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Latam Daily: Colombia CPI Close to Consensus, Consumer Confidence Index at -14.1 pp

- **Colombia: Headline inflation interrupted the slowing down process, while core inflation is at the lowest level since August 2022 supporting the case for a 50bps rate cut by BanRep; Consumers perceive less favourable economic conditions and become more pessimistic about the country's future**

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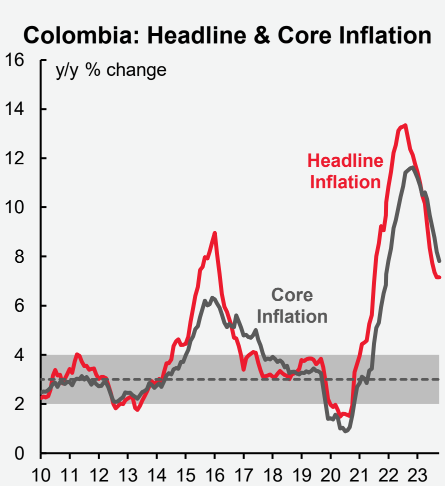
COLOMBIA: HEADLINE INFLATION INTERRUPTED THE SLOWING DOWN PROCESS, WHILE CORE INFLATION IS AT THE LOWEST LEVEL SINCE AUGUST 2022 SUPPORTING THE CASE FOR A 50BPS RATE CUT BY BANREP

Monthly CPI inflation in Colombia stood at 0.43 % m/m in May, according to DANE data released on Tuesday, June 11th. The result was close to economists' expectations of 0.41% m/m, according to BanRep's survey, and below Scotiabank Colpatria's expectation of 0.54% m/m. Annual headline inflation remained stable at 7.16% (chart 1), reflecting headwinds from some statistical base effects in food prices. Core inflation (ex-food) decreased from 8.19% y/y in April 2024 to 7.82% y/y in May, while inflation excluding food and energy went down by 24bps to 6.13% y/y, the lowest level since July 2022. In June, headline inflation could stagnate again due to a low statistical base effect in food inflation; however, we expect inflation to continue going down after that, closing the year around 5.6% and achieving the target range again by mid-2025.

Yesterday's inflation data anticipates that further progress on prices could become more challenging, which supports the scenario for a cautious BanRep, however, we see core inflation reduction as good news for the central bank. Our base case scenario is for a rate cut of 50bps at the next monetary policy meeting (June 28th), however, we think that core inflation results, the still-weak economic data, and a very weak picture from the current account balance would at least maintain the discussion for faster rate cuts on the cards.

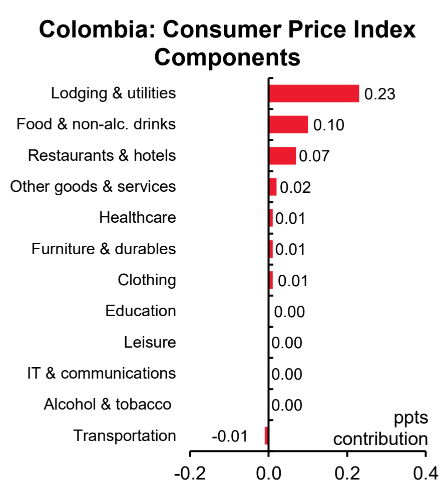
During April, two groups accounted for 77% of total monthly inflation (charts 2 and 3). The lodging and utilities group is once again the main contributor, with a monthly inflation rate of 0.74% m/m and 23bps of contribution. Rent fees increased less than in April, while the increase in utility prices was led by electricity and gas. The second main contributor was the food group, which provides a mixed picture of fresh fruits at a lower price and acceleration in other agricultural products that are being shocked by the atypical climatic conditions. In June, we expect to see further pressure on food prices, which will play against the headline inflation correction.

