



# PUBLIC VERSION

Working Papers from the  
Board of Directors  
Banco de la República

## **Monetary Policy Report**



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OFFICE OF THE DEPUTY TECHNICAL GOVERNOR

MAY 2018

## **I. External Context**

1. The external context for Colombia had two important changes versus the information presented in April.
2. The first is the persistence of oil prices above \$73 per barrel (Brent). On average, so far in 2018 until June 22, the price has been at USD \$70.87 per barrel. As a result, Colombia's terms of trade continue to recover.
3. The second change has been the increase in the risk perception in emerging economies. However, to date, capital flows to most of these countries have not been affected.
4. The information available shows that, so far in 2018, recovery of the country's trading partners' economic growth continues.
5. The United States economy continues to grow on a solid path. Strengthening of the labor market, combined with a higher household income, has favored consumption growth.
6. After the Fed's meeting on 13 June, it announced a 25-bp increase in the policy interest rate, which is now between 1.75 and 2.0%. The press release justified this decision with an optimistic expectation for employment and inflation. It also indicated the Fed's intention to increase the benchmark interest rate on two more occasions in the remainder of 2018.

### **a. External Growth Scenarios**

#### **Baseline or more likely scenario (Table 1)**

7. In this report, the growth forecast for the country's trading partners for 2018 (2.5%) showed little change versus the information from March. This figure is slightly higher than the one estimated for 2017, and significantly higher than in 2016. Consumption and investment would continue to drive growth in advanced economies. Emerging economies would experience recovery in the future, supported by greater demand by advanced economies and better terms of trade. For 2019, a growth dynamics similar to the forecast for 2018 is expected from the country's trading partners.
8. Regarding the previous quarterly report, the forecasts for Chile and China were revised upwards. As for Brazil, Peru, and Venezuela, their forecasts were reviewed downwards. The others remained unchanged.
9. In the baseline scenario, two additional increases of the Fed's policy interest rate are expected during 2018. Thus, it would move from its

current range (1.75%-2.0%) to 2.25% to 2.5% by the end of 2018. Added to this is the program for balance sheet reduction, which would continue to be met as announced.

10. This scenario does not include the effects of tariffs that the United States has imposed in recent weeks to their trading partners, nor the effects of potential retaliations.
11. Given the higher oil prices compared with the forecasts, it is reasonable to think that the level anticipated in the previous report for the average of 2018 (USD 65 per barrel) does not reflect the data observed to date.
12. Thus, the expectation in this report is an average price of USD \$69 per barrel (Brent reference) for 2018, and USD 65 for 2019. This implies a reduction in the price for the remainder of 2018 from the high levels reached in recent weeks, which were close to USD 75 per barrel. The factors that would contribute to this decline are:
  - i. The high prices observed in the last few months would lead to an increase in production, particularly in the United States, which would be concentrated in the second half of the year.
  - ii. The likelihood that the OPEC+ increases the supply of crude oil.
13. However, oil demand by advanced economies and China would be greater than expected a quarter ago, which contributes to a higher forecast for the year's average.
14. Some of the risks that could adversely affect the growth of the country's trading partners and, in general, the external context are:
  - i. Greater vulnerability of emerging economies to global financial conditions, which may lead to episodes of financial stress.
  - ii. A faster and/or higher-than-expected increase in the Fed's benchmark interest rate, which could raise external financing beyond what was considered for the baseline scenario.
  - iii. The levels of leverage continue to pose a risk to global financial stability. It cannot be ruled out that this phenomenon leads to a lower-than-expected growth figure.
  - iv. It is likely that the tariffs imposed by the United States' Government bring a significant negative effect on its economic growth as well as on its trading partners.
  - v. Again, several events, could adversely affect the growth of the country's trading partners. Some might include a failed renegotiation

of the North American Free Trade Agreement (NAFTA), and adverse news related to the negotiation of Brexit.

15. The main risk to the rise would be:
  - i. A higher-than-expected price of raw materials (including oil) in the baseline scenario. In this case, growth of the country's trading partners could be greater than expected, which would represent a positive driver for Colombia's growth.

