Economic Analysis

Colombia | Total inflation remained stable in March, while inflation continued to rise

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Food inflation continued to ease, while core inflation continued to rise. Total inflation stood at 13.3%

In March, monthly inflation was 1.05% and annual inflation 13.34% (Graph 1), close to market analysts' expectations (Banco de la República's survey of expectations: 0.99%) and to that expected by BBVA Research (1.14%). Food basket inflation declined in annual terms, falling by 235 bps to 21.8%, helped by the high base of comparison in 2022.

The result was partly explained by the perishables sub-basket, which declined by 410 bps, reaching an annual inflation rate of 23.7% (Graph 2). Within this, products such as tomato and potato showed negative contributions, with annual variations of -11.2% and -12.9% respectively. However, there are still specific products that are moving upwards, such as fresh fruits and bananas. The processed food and meat baskets also recorded decreases in annual inflation (of 74 bps and 70 bps respectively), although much smaller than those of perishables. In the case of the former, annual inflation stood at 24.5%, maintaining pressures even from subclasses such as milk, rice, bread and cheese, which exhibit annual inflation rates of 32.7%, 39.3%, 27.6% and 25.4% respectively. As far as meat is concerned, beef continues to rise, while poultry declines in the month.

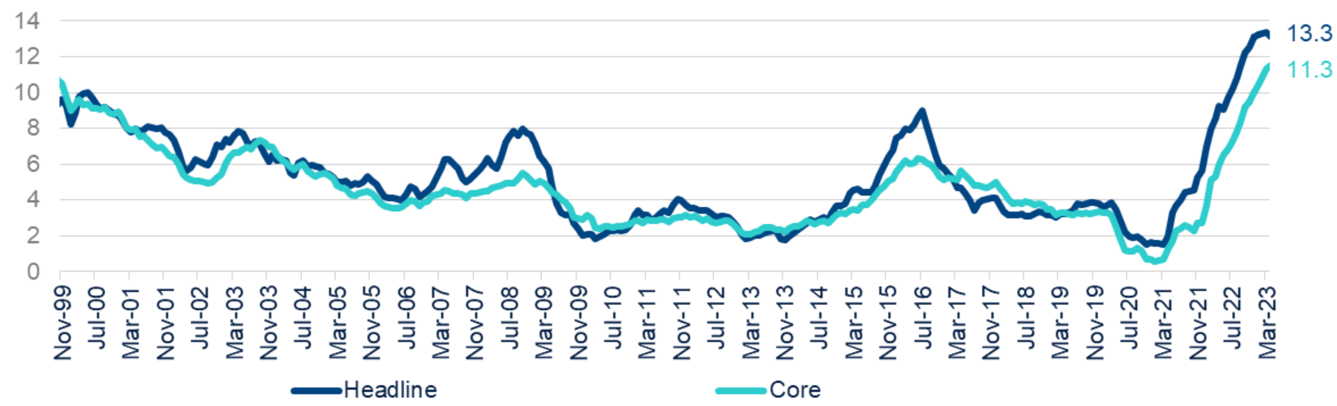
Contrary to food, core inflation (without food) (Graph 3) increased against February's result by 56 bps, reaching an annual variation of 11.4%, a dynamic that is explained by increases in all its baskets. The one that rose the most was the administered prices basket, which reached an annual inflation rate of 14.7%, 87 bps higher than that recorded the previous month. Within this, the sub-classes that led the rise were fuels (with an annual inflation rate of 18.7%), electricity (19.8%), gas (27.4%) and transport (12.2%), the first due to increases determined by the government, the second and third due to indexation effects, and the last due to the usual adjustments in tariffs at the beginning of the year.

On the other hand, the basket of goods accelerated by 70 bps, reaching an annual change of 15.1%. The increase is associated with continued pressure from subclasses such as vehicles, body care items and household cleaning products, which have already reached annual inflation of 23.3%, 18.3% and 30.2% respectively. As a common factor, these have been affected both by a high exchange rate at the time of inventory acquisition and by their high international prices, which increase the cost of imports. This basket, in particular, reflects not only these effects, but also the pass-through of these costs to final prices, suggesting that demand is not yet sufficiently moderated (Graph 5).

Finally, although the basket of services was the one that registered the smallest increase, with only 38 bps, it is one of those that contributed the most to the inflationary result due to its high weight within the total of the basic basket, reaching an annual variation of 8.7%. The subclasses that most explain the result are rent (with an annual variation of 4.6%), meals in table service establishments (18.6%) and meals outside the home (20.8%). The increase in the inflation of the basket can be associated to the fact that, after the pandemic, the cycle of the services sector started a later recovery than goods, so that the demand for the former has not yet faded and allows the transmission of high costs (related to: the increase in the minimum wage, still high food prices and the return of non-consumption) to consumers.

