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Annual inflation resumes its upward trend in August and reaches 6.24%

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- **Annual inflation resumed its upward trend in August and stood at 6.24%,** 21 bps above July and 114 bps above the level observed at the end of last year.
- **The acceleration relative to July was explained by both food and the non-food basket.**
- **In food, the increase was mainly driven by perishables,** particularly potatoes and, to a lesser extent, vegetables, dried pulses, and tomatoes.
- **Inflation excluding food completed six consecutive months of increases, driven by services and regulated items.** In services, the main pressures came from communication and television services, rents, package holidays, and air transport. In regulated items, the increase in electricity tariffs stood out.
- **Risks to inflation remain elevated, both in food and regulated items.** The El Niño phenomenon could generate renewed pressures on food prices and electricity and gas tariffs.
- **We expect inflation to continue its upward trend in the coming months and close 2026 at 7.0%,** in a context marked by the potential lingering effects of the earthquake, the materialization of the effects of the El Niño phenomenon, strong domestic demand, and risks stemming from the conflict in the Middle East.

Monthly inflation in August stood at 0.39%, above BBVA Research expectations (0.23%) and analysts' forecasts (0.26%). **As a result, annual inflation resumed its upward trend and stood at 6.24%, representing an increase of 21 basis points (bps) compared to July and 114 bps relative to the end of last year.**

The acceleration in annual inflation was explained by both the food and non-food baskets.

On the one hand, annual food inflation increased to 6.10%, 28 bps above the level recorded in the previous month. This behavior was mainly driven by perishables, whose annual inflation increased to 10.80% (+97 bps). The main pressures came from potatoes and, to a lesser extent, vegetables and dried pulses, and tomatoes. In the case of potatoes, a base effect also amplified the increase in annual inflation. As a result, potato prices completed four consecutive months of increases. In contrast, plantains, cassava, and onions recorded significant relief.

Looking at monthly inflation in perishables (1.91%), fresh fruits made the largest contribution to the increase, followed by potatoes and vegetables and dried pulses. Some of the areas affected by the recent earthquake are relevant to the country's supply of fruits and vegetables. Therefore, part of the pressures observed on perishables prices during August could be associated with disruptions stemming from the earthquake.

In processed foods, annual inflation remained relatively stable at 2.36% (+3 bps), reflecting offsetting forces within the sub-basket. While rice exerted upward pressure, coffee continued to show moderation and completed nine consecutive months of declines. Meanwhile, annual meat inflation declined slightly to 7.30% (-7 bps), mainly due to the behavior of beef, whose price fell for the first time after twenty consecutive months of increases.

We believe food inflation could continue increasing over the remainder of the year, particularly as the effects of the El Niño phenomenon materialize. According to the National Oceanic and Atmospheric Administration (NOAA), El Niño conditions intensified during August and there is a probability of more than 90% that the phenomenon will reach very strong intensity during the Northern Hemisphere fall and winter of 2026-2027. We expect its effects on food prices to begin materializing more strongly during the fourth quarter.

On the other hand, annual inflation excluding food increased to 6.28% (+20 bps), completing six consecutive months of increases. This behavior was driven by both the services and regulated items sub-baskets.

In services, annual inflation increased to 7.17% (+20 bps), mainly driven by communication and television services, rents, package holidays, and air transport. In the case of rents, the monthly variation stood at 0.38%, above both its pre-pandemic average and the 0.26% recorded in the previous month. As a result, annual rent inflation increased to 4.96% (+12 bps). However, pressures were not limited to rents: services inflation excluding rents also increased, reaching 9.25% (+27 bps).

In regulated items, annual inflation increased to 6.77% (+33 bps), mainly driven by electricity tariffs and, to a lesser extent, sewerage tariffs. In the case of electricity, significant monthly increases were recorded in several of the main cities: Medellín (4.04%), Barranquilla (3.4%), Cali (3.43%), and Bogotá (1.87%). In addition, a base effect contributed to amplifying the increase in annual inflation.

Electricity tariffs completed four consecutive months of positive monthly variations, with more pronounced increases over the last two months. This behavior could be reflecting the effects of the El Niño phenomenon, which may begin to pass through to electricity tariffs before affecting the prices of other components, such as food. In contrast, water and gas tariffs showed moderation. With this result, inflation in regulated items has now completed six consecutive months of increases.

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In goods, annual inflation remained relatively stable at 3.25% (+2 bps), reflecting offsetting forces within the basket. While personal hygiene items and cleaning and maintenance products exerted upward pressure, other personal care products and men's clothing showed moderation.

Although prices of personal hygiene items and cleaning and maintenance products have increased throughout the year, they showed a more marked acceleration in August, which could be associated, among other factors, with stronger demand resulting from needs generated by the earthquake emergency. Meanwhile, men's clothing had been showing significant upward pressures in previous months, so the moderation observed in August could partly reflect a reversal of those increases.

