Economic Analysis

Annual inflation remains stable for the second month in a row in June, at 7.2%

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July 9th, 2024

The stagnation will be temporary and inflation is expected to resume its downward path in the remainder of the year

In June, monthly inflation was 0.32% and annual inflation was 7.18%, close to market analysts' expectations, according to Banco de la República's survey (0.28%) and below our forecast (0.40%). Despite the slight increase, this is not expected to mark a change in the inflation trend. In this result, the interaction of two opposing forces referenced in previous reports is maintained: food inflation continues to rise for the third consecutive month, reaching an annual variation of 5.27%, while non-food inflation continues to fall, registering an annual variation of 7.64%.

Food inflation increased to 5.27%, 85 bps higher than in May. As in May, this result is explained to a greater extent by base effects, given that the monthly figure for June 2023 was negative. Breaking down the analysis by sub-baskets, it is evident that the largest increase came from perishables, which adjusted a fourth consecutive month of increase in annual inflation, reaching a record of 10.3%, mainly driven by base effects, in addition to one-off pressures from subclasses such as onions, potatoes and tree tomatoes. The second largest increase was in the processed products sub-basket, which had an annual change of 4.2%. This sub-basket shows base effects, but also upward pressures in some specific subclasses such as chocolates, sweets and confectionery, soft drinks and rice, which contribute most to the monthly increase. Finally, meats continue to decrease their annual change, reaching a record of 1.9%.

The stronger cycles recorded in recent years are partly associated with significant base effects present in different products and baskets within food. These are expected to continue for a couple more months, albeit in the opposite direction, contributing to the moderation of food inflation. Once these base effects are overcome and a moderation of weather effects materialises, food inflation is expected to return to more standard variations and thus a smoother cycle in its annual variation.

Non-food inflation, meanwhile, moderated the pace of reductions it had shown in previous months. In June it stood at 7.64%, only 19 bps lower than in May. The reduction is explained by the decreases in the annual variations of the three baskets in this category: administered prices, goods and services.

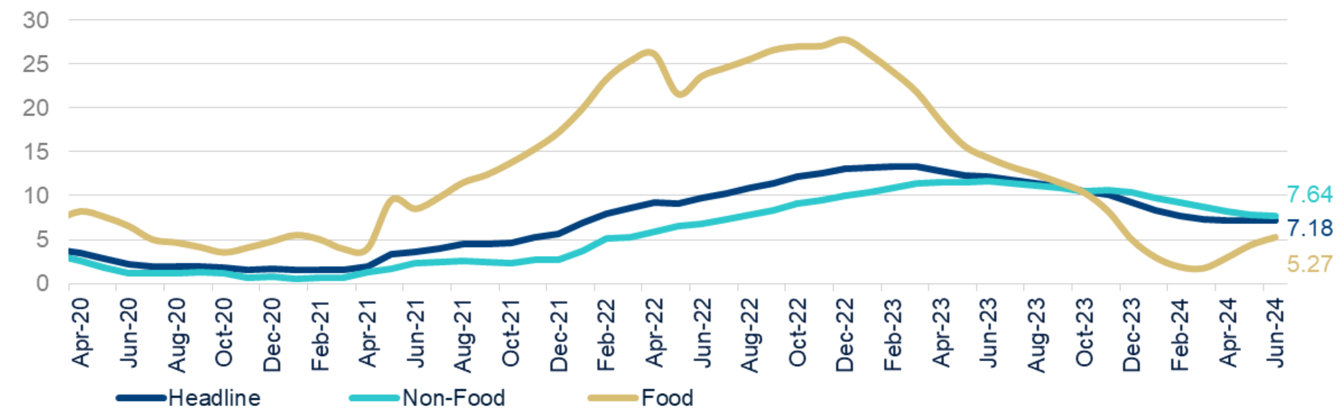
The largest decline was in the administered prices basket, which fell by 44 bps in June to 13.3%. Although the basket is down almost 400 bps from its peak in December 2023, its annual change is almost double that of total inflation, remaining at high levels. In June, the main reductions were associated with base effects, which were accompanied by upward contributions from electricity, water supply and sewerage, and fuels. In particular, the increase in electricity in monthly terms was higher than the historical pre-pandemic average, which is explained by lagged effects of the El Niño phenomenon that led to the implementation of more costly than usual sources of power generation.

Meanwhile, the basket of goods once again recorded a moderation in annual inflation in June, reaching a variation of 1.4%, the lowest since March 2021. This result is largely due to base effects, but also to low demand pressure, which has favoured a stability in the inflation of this basket.

Finally, the basket of services registered the smallest adjustment in the last month, decreasing only 6 bps, so that its annual change remains at 7.9%, reflecting a continuity in its persistence. This basket shows lower base effects, while upward pressures remain from subclasses such as rents, meals at table service establishments and meals away from home.

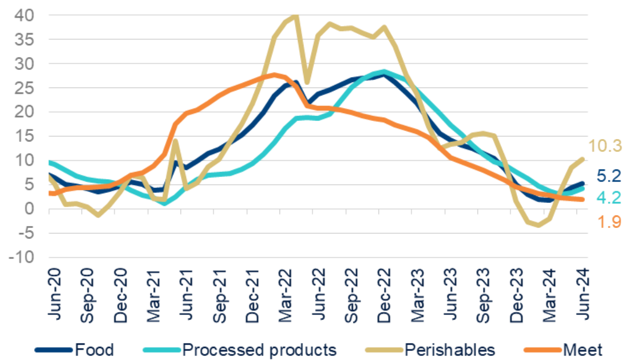
At BBVA Research we expect food inflation to show a slight increase in July, and to start declining in August and September, helped by base effects that, for this pair of months, will generate opposite downward pressures. Meanwhile, non-food inflation will continue its downward trend, still favoured by base effects. However, some uncertainty remains due to an indirect effect of the expected diesel increases on the transport of goods and people, and from the services basket, where rents are expected to maintain high, but more moderate, inflation rates than those seen in the first half of the year. Thus, total inflation is expected to close the year close to 5.4%.

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



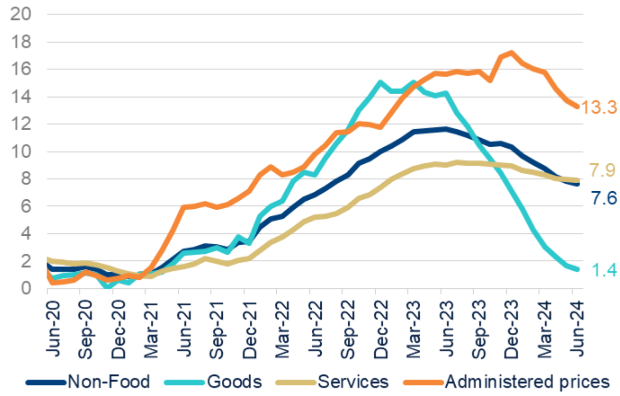
Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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