

Economic Analysis

April inflation reached 7.16%, supported by a reduction in core inflation

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The increase in annual food inflation mitigates the contribution of the decline in core inflation to headline inflation

In April, monthly inflation was 0.59% and annual inflation was 7.16%, close to market analysts' expectations, according to Banco de la República's survey (0.57%) and to our forecast (0.60%). Inflation thus declined 20 basis points (bps) from the previous month's figure. Annual food inflation registered increases for the first time since December 2022, rising 126 bps from the previous month's figure to 2.98%. Non-food inflation, on the other hand, decreased by 57 bps in its annual measurement versus the previous month's figure, standing at 8.19%.

As expected, food inflation increased in April, reaching an annual change of 2.98%. The rise is explained by two main factors. First, there are base effects, with the monthly change in April 2023 being slightly negative. Second, there are upward pressures from the basket of perishable goods, which showed an annual change of 3.7%, reflecting an increase of 575 bps from the previous month's figure. In this case, the pressures come from subclasses such as fresh fruit, tomatoes, vegetables and fresh pulses, among others. These upward factors managed to counteract the moderation of the processed food and meat sub-baskets, which decreased by 70 bps and 49 bps, reaching annual variations of 3.1% and 2.2%, respectively. In particular, within processed foods, the negative contributions to annual inflation came from edible oils, dried pulses, maize and rice.

Over the coming months, the upward trend in annual food inflation will continue, mainly on the back of low comparison effects for May and June. However, some lagged effects of weather-related factors on perishables should not be ruled out, which may generate some additional pressures on the food basket and keep monthly changes above the historical average 2011-2019.

Non-food inflation increased its moderating pace in April, declining by 57 bps compared to March, bringing the annual change to 8.19%. By this time, the basket of administered prices recorded the largest declines in annual non-food inflation, followed by the basket of goods and finally the basket of services.

Thus, the annual change in the administered prices basket fell to 14.6%, decreasing by 119 bps from the previous month, the largest adjustment since November 2023. The movement is explained by a reduction in gas inflation, which reached a negative annual change of -1.01%. In addition, there are important base effects in the subclasses of fuels, water and car parks. In the case of the former, this is due to the fact that petrol price increases were applied during 2023 and are no longer being implemented. In the case of water, the statistical difference is due to higher levels of inflation in 2023, which led to higher indexation adjustments in water and sewerage rates. A similar situation occurs with parking, which also has an inflation indexation factor.

On the other hand, inflation of the basket of goods reached an annual change of 2.3%, decreasing by 73 bps compared to March's figure, the smallest decline in the last 9 months. Within this basket, vehicles, recording equipment and mobile telephone equipment made the main negative contributions to the annual figure. In the case

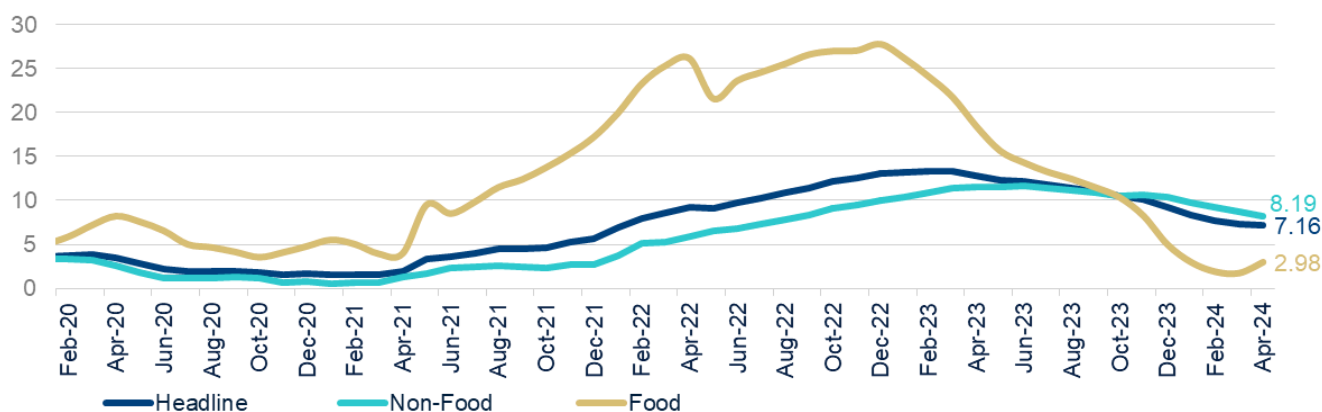
of vehicles, the price reductions follow significant increases associated with higher costs of these goods globally and a high exchange rate affecting remaining inventory. This year, with lower demand for vehicles and a renewal of inventories at more favourable prices, price reductions are observed. In the case of recording and telephone equipment, moderations may also be associated with a restocking of inventories at lower prices in previous months, thanks to a lower exchange rate.