**Table 1: Growth Projections of Trading Partners**

Country or Region	2018			2019		
	Low	Baseline	High	Low	Baseline	High
USA	1.8	2.8	3.4	1.2	2.4	3.4
	2.0	2.8	3.6	1.4	2.4	3.4
Euro Zone	1.7	2.4	2.8	0.8	2.0	2.6
	1.9	2.4	2.9	1.0	2.0	2.6
China	6.0	6.6	6.8	5.6	6.4	7.0
	5.8	6.5	7.0	5.5	6.3	7.0
Brazil	1.0	2.4	3.0	1.0	2.7	3.5
	1.6	2.6	3.6	1.0	2.7	4.0
Ecuador	0.5	1.8	3.0	0.0	1.5	3.0
	0.5	1.8	3.0	0.0	1.5	3.0
Venezuela	(10.0)	(9.0)	(6.0)	(7.0)	(4.0)	(1.0)
	(10.0)	(7.0)	(4.0)	(6.0)	(3.0)	0.0
Peru	2.3	3.5	4.0	2.0	3.8	4.3
	2.6	3.8	4.6	2.5	3.8	4.7
Mexico	1.0	2.2	3.0	1.0	2.3	3.5
	1.3	2.2	3.0	1.0	2.3	3.5
Chile	2.6	3.3	3.6	2.0	3.3	4.0
	1.7	3.0	3.7	1.0	3.0	4.0

The current forecast is shown in black.

The forecast from the previous quarterly Report is shown in red.

## II. Foreign Trade and Balance of Payments

### Exports of Goods

16. In April 2018, the value of total exports in US dollars recorded an annual 38.5% growth, explained by increases in the three groups, particularly

external sales of mining goods and those from other exports<sup>1</sup> (**Table 2**). The contribution of coal with significant increases in both its price and quantities stands out.

17. External sales of the group of other exports continue to exhibit good levels. This month they had an annual variation of 29.6%, which explains 8.3 pp of the total variation of exports.
18. On the other hand, the group of agriculture increased, supported mainly by external sales of bananas and flowers, which more than offset the fall in coffee exports.
19. In terms of the variation from January to April, total exports grew 16.6% annually, explained mainly by the increase in external sales of mining goods (19.8%). Oil and coal were the items with higher contributions in the period.
20. The group of other exports has also shown a positive behavior so far this year, growing 19.7% in annual terms. Chemical products, as well as food, beverages, and tobacco excluding coffee contributed the most to the growth of the sector.
21. So far this year, the value of exports grew primarily explained by improvements in prices. The improvement in prices in annual terms took place mainly in the group of mining goods.

**Table 2: Behavior of Exports in US dollars**

April 2018				
	Annual Variation [Contribution]	Main contributing items to annual variation, in the same direction:		
		Item	Annual variation of the item	Contribution to annual variation
<b>Total Exports</b>	38.5%			
<b>Agricultural goods</b>	25.7% [3.3]	Bananas	125.9%	2.4
		Flowers	43.0%	1.3
<b>Mining goods</b>	45.4% [26.9]	Coal, lignite, and peat	109.1%	15.7
		Oil	17.2%	5.9
<b>Other exports*</b>	29.6% [8.3]	Chemical products	40.7%	2.9
		Motor vehicles and other transport	150.7%	1.4
<b>Accumulated value for January - April 2018</b>				
<b>Total Exports</b>	16.6%			
<b>Agricultural goods</b>	-2.0% [-0.3]	Coffee (not roasted)	-11.8%	-1.0
		Bananas	8.0%	0.2
<b>Mining goods</b>	19.8% [11.7]	Coal, lignite, and peat	40.9%	6.9
		Oil	13.1%	4.0
<b>Other exports</b>	19.7% [5.1]	Chemical products	1.4%	7.3
		Food, beverages, and tobacco (excluding coffee)	1.2%	5.6

<sup>1</sup> Excluding oil and its derivatives, coal, nickel, gold, coffee, bananas, and flowers. Includes other mining and agricultural goods. Exports of manufactured goods accounted for 94.8% of this group in April.

\*\* There were significant annual increases in the external sales of this group to the United States, Ecuador, and Mexico (39.2%, 38.1%, and 30.8%, respectively).

