Economic Analysis

Inflation moderates again: in May it stood at 12.36%

Laura Katherine Peña
June 8th, 2023

Although core inflation is not falling yet, overall inflation is decreasing, helped by a reduction in food prices

In May, monthly inflation was 0.43% and annual inflation 12.36%, below market analysts' expectations, who, according to Banco de la República's monthly survey, expected on average a monthly variation of 0.61%. The result was 46 basis points (bps) below the previous month. Food inflation declined from 18.4% to 15.6%, a difference of 2.81 percentage points from the previous month's figure. Core inflation is still under upward pressure, although its increases are more moderate: in May it rose by 8 bps to 11.6%.

Uncertainty over food inflation led to a second consecutive month of declines that came as a surprise to market analysts, coming in at 15.7%, the lowest annual figure since November 2021. Although the peak of the path in this basket occurred in December, the declines in the first quarter of the year were almost entirely due to comparison base effects (the high levels of monthly inflation in 2022, compared with monthly inflations lower than those, but higher for the historical average, led to reflect decreases in annual terms, without this meaning relief on the rise in prices of these products). However, in April low monthly changes that did not respond to base effects were recorded, i.e. changes that actually began to reflect a moderation in food price increases. In May, this decline consolidated with a negative monthly change that stands out as the lowest for that month in this century.

This is relevant insofar as it confirms the dissipation of the effect of high costs on agricultural production last year, but it also reflects an oversupply that could be related to climatic factors. All food sub-baskets showed negative annual variations: perishables recorded a fall of 4.42 percentage points with respect to April's figure, standing at 12.5%; while processed food and meat fell by 2.2 pp and 2.1 pp, reaching annual variations of 19.8% and 12.7% respectively.

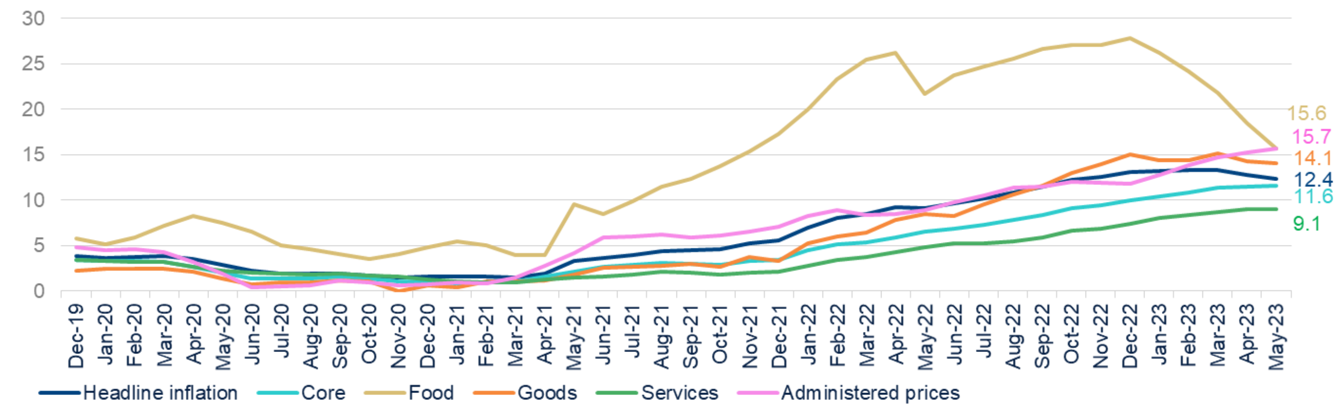
On the other hand, core inflation increased from 11.5% in April to 11.6% in May, showing a moderation in the increases. This was mainly explained by the administered prices basket, which increased by 41 bps from April's figure to 15.7%. Within this, the largest contributions came from fuels for vehicles, as a result of the increases decreed on gasoline, a subclass that reached an annual variation of 28.8%. Likewise, public utilities also contributed with pressures from electricity with an annual inflation of 18.1%, and aqueduct with an annual inflation of 11.6%. It is possible that this basket will continue to contribute to total inflation in the coming months, as increases in gasoline by decree are expected to continue.

The second core inflation basket to generate upward pressure was services, whose annual change was 9.1%, increasing by 8 bps from the previous month. Positive contributions from subclasses such as meals at table service establishments and meals prepared away from home continue to be evident, with annual variations of 18.0% and 11.3%, which can be explained as a result of a lagged effect on food input costs for the service. These subclasses were followed by renting and services related to co-ownership, with annual changes of 5.5% and 11.3% respectively. The subclasses associated with restaurants will decline in a few months, not only because the lag in food prices (which we already see declining) will adjust, but also because demand is expected to slow down, limiting their ability to pass on high prices. As far as rents are concerned, they are indirectly indexed to the CPI, with increases that could remain high as long as overall inflation is high, but will ease further in the second half of the year.

