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## Latam Daily: Colombian Inflation Sends Mixed Signals

- **Colombia: Headline inflation reflects mixed signals; moderating food inflation and higher core inflation**

Markets are starting out the week in narrow ranges, with a slight risk-off tinge in early European trading, amid limited information over the weekend as we look ahead to a busy schedule of central bank decisions/speakers, and key data in the US. SPX futures are practically unchanged, US yields are down 3/5bps lower across, while crude oil trades 1.5% weaker alongside a ~0.6% drop in iron ore and 1.2% in copper—as China sets a ‘conservative’ 5% growth target for this year. Latam currencies are following the dollar-positive mood, with the MXN and BRL off 0.1/2% while the CLP lags pre-market as commodities additionally weigh for a 0.6% drop.

The South and North American calendars are bare of major market movers today, while Colombian trading will open to a slightly softer than expected inflation print released on Saturday (see below)—elevated core inflation points to BanRep extending its hiking cycle at its late-March meeting with a 25bps increase. President Petro took to Twitter yesterday to blame high interest rates for a fall in household consumption, in response to an article citing economic uncertainty as the reason.

Later this week, we get inflation data from Chile, Mexico, and Brazil (see [Latam Weekly](#)). Mexican data published this morning showed a large 9.4% y/y increase in gross fixed investment in December, beating out all estimates submitted to Bloomberg (over a full percentage point above the highest at 8.3%). The investment backdrop in Mexico is looking a bit better than perhaps we had expected, and news around incoming investment by Tesla combines for more optimism.

We're also keeping a close eye on political developments this week. The Constitutional reform process continues in Chile with the Expert Commission (24 members)—tasked with producing the guidelines for the new text—and the Technical Admissibility Committee (12 members)—who will ensure that the new constitution respects twelve institutional pillars—selecting respective presidents and vice-presidents to lead the teams. Meanwhile, former president Pinera said that there are “tremendous flaws” in the government’s pension and tax reforms plans, and that he will collaborate in the new constitutional process from the sidelines; he also ruled out another presidential run.

In Peru, Andean communities will reportedly resume road blockades on Tuesday that would impact a highway used by the Las Bambas, Antapaccay, and Constancia mines. Peru’s president Boluarte will also be questioned by prosecutors this week regarding the deaths of protesters over the past few months.

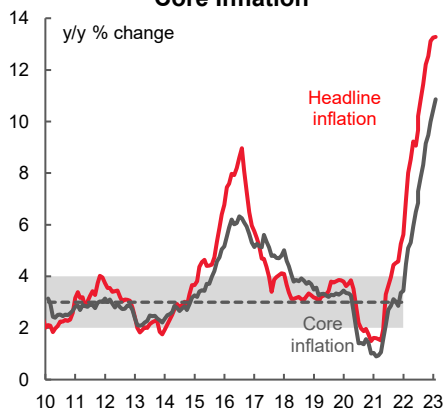
—Juan Manuel Herrera

### COLOMBIA: HEADLINE INFLATION REFLECTS MIXED SIGNALS; MODERATING FOOD INFLATION AND HIGHER CORE INFLATION

Colombia’s pace of monthly CPI inflation was 1.66% m/m in February, according to DANE data released on Saturday, March 4. The result was broadly in line with the BanRep survey (1.62% m/m), but below Scotiabank Economics’ projection of 1.78% m/m. Food, education, and housing accounted for 57% of total inflation, increasing respectively by 1.60% (0.32ppts contribution), 8.50% (0.31ppts), and 0.95% (0.29ppts). Although the monthly inflation print shouldn’t significantly surprise markets, the figure remained high from a historical perspective, representing 1.86x the pre-pandemic average for the month of February.

Chart 1

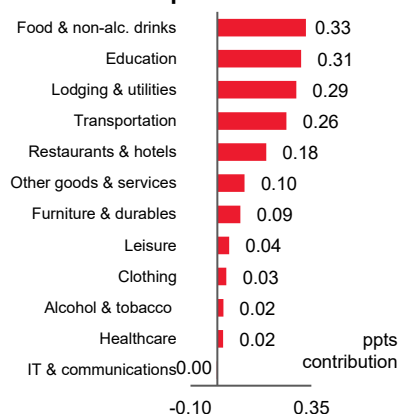
**Colombia: Headline and Core Inflation**



Sources: Scotiabank Economics, DANE.