Source: DANE

### **Imports of Goods**

22. The value of imports in April grew 5.1% *vis-à-vis* the same month of 2017, explained by the rebound of imports of consumption goods, which expanded 25.9% in annual terms.
23. External purchases of raw materials grew 1.6%, driven mainly by higher imports of raw materials for industry, which were partially offset by the fall of fuel imports. The group of capital goods was the only one that fell in the month, explained by lower external purchases of transport equipment.
24. From January to April 2018, total imports grew 2.3% on a yearly basis, supported by increases in the three groups of goods. The greatest increase was observed in foreign purchases of consumer goods, which explain 1.3 pp of the total variation.
25. The increase in total imports so far in 2018 is explained by a 5.2% increase in the price index, accompanied by a 2.6% decrease of the quantities. An increase in the prices of intermediate goods and capital goods (7.3% and 6.4%, respectively) stands out.
26. According to the foreign trade preview by DIAN, CIF imports in May recorded a 17.9% yearly growth, supported mainly by the 27.8% expansion in the group of intermediate goods.

### **Table 3: Behavior of Imports in US dollars**

IMPORTS				
April 2018				
	Annual Variation [Contribution]	Main contributing items to annual variation, in the same direction:		
		Item	Annual variation of the item	Contribution to annual variation
<b>Total Imports</b>	5.1%			
<b>Capital Goods</b>	-2.6% [-0.9]	Transport Equipment	-48.2%	-6.2
		Construction materials	12.3%	0.0
<b>Raw materials</b>	1.6% [0.7]	Raw materials for industry	17.3%	5.7
		Raw materials for agriculture	2.4%	0.1
<b>Consumer Goods</b>	25.9% [5.2]	<b>Durable consumption goods</b>	<b>20.8%</b>	<b>2.0</b>
		Appliances and household devices	40.5%	0.9
		<b>Non-durable consumption goods</b>	<b>30.5%</b>	<b>3.2</b>
		Food products	32.8%	1.2
<b>Accumulated value for January - April 2018</b>				
<b>Total Imports</b>	2.3%			
<b>Capital Goods</b>	1.9% [0.6]	Capital good for industry	11.4%	2.0
		Construction materials	1.9%	0.1
<b>Raw materials</b>	0.9% [0.4]	Raw materials for industry	6.9%	2.3
		Raw materials for agriculture	4.9%	0.2
<b>Consumer Goods</b>	6.0% [1.3]	<b>Non-durable consumption goods</b>	<b>10.3%</b>	<b>1.2</b>
		Pharmaceutic products and toiletries	7.6%	0.3
		Food products	4.3%	0.2
		<b>Durable consumption goods</b>	<b>1.1%</b>	<b>0.1</b>
		Appliances and household devices	26.0%	0.5

Source: DANE

## Balance of Payments

27. With the information available so far this year and the external context scenario presented hereinbefore, the new estimate of the current account deficit for 2018 is 3.1% of GDP (USD 10,728 m) in the baseline scenario, within a range between 2.8% and 3.4% in the low and high growth scenarios, respectively. It is worth mentioning that uncertainty about the conditions and availability of financing, as well as the sensitivity of some capital flows to the outlook of the external context and to economic activity in general determine this range.
28. The current account deficit as a share of GDP projected for 2018 (3.1%) is lower than what was observed in 2017 (3.3%). This correction is explained mainly by the lower trade deficit in goods (**Table 4**). Additionally, higher income from current transfers would continue to contribute positively to the narrowing of the external imbalance. On the contrary, expansion of factor income is expected and, to a lesser extent, of the deficit of non-factor services.
29. As for exports of goods, an annual 15.1% growth in the baseline scenario is estimated. This dynamism would be explained by the expansion of



external sales of oil and its derivatives and of industrial products, in a context of better prices and higher growth of the country's main trading partners. Regarding imports, an 8.9% growth figure is expected, higher than in 2017.

30. For 2018, the deficit of services is estimated at levels higher than in 2017. On the side of outflows, these would increase as a result of increased traveling expenses by Colombians abroad in a context of a favorable exchange rate, the increase in outflows for freight, and growth of technical services related to oil given the higher international prices of oil. On the other hand, income would increase mainly by the larger inflows associated with tourism, in line with the improvement of global growth.
31. Due to factor income, higher net outflows are expected *vis-à-vis* 2017, mainly due to the increase of the profits of foreign companies in the oil sector, and, to a lesser extent, to the improvement of the profits of companies that operate in sectors different from mining and energy. This is consistent with the higher growth expected for the economy. Higher interest payments on the external debt are also forecast.
32. The increase of income from current transfers, resulting from the higher growth expected from countries where remittances are originated, would contribute to a lower deficit in 2018.

