

Latam Daily: Colombia Inflation Neared 2% Y/Y in April

- **Colombia: Annual inflation again neared 2% y/y in April as major prices continued to normalize**

COLOMBIA: ANNUAL INFLATION AGAIN NEARED 2% Y/Y IN APRIL AS MAJOR PRICES CONTINUED TO NORMALIZE

April price data, published late on Monday, May 5, by DANE, put sequential inflation at 0.59% m/m sa, once again well above both market consensus (BanRep and Bloomberg surveys: 0.32% m/m) and Scotiabank Economics' own projection (0.29% m/m). Foodstuff inflation, along with the lodging and utility groups, contributed the most to the positive surprise, which took monthly inflation up from 0.59% m/m in March. This moved annual headline inflation up from 1.51% y/y in March to 1.95% y/y in April (chart 1), just below the 2–4% y/y target range—which puts in sight our 3.1% y/y forecast for end-2021.

Core inflation stood at 0.30% m/m sa, also above the BanRep market survey consensus of 0.22% m/m and up from 0.39% m/m in March. This reflected further upward price pressures amongst key components of Colombia's consumer basket—a signal of the strengthening economic environment and further normalization of prices. April's month-on-month inflation rate was the highest for any April in the last five years and 17 bps above the mean of the previous five years. Annual core inflation increased from 1.06% y/y in March to 1.56% y/y in April (chart 1, again).

Looking at the April numbers in detail, 10 out of 12 sectors contributed positively to the monthly inflation print (charts 2 and 3). Some prices strengthened upward trends observed in previous months, pointing to a consistent re-setting of markets affected by the pandemic.

- **Food and non-alcoholic beverage prices** made the strongest contribution to month-on-month inflation with 34 bps on a sectoral price gain of 2.09% m/m: meat (11 bps and 5.3% m/m); potatoes (6 bps and 18.8% m/m); and fruits (3 bps and 3.14% m/m) were the main contributors of the group. Export dynamics in the meat sector were the main driver of its upward price pressures. Nationwide strikes in recent days are likely to lead to significant increases in some prices in May owing to blockages in key national roads.
- **The lodging and utilities group** was the second-largest sectoral contributor to April's inflation reading (14 bps on a 0.43% m/m rise in prices).
- **Utility charges** made a 9 bps contribution to April's month-on-month inflation owing mainly to adjustments in electricity fees. Rental fees added 5 bps, which is a major signal of some normalization in prices that have been heavily affected by the pandemic.
- **Other sectors, such as transport (5 bps and 0.38% m/m), education (4 bps and 0.86% m/m), and restaurants and hotels (4 bps and 0.37% m/m), also added to April's price gains.** Education's contribution

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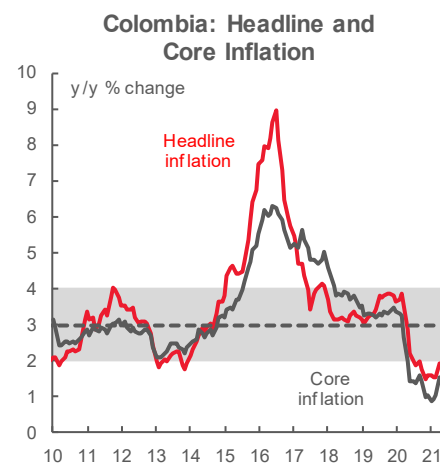
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Chart 1



Sources: Scotiabank Economics, DANE.

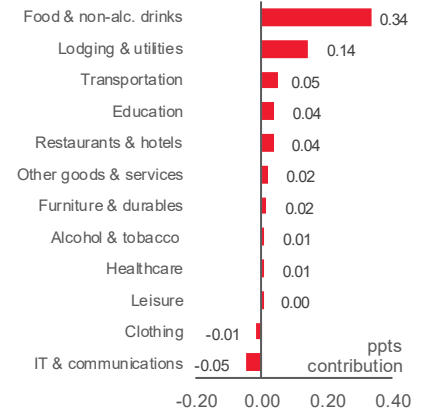
represented a special case since, in a normal April, these prices would be unchanged; however, the sector is currently moving rates and fees back toward its pre-pandemic levels.

- On the negative side, prices for IT and communications fell (-5 bps and -1.13% m/m) owing to better fees on mobile plans.** A new player in the sector has launched its service at lower prices and incumbent companies have responded by lowering their tariffs as well. In the same vein, clothing group prices also softened (-1 bps and -0.37% m/m) amid weaker demand due to the lockdowns during weekends in Colombia's main cities.

Looking at annual inflation across major categories, price gains accelerated across the board. Goods inflation increased to 1.21% y/y (versus 1.05% y/y in March), services inflation also rose by 36 bps from 0.89% y/y to 1.25% y/y, and regulated-price inflation accelerated by 127 bps to 2.79% y/y, the highest print since April 2020. As previously noted, core inflation rebounded: ex-food inflation came in at 1.56% y/y (up about 50 bps from March), while inflation exclusive of food and regulated prices increased by 30 bps from March to 1.24% y/y in April. Low-income households continued to face greater annual inflation (2.28% y/y) than high-income households (1.45% y/y).

April's inflation numbers provided clear signals that key prices are normalizing as both the headline and core measures accelerated. The April results increase the likelihood that annual headline inflation will move above BanRep's 3% y/y target by the end of 2021. At present, the upper bound of the central's bank forecast for year-end inflation is 3.5% y/y, which supports our expectation that the BanRep Board will initiate a hiking cycle later this year. We anticipate that policymakers will keep the benchmark rate on hold at 1.75% until at least September 2021, when we project a first hike to be implemented.

—Sergio Olarte & Jackeline Piraján

Chart 2
Colombia: Consumer Price Index Components


Sources: Scotiabank Economics, DANE.

Chart 3
Colombia: Consumer Price Index Components


Sources: Scotiabank Economics, DANE.

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