

# Inflation of August at 5.1%, second consecutive increase

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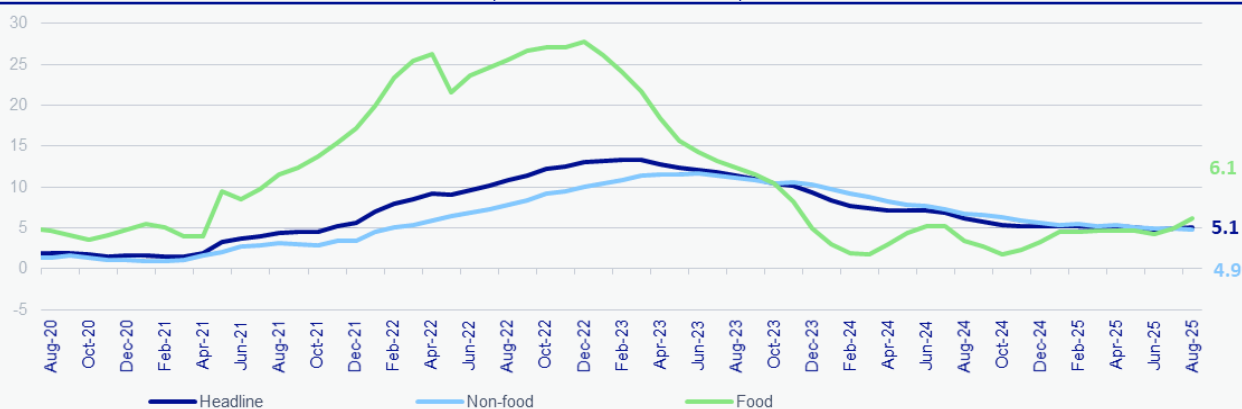
## Base effects, particularly for foodstuffs, pressured inflation to the upside in August.

Monthly inflation in August was 0.19%, in line with analysts' expectations (0.19% according to the survey conducted by the Central Bank) and BBVA Research's forecast (0.19%). This brings annual inflation to 5.1%, an increase of 20 basis points compared to July's figure, and marks two consecutive months of increases in inflation.

- **The acceleration in inflation in August was mainly explained by the behavior of food prices**, with a monthly variation of 0.45% and an annual variation of 6.13% (+119bp compared to the previous month). The sharp rebound is mainly due to a significant base effect, as in the same month of 2024, monthly food inflation had been -0.68%. Among its components, the increase in annual inflation for perishable goods stands out (+324bp compared to July), explained, among other products, by onions (+1619bp in the annual variation compared to July), cassava (+1496bp), plantains (+606bp), and to a lesser extent by some fruits. As observed in previous months, potatoes also helped to contain upward pressure on inflation somewhat, which could add some pressure to inflation in this category and food prices in the future. Processed foods also showed an acceleration in August in their annual inflation of close to 43bp, with this increase associated with products such as coffee, edible oil, and bread. Finally, meat showed a more contained acceleration in the month, with 16bp in annual inflation.
- **As for core inflation, excluding food, there was a slight reduction in its annual variation, standing at 4.9% (-3bp compared to July)**. In August, this result was mainly explained by the behavior of regulated items, although there was also a slight moderation in services. The basket of goods excluding food and regulated items, closely monitored by the Central Bank, showed a slight increase of 3bp in August, reaching 4.8% in its annual variation and remaining relatively stable for several months.
- **Within core inflation, regulated prices showed annual inflation of 5.0% in August (-24bp compared to July)**. This moderation in inflation was mainly explained by the behavior of gas (-293bp compared to July) and tolls (-382bp), both with significant base effects from 2024 when there were significant monthly increases in both items. In the case of electricity, prices fell again in August, contributing to a further moderation in annual inflation for this service.

