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Working Papers from the

Board of Directors

Banco de la República

Monetary Policy Report

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Monetary Policy Report

Economic Studies Division

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I. External Context and Balance of Payments

1. The data available suggest that growth of the country's trading partners would have remained very modest, even more than what was forecast in the June Inflation Report.

2. As for the United States, performance in the first half of the year was significantly lower than expected. For the second quarter, the great discrepancy of the forecasts was the behavior of investment, especially in residential, and the change in inventories. Household consumption continues to support growth. Headline inflation increased in September, standing at 1.5%, mainly due to the increase in the prices of energy. Inflation, as measured with the consumption deflator, is close to the Fed's target (2.0%).

3. The future short-term bonds' rates suggest (with a probability close to 70%) that the Fed's benchmark interest rate will be higher than the current in December of 2016.

4. In the euro zone, the industrial production index in August and the PMI to October showed upturns, and the consumer confidence index to October remained at relatively high levels. On the contrary, the monthly sales indicator to August exhibited a slowdown, which suggests a less dynamic consumption. As for consumer inflation, it rose to 0.4% annually in August, while core inflation remained at 0.8%. In this context, the stance of the European Central Bank (ECB) remained unaltered.

5. Chinese GDP growth for the third quarter stood at 6.7% on a yearly basis, as in the two previous quarters. The economy continues with the adjustment process towards a model more supported by household consumption. Although growth is close to the Chinese government's target, there are concerns regarding a sharp deceleration and probable financial instability.

6. In Latin America, the figures for economic activity in August suggest mediocre growth rates for Chile, Mexico, and Peru. Negative growth rates are expected for Brazil, Ecuador, Venezuela, and Argentina. Inflation has fallen in the region, and for Chile, Mexico and Peru it is within the target ranges of their monetary authorities. In Brazil, although inflation relented in September, it is still away from its target range.

7. The currencies of the main countries of the region exhibited a relative stability in October, except for the Mexican peso, which appreciated *vis-à-vis* the US dollar, correcting the depreciation observed the previous month.

8. The volatility of the financial markets remained low during the month, as did the interest rates of bonds from developed economies and the CDS of Latin America.

9. So far in October, the price of oil has remained above USD 50 per barrel (Brent) thanks to the fact that production cuts have continued in some countries, inventories have fallen in the United States, and the announcement by the OPEC regarding an agreement to freeze production in its November meeting.

10. The prices of other goods exported by the country have also risen in recent months. Coal stands close to USD 80 per tonne, a level similar to that in 2014. With this, so far this year, there has been recovery in the country's terms of trade.

a. Exports

11. In August, the value of exports in US dollars registered a yearly 7.0% growth due to increases in mining goods (4.3%) and in the group of other exports (19.3%). On the other hand, goods of agricultural origin fell 11.0%. To date, exports have fallen 22.2% mainly as a result of the fall in the sales of mining goods (-30.7%) **(Table 1).**

Table 1: Behavior of Exports in US dollars

August 2016			
	Annual Variation	Main contributing items:	
		Item	Annual variation of the item
Total	7.0%		
Agricultural goods	-11.0%	Coffee	-23.7%
Mining goods	4.3%	Coal Oil Refining	45.7% 124.9%
Other exports*	19.3%	Chemical Products Machinery and Equipment Vehicles and others (transport)	24.9% 90.6% 80.1%
Accumulated value for January-August 2016			
Total	-22.2%		
Agricultural goods	-7.2%	Coffee	-18.1%
Mining goods	-30.7%	Oil Coal	-46.0% -9.5%
Other exports*	-11.5%	Chemical Products Graphic and Editorial Arts (paper, cardboard, and their products)	-13.9% -33.0%

In this item, the majority of destination groups increased, with the following standing: 11.8% towards the US, 37.1% to Ecuador, and 37.0% towards the rest of the ALADI (excluding Ecuador and Venezuela).
Source: DANE

12. So far this year, the price index for total exports registered a significant drop (-20.3%), while the volume index has fallen moderately (-2.8%). This would suggest that the value of exports continues falling mainly as a result of the reduction in prices, from which the most significant has been that of mining products (-25.9% on a yearly basis in the accumulated value to August).