**Table 4**

BALANCE OF PAYMENTS (Millions of US Dollars)	2017	2018 Baseline	Variation
<b>CURRENT ACCOUNT (A+B+C+D)</b>	<b>-10,437</b>	<b>-10,728</b>	<b>-291</b>
<b>Percentage of GDP</b>	<b>-3.3</b>	<b>-3.1</b>	<b>0.2</b>
<b>A. Goods</b>	<b>-4,759</b>	<b>-2,738</b>	<b>2,020</b>
<i>a. Exports</i>	39,482	45,458	5,975
Main	27,319	31,788	4,469
Other Exports	12,163	13,670	1,506
<i>b. Imports</i>	44,241	48,196	3,955
<b>B. Non-factor Services</b>	<b>-4,184</b>	<b>-4,471</b>	<b>-288</b>
<i>a. Exports</i>	8,342	9,296	955
<i>b. Imports</i>	12,525	13,768	1,243
<b>C. Factor Income</b>	<b>-8,089</b>	<b>-10,731</b>	<b>-2,642</b>
<b>D. Current Transfers</b>	<b>6,594</b>	<b>7,212</b>	<b>618</b>

*Memo Item:*

<b>Mining and oil sector (a-b)<sup>1</sup></b>	<b>17,661</b>	<b>20,818</b>	<b>3,157</b>
a. Exports	20,803	25,451	4,648
b. Factor Income Revenue	3,142	4,633	1,491

<sup>1</sup> Including oil and derivatives, coal, and ferronickel

33. In terms of the financing of the current account, for 2018, direct investment is expected to continue to be the main item of foreign capital inflows. However, foreign direct investment (FDI) flows in Colombia would record an annual 7.7% decline (**Table 5**). This would be explained

by the effect of the basis for comparison originated in the resources received by companies in the communications sector in the previous year. It is important to note that, discounting this effect, they would increase 13.2%, driven largely by investments in mining and oil.

34. Additionally, increased borrowing is expected from the public sector (net disbursements), in contrast to the net amortizations of 2017. As for portfolio investment, the baseline scenario for 2018 assumes a lower issuance of bonds by the public sector, and a greater dynamism by foreigners in the TES market.

**Table 5**

	2017	2018 Baseline	Variation
<b>FINANCIAL ACCOUNT (A+B+C+D+E)</b>	<b>-9,831</b>	<b>-10,728</b>	<b>-897</b>
<b>Percentage of GDP</b>	<b>-3.1%</b>	<b>-3.1%</b>	<b>0.0%</b>
<b>A. Direct Investment (ii-i)</b>	<b>-10,235</b>	<b>-8,832</b>	<b>1,402</b>
i. Foreign Investment in Colombia (FDI)	13,924	12,856	-1,069
ii. Colombian Investment abroad	3,690	4,023	334
<b>B. Portfolio Investment</b>	<b>-1,597</b>	<b>-492</b>	<b>1,105</b>
i. Public Sector	-7,250	-4,461	2,789
ii. Private Sector	5,653	3,969	-1,684
<b>C. Other investment (loans, credits, and other derivatives)</b>	<b>1,455</b>	<b>-2,082</b>	<b>-3,537</b>
<b>D. Reserve Assets</b>	<b>545</b>	<b>677</b>	<b>132</b>
<b>ERRORS AND OMISSIONS</b>	<b>606</b>	<b>0</b>	

35. For 2019, a slight fall in the prices of main export products is foreseen, while growth of exports of goods would take place by the dynamism of external sales of industrial products. The positive growth path is estimated to continue in imports, in line with the greater economic growth expected. This would imply a larger trade deficit in goods compared with the forecasts for 2018. Additionally, a lower deficit in non-factor services and a similar level of factor income are expected. Thus, the current account deficit projected for 2019 in the baseline scenario is USD 11,476 m (3.2% of GDP).
36. Regarding funding, an increase in FDI flows and other investments is expected for 2019, inasmuch as the purchase of TES by foreigners continues. Additionally, a lower issuance of bonds by the Government and public entities is estimated, as well as lower portfolio outputs by the private sector.