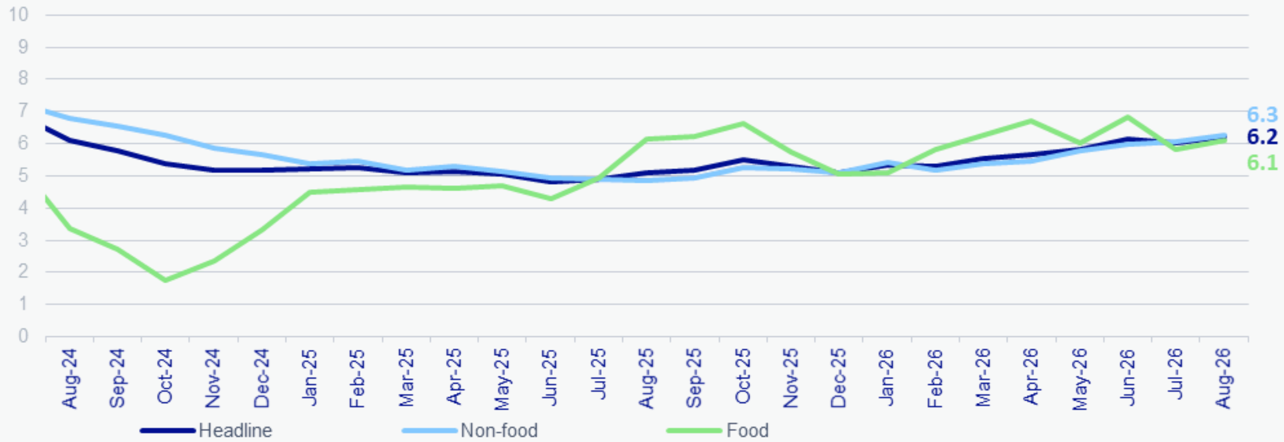
Against a backdrop of a marked appreciation of the Colombian peso, persistent pressures on goods inflation suggest that strong domestic demand could be partially offsetting the disinflationary effect of the exchange rate.

Risks to inflation excluding food remain elevated, particularly for regulated items. These stem not only from the conflict in the Middle East and its upward effect on fuel prices, but also from the El Niño phenomenon, which could generate additional pressures on electricity and gas tariffs due to greater thermal generation and import requirements, with potential second-round effects on sectors such as industry and transportation.

Annual inflation excluding food and regulated items —a measure closely monitored by the Central Bank— increased to 6.12% (+16 bps).

In conclusion, the moderation in inflation observed in July was temporary, and inflation rebounded again in August to a level not seen since July 2024. The increase came from food as well as services and regulated items. **Looking ahead, we expect inflation to continue its upward trend in the coming months and close 2026 at 7.0%,** in a context marked by the potential lingering effects of the earthquake, the materialization of the effects of the El Niño phenomenon, strong domestic demand, and risks stemming from the conflict in the Middle East.

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



Source: BBVA Research with DANE data.

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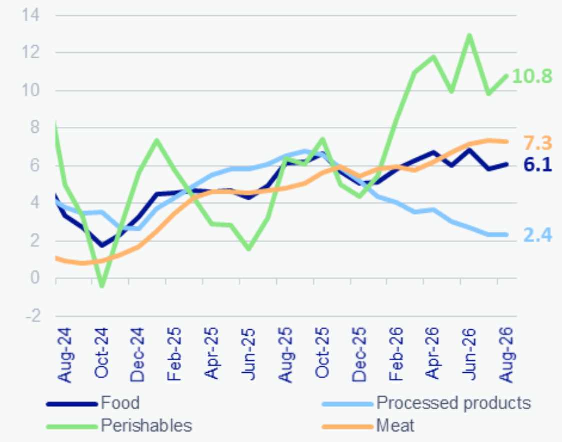
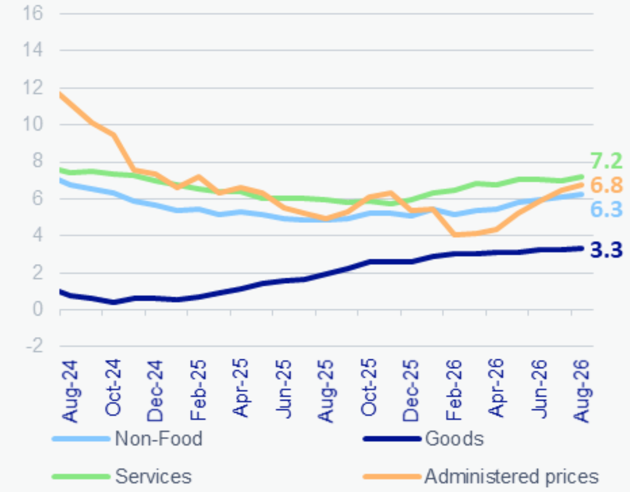
FOOD INFLATION AND MAIN BASKETS
(ANNUAL CHANGE, %)



Source: BBVA Research with DANE data.

INFLATION OF MAIN NON-FOOD BASKETS
(ANNUAL CHANGE, %)



Source: BBVA Research with DANE data.

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