

# Inflation continues to accelerate in May to 5.84%: regulated items and services lead the increase

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- **Inflation in May came in line with BBVA Research expectations and continued its upward trend, reaching 5.84% year-on-year**, representing an increase of 16 basis points (bps) compared to April and 74 bps relative to the end of last year.
- **The increase relative to April was mainly explained by regulated items and services.**
- **In regulated items, the increase was driven by higher gasoline prices (COP 400 increase in May), electricity tariffs, and water prices.**
- **In services, the increase was driven by airfares, package holidays, and rents.** In the case of the first two components, this behavior may be associated with the approaching holiday season. Meanwhile, rent inflation reversed the deceleration trend observed during the first months of the year and increased to 4.89% year-on-year (+9 bps compared to the previous month) in May. This behavior may be reflecting demand pressures in a context of limited housing supply. However, it is still too early to determine whether rents will begin an upward trend or whether what was observed in May corresponds to a temporary phenomenon.
- **Looking ahead, we expect inflation to continue increasing over the remainder of the year, reaching levels close to 7.0%**, driven by the lingering effects of the minimum wage increase, strong domestic demand, the imminent occurrence of an El Niño phenomenon during the second half of the year, and risks associated with the conflict in the Middle East.

**Monthly inflation in May stood at 0.47%, in line with BBVA Research expectations and slightly below analysts' forecasts (0.52%). As a result, annual inflation stood at 5.84%, representing an increase of 16 basis points (bps) compared to April and 74 bps relative to the end of last year.**

**The acceleration in annual inflation was exclusively explained by the non-food basket**, whose annual variation stood at 5.79%, increasing by 35 bps compared to the previous month. This behavior was driven by the increase in the regulated items sub-basket and, to a lesser extent, in services.

**In regulated items, annual inflation increased to 5.19% (+85 bps)**, mainly driven by higher gasoline prices (COP 400 increase in May), electricity tariffs, and water prices. In the case of electricity, the increase was concentrated mainly in Medellín, where the monthly variation reached 5.65%. Meanwhile, gas tariffs showed a slight correction, with a monthly variation of -0.10%, after registering significant increases during the previous two months (1.39% in March and 2.13% in April).

Although no changes have been announced for gasoline and diesel prices in June, the conflict in the Middle East continues to exert pressure on international fuel prices, suggesting that further upward adjustments may be required in the coming months. Additionally, the combination of this conflict and the imminent occurrence of an El Niño phenomenon during the second half of the year could generate additional pressures on gas and electricity tariffs.

**In services, annual inflation increased to 7.04% (+27 bps)**, breaking the stability observed in April and resuming the upward trend seen during the first quarter of the year. This acceleration was mainly explained by airfares, package holidays, rents, cable and network television subscriptions, and communication and internet services. In the case of airfares and package holidays, this behavior may be associated with the approaching holiday season.

**Meanwhile, rents showed a change in trend. After four consecutive months of moderation in annual inflation, rent inflation increased to 4.89% (+9 bps) in May.** In fact, the monthly variation of this component accelerated to 0.67%, standing above its pre-pandemic average. This behavior may be reflecting demand pressures in a context of limited housing supply. However, it is still too early to determine whether rents will begin an upward trend or whether what was observed in May corresponds to a temporary phenomenon. Therefore, it will be important to monitor the evolution of this component over the coming months.

**Likewise, services inflation excluding rents increased to 9.08% (+45 bps), representing an increase of 243 bps relative to the end of last year.** This behavior is consistent with domestic demand that remains dynamic and a labor market that continues to be robust, and it also suggests that the lingering effects of the minimum wage increase remain in place.

**In goods, annual inflation remained relatively stable at 3.13% (+1 bp)**, reflecting offsetting forces within the basket. While cleaning and maintenance products and mobile phone equipment exerted upward pressure, private vehicles and personal care products showed moderation in annual inflation. The behavior of cleaning and maintenance products, mobile phone equipment, and private vehicles is not surprising, as these components have maintained the same trend over recent months.

**In this context, inflation excluding food and regulated items—a measure closely monitored by the Central Bank—also increased to 5.99% (+20 bps).** This result also breaks the stability observed in April and constitutes a signal that inflationary pressures persist, reinforcing the arguments for a possible increase in the policy rate at the June meeting.

**Meanwhile, food inflation declined and stood at 6.04%, representing a reduction of 67 bps compared to the previous month and breaking the upward trend observed since the**

**beginning of the year.** This behavior was mainly explained by perishables and, to a lesser extent, processed foods.

**In perishables, annual inflation declined to 9.95% (-187 bps),** following four consecutive months of significant increases associated with the effects of the rainy season. This moderation is consistent with a recovery in food supply once this shock has passed. The relief mainly came from tomatoes, plantains, onions, cassava, and fresh vegetables and legumes.