### **III. Growth, Domestic Demand, and Credit**

37. The information available to the second quarter of 2018 allow to anticipate a slight deceleration of GDP growth (corrected for seasonality

and calendar effects) in this period, albeit at a rate that would continue to be higher than the one observed at the end of last year.

38. Indeed, in April, the monthly Economic Monitoring Indicator (ISE) by DANE recorded an annual 3.5% growth in its original series. However, when correcting for seasonality and calendar effects, the annual expansion of the series was 1.2%. This figure is lower than the 3.0% registered for the aggregate of the first three months of the year for the same series. It is worth noting that the adjustments due to calendar effects are subject to errors and may be revised by DANE in the future.
39. External fundamentals of GDP growth continue to be favorable. On the one hand, between April and June 2018, increases were recorded in the international prices of commodities exported by the country, which in turn would have resulted in more favorable terms of trade and a better performance of national income; on the other, external demand continued to recover, and while the cost of external financing (in USD) and risk perception on the country increased, these remain moderate.
40. Contrastingly, temporary demand shocks (particularly those related to public consumption) that boosted the GDP during the first three months of the year would fade mostly in the second quarter, while the negative shocks that affected investment (particularly in civil works) would continue to be present and would fade in the second half of the year. Thus, between April and June 2018, government consumption would slow down, while investment in civil works would have subtracted again from growth. Private consumption, on the other hand, would record a better performance than in recent quarters, although it would continue to be expanded at rates below its historical average. Net exports would have contributed to the expansion of the economy.
41. Those forecasts take into account the behavior of various indicators with information to April and May.
42. According to the Monthly Survey of Retail Trade (EMCM) by DANE, in April, total retail sales (excluding fuel) increased 6.9% compared to the same period in 2017. This figure represented an acceleration *vis-à-vis* the aggregate data for the first quarter of the year (5.9%). Excluding vehicle sales, the remaining aggregate expanded 4.9% on a yearly basis in the same month (versus 4.8% for 2017Q1). In both cases, the trend component of the series has a positive slope.
43. The index of retail sales of motor vehicles of the same survey recorded a 19.2% annual expansion in April, and the levels observed throughout the year suggest a recovery of retail sales compared to all of 2017.

44. In addition, the figures published by the National Federation of retailers (Fenalco) on the number of registrations recorded a 3.1% annual growth in May 2018. The increases took place both in vehicles for private use (2.0%) as in those for commercial use (4.4%). In all cases, when correcting for seasonality and calendar effects, a positive slope can be observed for the trend component.
45. Also, with figures to May, the Consumer Confidence Index (CCI) published by Fedesarrollo improved once again versus the records in April and the aggregate for the first quarter of 2018. The CCI posted on positive ground at levels close to its historical average, and above the records for 2016 and 2017. The recovery of this index took place mostly due to the increase of the expectations from medium and long-term consumers (IEC). The component of Economic Conditions (ICE) also increased in the margin.
46. The results of the Monthly Survey of Economic Expectations (EMEE) by *Banco de la República* point to something similar. With figures to April, the seasonally adjusted sales balance suggests a better dynamics for private consumption during that month.
47. As for the labor market, the seasonally adjusted series to April exhibit few marginal changes in the unemployment rate (UR) nationwide and in the 13 most important metropolitan areas. For both domains, the UR remained very stable versus its situation at the beginning of the year, but its records were somewhat higher compared with the figures for the first half of 2017. For the thirteen areas, with information to the moving quarter ending in April, the seasonally adjusted series reflect an increase in non-salaried employment as well as in informal employment *vis-à-vis* the figures from the last month.
48. The latest information available for nominal wages of construction, industry, and retail suggest that these items continue to adjust to rates above the inflation target, with a significant increase in salaries for industry in April. However, the adjustment of nominal wages of housing construction moderated significantly since March.
49. The figures for imports of capital goods to April published by DANE, complemented with the previews of foreign trade to May by DIAN, allow to forecast a mediocre performance of the aggregate for investment in machinery for industry and transportation equipment. Added to this, given the persistence of the negative shock that affected the construction sector for buildings and civil works during the first three months of the year, it is expected that the gross capital formation records a smaller