Finally, the services basket reached an annual inflation rate of 8.0%, 27 bps lower than the previous figure. In particular, this basket still presents inflationary pressures, which lead it to present an annual inflation higher than the total and a monthly one higher than its historical averages. Rents continue to play the most important role in this respect, as they maintain monthly variations that are located around the maximums of the last 15 years. In addition, there are some subclasses that are highly indirectly indexed to the minimum wage and that continue to show pressure in the first months of the year due to the increase in the minimum wage in 2024. These include services related to co-ownership, domestic services, beauty salons, vehicle repair services, among others. In contrast, the subclasses that contributed to the moderation of the figure were those associated with tourism, such as air transport and package tours.

Overall, non-food inflation continues to experience base effects that have contributed to the moderation of annual inflation. Despite this, the services and administered prices baskets continue to exhibit monthly changes above historical averages, suggesting that they remain under pressure from some one-off factors. However, most of these pressures are due to factors directly or indirectly indexed to inflation or the minimum wage, and it is possible that they will moderate in the second half of 2024.

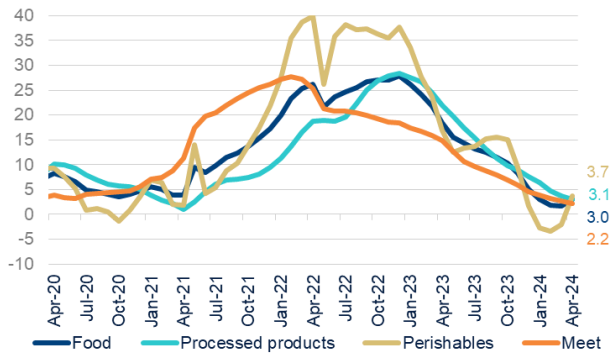
At BBVA Research we expect food inflation to continue to rise during the second quarter of the year, leading to a slow pace of declines in total inflation during this period. Despite this, non-food inflation will continue to decline, allowing headline inflation to close 2024 at 5.4%.

Figure 1. **HEADLINE, NON-FOOD AND FOOD INFLATION (ANNUAL CHANGE, %)**



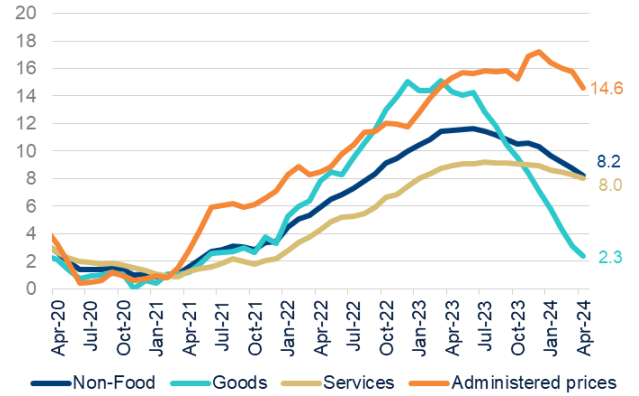
Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

Figure 3. **NON-FOOD INFLATION AND MAIN BASKETS**
INFLATION (ANNUAL CHANGE, %)



Source: BBVA Research with data from DANE

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