

Economic analysis

Annual inflation surprised on the upside in April, reaching 5.2%.

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The increase in inflation was explained by the an acceleration in the baskets of administered prices and goods

Monthly inflation in April was 0.66%, higher than analysts' expectations in the Banco de la República's survey (0.47%). With this result, annual inflation stood at 5.16%, 7 bps higher than in March.

- **Annual non-food inflation explained the increase in total inflation observed in April.** The annual variation of this basket in April was 5.3%, 10 bps higher than in March. This result was mainly explained by an acceleration in the administered prices and goods baskets, while the services basket maintained a relatively stable inflation during the month. As a result, the core inflation which is most closely monitored by Banco de la República, excluding food and regulated goods, stood at 4.9% in March, 5 bps higher than in March.
- **The administered prices basket led the upturn in inflation, both in non-food and total inflation.** In April, this basket presented an annual variation of 6.6%, 28 bps higher than in March. This result was due to increases in water supply and sewage services, gas and inter-municipal transportation, the latter related to the Easter tourism season. On the other hand, electricity continued to report lower increases than those observed a year ago, and the annual change in prices was in negative territory in April.
- **Goods maintained an upward trend in their annual variation in April.** The annual variation of this basket stood at 1.1%, increasing by 18 bps compared to March, which completes 4 consecutive months of acceleration in its annual variation, although from still low levels. Within this basket, mixed trends were observed, with most technology-related products showing downward price variations, while other goods such as airline tickets, gold and silver products or watches showed strong upward pressures. Nevertheless, some pass-through of the recent exchange rate depreciation is observed in a context of improved demand for these goods.
- **Services maintained a relatively stable annual price variation in April, breaking a streak of reductions in the last 6 months.** The stability in the annual price variation of this basket was due to the conjunction of trends found within its main components. On the one hand, rents, which represent 25% of the total basket and 59% of services, showed a moderation in their annual variation to 6.2% from 6.7% in March, also accompanied by a moderation, although from higher levels, of co-ownership services. However, on the other hand, items associated with entertainment, tourist packages and food outside the home put upward pressure on the annual variation of the basket.
- **Annual food inflation showed a slight decrease in April. The basket presented an annual price variation of 4.6%, 6 bps lower than that reported in March.** However, there were mixed trends within the basket. Perishable products showed a significant moderation in their annual price variation (142 bps), reaching 2.9% in April, with significant moderations in the annual price variation of fruits and tubers. On the other hand,

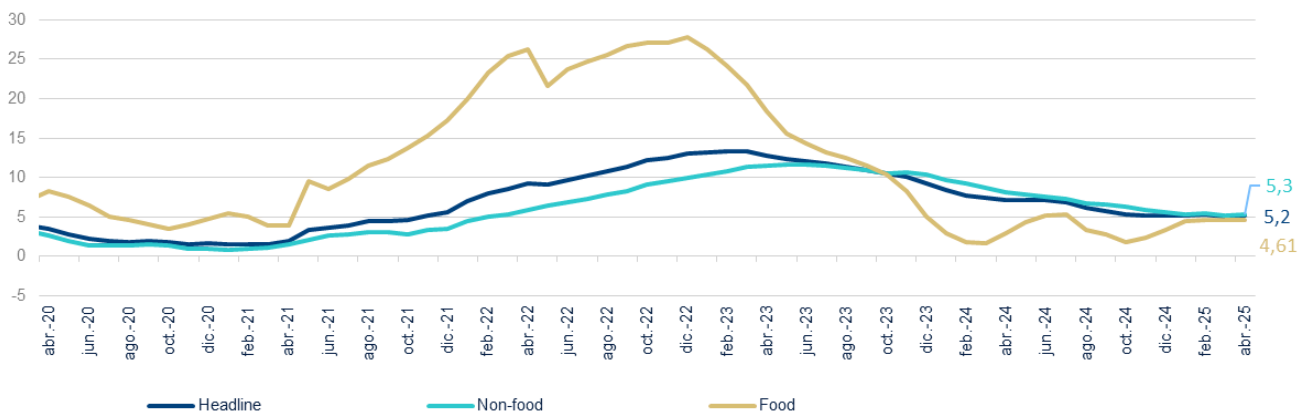
processed products and beef showed an acceleration in their annual price variation (+59bp and +32bp, respectively). In the case of processed products, there was an acceleration in the annual price variation of grains, oils and coffee, all associated with increases in international prices of these products and affected by the recent depreciation of the exchange rate.