13. According to the preview for foreign trade by DIAN, exports excluding oil (and its derivatives) fell 6.4% on a yearly basis in September. (According to this source, they had grown 18.4% in August).

b. Imports

14. In August, CIF imports in US dollars registered an annual 4.5% fall due to setbacks of external purchases of capital goods (-14.6%) and consumer goods(-3.6%). So far this year, imports have fallen 20.5% **(Table 2).**

Table 2: Behavior of Imports in US dollars

August 2016			
	Annual Variation	**Main contributing items:**	
		Item	**Annual variation of the item**
Total	-4.5%		
Capital Goods	-14.6%	Transport Equipment	-46.0%
		Industrial Machinery	-22.6%
Raw materials	2.2%	Fuels	10.5%
		Food Products (for industry)	18.8%
Consumer Goods	-3.6%	Private Vehicles	-18.4%
		Other non-durable Consumer Goods	-16.9%
Accumulated Value for January-August 2016			
Total	-20.5%		
Capital Goods	-30.7%	Transport Equipment	-64.5%
		Industrial Machinery	-28.1%
Raw materials	-14.9%	Fuels	-24.4%
		Chemical and Pharmaceutical Products	-13.0%
		Mining Products (for industry)	-19.5%
Consumer Goods	-15.7%	Private Vehicles	-26.6%
		Pharmaceutical Products and Toiletries	-10.2%

Source: DANE

15. The price index for total imports so far this year registered a 13.9% fall, while the volume index has fallen 7.7%. This would show that imports fall by a combined effect of reductions in prices and quantities.

16. According to the foreign trade preview by DIAN, CIF imports in September recorded a 15.7% yearly fall.

II. Projections of External Variables

a. External Growth Scenarios
Baseline or more likely scenario (Table 3)

17. Growth of the country's trading partners for 2016 were revised downwards in the present report. The countries that would exhibit a lower dynamism than forecast in the previous quarterly report would be the United States, Venezuela, Peru, Mexico, and Chile. Growth figures for Brazil would be less negative.

18. For 2017, recovery versus 2016 would be in place, although at relatively low levels. Although the growth forecast for Colombia's trading partners remained at 1.6% as projected in the previous quarterly report, there were upward revisions in the euro zone and Brazil, and downward revisions for the United States, Venezuela, Chile, and Mexico.

19. In the United States, consumption is expected to continue boosting growth, supported by a greater household income given the good behavior of the labor market and the increase in wages. Investment should stop subtracting from GDP, while net exports would not generate an important momentum due to the low dynamism of the global economy and low levels of trade. Inflation is expected to continue increasing, and it is expected that by the end of 2017 it will stand within the Fed's target. In this context, there would be an increase in the benchmark interest rate in December 2016, and another in the second semester of 2017.

20. The economy of the euro zone would also be supported by consumption and investment, as exports are not likely to contribute to growth in the region. The ECB would maintain its expansionary policies throughout 2017.

21. The United Kingdom would trigger Article 50 in 2017, beginning the formalities for the exit of this country from the European Union. This process would be carried out in a relatively orderly way, with which there would be no significant impacts on international financial markets. The baseline forecast in this report continues to assume a negative effect on the United Kingdom's and the euro zone's growth for 2017, although less than forecast a quarter ago.

22. Inasmuch as China continues with its transition to an economic model based on consumption, it shall exhibit a new slowdown in 2017.

23. Regarding oil, an average price of USD 52 per barrel is expected for 2017. This price is slightly higher than the current one, since it implies some reduction of excess supply for the next year. However, neither a significant reduction of the global supply of crude oil nor a significant increase in demand are foreseen.

