

Inflation eases in May, reaching 5.05%

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Services and administered prices explain the moderation in inflation in May

Monthly inflation in May was 0.32%, lower than the 0.38% expected by analysts in Banco de la República's survey. With this, the annual variation dropped to its lowest value in 43 months, reaching 5.05% (11 bps lower than April's figure).

- **The moderation in inflation in May was mainly explained by the non-food basket**, which registered an annual variation of 5.1% (16 bps less than that reported in April). Within this basket, the decrease was explained by services and regulated products. Inflation without food and regulated products, closely followed by Banco de la República, stood at 4.8%, 12 bps lower than in April.
- **The annual variation of services stood at 6.1% in May, its lowest since September 2022, with a reduction of 31 bps compared to April.** Within the items that make up this basket, a reduction in the annual variation of rents of 17 bps stands out, continuing the trend of moderation, although at a slower pace than that observed in April. On the other hand, there was a significant correction in items related to tourism and recreation, which had presented strong increases in April, due to the Holy Week season. Finally, food away from home, which maintains high inflation rates, showed a 49 bps easing in the month in the annual variation.
- **Annual inflation of administered prices stood at 6.3% in May, 27 bps lower than in April.** Public utilities continue to be the protagonists in this basket, with electricity and gas showing additional moderations in annual inflation, while water, sewage and garbage presented accelerations in annual inflation. In other items, there was a strong decrease in the annual inflation of inter-municipal transportation, also associated with the end of the Easter vacation season.
- **In the opposite direction to the other two sub-auctions, goods showed a new acceleration in annual inflation, although from low levels, reaching 1.4%** (34 bps higher than in April). Mixed trends were observed in the interior of the country, although some upward pressure was observed in the inflation of tradable goods such as vehicles or clothing and

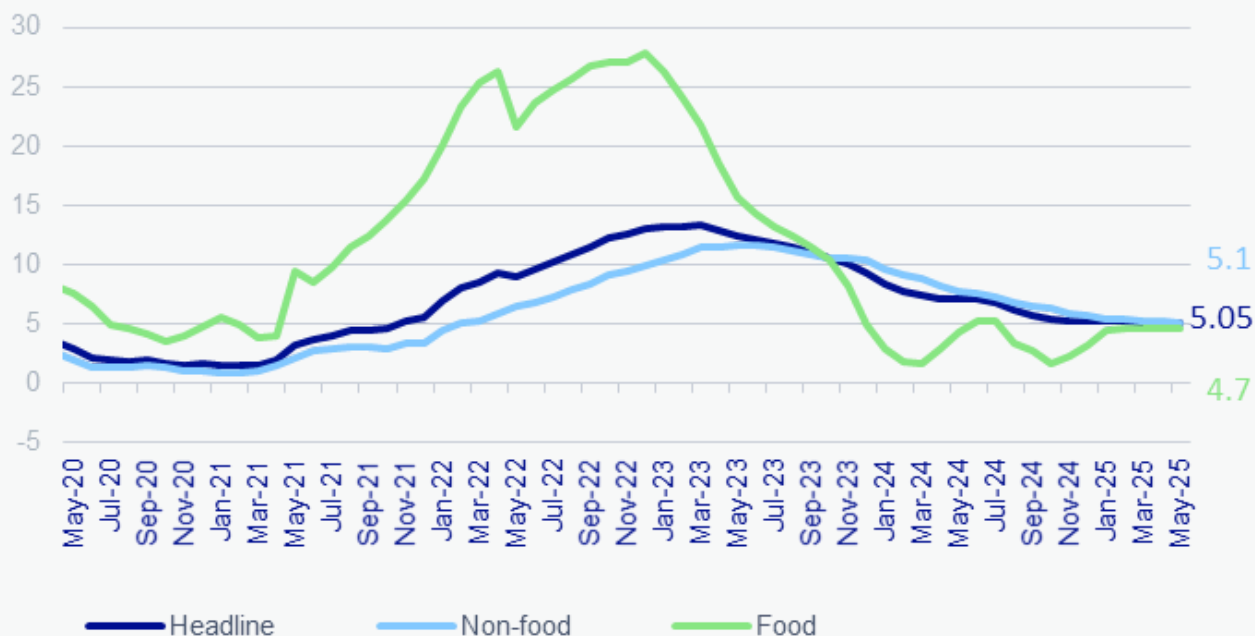
footwear. On the contrary, items such as airline tickets showed a strong decrease in May, a behavior associated with the seasonal cycle of vacation periods in Colombia.

