

# Food and regulated items drove the increase in inflation in April

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- **Inflation in April came in slightly above analysts' expectations and continued its upward trend, reaching 5.68% year-on-year**, representing an increase of 12 basis points (bps) compared to March and 58 bps relative to the end of last year.
- **The increase relative to March was mainly explained by food and regulated items.**
- **In food, this was driven by the rebound in perishables and meat**, associated with the rainy season, road blockades, and stronger meat demand.
- **In regulated items, the increase was driven by higher gasoline prices (COP 375 increase in April) and gas prices.**
- **Meanwhile, services inflation remained relatively stable, interrupting the upward trend observed during the first months of the year.** While some components, such as residential property management services, continued exerting upward pressure, meals outside the home showed moderation. This suggests that pressures associated with the minimum wage increase remain in place, although with lower intensity in some items.
- **Looking ahead, we expect inflation to continue increasing over the remainder of the year, reaching levels close to 6.5%**, driven by climate-related shocks, the lingering effects of the minimum wage increase, strong domestic demand, and risks associated with the conflict in the Middle East and the El Niño phenomenon.

**Monthly inflation in April stood at 0.78%, slightly above analysts' expectations (0.73%) and below BBVA Research forecasts (0.86%). As a result, annual inflation stood at 5.68%, representing an increase of 12 basis points (bps) compared to March and 58 bps relative to the end of last year.**

**The acceleration in annual inflation was mainly explained by the food basket**, whose annual variation reached 6.71%, increasing by 44 bps compared to the previous month. This behavior was mainly driven by the perishables and meat sub-baskets, whose annual variations rose to 11.81% (+86 bps) and 6.20% (+44 bps), respectively. In the case of perishables, the strongest pressures came from fresh fruits, tree tomatoes, and milk. Meanwhile, in the meat category, the increase was exclusively explained by beef. These increases may be associated with the rainy season, road blockades registered during the month, and stronger domestic meat demand, supported by improvements in Colombians' purchasing power. Likewise, processed

food inflation showed a slight increase and stood at 3.67% (+11 bps), mainly driven by eggs, bread, and fried snacks.

Looking ahead, **risks to food inflation remain elevated**. On the one hand, the conflict in the Middle East could continue exerting pressure on fertilizer costs. On the other hand, the high probability of an El Niño phenomenon during the second half of the year could generate additional pressures on food prices. Although this phenomenon is initially expected to be moderate, the probability of it reaching strong or very strong intensity increases toward the last quarter of the year.

**Meanwhile, inflation excluding food increased slightly and stood at 5.45%, representing an increase of 5 bps compared to the previous month.** This behavior was mainly explained by regulated items.

**In regulated items, annual inflation increased to 4.35% (+21 bps)**, mainly driven by higher gasoline prices (COP 375 increase in April) and gas prices. In the case of gas, although there is a base effect that partially contributed to the increase, the monthly variation of this component in April was high (2.13%). By contrast, electricity and water showed a decline in annual inflation. In particular, after the sharp monthly increase observed in electricity prices in March (2.78%), the monthly variation in April was virtually zero.

**Risks to regulated inflation also remain significant.** The conflict in the Middle East continues exerting pressure on international fuel prices and, in fact, in May there was already an additional increase of COP 400 in gasoline prices and COP 200 in diesel prices in Colombia. The increase in gasoline prices has a direct effect on inflation, adding around 7 additional bps to headline annual inflation. In the case of diesel, the impact would be more indirect, through higher logistics and transportation costs, which could later be passed on to consumers through higher final prices. Additionally, the conflict in the Middle East could also generate additional pressures through higher imported gas needs. This becomes especially relevant in a context where the probability of an El Niño phenomenon remains high, which could reduce reservoir levels and increase the need to rely on thermoelectric generation, most of which operates with gas.

**In goods, annual inflation increased to 3.14% (+8 bps)**, mainly explained by cleaning products, mobile phone equipment, pet food, and furniture. By contrast, vehicle prices continued to show moderation, a downward trend that has been observed since December last year. Pressures on goods inflation may be associated with the persistence of strong domestic demand, also supported by the favorable performance of the labor market during the first months of the year. However, part of these pressures may have been offset by the appreciation of the Colombian peso, whose average exchange rate in April stood at COP 3,618, below the COP 3,718 observed one month earlier.

**Meanwhile, services inflation remained relatively stable at 6.77% (-3 bps)**, a result that is somewhat surprising after the strong pressures observed during the first three months of the year associated with the minimum wage increase. This relative stability reflected offsetting dynamics within the sub-basket. While some items, such as residential property management services, continued exerting upward pressure, meals outside the home showed moderation in inflation. In

fact, the restaurants and hotels division registered in April a monthly variation significantly below those observed during the first months of the year. The monthly variation of this component stood at 0.34%, a level very similar to the pre-pandemic average.

