

# Services inflation shows that minimum wage pressures remain in place

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April 10, 2026

- Inflation in March came in line with BBVA Research expectations and resumed its upward trend, reaching 5.56% year-on-year, representing an increase of 27 basis points (bps) compared to February and 46 bps relative to the end of last year.
- The increase relative to February was explained by food and services.
- In food, this was driven by the rebound in perishables associated with the rainy season, along with the risk of an El Niño phenomenon in the second half of the year, which could generate additional pressures on this basket.
- In services, pressures are concentrated in items other than rents: inflation excluding rents reached 8.7%, increasing by around 200 bps compared to the end of last year, suggesting that the minimum wage increase continues to put upward pressure on these components, alongside strong domestic demand.
- Looking ahead, we expect inflation to continue rising, reaching 6.5% by year-end, driven by the increase in the minimum wage and the strength of domestic demand, together with additional risks such as the conflict in the Middle East and the higher likelihood of an El Niño event.

Monthly inflation in March stood at 0.78%, in line with BBVA Research expectations (0.83%) and slightly above analysts' forecasts (0.68%). As a result, annual inflation stood at 5.56%, representing an increase of 27 basis points (bps) compared to February and 46 bps relative to the end of last year.

The acceleration in annual inflation was mainly explained by the food basket, whose annual variation reached 6.27%, increasing by 43 bps compared to the previous month. This increase was exclusively driven by the perishables sub-basket, whose annual variation rose to 10.95% (+246 bps), mainly driven by fresh fruits, tomatoes, tree tomatoes, and onions. This behavior is associated with the rainy season, which primarily affects this type of food.

By contrast, processed food and meat inflation showed some easing, standing at 3.57% (-47 bps) and 5.77% (-18 bps), respectively. In the case of processed foods, the moderation was mainly explained by coffee, cheese, sweets, and rice. In the meat category, the easing was mainly driven by pork and fish.

In addition to the pressures stemming from the rainy season, there is an additional risk: the higher likelihood of an El Niño phenomenon in the second half of the year, now estimated at 80%, which could generate further upward pressure on food inflation.

**Meanwhile, inflation excluding food increased to 5.40%, representing a rise of 23 bps compared to the previous month.** This increase was mainly explained by the services sub-basket.

Within services, annual inflation rose to 6.80% (+36 bps), mainly driven by fixed and mobile communication services, meals outside the home, cinemas, domestic services, and residential property management services. In particular, fixed and mobile communication services surprised to the upside, with a monthly variation of 2.96%, well above the pre-pandemic average.

In contrast, rent inflation—an item that accounts for nearly 60% of the services basket—declined by 10 bps to 4.83%, marking three consecutive months of moderation. This suggests that pressures within services are not coming from this component, but rather from other items, likely more sensitive to the minimum wage increase and strong domestic demand.

Indeed, services inflation excluding rents stood at 8.66%, increasing by 78 bps compared to February and 201 bps relative to the end of last year, reaching levels not seen since February 2024. This suggests that pressures associated with the minimum wage increase and domestic demand remain in place and could extend beyond the first months of the year.

In regulated items, annual inflation increased to 4.14% (+9 bps), reflecting offsetting forces within the sub-basket. The decline in gasoline prices was not enough to offset upward pressures from electricity and gas. Although gasoline prices were reduced by COP 500 in March, electricity tariffs increased significantly, with a nationwide monthly variation of 2.78%. In the case of gas, the increase reflects a base effect, as the monthly variation in March this year was 1.39%, compared to -1.42% in the same month last year.

Thus, the slight relief observed in February proved to be temporary. In addition, there is an extra risk associated with the conflict in the Middle East, which has already begun to materialize with a COP 375 (2.5%) increase in gasoline prices in April, potentially adding around 7 bps to inflation. This could also have indirect effects through fertilizer costs and imported gas needs.