- **Food, on the other hand, presented a slight increase in its annual variation, reaching 4.7% (10 bps higher than in April).** This result was explained by processed foods, which reached an inflation rate of 5.9% (32 bps higher than the previous month). Products such as oils, dairy products and coffee showed a significant acceleration in annual inflation, possibly associated with the increase in international prices of these products. The other two sub-auctions, perishables and meats, showed a slight decrease in annual inflation, although with mixed trends among some products, such as beef with a slight increase and poultry with a significant decrease in annual price variation. Among perishables, there was a strong decrease in the annual price variation of potatoes, bananas and plantains, but upward pressure on tomatoes and carrots.

- **The result for the month of May is favorable, since it corrects the slight rebound observed in April,** partly caused by seasonal factors such as tourist packages and associated items, but also as a result of a moderation in items with high persistence in previous months, such as rents and food away from home. Despite this, the gradual acceleration of goods inflation could play a relevant role in inflation in the second half of the year, limiting the speed of its reduction. Similarly, the lower statistical bases in the second half of the year will limit the relief coming from the regulated sectors. Nevertheless, we reaffirm our forecast of a gradual decline in inflation for the remainder of the year.

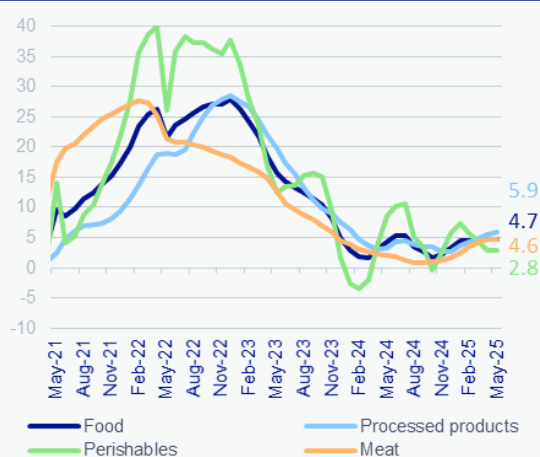
- **May's inflation record keeps the door open for a gradual interest rate cut by the Central Bank, a stance that was threatened by April's inflationary rebound.** Despite this, other factors such as fiscal challenges, global volatility and the resilience of the labor market, especially if this translates into wage pressures, continue to weigh on the Central Bank's decisions. All in all, the balance for the next meeting continues, in our view, to favor a gradual rate cut, although it remains tight.

TOTAL, FOOD AND NON-FOOD INFLATION (ANNUAL CHANGE, %)



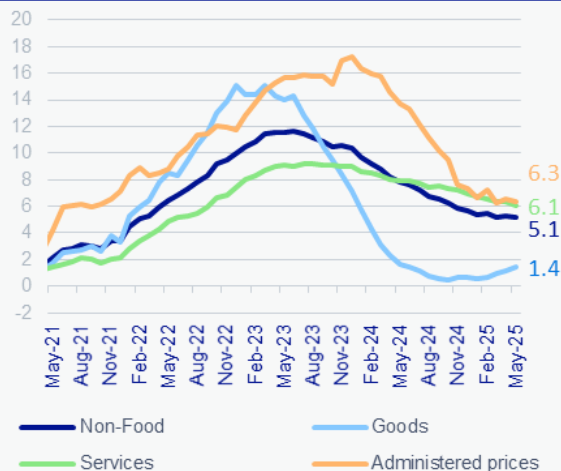
Source: BBVA Research with DANE data

FOOD INFLATION AND MAIN BASKETS (ANNUAL CHANGE, %)



Source: BBVA Research with DANE data

INFLATION OF MAIN NON-FOOD BASKETS (ANNUAL CHANGE, %)



Source: BBVA Research with DANE data

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