Risks to the Baseline Scenario

24. Mainly downside risks from the international context are perceived in the baseline scenario. This risks are due to:

- A greater effect on global growth due to the *brexit*.
- Drastic changes in the economic policy of the United States implemented by the new government.
- Financial instability in China or in some European countries.
- Fall in confidence due to high political uncertainty and security issues.

Table 3: Growth Projections of some trading partners

Country or Region	2016			2017		
	Low	Baseline	High	Low	Baseline	High
USA	1.3	1.5	1.7	1.0	2.0	2.5
Euro Zone	1.4	1.6	1.8	0.8	1.4	2.0
China	6.4	6.6	6.8	5.4	6.2	6.6
Brazil	(3.8)	(3.3)	(2.8)	0.0	1.0	2.0
Ecuador	(3.5)	(3.0)	(2.5)	(3.0)	(1.0)	0.5
Venezuela	(13.0)	(10.0)	(7.0)	(7.0)	(4.5)	(1.0)
Peru	3.5	3.7	4.0	3.0	4.2	5.0
Mexico	1.9	2.2	2.5	1.0	2.5	3.0
Chile	1.4	1.7	2.0	1.5	2.3	3.5
Trading partners	(0.22)	0.27	0.50	0.50	1.60	2.20

b. Projection of the Balance of Payments

25. With the results of the first half of the year, the information available for the third quarter to date and the external context scenario presented in the previous section, the new estimate of the current account deficit for 2016 is 4.7% of GDP (USD 13.223 m), within a range between 4.3% and 5.1%, lower than observed in 2015, when it stood at 6.5% of GDP (USD 18.938 m).

26. The correction versus the 2015 deficit is mainly explained by the lower deficit in the trade of goods, because the reduction of imports exceeds that of exports (both traditional and non-traditional) **(Table 4).** Additionally the lower deficit in the balance of services, the decline of factor income, and improvement of transfers contribute to close the external imbalance.

27. Regarding the projection presented a quarter ago, a lower contraction in traditional exports is estimated on this occasion, particularly due to the upward revision of the prices of the main commodities as well as to the volumes of coal shipped. On the contrary, the forecast for non-traditional exports was revised downward due to the greater slowdown observed so far this year and to the lesser dynamism of Colombia's main trading partners. Additionally, the forecast for imports is somewhat lower than the one presented three months ago, given the behavior of external purchases in the first quarter and the greater estimated slowdown of domestic demand for the second half of 2016.

28. For the balance of services, the projected deficit for 2016 increased compared to the previous quarterly report, given the impact of the recovery in the price of oil on the value of freight rates, as well as the positive impact of a less-depreciated exchange rate over expenditure by Colombian travelers abroad. Contrastingly, the deficit in factor income reduced.

Table 4

BALANCE OF PAYMENTS - (Millons of US dollars)	2015	2016
		Baseline
CURRENT ACCOUNT (A+B+C+D)	**(18,938)**	**(13,223)**
Percentage of GDP	**(6.5)**	**(4.7)**
A. Goods	**(13,935)**	**(10,744)**
a. Exports	38,114	32,170
Main products	23,854	18,989
Other exports	14,260	13,181
b. Imports	52,049	42,914
B. Non-factor Services	**(4,295)**	**(3,424)**
C. Factor Income	**(5,825)**	**(4,533)**
D. Current Transfers	**5,117**	**5,477**

29. Compared to 2015, increases in the volume of exported coal (8.0%) and ferro-nickel (3.0%) and contractions for oil (10.7%) and coffee (1.2%) are expected. With this, a yearly 20.4% fall is projected for commodity exports, while for the rest of exports a reduction of around 10.3% is estimated. Thus, in the baseline scenario, total exports in US dollars would contract by 15.6%.

30. On the other hand, imports in US dollars would decrease compared to 2015 (17.6% on a yearly basis), due to a significant reduction of inputs

and capital goods for industry, a less-dynamic domestic demand, some substitution of imports, and reductions in the price of imported goods in US dollars, specifically of intermediate goods.