In prospect:

- **The April results, both for the surprise and the increase, fuel doubts about the capacity and speed of inflation moderation in Colombia.** As we move towards the second half of the year, the statistical bases begin to dilute and it will be more complex to observe significant moderations in inflation, so this surprise in the April figure will probably lead the average analyst to raise their inflation forecasts for the year and will have some additional effect on expectations derived from debt papers. However, there is still some room for relief on account of the basket of services, mainly through the moderation of annual rent inflation, an item that has an important weight in the total basket. The overall contribution to the decline in services inflation is also conditioned by the behavior of demand, which for the moment has been robust, which could limit, at least in part, the size of the expected moderation.
- **Goods, on the other hand, are already showing a less favorable performance, although they are doing so from low levels. However, their upward trend is expected to continue for the remainder of the year.** The behavior of the basket of goods in the two preceding years was fundamental to support the moderation of headline inflation; however, in 2024 monthly records were already below their historical average, which augured a potential upward pressure towards 2025 in this basket, due to negative base effects. To this phenomenon must be added a gradual reactivation in the demand for these products, which is expected to continue in the remainder of the year, and a somewhat faster depreciation of the exchange rate than anticipated. All in all, this basket will surely continue with an upward trend that will gradually contribute less to reducing total average inflation.
- **Administered prices face a context of high uncertainty, due to both global and local factors.** The behavior of gas, to name one, is a clear example of this situation. Variations in the last three months have been very significant and volatile, with both increases and decreases, which makes it difficult to follow and adds uncertainty to total inflation. On this front, the favorable bases for the reduction of inflation coming from electric energy are coming to an end and we will enter a period of very low bases that may lead, even if energy prices remain at low levels, to increases in the annual variation of prices, which would add to the inflation pressure in the basket by the end of the year. On the other hand, the sharp drop in oil prices worldwide should be a variable that supports the moderation of domestic fuel prices, however, with fiscal imbalances and in particular, with the outstanding debt of FEPEC with Ecopetrol, it is likely that price reductions in gasoline will not materialize to maintain a cross-subsidy with diesel. Despite this, on the expected inflation front, the potential pressure from eventual diesel price increases can be somewhat reduced.
- **In the aggregate, and as we highlighted in March, one data point does not make a trend and it is necessary to wait for new data. Despite this slight increase in inflation in April, BBVA Research continues to expect inflation to have a moderation path in the coming months.** By the end of the year, inflation is expected to be around 4.4%, although it will be subject to great uncertainty due to the evolution of specific shocks such as those associated with gas or energy, the behavior of demand, as well as the gradual dilution of the pressure from persistence, especially in rents. On this balance there is an upward bias, but with

high associated uncertainty. On the monetary policy front, this data would be at odds with the arguments outlined at the April monetary policy meeting, in which the decision to reduce rates was largely based on the moderation of inflation. In our view, inflation expectations are likely to increase somewhat this month, which would put some pressure on BanRep's decisions at the June meeting. However, as we highlighted, one data point does not yet make a trend and it is necessary to wait for more information on the inflation front but also on other relevant factors such as the external and fiscal fronts. Thus, for the time being, we can only conclude that the April inflation figure is a stick in the wheel for the BanRep's new stance but not necessarily a change yet in its recent stance.

Chart 1. **TOTAL, FOOD, AND NON-FOOD INFLATION (ANNUAL VARIATION, %)**



Source: BBVA Research with DANE data

Chart 2. **FOOD INFLATION AND MAIN SUB-BASKETS (ANNUAL VARIATION, %)**

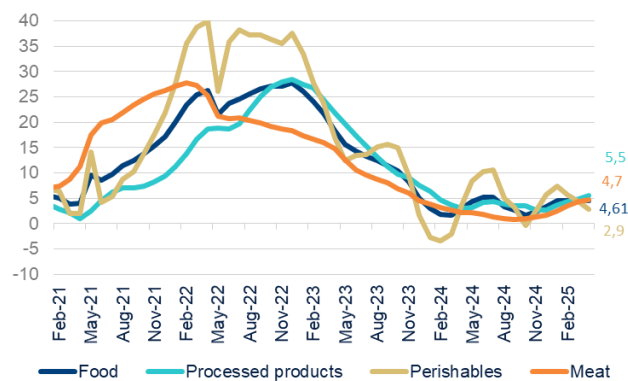
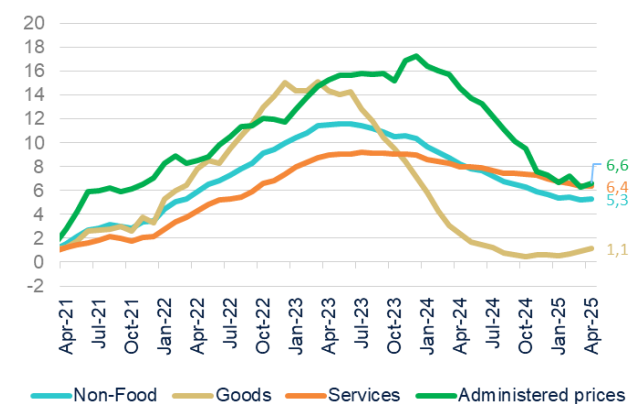


Chart 3. **INFLATION OF MAIN NON-FOOD BASKETS (ANNUAL VARIATION, %)**



Source: BBVA Research with DANE data

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