

Economic Analysis

Food inflation pushed total inflation down to 12.82% in April

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Sharp moderation in annual food inflation leads to first decline in headline inflation in almost a year

In April, monthly inflation was 0.78% and annual inflation was 12.82%. The results were below the expectations of market analysts (who, according to the Banco de la República survey, expected a monthly variation of 0.87%) and of BBVA Research (0.94%). The biggest surprise came from food, whose annual inflation fell by 335 basis points to 18.5% in April. Core inflation (excluding food), on the other hand, increased by 9 basis points, reaching an annual change of 11.51%.

Food inflation registered a negative monthly change for the first time since June 2021 (the month in which it corrected the upward pressure resulting from the national strike in May), bringing annual inflation to 18.4%, the lowest level since December 2021. This decline is explained by two specific dynamics: price decreases in perishables and base effects in processed goods. Perishables recorded an annual variation of 16.9% (675 basis points less than in March), within this, the main contributions to achieve this moderation come from four subclasses: onion, potatoes, fresh fruit and tomato. On the other hand, the processed and meat sub-baskets registered base effects, with monthly variations still positive but lower than in 2022, leading to reductions in annual terms. The processed food sub-basket shows an annual inflation of 22% (248 basis points lower than in March), among its sub-baskets milk, rice and bread stand out with the highest contributions to inflation in the month. Meats show an annual inflation of 14.8% (113 basis points lower than in March).

With the above, easing in the food basket is seen primarily in the perishables sub-basket (which weighs almost half of the total food basket). This may be associated with lower agricultural cost, while the other sub-baskets continue to register pressures, but lower than those seen a year ago.

Core inflation continued to rise, although moderating from previous months' increases, reaching an annual change of 11.51%. Within this, the administered prices sub-basket recorded the largest increase in annual inflation, rising by 56 basis points to 15.3%. Within this, the greatest pressures came from the sub-classes of fuels, water supply and electricity, groups that reached annual inflation of 22.9%, 12.4% and 19.5% respectively. The variation in fuels is explained by the increase of \$400 in April in the price of gasoline, while for the latter two, the rise is associated with the indexation of tariffs to variables that have continued at high levels.

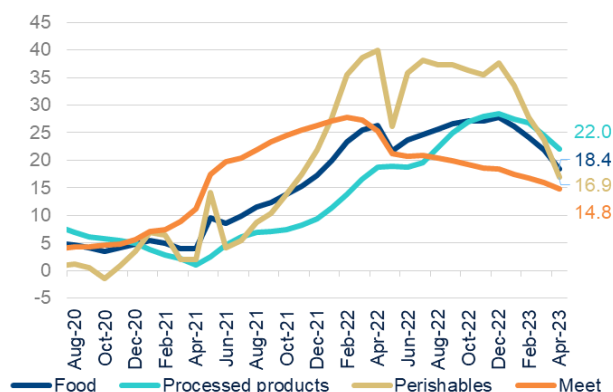
Inflation in the services basket increased by 25 basis points from March to 9.0%. Within this, the subclasses of rent, meals in service establishments and services related to co-ownership made the largest contribution, reaching annual changes of 5.0%, 18.7% and 11.3% respectively. In the case of the former and the latter, the increases are associated with the usual cycle of price adjustments in the first four months of the year tied to observed inflation and other indexation mechanisms. In the case of meals in service establishments, it is possible that this is due to a lag of the increase in food prices and, in general, the rise in service provision costs, supported by a demand that still allows the transmission of these to the consumer.

Finally, the basket of goods showed an annual inflation rate of 14.3% in April, 76 basis points lower than in March. However, it should be noted that this decrease is mainly due to base effects, with a particularly high comparison figure in April 2022. Thus, the monthly change in this sub-basket remains high, showing that pressures on this sub-basket are easing moderately. The sub-baskets that continue to put upward pressure on the basket are mainly tradables such as vehicles, beer, clothing and cleaning products, with annual changes of 23.1%, 12.1%, 9.9% and 28.1% respectively.

