure recorded in October, reaching an annual inflation rate of 27.9%. Within these, the contribution of increases in products such as rice (48.8%), eggs (36.1%), bread (30.6%) and oils (20.8%) stands out. These increases are associated both with climatic factors, in the case of the first two, and with international price factors in the case of bread and oils. On the other hand, perishable products showed an annual inflation of 35.5%, decelerating by 81 bps compared to last month, mainly as a result of statistical effects, suggesting that less upward pressures are occurring compared to November 2021. The products that contributed most positively within this basket were milk (34.6%), fresh fruits (24.9%), bananas (53.3%), onions (89.6%) and potatoes (37.42%), products that may also be affected by costs and weather factors. Additionally, meats also registered decelerations after a high base of comparison a year ago, reaching an annual inflation of 18.6%. Within these, beef (21.6%) and poultry (16.7%) contributed the most.

As regards core (non-food) inflation, all three sub-baskets recorded accelerations in November. The largest was the goods sub-basket, which accelerated by 93 bps to reach an annual inflation rate of 13.9%. Within this, tradable goods such as vehicles (19.8%), household cleaning products (35.7%), personal hygiene items (15.2%), pharmaceuticals (10.6%) and clothing (15.6%) showed a higher contribution in annual terms. In the case of the first three, the increases are associated with an external supply factor that has led to high prices being passed on to consumers, while the last one may be the result of a high exchange rate.

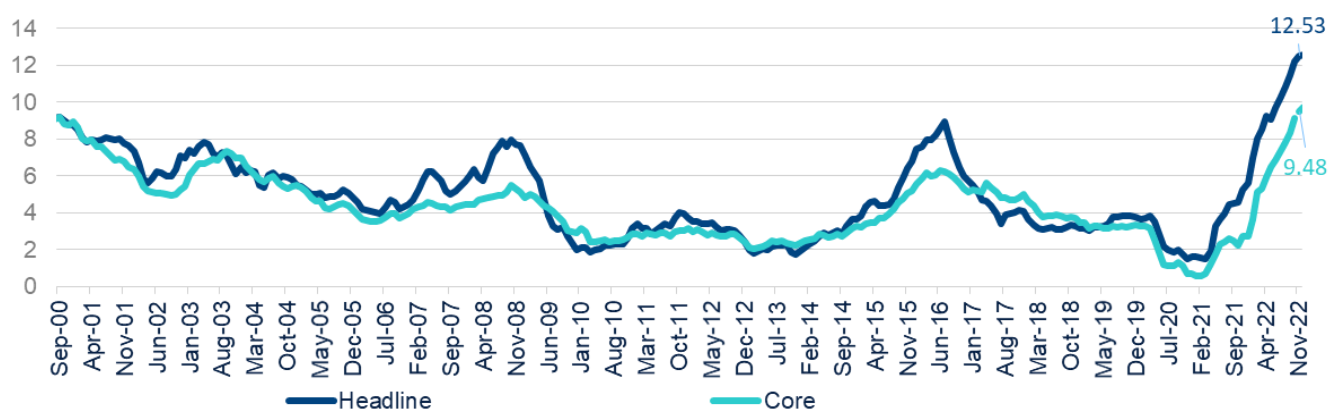
The services sub-basket increased by 25 bps from the previous month's annual inflation, reaching 6.9%, driven by meals away from home, expenditure on housing services, rent and holiday packages. Within these, a pass-through from the food division can be highlighted, as the processed goods that recorded the largest increases are major inputs for restaurants. In addition, holiday packages reflect increases in seasonal demand, as they continue to be purchased for the end-of-year holiday period.

The administered prices basket, on the other hand, reached an annual inflation rate of 11.9%, decelerating 9 bps with respect to October's figure. The main groups contributing to this result were electricity (25.77%), urban transport (6.63%), fuels (10.52%) and water (11.33%). In electricity, it is worth noting that its monthly variation was negative for the first time (-1.14%), despite which it did not manage to contribute with decreases in the annual figure.

In general, in food, there are still impacts of agro-input and climate costs, factors that have lasted longer than expected and that creates some uncertainty for the future, although they are expected to dissolve by mid-2023. Regarding core (non-food) inflation, commodity pressures will continue, particularly driven by a high exchange rate, moderating as demand for goods becomes more robust.

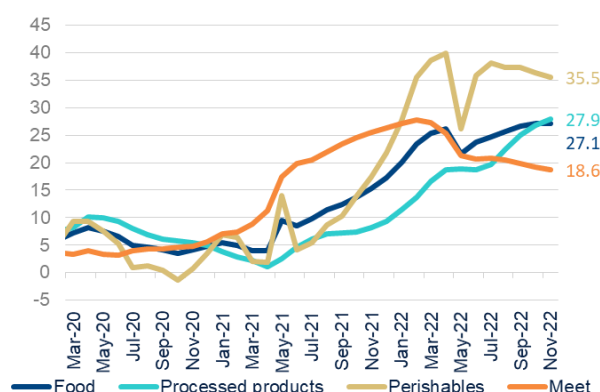
Thus, we expect inflation to start easing gradually from the beginning of 2023 and more sharply towards the middle of this year. This month's surprise will lead market analysts' expectations to rise, with adjustments likely to be mostly via food.

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



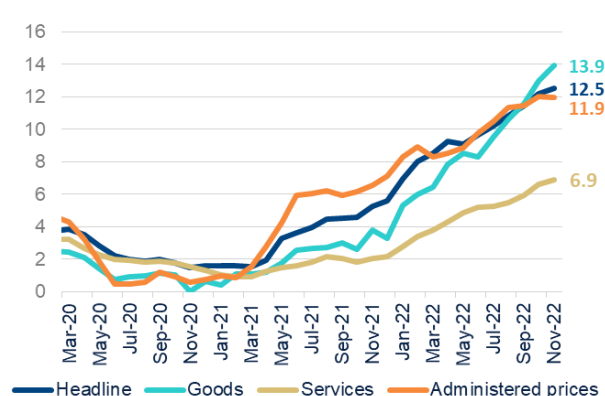
Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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