Economic Analysis

Colombia | Inflation continues to accelerate in January, reaching 13.2%

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Food prices retreat as core inflation takes centre stage in January, setting the tone for months ahead

Inflation in January continued to accelerate, reaching an annual change of 13.2% and a monthly change of 1.78%. The figure was slightly higher than expected by the average of analysts in the Banco de la República's survey (1.61%). This result was the combination of food inflation moderating, reaching a variation of 26.2% (165 bps lower than that reported in December) and core inflation accelerating to 10.43% (44 bps higher than in December). The result, in line with expectations, showed a still high monthly inflation but a base effect that partly mitigated the effect on annual inflation, especially for food and goods.

The deceleration in food inflation is associated with a base effect, in which the comparison with respect to a year 2022 with very high monthly inflation of this basket makes the annual variation present this deceleration, despite the fact that the monthly variation continues to be relatively high with respect to its historical pre-pandemic level (1.36%), standing at 2.47%. On a disaggregated basis, the largest base effect is evident in the sub-basket of perishable goods, which exhibited a deceleration of 400 bps, going from an annual inflation of 37.6% in December to 33.6% in January, despite the fact that monthly inflation for this sub-basket was 5.24%, the highest since February 2022. Within this, the increase in prices of products such as bananas (57.2%), potatoes (16.2%), onions (101.5%), fresh fruit (19.9%) and tomatoes (31.1%) stands out. Similarly, meats decelerated from 18.4% in December to 17.4% in January, also with base effects and continued pressure on beef. On the other hand, processed products also registered decelerations, going from annual inflation in December of 28.4% to 27.5% in January, with greater effects on products such as milk (36%), bread (28.4%), cheese (29.6%) and rice (53%).

On the other hand, core inflation gained prominence in January as it continued to accelerate, reaching its highest level since November 1999. Within this, the administered prices basket showed the strongest acceleration, increasing by 105 bps from 11.8% in December to 12.8% in January. Within this, urban transport was by far the one that generated the greatest pressures, reaching a monthly variation of 6.61% (annual 10.5%), following fare increases in the main cities; the increase in fuel prices of close to $400 was also relevant, leading to a monthly inflation of 3.6% (annual 12.7%) in this group; Additionally, the increase in administration expenses also had an important contribution in the month's result for this subclass, reaching a monthly variation of 0.45% (y/y of 14.2%); on the other hand, the electricity subclass also registered an increase in January, with a positive monthly variation after two consecutive months in which it was negative, reaching a monthly variation of 0.71% (y/y of 20.9%).

The basket of services accelerated by 59 bps in January, reaching an annual change of 8%. Within this, the subclass of meals in table service establishments showed the largest contribution in the monthly data, reaching an annual change of 19.7%. Shelter was the second subclass to generate the most pressure, with the imputed reaching 3.8% and the effective 3.9% in the annual change.

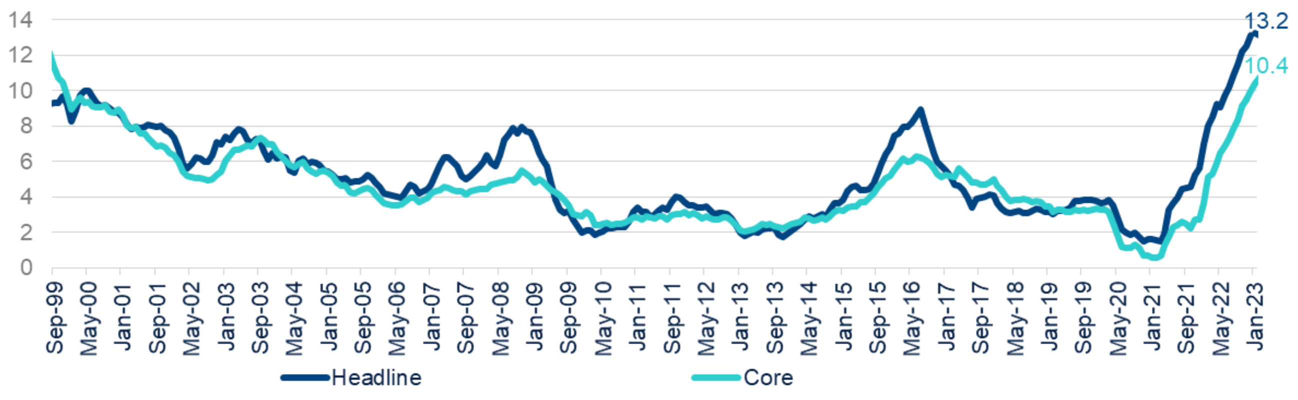
Finally, the basket of goods decelerated by 66 bps in January, standing at 14.4% in annual change. However, a base effect is again evident in this basket, in which monthly inflation remains high, but lower than in 2022. Within this, goods such as vehicles (with an annual figure of 22.9%), and household cleaning and maintenance products (33.8%) continue to stand out.