Chart 1



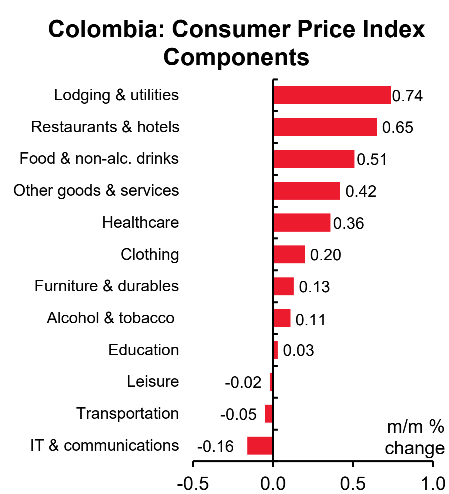
Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

The mixed picture of goods and services inflation continues. Goods-related inflation decreased from 2.35% to 1.69%, below the inflation target, but explained mainly by the disinflation of tradable goods. In the case of services, the picture is still challenging. Inflation decreased from 8.01% to 7.95%, still well above the target for the central bank but affected mainly by the indexation in key prices such as rent fees.

All in all, yesterday's results are expected to continue supporting a cautious approach from the central bank. We expect BanRep will cut the monetary policy rate by 50bps to 11.25% in a split vote, however in July we see the possibility of an acceleration in the cutting cycle amid further weak economic data and further progress on inflation expectations.

Complementary highlights:

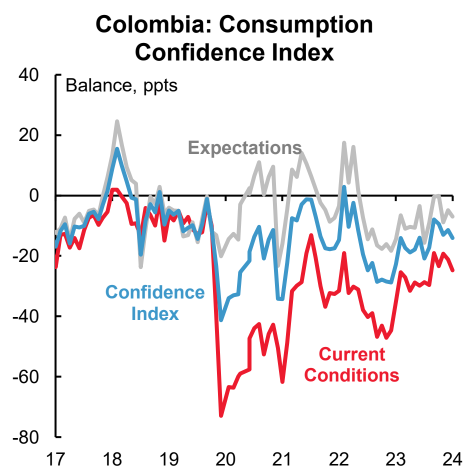
- The lodging and utilities group contributed 23bps to headline inflation. Rent fees indexation normalized in May after the rebound observed in April. Either way, it is demonstrated that indexation is the main headwind for inflation reduction. Regarding utility fees, this month's electricity and gas led to price increases. It could be related to the impact of the "El Niño" phenomenon; however, we expect this impact to vanish in forthcoming months.
- Food inflation was 0.51% m/m, contributing 10bps. Monthly food inflation in May showed a mixed picture: some of the items with high pressures in the past are starting to show price reductions. Fresh fruits fell by 2.94%, interrupting four months in a row of significant increases. On the other side, other key prices continued surging. The main contributors to the upside were potatoes (+20.47% m/m), bananas (+4.55% m/m) and chocolate (+6.7% m/m). Food inflation is expected to continue at relatively high levels, which will be the main reason that play against the further correction in headline inflation. In June 2023, food inflation was -0.53% m/m, and is expected to be replaced by a positive number in 2024.
- The rest of the groups exhibited moderate changes. Inflation of restaurant services was the third main contributor of May; however, it is a combination between more expensive food, utilities, and indexation of the labour cost and probably rent. Tradable goods inflation is at the lowest level since Q1-2021, and still key prices such as vehicles are in a significant contractionary mood, which reflects the combination between a weaker demand a lower FX level.

—Jackeline Piraján

CONSUMERS PERCEIVE LESS FAVOURABLE ECONOMIC CONDITIONS AND BECOME MORE PESSIMISTIC ABOUT THE COUNTRY'S FUTURE

The Consumer Confidence Index (CCI) stood at -14.1 percentage points in May 2024, a drop of 2.7 percentage points compared to the April balance (-11.4 p.p.). The result is explained by a decrease in both indicator components, that is, a fall in the Expectations Index and the Economic Conditions Index regarding current economic conditions (chart 4).

