LATAM Market Update

- Colombia: CPI Inflation stood at 0.67% m/m in February, above market consensus; Core inflation remained close to 3.3%

Monthly inflation stood at 0.67%, annual inflation rate increased by 10 bp to 3.72%. The figure came in above consensus (according to BanRep’s survey 0.62%), and closer to our expectation of 0.70%. Education, housing, and foodstuff explained 76% of total inflation. Increases in education fees are usually in February, while housing-related services increments were on the back of higher utility fees. Annual inflation remained above BanRep’s target (3%).

February’s CPI inflation was led by increases in education inflation (+4.78% m/m) due to the usual price adjustments in tuition fees at the beginning of the year; foodstuff (+0.93% m/m), and housing (+0.47% m/m). Foodstuffs inflation came in fairly above market expectations and was higher than January’s foodstuffs inflation; it was explained by low supply of some fruits (+4.91% m/m), rice (+5.37% m/m), tomatoes (14.33% m/m) and vegetables (6.20% m/m), in some cases due to disruption in agricultural activities because of low temperatures in previous weeks. On an annual basis, foodstuff inflation is still high and stood at 5.87% y/y, increasing 67bp compared with the last month. We think food prices would converge to 3% by the end of 2020, however, the dry season would continue to affect food inflation in the next couple of months.

Housing inflation contributed around 23% of total inflation on the back of a significant increment in utility fees, such as energy prices (+1.50% m/m), gas bill (+2.32% m/m), and garbage collection (+3.94% m/m). On an annual basis, regulated prices stood at 5.93% (previously: 4.90%). Additionally, rent fees increased by 0.26% m/m, which could be considered a moderate adjustment. Indexation effect, in our opinion, was pretty similar to the previous year.

Regarding the exchange rate depreciation effect, tradable goods ex-food inflation increased by 2 bps to 2.51% y/y, and accelerated 1.70 pps compared with a year ago (Feb-2019 tradable goods inflation was 0.80% y/y); we saw some mild adjustment in tradable prices such as vehicles. We think the FX pass-through has been moderate but aligned to the historical elasticity of tradable goods, which could reduce the risk of a sudden inflation pick-up in the future.

Core inflation measures did not change much and are close to the central bank target. Ex-food inflation came in at 3.30% y/y (+1 bps from the previous month), while ex-food and regulated inflation increased 2 bps to 3.08% y/y. Core inflation’s behaviour shows a moderate indexation effect on prices; we still think that core inflation will remain close to 3%.

Bottom line, February’s inflation reflected some seasonal effects in groups such as education. However, foodstuffs and regulated prices are factors that would maintain inflation in the upper half of the central bank’s target range. February’s result would trigger mild adjustments in short term inflation expectations, especially since core inflation looks anchored around 3%. Having said that, our base-case scenario of MPR normalization makes sense, however, given the
recent Federal Reserve’s decision of cutting rates, we think that MPR hikes will take longer. Additionally, since inflation would remain above 3% in the forthcoming months, due to food inflation and recent depreciation in the exchange rate, we think that a rate cut discussion is out of the table.

—Sergio Olarte & Jackeline Piraján

Sources: DANE, Scotiabank.
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