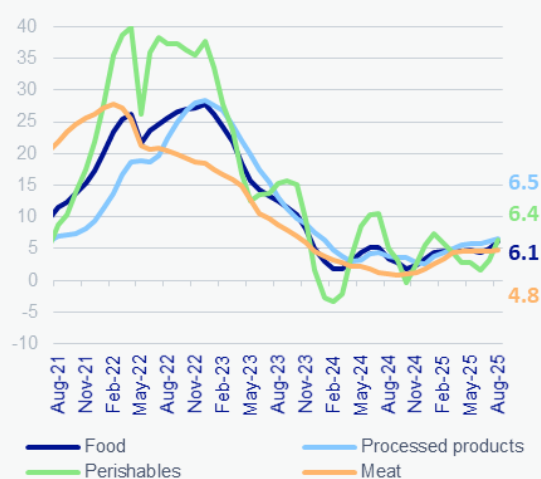
- **Services, meanwhile, showed a slight reduction in annual variation, standing at 59% (-7bp).** This result was mainly supported by a significant moderation in annual rental inflation (-26bp compared to July), with a monthly variation very close to the average for August, a situation that had not been seen for several months. On the other hand, some upward pressure was observed in the restaurant and hotel group, mainly due to pressures on food away from home. This behavior can be associated mainly with the strength observed in household consumption and demand. Despite the observed reduction, the services basket maintains persistent and rigid inflation with very marginal moderation so far this year.
- **Goods, meanwhile, showed a further upturn, this time with greater strength than observed in recent months.** Their annual variation stood at 1.9% (+27bp compared to July), continuing the uninterrupted upward trend since January this year, mainly as a result of possible demand pressures given the behavior of goods consumption reported in the various expenditure statistics available in the country. A marginal effect of global tariff measures and lagging pressures from the depreciation at the beginning of the year cannot be ruled out, although with less impact at this time of year. Among the items that explain this acceleration are personal hygiene products (+106bp), mobile phone equipment (+251bp), and beer (+67bp).
- **As anticipated, inflation in August was significantly affected by base effects from 2024, but it also showed signs of persistence, rigidity, and some demand pressures.** Although this result is mainly explained by food prices, it is expected to mark a new level of resistance in total and core inflation toward the end of the year. In particular, an effect similar to that observed in August is expected in October, when the base of very low inflation in 2024 will once again push inflation upward. On the other hand, it should be noted that core inflation, with fewer base effects present, also remains relatively stable, pointing to greater challenges in achieving a significant moderation of inflation in the coming months.
- **The August inflation figures reinforce the cautious stance recently adopted by the Board of the Central Bank,** not only because of the increase in headline inflation, which is once again above 5.0%, but especially because of the persistence of core inflation and evidence of some specific demand pressures that may complicate the task of reducing inflation going forward. This reinforces the possibility that the BanRep Board will keep rates stable for the rest of the year. Although inflation is not the only variable at play in the Bank's decisions, others such as the strength of the labor market and activity, especially in consumption, support this thesis. On the other hand, however, there is a possible more accommodative stance by the Federal Reserve and a greater than anticipated appreciation of the exchange rate.

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



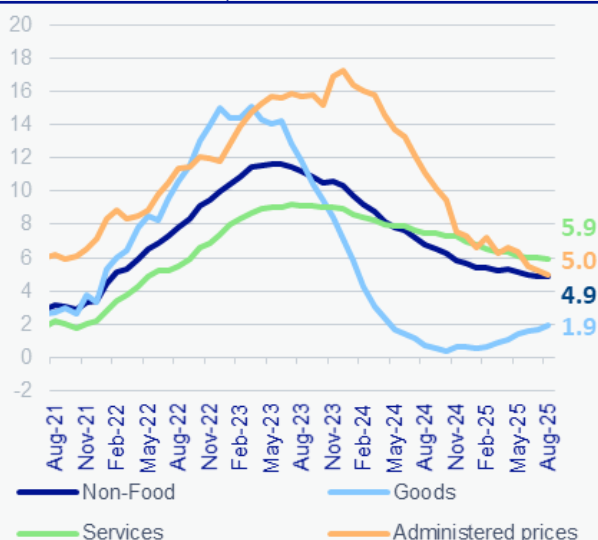
Source: BBVA Research with DANE data

### 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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