

# Inflation increases in July, to 4.9%

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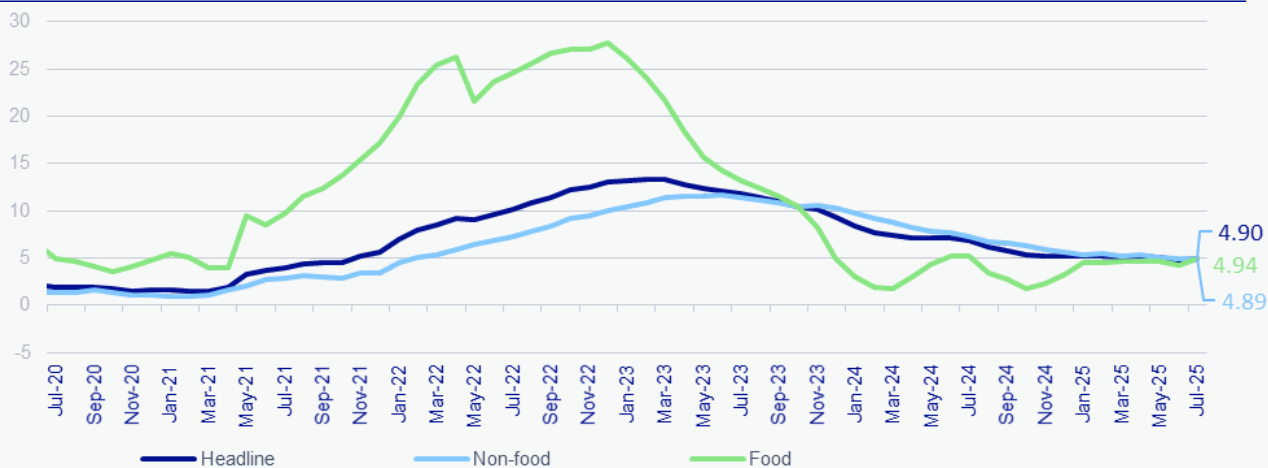
## Food inflation, in particular perishables, pressured inflation upward in July.

Monthly inflation in July stood at 0.28%, above the expectations of analysts (0.18% according to the Central Bank's survey) and BBVA Research's forecast (0.21%). As a result, the annual inflation rate rose to 4.9%, rebounding by 8 basis points compared to June's figure and offsetting one-third of the relief observed in that month (23 bps).

- **The acceleration in inflation in July was mainly driven by food prices**, which recorded a monthly variation of 0.82% and an annual variation of 4.94% (+63 basis points compared to the previous month). Within the food basket, the increase in annual inflation for perishable goods (+165 bps vs. June) stood out, primarily due to sharp rises in fresh fruit prices (+1300 bps year-over-year), tomatoes (+500 bps), and some vegetables and greens. Conversely, potatoes once again showed a sharp monthly decline in price, with a strongly negative annual variation, reaching -46.3%. The other two main food subcomponents also saw increases, although to a lesser extent. Processed foods recorded an annual inflation of 6.1% (+27 bps vs. June), while meat registered 4.7% (+9 bps vs. June).
- **Regarding core inflation, excluding food, there was a slight reduction in the annual variation, which stood at 4.9% (-5 bps vs. June)**. This result was exclusively explained by the regulated items sub-basket. Inflation excluding both food and regulated items—closely monitored by the Central Bank (Banco de la República)—showed a slight uptick, reaching 4.79% (+2 bps).
- **Within core inflation, regulated prices posted an annual rate of 5.2% in July (-27 bps vs. June), the lowest since May 2021**. This moderation was mainly due to the behavior of water supply prices (base effect) and gas (a significant negative monthly variation). In the case of electricity, a slight monthly decline was observed—less than the one seen a year ago—which led to a modest increase in the annual variation. Nevertheless, it remains in negative territory. It is worth noting that electricity tariff schedules in major cities point to upcoming increases, which, not yet reflected in July, are expected to materialize in August.

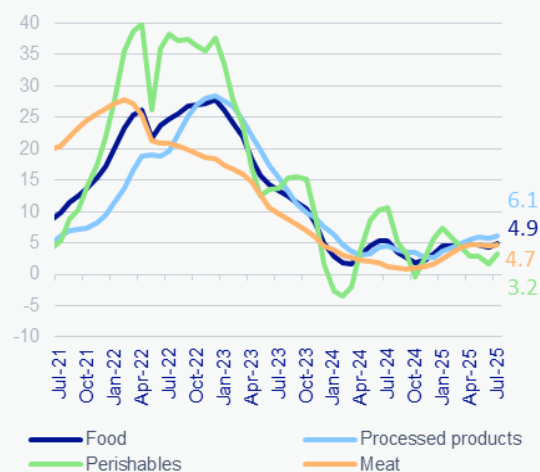
- **Services maintained a stable annual variation at 6.0%.** This result was the outcome of mixed trends. On one hand, rental inflation eased (-14 bps vs. June), although it remains slightly above the average of the past decade for the month of July. On the other hand, inflation for meals outside the home and telecommunications showed some upward pressure. In the case of food services, this could be due to a combination of still-robust demand and potentially rising labor costs. For telecommunications, the increase came from a very low annual base and is not attributed to specific pressures.
- **Goods, meanwhile, registered a new increase, though at a slower pace than in previous months.** Their annual variation stood at 1.7% (+8 bps vs. June), continuing a steady upward trend since January, driven by lagged effects of exchange rate depreciation and recovering demand—particularly for durable and semi-durable goods. Key contributors to this acceleration included pharmaceutical products, household cleaning supplies, and airline tickets. In contrast, personal care products, beer, and pet food showed a moderation in their annual variation.
- **Stripping out highly volatile food items, July inflation reveals a clear downward rigidity.** This stems from a combination of strong ongoing indexation processes, rising labor and industrial costs, market distortions in key categories such as rents, and a surprisingly resilient level of demand—despite a restrictive monetary policy stance.
- **The July inflation result reinforces the cautious stance recently adopted by the Board of the Banco de la República,** given that inflation continues to behave erratically and the downward trend has yet to consolidate so far this year. This becomes even more relevant ahead of the August inflation release, which will be compared against a very low base and could extend the current upward cycle.
- **The bias in inflation forecasts remains to the upside, driven by stronger-than-expected demand and recent cost shocks.** In addition, short-term distortions due to strikes and weather-related road disruptions could create greater-than-expected upward pressure in August. Considering the very low inflation reading in August 2024 (0.0% year-over-year), these factors could push annual inflation back above 5.0%. Overall, the disinflation process in Colombia remains challenging and may take longer than previously anticipated.

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



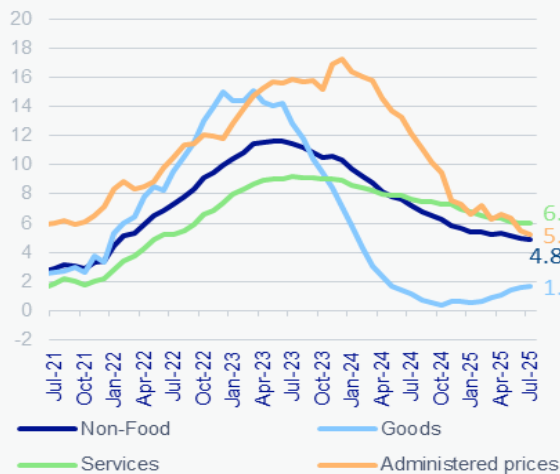
Source: BBVA Research with DANE data

### 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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