31. Additionally, a reduction in net outflows by factor income is expected for 2016 compared to 2015, associated particularly with the lower profits of companies in the mining-energy sector and, to a lesser extent, to the other sectors, given the slowdown in economic activity. Similarly, a reduction in the service trade deficit is also expected, driven by the effects of depreciation on the balance sheets of services related to tourism, lower payments for oil services, and the reduction in freight associated with the volume of imported goods.

32. As for financing, capital flows in 2016 are expected to be lower than those received in 2015, mainly due to the decrease in net resources for portfolio investment and other external loans and credits **(Table 5).**

33. Net inflows of foreign direct investment in Colombia recorded a 15% increase compared to a year ago, as a product of the resources from the sale of Isagén and lower investment by Colombians abroad **(Table 5).** This is partially offset by the lower FDI for all sectors in general, but largely for oil and mining.

Table 5

BALANCE OF PAYMENTS - (Millons of US$)	2015	2016 Baseline
CAPITAL AND FINANCIAL ACCOUNT (A+B+C+D+E)	**(18,604)**	**(13,483)**
A. Net Foreign Investment in Colombia	**(7,514)**	**(8,633)**
a. Foreign Investment in Colombia	11,732	12,398
b. Colombian Investment abroad	4,218	3,765
B. Portfolio Investment	**(9,532)**	**(4,330)**
a. Public sector	(6,213)	(5,751)
b. Private sector	(3,318)	1,421
C. Derivative Instruments	**2,068**	**(259)**
D. Other investment (loans and other credits)	**(4,041)**	**(498)**
a. Assets	(513)	3,460
b. Liabilities	3,529	3,958
E. Reserve Assets	**415**	**237**
ERRORS AND OMISSIONS	334	(260)

34. The greatest loans and other credits would be associated with a higher indebtedness of the national government with multilateral banks and to other credits from the rest of the non-financial public sector.

35. A lower current-account deficit is foreseen for 2017, both in US dollars as well as relative to GDP (3.7%). This would be associated mainly with a lower deficit of the trade balance for goods due to a better outlook for the prices of some of the main export products and the recovery of the country´s main trading partners, contrasting with the stagnation exhibited by imports.

36. The deficit in services is expected to be slightly lower than in 2016 as a result of: the behavior of the volume of imported goods; moderate economic growth and its effects on spending by travelers abroad; the rebound in exports of services favored by the increase in world growth; and investment processes from previous years in sectors, such as tourism and business services.

37. Greater net outflows are expected due to factor income compared with 2016. On the one hand, this is due to higher interest payments on external debt, and on the other, to the increase of profits of the foreign companies that operate in the mining-energy sector.

38. Revenue growth by current transfers will also exert downward pressure on the current deficit for 2017, as a result of higher growth expected in the United States.

39. Uncertainty regarding the conditions and availability of financing, as well as the sensitivity of some capital flows to the prospects of economic activity in general, determine that the forecast range for the current account deficit in 2017 would stand between 3.1% and 4.5% of GDP, with 3.7% as the baseline scenario.

III. Growth, Domestic Demand and Credit

40. According to the information available, the Colombian economy continues adjusting to the new income levels and terms of trade. This implies a slower expansion of GDP in the second half of the year at than registered during the first. It is worth noting that this slowdown would have taken place in a context of temporary supply shocks caused by the transport sector in July, which would have had a stronger impact on economic activity than had been forecast initially and whose effects were partially reversed in August.

41. During the third quarter, the adjustment of domestic demand would have taken place through a fall in investment together with an additional slowdown of total consumption. Net exports would have contributed significantly to the expansion of output, according to the correction in the trade balance.

42. The seasonally adjusted series of the Real Activity Index (ISE) published by the National Administrative Department of Statistics (DANE), expanded 0.2% in July. This figure represented a deceleration *vis-à-vis* the records from the second quarter (1.0%).

