

**Economic Analysis**

# Colombia | Acceleration in total inflation moderates: February registered 13.28%

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In February, monthly inflation was 1.66% and annual inflation was 13.28%, very close to the forecast of BBVA Research (1.65%) and market analysts, who according to Banco de la República's survey expected 1.57%. During the month, annual food inflation decreased 206 bps to 24.14%, while annual non-food inflation increased 43 bps to 10.86%, the highest since September 1999.

## Does food inflation give way beyond base effects?

Annual food inflation decreased again in February, this is partly due to the high levels of comparison recorded in the same month of 2022, however monthly inflation is still slightly more than double the average recorded between 2011 and 2019 for this month, reaching 1.60%, but reflecting lower pressures than in January. All sub-baskets in food showed a moderation in the annual variation of their prices, highlighting the behavior observed in perishable products, with a reduction of 576 bps. This movement was mainly explained by the deceleration of tomato (21% annual change), potatoes (17.8% annual change), cassava (23.7% annual change) and onion (25.7% annual change), products that also showed a decrease in prices during the month. On the other hand, fresh fruits continued to show upward pressure, probably due to the effects of excess rainfall on fruit formation. The other food sub-baskets, processed foods and meats, showed decreases in annual inflation of 74 bps and 70 bps, respectively.

This reflects that inflationary pressures are moderating, although they have not yet disappeared. This is also evident in the Producer Price Index (PPI) for the agricultural sector for domestic supply, which continues to register positive variations in February, even though it is decelerating, it means that costs for producers continue to increase even though they do so to a lesser extent than in the past. This suggests that producers are still seeing cost pressures.

In particular, food inflation reflects a moderation in February that is partly explained by seasonal effects and partly because cost pressures are easing for producers. However, this reduction is still not a clear victory and shows some persistence of inflation in this basket.

## External prices and demand drive nonfood inflation

Annual non-food inflation continued to rise in February, as expected, with great prominence of administered prices, whose basket accelerated by 104 bps in February, reaching 13.9%. This acceleration was associated to a greater extent with the increase in enrollment in preschool and primary education, which accelerated by 350 bps (and reached an annual variation of 9.8%), followed by secondary education with 379 bps (annual variation of 10.2%), to the extent that these are adjusted based on a high inflation the last year. Fuels also contributed to the result with an acceleration of 181 bps (annual change of 14.5%), accompanied by urban transport, which after presenting a significant increase in January, continued to materialise the upward pressure in February, with 108 bps of acceleration (annual change of 11.5%). Finally, public utilities were not far behind either, with significant contributions from gas, which accelerated by 149 bps (annual variation of 22.1%).

The second basket with the highest contribution to the acceleration of annual non-food inflation was services, with an annual variation of 8.3%, accelerating 36 bps compared to January. The result was driven by subclasses such as meals at table service establishments and fast food (annual variation of 18.9% and 20.9%, respectively). Rent accelerated by 23 bps (annual variation of 4.1%). This basket presents pressures associated with both demand and the indexation resulting from high inflation closing in 2022.

On the other hand, annual inflation of the basket of goods remained stable in February, although it evidenced, like food, a high base of comparison, which does not mean that prices do not continue to show significant increases (with a monthly variation of 1.61%). Thus, within the subclasses associated with imports continue to show the greatest pressures, led by cleaning and maintenance products, vehicles, articles for corporal hygiene and other personal hygiene products. These increases may be associated with the fact that demand pressures are still present and that in some cases there may be supply restrictions. In addition, uniforms also registered a significant increase (11.3%), due to the start of the school term.

In general, the increase in February prices was largely associated with the usual seasonal adjustments in prices during the first months of the year, which are higher after the high inflation closing in 2022, associated with indexation. In addition, we still see a continuity in demand pressures, which from the point of view of the basket of goods allowed us to consolidate transmissions of import costs, and from the basket of services, transmissions in price adjustments in restaurant services.

Thus, we maintain the perspective that food inflation will continue to gradually moderate pressures on total inflation, while in annual terms it will help total inflation to ease. On the other hand, pressures on core inflation will still be felt, easing more significantly in the second part of the year. Thus, we forecast that the inflationary path will remain at high levels throughout the year, tightening further towards the second part of 2023, closing at 9.0%.

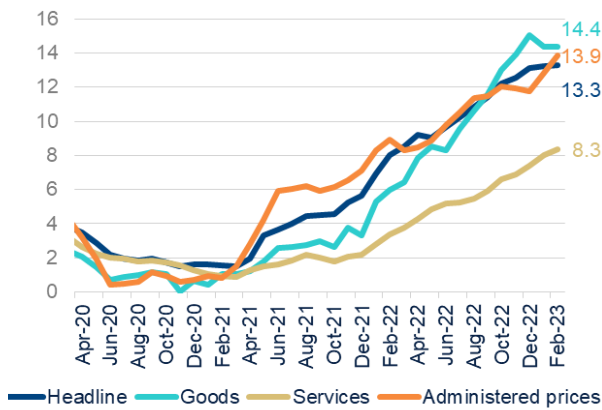
Given that the February figure did not come as a major surprise to market analysts, expectations may be maintained, which adds to Banco de la República's position that the current pressures are transitory in nature. Thus, pressures on Banco de la República's decisions could be moderating, and we maintain the expectation that the Board of Directors will opt for a lower increase in March, of 25bp, and could thus reach the end of its rate hike cycle.

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



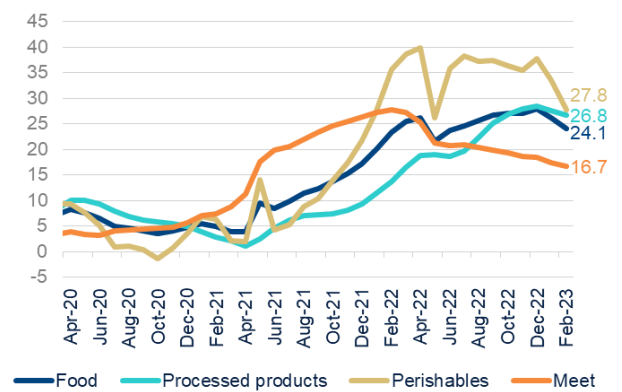
Source: BBVA Research with data from DANE

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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