- decrease during the second quarter. The figures of the balance of investment expectations of the EMEE to April confirm this.
50. On the supply side, in general terms, the available indicators reported positive results. Retail sales, industry, the oil sector, coffee production, and the indicators associated with construction exhibited expansions, although moderate for the last three sectors.
  51. In April, total industrial production (IPI) grew 10.5%. Excluding oil refining, the rest of the industry exhibited a 10.9% growth. Oil refining expanded 8.8%. However, according to estimates by the technical staff, the growth of the industrial production index seasonally adjusted and adjusted by calendar effects was much more moderate in April (3.8%).
  52. Energy demand recorded an annual 2.9% expansion in April. The trend shows a positive slope. The regulated and non-regulated components increased 1.3% and 6.2%, respectively. Industry demand grew 6.3%.
  53. Oil production in May stood at 866 mdb, resulting in an annual 1.8% increase. The average level for the April-May period (865 mdb) grew 2.2% *vis-à-vis* the first quarter of 2018 (847 mdb).
  54. According to the figures of the Federation of Coffee Growers, in April, coffee production stood at 874,000 bags, which represents a yearly 4.8% expansion. However, so far this year, there has been a 2.6% fall in production. According to the experts in the sector, a fall close to 3.0% is expected in the first half of the year.
  55. Regarding construction, in April, cement production and shipments increased 5.6% and 13.9% on a yearly basis, respectively. Estimates by the technical staff that seek to correct the calendar effects suggest that these variations would be 0.5% and 2.5%, respectively. On the other hand, construction licenses exhibited an annual 14.2% growth in April, a figure that implies a significant improvement compared to the first quarter of the year (-16.4%).
  56. With this, the Central Bank's technical staff forecasts an annual GDP growth figure for the second quarter of 2018 (corrected for seasonality and calendar effects) slightly lower than 2.8% on a yearly basis for the first quarter. This forecast assumes a slowdown in public consumption and negative annual growth of civil works, that is not offset by the best performance of other sectors, as suggested by the information presented hereinbefore.
  57. The annual growth forecast for the whole year remains at 2.7%.

#### **IV. Behavior of Inflation and Prices**

58. During the last three months, annual consumer inflation remained relatively stable, after the significant decline in the first two months of the year. In May, the result was 3.16% (**Table 6**). On the other hand, inflation for the year to date stood at 2.31%, which is lower than the figure observed in same period last year (3.23%). The monthly variation of the CPI in May was 0.25%, in line with the forecasts by the market (0.26%) and by the technical staff.
59. The declines between December (4.09%) and May were concentrated in the sub-groups of tradables (excluding food and regulated items) and, to a lesser extent, in non-tradable inflation (excluding food and regulated items) and meals outside the home. Specifically during May, there were few changes in annual variations of the different sub-groups, with some upward pressures on account of regulated items and processed foods and falls in perishable foods and meals outside the home.
60. In May, there was a slight increase in core inflation, measured as the average of the four indicators monitored by the Central Bank, after four months of consecutive declines since the beginning of 2018. This month, this indicator stood at 3.43%, compared to 3.39% in April. The four core inflation indicators increased in May. Particularly, the CPI excluding food went from 3.80% in the previous month to 3.85%. Only the CPI excluding primary food, fuel, and public utilities (2.80%) is below the 3.0% target.