Chart 4



Sources: Scotiabank Economics, Fedesarrollo.

The Expectations Index reflects a less optimistic forecast about the country's economic conditions in twelve months. Consumers' perspectives showed an improvement regarding the conditions of their homes; however, expectations about the country's conditions showed a significant deterioration, going from a balance of 9.2 p.p. to -14.1 p.p., which could be associated with a modest economic growth result in the first quarter of the year that derived from concerning perspectives among many economic sectors.

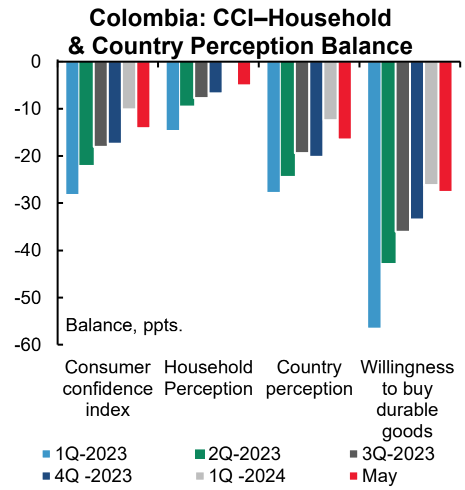
The current Economic Conditions Index fell by 3.6 p.p. to -24.8%, this being the lowest balance of the year. Throughout the year, consumers had improved their perception of their economic conditions; however, the macroeconomic adjustment has taken longer than anticipated, so consumers have re-evaluated their prospects, reflecting the effects of the economic slowdown, inflation that remains far from the target range, and a credit cost that has taken longer to fall. Additionally, the willingness to buy durable goods has possibly been affected by a lower dynamic of consumer credit, despite more favourable prices for this type of tradable goods, while the willingness to buy housing showed a significant increase of 6.3 p.p., due to more favourable conditions for those who wish to purchase a home, such as lower financing costs for this segment (chart 5).

Although consumer confidence has shown several ups and downs this year, on average, the balance is around 16 p.p. better than in 2023. Despite economic activity still running below potential, we expect that BanRep's continuity of the easing cycle could leverage better consumer credit dynamics and, in turn, a reactivation of consumption in goods-related markets. For now, we are maintaining our call for a 50bps rate cut at the monetary policy meeting on June 28th.

Looking at the May details:

- Consumers are more negative about the country's economic future. The Consumer Expectations Index stood at -7.0% in May, which corresponds to a decrease of 2.1 p.p. compared to the previous month. Consumers improved their expectations about the economic conditions of their homes in twelve months; however, their expectations of the country's economic conditions decreased by 4.9 p.p., reaching -14.1%.
- Consumers perceive current economic conditions as less favourable and decrease their willingness to purchase durable goods. The Economic Conditions Index was -24.8% in May, falling 2.1 p.p. compared to the previous month. The willingness to buy furniture and household appliances decreased by 1.9 p.p. compared to April 2024. The willingness to buy a vehicle remained relatively stable with a slight increase of 0.3 p.p., while the willingness to buy a home registered an increase of 6.3 p.p., reaching -34.2%.

Chart 5



Sources: Scotiabank Economics, Fedesarrollo.

- Consumer confidence declined at all income levels. In May, the high-income households recorded a decrease of 4.0 p.p. to -46.2%, the middle group dropped 1.8 p.p. to -10.5%, and the lower group showed a decrease of 3.3 p.p. to -14.6%.
- The Consumer Confidence Index decreased in four out of the five cities analyzed compared to April 2024. Cali had the most significant decrease with -9.0 p.p., followed by Medellín with -7.1 p.p., -1.1 p.p. in Bogotá, and -0.3 p.p. in Barranquilla. Meanwhile, Bucaramanga registered an increase of 12.9 p.p.

—Jackeline Piraján & Daniela Silva