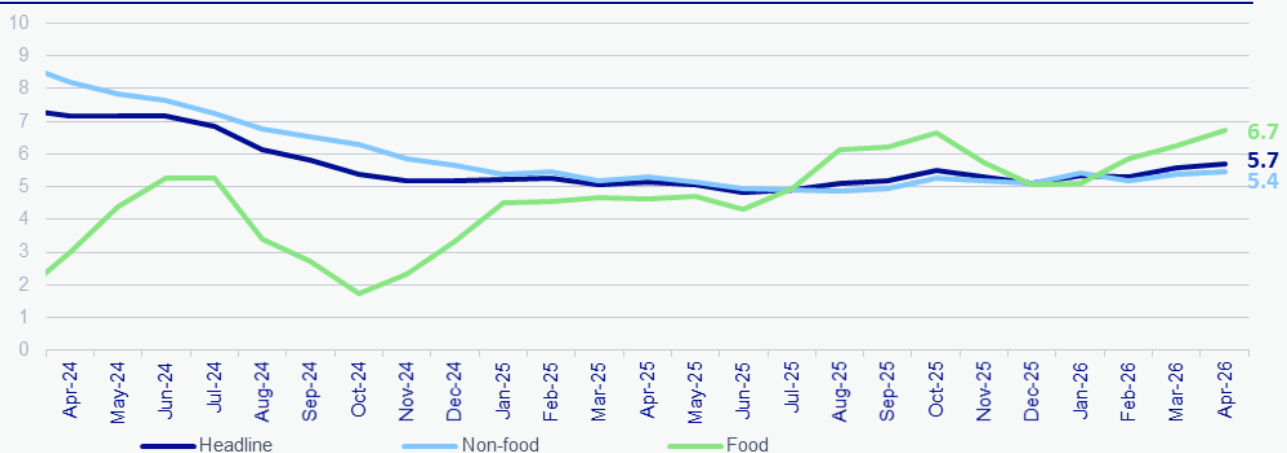
Likewise, annual rent inflation continued to decline, falling by 3 bps to 4.81%, marking four consecutive months of moderation. In this context, services inflation excluding rents also declined by 4 bps, standing at 8.62%, although it still represents an increase of 197 bps relative to the end of last year.

Even so, other items, such as residential property management services, cinemas and theaters, domestic services, and hairdressers, continue showing increases, suggesting that pressures associated with the minimum wage increase remain in place, although with lower intensity in some items.

**In this context, inflation excluding food and regulated items —a measure closely monitored by the Central Bank— remained stable at 5.79%.** This level significantly exceeds the inflation target and has accelerated markedly so far this year, although it shows slight relief that allows for a pause in the monetary policy adjustment cycle while waiting to confirm its broader trend.

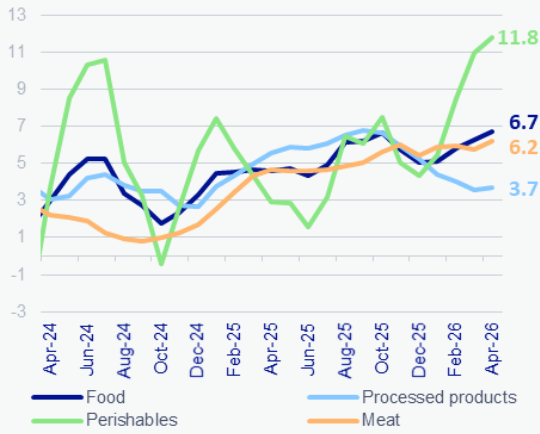
**We expect inflation to continue increasing over the remainder of the year, reaching levels close to 6.5%**, driven by climate-related shocks, the lingering effects of the minimum wage increase, strong domestic demand, and risks associated with the conflict in the Middle East and the El Niño phenomenon.

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



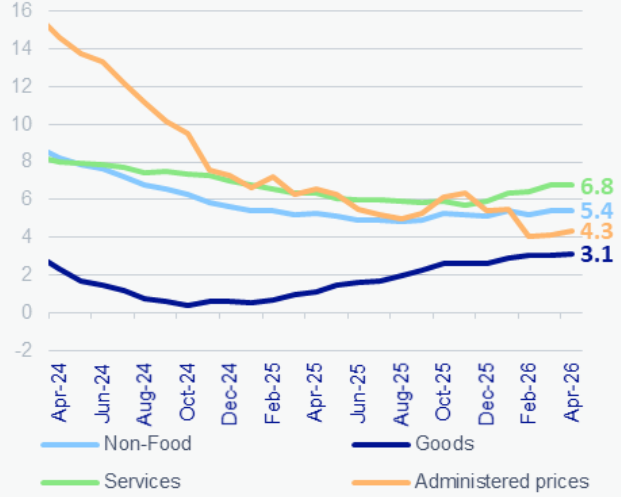
Source: BBVA Research with DANE data.

**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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