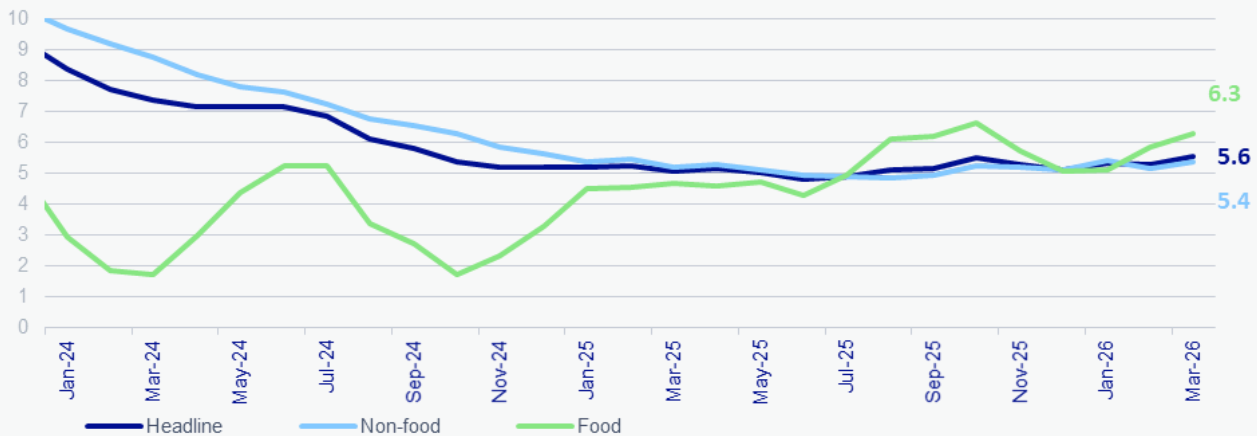
Meanwhile, goods inflation remained relatively stable at 3.06% (+3 bps), reflecting offsetting pressures within the sub-basket. While cleaning products and mobile phone equipment exerted upward pressure, alcoholic beverages saw a decline in inflation following the suspension in late January and subsequent annulment of the economic emergency that had introduced the tax on alcoholic beverages.

In this context, inflation excluding food and regulated items—a measure closely monitored by the Central Bank—continued to rise, reaching 5.79%, representing an increase of 27 bps compared to February and 77 bps relative to the end of last year.

Additionally, March's inflation outcome is consistent with the projections of the Central Bank's technical team in its latest Monetary Policy Report, suggesting that the current monetary policy stance could be maintained in the coming months.

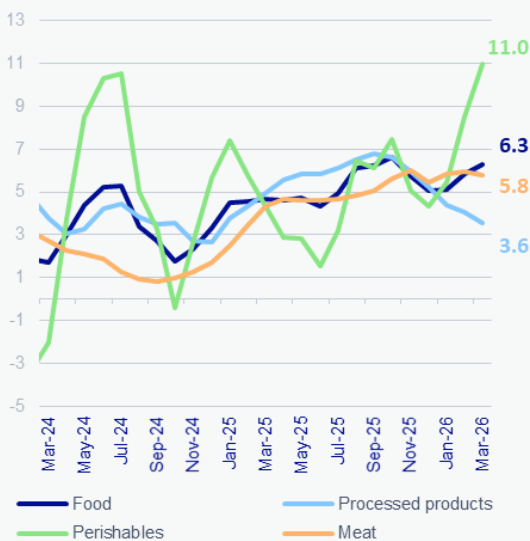
**Thus, we expect inflation to continue rising over the remainder of the year, reaching 6.5%.** In addition to already identified pressures—such as the minimum wage increase and strong domestic demand—there are additional risks, including the conflict in the Middle East and the higher likelihood of an El Niño event in the second half of the year. Indeed, the recent increase in gasoline prices in April shows that some of these risks are already beginning to materialize.

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



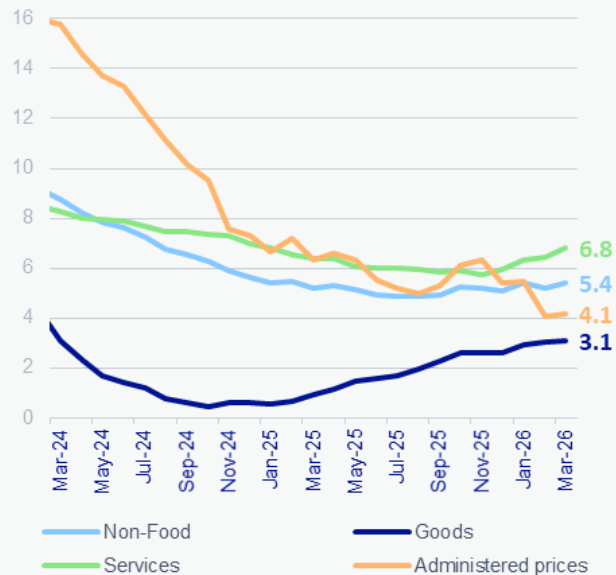
Source: BBVA Research with DANE data.

**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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