43. In August, retail sales (excluding fuels) of the Monthly Survey of Retail Trade (EMCM) by DANE fell 2.7% compared to the same month in 2015. The two-month period of July-August recorded an annual 2.4% decline, showing a worse performance than in the second quarter (1.2%). Excluding vehicle sales, the remaining aggregate contracted 2.1% on a

yearly basis during the same month. The two-month period grew 0.4% on a yearly basis (vs. 1.9% on a yearly basis in the quarter from April to June).

44. The motor vehicle and motorcycle sales index of the EMCM fell 5.8% annually in August. The two-month period recorded a 16.6% annual contraction, more significant than the -2.7% in the second quarter. The poor performance of vehicle sales is confirmed by the figures of vehicle registrations published by the Colombian Automotive Committee (ANDI, Fenalco and Econometría), which show a 14.0% annual drop in September. With this, the aggregate for the third quarter decreased 17.9% (compared to -9.8% in the second quarter).

45. It should be noted that the poor performance of retail sales to August was concentrated on durable goods. Those of semi-durable goods and non-durable goods have been more dynamic. Because of this and due to the fact that growth in the sales of services is expected, the technical staff at the Central Bank forecasts an expansion of private consumption for the third quarter, lower than the one observed in the second quarter (2.6%).

46. Confidence indicators support this forecast. In September, the consumer confidence index by *Fedesarrollo* increased again, although still below the levels observed a year ago and the average calculated for the series since November 2001. The balance of sales of the monthly survey of economic expectations (EMEE) by the Central Bank to August also points to the same direction.

47. The indicators related to gross fixed capital formation suggest that investment between July and September (other than construction of buildings and civil works) would have fallen at a greater pace than in the second quarter.

48. The dynamics of imports of capital goods from DANE and DIAN (converted to real pesos) allows forecasting falls in investment in machinery and equipment and transporting equipment in the third quarter of 2016. Likewise, the balance of investment expectations of the EMEE in August continues at low levels, which does not suggest improvements in the performance of the gross formation of fixed capital, excluding construction of buildings and civil works.

49. Regarding foreign trade, the expansion of real exports would have continued during the third quarter. This can be inferred from the figures for exports in US dollars to September (source: DIAN) converted to constant pesos (particularly non-traditional), and from the good performance expected for exports of services.

50. A strong contraction is expected for real imports. The aggregate for the third quarter exhibits falls when converting the figures for purchases abroad in US dollars to constant pesos, consistent with the adjustment of the demand for capital goods and imported durable consumer goods.

51. On the supply side, the indicators available suggest that GDP growth in the third quarter would have been lower than in the first half of the year. Although economic activity in August and September improved, it did not fully offset the negative effect of the trucking strike that took place in July.

52. According to figures from DANE, total real industrial production grew 9.4% in August, after the significant 6.3% fall in July caused by the trucking strike. With this result, the two-month period of July-August expanded 1.5%, which contrasts with the dynamism of the first half of the year (5.6%). Excluding oil refining, although other manufacturing sectors exhibited a 6.1% expansion in August, the two-month period fell 1.8%, on average.

53. As for agriculture, the National Coffee Federation reported that coffee production in September was 1,034,000 60-kilo bags, which implied a 2.3% fall on a yearly basis. For the aggregate of the period from July to September, production showed a setback of 12.2% (vs. +1.1% and 8.9% in the second and first quarters, respectively). On the other hand, cattle slaughter continued to decline in August (-8.7%). For the two-month period July-August, the decrease was close to 14%, after having fallen 1.5% during the second quarter.

54. The data for oil production in September (843 mdb) implied a significant annual fall (16.3%). With this, average production stood at 838 mdb, and decreased 13.9% annually for the third quarter.

55. As for the construction sector, in August, cement production fell 0.7% annually, while construction licenses increased 8.0%.

56. Lastly, total energy demand increased 2.8% on a yearly basis in September. With this result, expansion during the quarter was -1.6%. In the previous quarter it was +0.2%.