**In processed foods, annual inflation declined to 3.07% (-60 bps),** mainly driven by coffee, edible oils, and sugar. Meanwhile, meat continued to exert upward pressure, particularly beef. Inflation in this category increased to 6.74% (+53 bps).

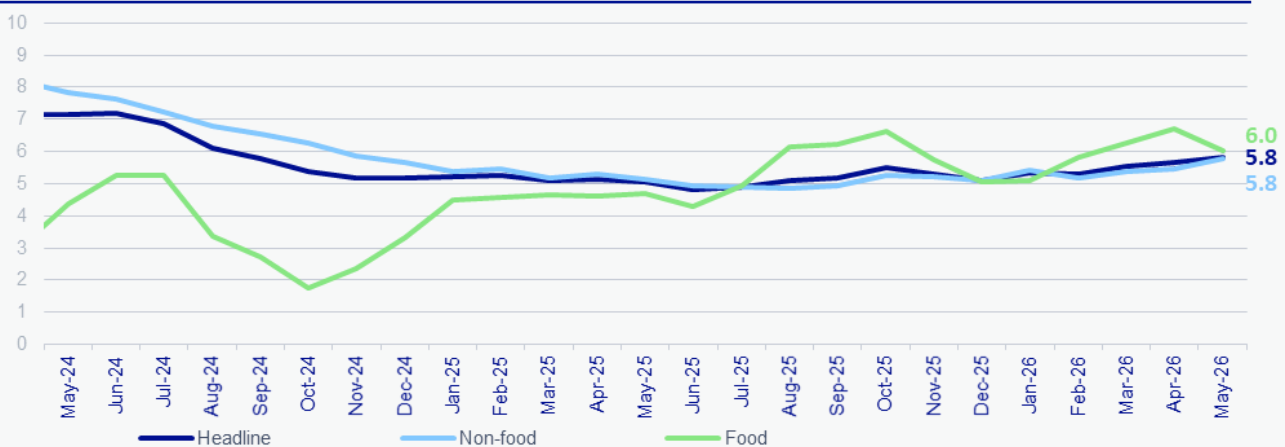
However, the imminent occurrence of an El Niño phenomenon during the second half of the year could generate new pressures on food prices.

During May, the National Oceanic and Atmospheric Administration (NOAA) increased the probability of an El Niño phenomenon materializing between May and July of this year to 82%, and the probability of it extending through the period between December this year and February next year to 96%. Additionally, the most likely scenario is that the phenomenon will reach strong or very strong intensity.

Furthermore, the conflict in the Middle East continues to push international fuel prices upward, making further increases in gasoline prices likely in the coming months.

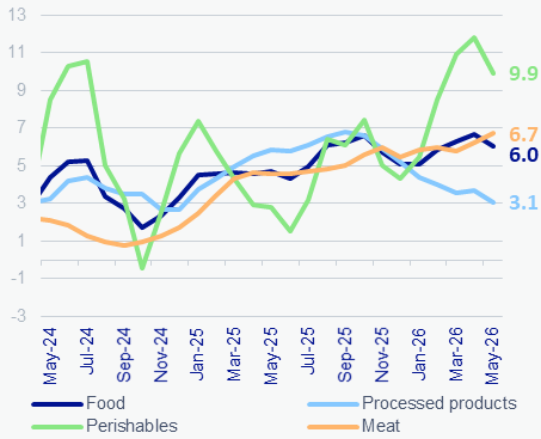
**Therefore,** together with the lingering effects of the minimum wage increase and strong domestic demand, **we expect inflation to continue increasing over the remainder of the year, reaching levels close to 7.0%.**

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



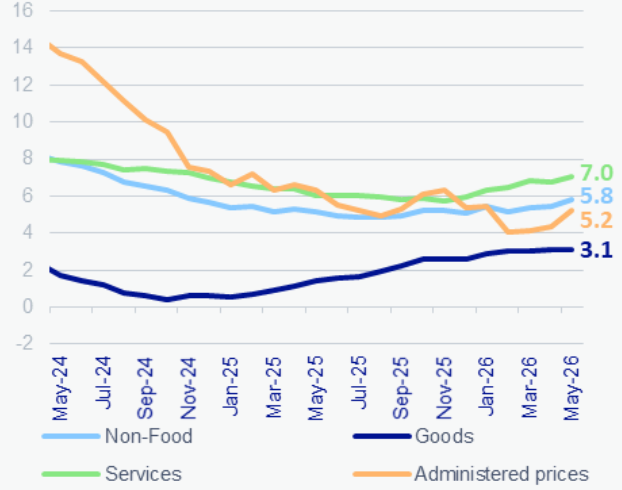
Source: BBVA Research with DANE data.

**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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