

Economic Analysis

Inflation continues to ease, in June it stood at 12.13%

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Moderation in food inflation continues, while core inflation shows signs of peaking

In June, monthly inflation was 0.30% and annual inflation 12.13%, below market analysts' expectations, who expected on average a monthly change of 0.37% according to the Banco de la República's survey and our forecast (0.54%). The result was 23 basis points (bps) lower than the previous month's figure, which was mainly explained by food, whose inflation continued its decline from 15.63% in May to 14.31% in June, falling by about 132 basis points. By contrast, annual non-food inflation increased by 3 bps from the previous month to 11.62%.

Food prices continued to decline for the second consecutive month. This has consolidated an important downward trend in annual inflation so far this year with a moderation of close to 1355 bps, going from an annual inflation of 27.84% in December 2022 to 14.31% in June this year. This trend has been explained by lower costs for agricultural producers, considerable base effects and an improvement in harvests in recent months. In June, the processed food basket registered the largest moderation in annual inflation with a decrease of 240 bps compared to the previous month, standing at 17.4%. Within this sub-basket, products such as edible oils, dried vegetables, cheeses and rice made negative monthly contributions. Meanwhile, the meat basket declined 207 bps from the previous month and reached an annual inflation rate of 10.6%. The increases in these baskets have moderated in the monthly comparison, which is combined with a base effect that justifies the decline seen in the annual change. Finally, inflation in the perishables basket recorded an increase of 92 bps in the annual change in the comparison with May. This is mainly explained by base effects, as June 2022 saw decreases in the prices of these food items. However, it is worth noting that in monthly variations, this sub-basket is the leading one in terms of price reductions.

The downward trend in food inflation will continue due to the high base of comparison in 2022 and in the absence of the accumulation of shocks that generated significant and widespread upward pressure on food prices in 2022. The expected El Niño phenomenon could also generate upward pressure on this division, but it is an event that is expected to impact more towards the last quarter of the year, so that the deceleration momentum of food inflation could moderate but not rebound by the end of this year.

Demand is showing signs of a gradual moderation, reflected in the high core inflation data which are down from previous months in monthly change, but remain high by historical standards. Core inflation data showed a smaller increase (of 3 bps) with the figure rising from 11.59% in May to 11.62% in June. In recent months a moderation in such increases has been evident, which may suggest that core inflation has reached its peak. Within core inflation, the only basket to increase its annual change is that of goods, which rose from 14.05% in May to 14.26% in June (up 21 bps). However, part of this increase is explained by base effects from the VAT-free day in June 2022, when sub-classes such as men's and women's clothing, footwear, household appliances and mobile phone equipment registered significant price decreases as part of this demand-boosting strategy.

On the other hand, the administered prices and services baskets registered decreases for the first time in several months. Annual administered prices inflation went from 15.69% in May to 15.64% in June (down 5 bps). While fuels put strong upward pressure on this basket (being the subclass that contributes most to total inflation), the upward effects were offset by strong base effects in utilities (electricity, gas and water). Given the indexation of the latter, further gradual moderation is to be expected, amid still high but converging inflation levels towards the target. However, there may be additional risks towards the end of the year due to the El Niño phenomenon, which may put particular pressure on electricity prices.

The basket of services, meanwhile, showed the least moderation, from 9.06% in May to 9.04% in June. Within this, subclasses such as package holidays and flight tickets generated downward pressures, as well as base effects. However, some upward pressures are still seen from subclasses such as rents, meals at table service establishments, meals away from home and co-ownership related services, which although moderating from previous months, remain above the data seen in 2019. However, expectations about the activity of the economy suggest that this basket will continue to adjust in the coming months.

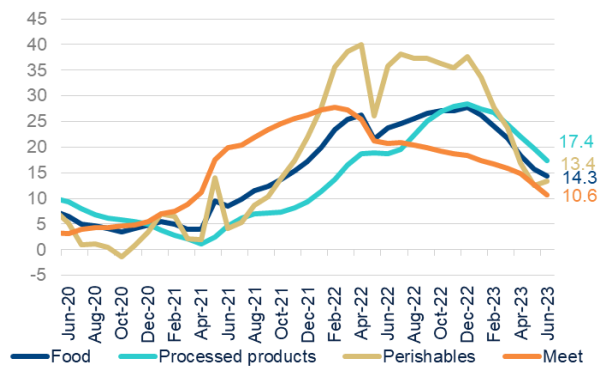
In general, food inflation can be expected to continue to exhibit a downward path, while non-food inflation has already peaked in the current upward cycle, so that the second part of 2023 will see a downward path of inflation that will allow us to close the year close to 9% inflation.

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



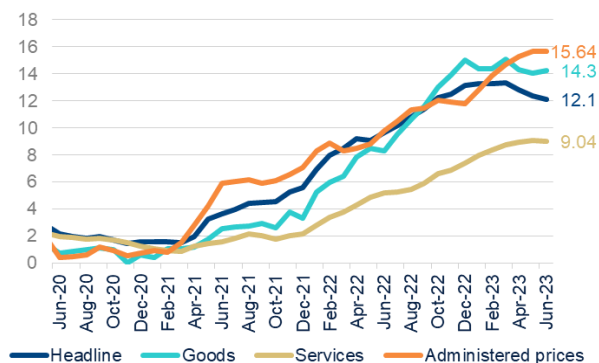
Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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