Despite the high annual and monthly food inflation, base effects in the first months of 2023 will play in favour of a significant moderation of inflation in this basket, in the absence of additional supply shocks. Something similar could materialise in the goods sub-basket, but less markedly, as the pass-through of the accumulated exchange rate depreciation would limit this effect, especially in the first part of the year. On the side of the baskets of regulated goods and services, pressures are still expected from indexation to both a high minimum wage adjustment (16%) and high inflation at the end of 2022 (13.1%); this impact is more relevant in the first months of the year, but has a particular impact in the month of February.

Given the above, BBVA Research expects inflation to remain high during the first quarter of the year, with a high degree of uncertainty surrounding it. This is due to the confluence of base effects, gradual moderation of demand, indexation pressures and exchange rate pass-through, dismantling of tax exemptions in some services, among others. All in all, we expect inflation to begin to show some gradual easing in the second quarter and a slightly clearer decline in the second half of the year. Thus, inflation would close a little below 9.0% in 2023.

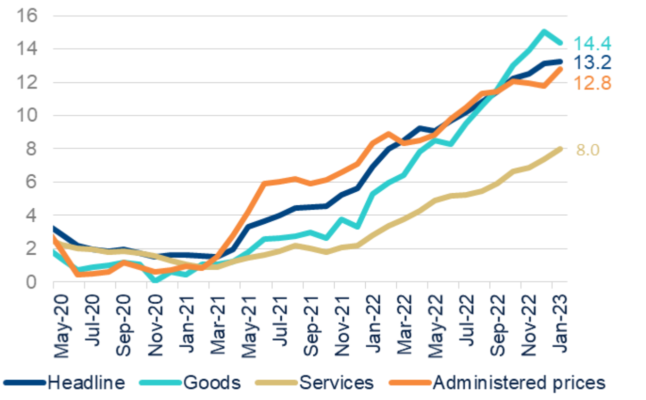
The January figure did not represent a significant surprise for market analysts, while the speech from the Board of Banco de la República reflects some certainty about the cyclical nature of the increases expected for the beginning of the year, so it is possible that the Bank is already very close to ending its cycle of intervention rate hikes.

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



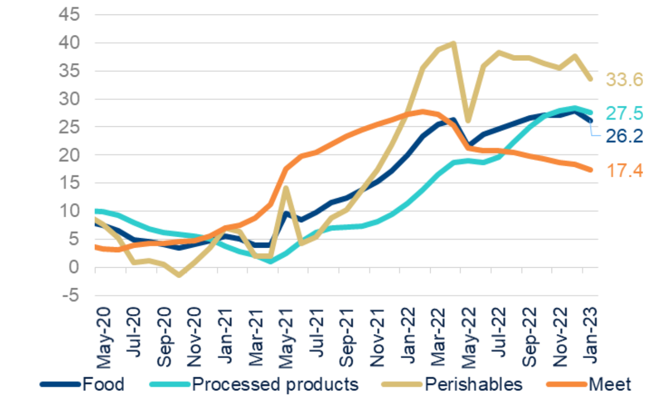
Source: BBVA Research with data from DANE

Figure 2. **HEADLINE INFLATION AND MAIN BASKETS** (ANNUAL CHANGE %)



Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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