Finally, the basket of goods partially offset the increases in core inflation by registering a negative change of 28 bps, from an annual inflation of 14.3% in April to 14.1% in May. Nevertheless, this particular basket still reflects some base effects, as well as a moderation in the demand for this type of products. Within these, subclasses such as vehicles, alcoholic beverages and clothing stand out, maintaining some pressure, with annual variations of 22.5%, 12.9% and 9.8%. Additionally, another factor that explains the decreases is the moderation in subclasses such as cleaning and maintenance products, as well as body care articles, which had been showing high cost pressures at the international level, but which are beginning to recover, with annual variations that, nevertheless, stand at 26.4% and 16.4% respectively.

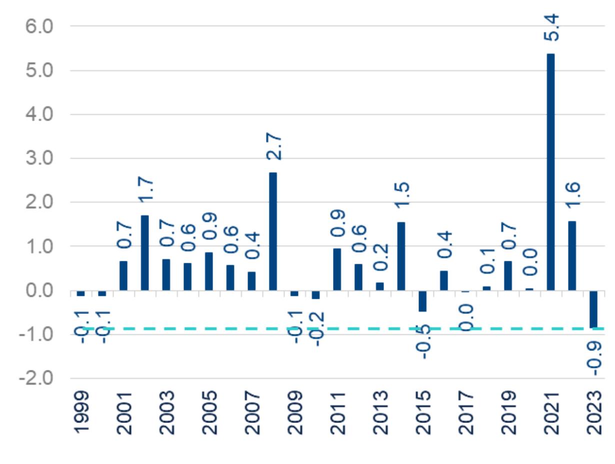
Thus, BBVA Research forecasts that inflation has already peaked and will continue to moderate over the coming months, with a more pronounced decline towards the second half of the year, helped by a rapid pace of deceleration in food prices and the start of moderation in core inflation. However, the El Niño phenomenon and the effects it may have on headline inflation remain a risk, which could imply a more gradual decline in headline inflation and not necessarily a pick-up in headline inflation.

Figure 1. **HEADLINE INFLATION AND MAIN BASKETS** (ANNUAL CHANGE, %)



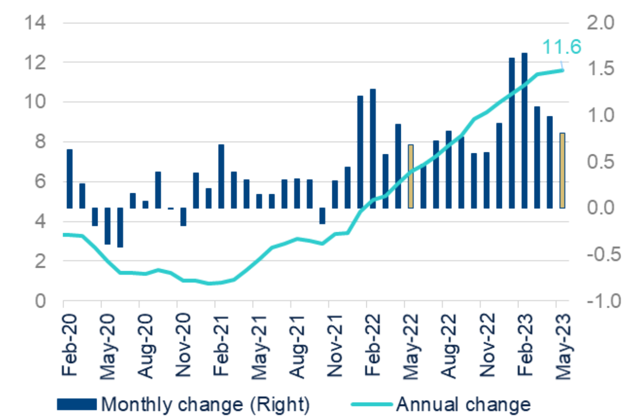
Source: BBVA Research with data from DANE

Figure 2. **FOOD INFLATION IN MAY** (MONTHLY CHANGE, %)



Source: BBVA Research with data from DANE

Figure 3. **CORE INFLATION** (ANNUAL CHANGE, %)



Source: BBVA Research with data from DANE

DISCLAIMER

This document, prepared by the BBVA Research Department, is informative in nature and contains data, opinions or estimates as at the date of its publication. These arise from the department's own research or are based on sources believed to be reliable and have not been independently verified by BBVA. BBVA therefore offers no express or implicit guarantee regarding its accuracy, completeness or correctness.

Any estimates contained in this document have been made in accordance with generally accepted methods and are to be taken as such, i.e. as forecasts or projections. Past trends for economic variables, whether positive or negative, are no guarantee of future trends.

This document and its contents are subject to change without prior notice, depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating this content or for giving notice of such changes.

BBVA accepts no liability for any direct or indirect loss that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or request to acquire, disinvest or obtain any interest in assets or financial instruments, nor can they form the basis for any kind of contract, undertaking or decision.

The content of this communication or message does not constitute a professional recommendation to make investments under the terms of Article 2.40.1.1.2 of Decree 2555 of 2010 or the regulations that modify, replace or supplement it.

With particular regard to investment in financial assets that could be related to the economic variables referred to in this document, readers should note that under no circumstances should investment decisions be made based on the contents of this document; and that any persons or entities who may potentially offer them investment products are legally obliged to provide all the information they need to make such decisions.

The contents of this document are protected by intellectual property laws. The reproduction, processing, distribution, public dissemination, making available, excerpting, reuse, forwarding or use of the document in any way and by any means or process is expressly prohibited, except where legally permitted or expressly authorized by BBVA on its website www.bbvaresearch.com.

ENQUIRIES TO:
BBVA Research Colombia Carrera 9 No 72-21, 10 floor. Bogotá, (Colombia).
Tel.: 3471600 ext 11448
www.bbvaresearch.com