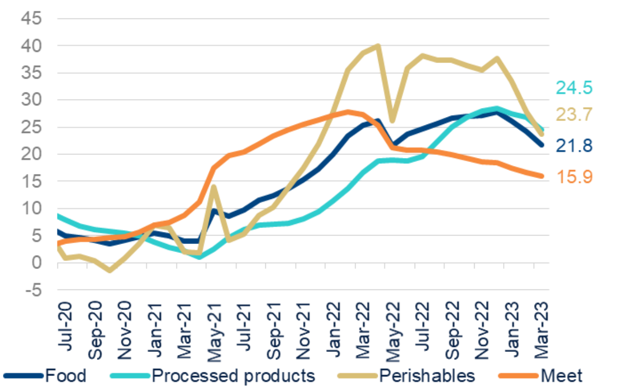
In general, the moderation in food inflation, due to lower production costs for farmers, will facilitate the decline in total inflation. However, non-food inflation still has room to rise, due to some prevailing supply factors (such as high external costs in some products), but also due to a demand that is slow to moderate, so BBVA Research expects inflation to remain high during this semester and at levels close to those observed in March, starting to moderate in the middle of the year. Then, in the second half of the year the slowdown in inflation will be accentuated, allowing the closing figure to be close to 9% in 2023 and 5% for 2024.

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



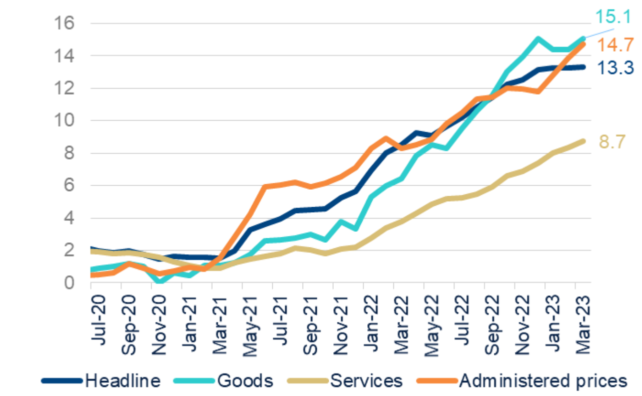
Source: BBVA Research with data from DANE

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



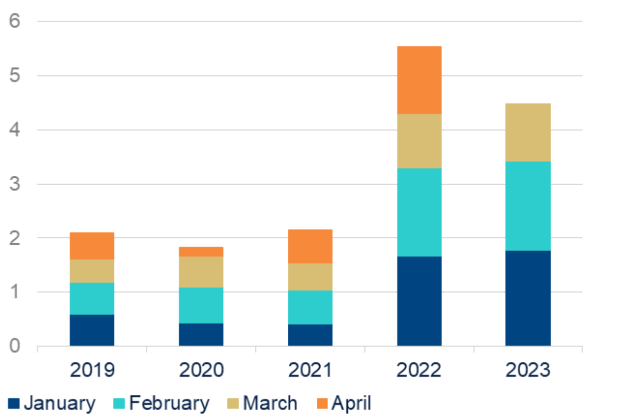
Source: BBVA Research with data from DANE

Figure 3. **HEADLINE INFLATION AND MAIN BASKETS** (ANNUAL CHANGE %)



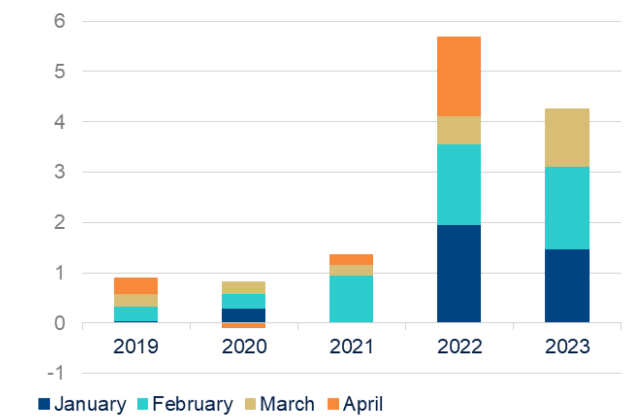
Source: BBVA Research with data from DANE

Figure 4. **HEADLINE INFLATION: JANUARY-APRIL** (MONTHLY CHANGE %)



Source: BBVA Research with data from DANE

Figure 5. **GOODS INFLATION: JANUARY-APRIL** (MONTHLY CHANGE %)



Source: BBVA Research with data from DANE

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