Chart 2

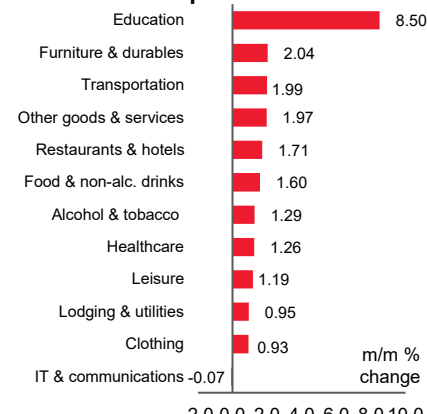
**Colombia: Consumer Price Index Components**



Sources: Scotiabank Economics, DANE.

Chart 3

**Colombia: Consumer Price Index Components**



Sources: Scotiabank Economics, DANE.

Year-on-year inflation increased from 13.25% to 13.28% in February (chart 1), reaching a new high since March 1999. Having said that, the headline acceleration was the smallest in nine months, suggesting that inflation is hovering around a ceiling. Food inflation is contributing to headline inflation “stability” due to an atypically-high base effect. Still, core inflation is still accelerating, going from 10.73% to 10.86% in February, mainly reflecting indexation effects, higher gasoline prices, and the lingering effect of FX depreciation on tradable goods prices. Inflation ex-food and regulated prices increased from 9.78% to 10.04%.

February’s inflation again reflected the significant impact of indexation effects in Colombia on services prices, especially education fees and others such as rent fees and restaurants. In the same vein, the late reaction to increasing gasoline prices also contributes to delaying the peak of inflation in Colombia.

Inflation data reinforce expectations of a potential final rate hike of 25bps on March 31<sup>st</sup>. There is still a chance that inflation will hit a ceiling in Q1-2023, mainly due to a historically-high statistical base level, however, given that inflation on average will remain high during the year (~12%), the central bank must keep an atypically-high monetary policy rate. Ahead of the March meeting, economic activity deceleration should motivate BanRep to slow down the pace hiking and deliver a 25bps hike, but with guidance that a wait-and-see phase has begun.

Looking at February’s numbers in detail, eleven out of the twelve topline components of the CPI basket contributed positively to monthly inflation (charts 2 and 3).

The highlights are:

- Foodstuff inflation was the main contributor to monthly inflation (+1.60% m/m and 0.32ppts contribution). Although inflation remained elevated, statistical base effects contributed to moderate annual food inflation. We expect this to continue in the coming months.
- In February, price gains were led by fresh fruits (+7.49% m/m), milk (+3.72% m/m), processed meats (+7.36 % m/m), bread (+2.78% m/m) and bananas (+4.23% m/m). Eight out of the 59 food items contracted during the month. Despite the still challenging context for agriculture due to high input prices, climate, and bottlenecks due to landslides, we think that statistical base effects will continue contributing to stabilizing annual inflation in this category.
- The education group was the second main contributor to monthly inflation (+8.50% m/m, and +0.31ppts). In February, schools and universities usually report price increases. This time the increase was significant vs. history, reflecting indexation in labor costs but also reflecting increased demand for those services, given that after the pandemic, educational institutions suffered a negative demand shock.
- The third most significant contributor to headline inflation was the shelter and utilities group (+0.95% m/m, and +0.29ppts). Rent fees and other expenses related to residential management increased significantly owing to the indexation effect to the Dec-2022 inflation reading in the case of rents and to the minimum wage in the case of residential-related expenses. Utilities and electricity fees increased again (+1.40% m/m), however, this month we also saw strong contributions from gas (+3.46% m/m) and from garbage disposal (+4.14% m/m).

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March 6, 2023

- The transportation group contributed 0.26ppts to headline inflation. Gasoline prices (1.73% m/m), transport system fees (+2.13% m/m), and the cumulative effect of FX depreciation (reflected in vehicle prices) are leading to still strong upside pressure in prices in this group.
- In February, goods inflation remained stable at 14.38%, while services inflation accelerated from 8.0% to 8.35%. Regulated prices accelerated to 13.85% y/y from the previous 12.81% y/y last month due to higher public transport fees, utilities, and gasoline prices.
- Inflation for the low-income population stood at 14.34% y/y, still well above the country average of 13.28% y/y.

—Sergio Olarte, María (Tatiana) Mejía & Jackeline Piraján

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