In general, inflation shows three different dynamics: one of price reduction, as is the case of perishables, which pulled the whole of April's data; one of positive price variations that are below those seen in 2022, generating base effects that lead to negative variations in annual terms, where a good part of the basket is located; and one of positive price variations that remain close to the levels of 2022, evidencing the effects of indexation and persistence typical of price formation in Colombia.

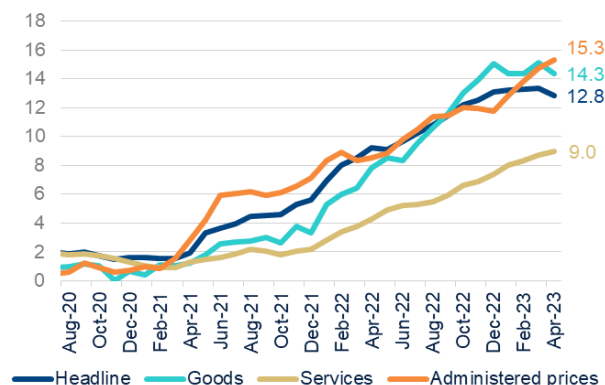
BBVA Research expects food inflation to remain subdued in the coming months, although some risks associated with logistics and fuel prices may materialise. Core inflation could continue to accelerate for a few more months. However, in the second half of the year both sub-baskets are expected to show declines in their annual variation.

Figure 1. **FOOD INFLATION AND MAIN SUB-BASKETS (ANNUAL CHANGE, %)**



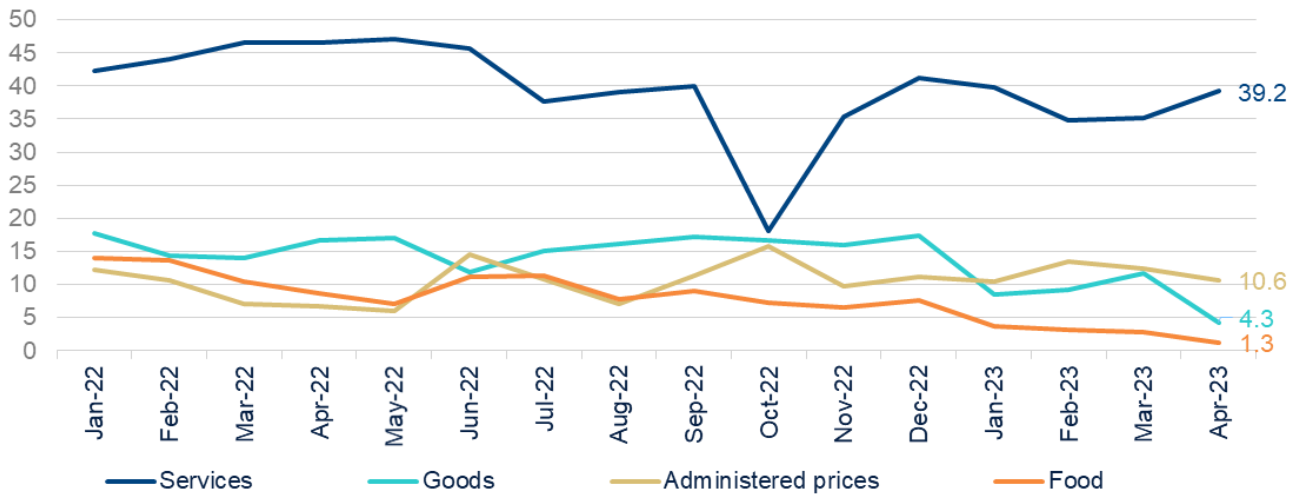
Source: BBVA Research with DANE Data

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



Source: BBVA Research with DANE Data

Figure 3. **SHARE OF BASKETS ACCELERATING (BY WEIGHTING, %)**



Source: BBVA Research with DANE Data

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