57. Under these conditions, the unemployment rate with figures to August, particularly in urban areas, continued on an upward trend. This was the result of a fall in the employment rate and an increase in participation. Although employment has stopped expanding, a positive annual growth rate for salaried and formal employment is still observed.

58. All of the above allows to forecast a yearly expansion of GDP for the third quarter of 2016 lower than in the first half of the year. Consequently, this Inflation Report expects economic growth for this period to stand between 1.0% and 2.2%, with 1.6% as the most likely figure. This assumes a positive contribution of net exports to economic growth, rather than an expansion of domestic demand.

59. With this, the economic growth forecast for 2016 was revised again downwards in this Inflation Report. The technical staff at *Banco de la República* foresees an annual GDP expansion of around 2.0%, lower than a quarter ago (2.3%). The forecast range proposed is between 1.5% and 2.5%, somewhat narrower than the previous one (from 1.5% to 3.0%).

60. The central forecast for all 2016 assumes a growth rate for private consumption lower than in 2015, in line with the previous quarterly report, considering the increase in the benchmark interest rate as a result of the adjustment of monetary policy and the loss of purchasing power of household income due to the accumulated increase in consumer prices. This also implies a more dynamic expenditure by local and regional governments in the second half of the year compared to the first, and a downward revision of the growth of investment in civil works, given the somewhat lower levels of implementation than had been previously forecast. Net exports will contribute positively to growth because non-traditional exports and services will partially offset the fall of traditional exports, and also because a contraction of imports compatible with a lower investment is expected for the whole year.

61. On the supply side, industry and financial services are expected to be the sectors with most outstanding performance. By contrast, mining would

exhibit a significant contraction explained by the fall in the production of oil and coal.

62. GDP is expected to increase around 2.0% annually in 2017 (within a range of 1.0% and 3.0%), a figure similar to that observed in 2016. This forecast does not take into account the effects of the tax reform that would become effective next year, but it includes the fiscal adjustments needed to comply with the medium-term fiscal framework (*Marco Fiscal de Mediano Plazo*), which in turn ensures compliance of the fiscal rule.

IV. Behavior of Inflation and Prices

63. Annual inflation in September (7.27%) fell for the second consecutive month after reaching the recent ceiling in July (8.97%) **(Table 8)**. Inflation for the year to date amounted to 5.25%, while the monthly variation was slightly negative (-0.05%) and lower than forecast by the market (0.07%) and by the technical staff at the Central Bank.

Table 8

Headline and Core Inflation - to September 2016

Description	Weight	Dec 2015	Mar 2016	Jun 2016	Jul 2016	Aug 2016	Sept 2016	Participation percentage in monthly acceleration	Participation percentage in acceleration of the year to-date
Headline inflation	**100.00**	**6.77**	**7.98**	**8.60**	**8.97**	**8.10**	**7.27**	**100.00**	**100.00**
Non-food inflation	**71.79**	**5.17**	**6.20**	**6.31**	**6.26**	**6.10**	**5.92**	**16.63**	**100.07**
Tradables	26.00	7.09	7.38	7.90	7.87	7.53	7.20	**9.48**	6.06
Non-tradables	30.52	4.21	4.83	4.97	5.01	5.05	4.85	**8.37**	36.92
Regulated items	15.26	4.28	7.24	6.71	6.40	6.10	6.19	**(1.22)**	57.09
Food inflation	**28.21**	**10.85**	**12.35**	**14.28**	**15.71**	**13.06**	**10.61**	**83.37**	**(0.07)**
Perishables	3.88	26.03	27.09	34.94	39.27	21.27	6.66	75.39	(151.37)
Processed food	16.26	9.62	10.83	12.09	13.33	13.07	12.56	9.46	95.74
Eating out	8.07	5.95	7.53	8.11	8.50	9.00	9.18	(1.48)	55.56
Core inflation indicators									
Non-food inflation		5.17	6.20	6.31	6.26	6.10	5.92		
Core 20		5.22	6.48	6.82	7.03	7.07	6.73		
CPI excluding perishable foods, fuel and utilities		5.93	6.57	6.77	6.92	6.97	6.65		
CPI excluding food and regulated items		5.42	5.91	6.20	6.22	6.10	5.84		
Average of core inflation indicators		**5.43**	**6.29**	**6.52**	**6.61**	**6.56**	**6.28**		

Source: DANE. Calculations by *Banco de la República*.

