Economic Analysis

Inflation in August leaves disappointments: it goes down, but demand and supply pressures are still evident

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Base effects support the decline in inflation. However, upward pressures are still observed in the monthly record.

In August, monthly inflation was 0.70% and annual inflation was 11.43%, above the average of market analysts' expectations in the Banco de la República survey (0.44%) and our forecast (0.47%). Compared to July, the annual figure decreased by 35 basis points (bps). Annual food inflation generated the biggest surprise, because although it decreased, it did so at a slower pace than expected, standing at 12.4%, 79 bps below July's result. Annual non-food inflation was 11.2%, 25 bps lower than the previous month's figure.

Food inflation was the main surprise this month for market analysts. Although it decreased compared to the previous month's figure, in monthly terms it was high (1.13%) with upward pressures coming mainly from the perishables sub-basket, which increased in annual terms for the third consecutive month, a trend opposite to that of its peers. Thus, this sub-basket stood at 15.2%, 154 bps above July's figure, pressured this month by sub-baskets such as fresh fruits, tomato, onion and eggs. On the other hand, the processed and meat sub-baskets registered decreases in their annual inflation rates. In the case of processed products, this sub-basket registered an annual variation of 13.2%, decreasing by 222 basis points compared to July. Within this sub-basket, the greatest upward pressures came from other flours, milk, soft drinks and malts and rice. Meanwhile, the meat basket decreased in annual terms by 88 bps compared to the previous month, reaching an annual variation of 8.8%, despite pressures in subclasses such as poultry meat.

In general, the higher volatility, particularly in the perishable basket, may continue in the coming months, implying an upward risk, particularly towards the end of the year due to the El Niño phenomenon.

Non-food inflation stood at 11.2% in annual terms, 25 bps lower than the same figure for the previous month. This reduction is largely explained by base effects, mainly in the basket of goods. This, in particular, was the one that presented the largest reductions in the annual comparison (108 bps compared to the previous month's figure), which meant that it stood at 11.8% in annual terms. In monthly terms, the variation of this basket was 0.34%, a figure that although it moderates compared to 2022, it still looks high compared to what was registered in 2019, which could be reflecting greater demand pressures. Some subclasses continue to show upward pressures, such as beer and soft drinks, cleaning and maintenance products, other personal care products and spirits. In the case of toiletries, the reasons may come from the supply side; however, in the case of alcoholic beverages, there may be a combination of inventory factors acquired at a high TRM months ago and a demand factor that facilitates price transmission.

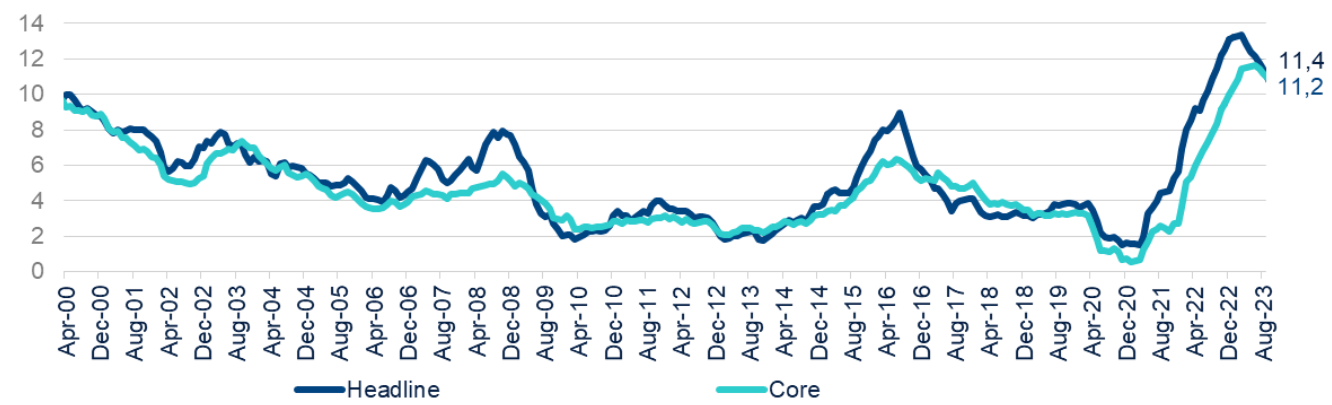
The second basket to present the largest decreases was the administered prices basket, which went from 15.8% to 15.7%, falling by 11 bps from one month to the next. However, within this basket, pressures were maintained in subclasses such as fuels, due to the increases decreed by the government, and public services, including gas, electricity and water; in the case of the latter subclass, the variations are associated with indexation factors.

Finally, the services basket maintained a similar inflation rate to that of the previous month, at 9.2%, only 2 bps lower. In monthly terms, this basket showed a variation of 0.55%, with possible demand pressures. Specifically, there were subclasses that registered relevant increases, such as rents, meals at table service establishments and cable television service. In the case of rents, the high data recorded are consistent with high inflation that increases agents' expectations and leads to greater price adjustments, while the latter could be reflecting some demand pressures still in force.

Overall, non-food inflation still has room for adjustment via base effects. Furthermore, although the levels of inflation perceived in the monthly variations show that there are moderations compared to 2022, these variations are still relatively high in some cases, suggesting that there are still some pressures on inflation, partly due to demand factors or the usual indexation processes to which inflation in Colombia is subject.

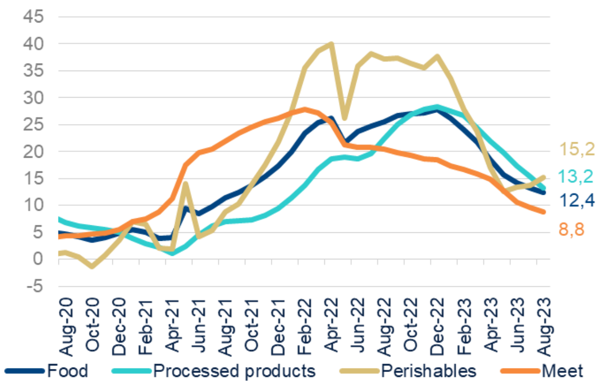
BBVA Research expects inflation to maintain its downward trend, although volatility in food inflation may moderate the expected reductions, particularly in view of expectations of the effects of the El Niño phenomenon towards the end of the year. Core inflation, on the other hand, will decline moderately in annual terms in the coming months, although there may be upside risks in the event of more resilient consumption. Nonetheless, total inflation will continue to ease and could close the year at around 9%, maintaining a dynamic of decreases in 2024.

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



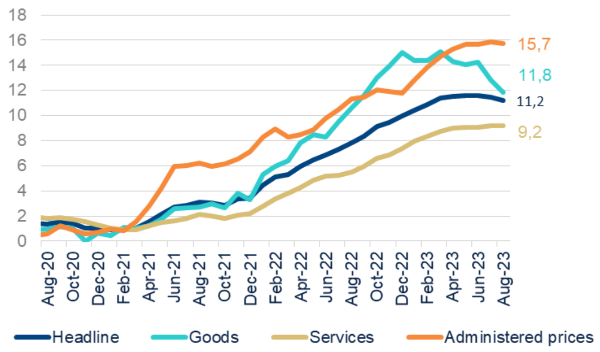
Source: BBVA Research with data from DANE

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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