64. As in August, the decline in headline annual inflation in September was led by the group of food, particularly perishable goods. There were also moderate falls in the yearly variation of processed foods and in the CPI excluding food.

65. Core inflation, measured by the average of the four indicators monitored by the Central Bank, lowered from 6.56% in August to 6.28% in September. The four indicators exhibited decreases **(Table 8)**. The CPI excluding food lowered from 6.10% to 5.92%.

66. Within the CPI excluding food, the tradable and non-tradable components fell, while regulated goods rebounded. Non-tradables fell from 5.05% in August to 4.85% in September. The decline was attributed to a great extent to a specific shock (decrease in the soccer tickets). Leases remained stable at 4.1%.

67. The annual adjustment of tradable goods excluding food and regulated items fell for the third consecutive month, standing at 7.20% (vs. 7.53% in August). Although pass-through of accumulated depreciation to prices has continued, the pace at which this is happening has moderated.

68. On the contrary, the CPI for regulated goods showed a mild increase, going from 6.10% in August to 6.19% in September. This bullish dynamics is explained by the CPI for fuels, which rose from -4.91% in August to -2.98% in September as a result of the COP $101 increase in the price of gasoline. In contrast, transport decreased to 4.99%, and the group of public utilities remained stable at 10.53%.

69. Transport is expected to increase in October due to the increase of taxi fares in Bogotá. For public utilities, the enforcement of the new rates framework may imply increases in these prices in several cities.

70. Annual variation in food moved from 13.06% in August to 10.61% in September **(Table 4).** Within this group, perishable goods exhibited a significant decrease, from 21.27% in August to 6.66% in September. Processed items also decreased (from 13.1% to 12.6%). The falls for beef (from 23.2% to 22.0%) and fats (from 15.2% to 8.8%) stand out. Meals outside the home increased 18 bp, standing at 9.2%. This indicator is expected to decline in the coming months, due to the pass-through of the lower costs of food.

71. It is important to note that, according to the information of the Sipsa, food supply has remained high since the end of the trucking strike on 22 July.

72. The upward pressures of non-labor costs continued to moderate in September. Yearly variation of the PPI for domestic supply (domestically produced and consumed items plus imported goods) fell from 4.89% in August to 3.38% in September. The decline was explained both by the imported component (which went from 0.53% in August to -1.60% in September), and by goods locally produced and consumed (from 6.92% to 5.70%).

73. As for labor costs, the behavior was mixed. Salary adjustments for retail fell from 7.3% in July to 6.1% in August, while that for industry moved from 5.0% to 7.9%. With information to September, the wages for heavy construction (4.2%) and housing (4.3%) showed no significant changes.

74. Inflation expectations to December 2016, obtained from the monthly survey to financial analysts collected at the beginning of October, continued to fall, and stood at 5.98% (vs. 6.26% from the previous survey). Inflation expectations to twelve months also moved from 4.35% to 4.24%, while expectations to twenty-four months increased slightly from 3.61% to 3.65%. Inflation expectations obtained from the quarterly survey stood at 6.76% to December 2016, 5.60% to twelve months, and 5.07% to twenty-four months. Finally, on average (to 26 October), Break-even Inflation expectations embedded in government bonds (TES) in pesos and UVR increased 7, 14, and 20 bp for 2, 3 and 5-year terms, posting at 3.62%, 3.58%, and 3.57%, respectively, compared to the average for September.