**Table 6**

**Headline and Core Inflation to May 2018**

Description	Weight	Dec 2017	Mar 2018	Apr 2018	May 2018	Participation percentage in monthly deceleration	Participation percentage in deceleration of the year to-date
<b>Headline inflation</b>	<b>100.00</b>	<b>4.09</b>	<b>3.14</b>	<b>3.13</b>	<b>3.16</b>	<b>100.00</b>	<b>100.00</b>
<b>Non-food inflation</b>	<b>71.79</b>	<b>5.01</b>	<b>4.05</b>	<b>3.80</b>	<b>3.85</b>	<b>120.22</b>	<b>86.43</b>
Tradables	26.00	3.79	1.80	1.51	1.58	57.29	55.42
Non-Tradables	30.52	5.49	4.76	4.59	4.57	(16.58)	30.36
Regulated items	15.26	5.86	6.01	5.65	5.79	79.51	0.65
<b>Food inflation</b>	<b>28.21</b>	<b>1.92</b>	<b>0.98</b>	<b>1.52</b>	<b>1.50</b>	<b>(20.22)</b>	<b>13.57</b>
Perishables	3.88	5.84	7.13	8.98	7.75	(181.41)	(10.02)
Processed food	16.26	(0.91)	(2.01)	(1.59)	(1.15)	247.62	3.70
Eating out	8.07	5.21	3.32	3.40	3.12	(86.43)	19.88
<b>Core inflation indicators</b>							
Non-food inflation		5.01	4.05	3.80	3.85		
Core 20		4.87	4.04	3.72	3.79		
CPI excluding perishable foods, fuel and utilities		4.02	2.99	2.77	2.80		
Inflation excluding food and regulated items		4.76	3.49	3.27	3.29		
<b>Average of core inflation indicators</b>		<b>4.66</b>	<b>3.64</b>	<b>3.39</b>	<b>3.43</b>		

Source: DANE. Calculations by Banco de la República.

61. In May, an increase was noted in two of the components of the CPI excluding food: tradables (excluding food and regulated items) and regulated items.
62. After four months of consecutive declines, the annual variation of tradable goods registered a slight increase in the last month (reaching 1.58% from 1.51% in April), which was due significantly to the adjustment in the price of airfares. It is likely that factors such as the air transport strike that affected civil aviation at the end of 2017, the increase in the international prices of fuels and imported raw materials, and the recent depreciation of the peso explain the interruption of the downward trend in this sub-group.
63. On the other hand, the annual variation in regulated items fell from 5.65% in April to 5.79% in May. This increase was concentrated in public utilities, whose annual adjustment increased from 5.94% in April to 6.21% in May. Similarly, upward pressures also took place in public transport (which increased from 4.95% in April to 5.03% in May). On the contrary, the annual variation of fuels fell again in May to 6.49% (compared to 6.68% in April) despite the increase in prices in May, associated with the rebound in the international price of oil in recent months. This was due to a high basis for statistical comparison.
64. Unlike tradable and regulated items, the annual variation of the non-tradable component excluding food and regulated items remained relatively stable in May (at 4.57%, compared to 4.59% in April), after significant falls in the first four months of the year. The gradual reduction in the annual CPI variation for leases continued this last month (from 4.28% in December 2017 to 3.81% in April and 3.67% in May). In May, there were also decreases in the segment of indexed items (health and education services, mainly) from 5.93% in April to 5.87% in May. In contrast, the sub-group of others (which includes soccer) moved from 5.55% to 7.18%, reflecting the increase in the prices of tickets for the finals of the Colombian soccer championship.
65. Annual food inflation did not present significant changes in May (1.50%) with respect to April (1.52%). The sub-group of processed foods was the only segment that pressured inflation upwards, although its annual adjustment remained in negative terrain (from -1.59% to -1.15%). The increase in international food prices in recent months and the recent depreciation of the peso against the US dollar would have generated some upward pressure on this sub group.
66. In contrast, the annual variation in the prices of perishable foods (from 8.98% to 7.75%) and of meals outside the home (from 3.40% to 3.12%)

contracted in May, favored by the high food supply that still takes place in supply centers around the country.

67. The annual adjustment in non-labor costs, proxied by the total domestic supply PPI (domestically produced and consumed plus imported items), picked up for the second consecutive month (1.92% in April to 2.81% in May). Producer inflation In May ended at 0.93%, a figure higher than the one observed for the same period last year (-0.01%). The advance of the annual producer inflation in May was seen in both the local component (from 2.93% to 3.91%) as well as in the imported component (-0.45% to 0.25%).
68. Regarding labor costs, with information to May, the stability of wages for housing construction (3.8%) and for heavy construction (3.8%) stand out in the last three months. With figures to April, the wages for retailers also remained stable at 6.3%, while the annual adjustment of wages for industry picked up (from 4.9% in March to 7.5% in April). Despite this last increase, for the remainder of the year, no additional upward pressures are expected on wages, given the current slack in the labor market.
69. According to the most recent monthly survey to financial analysts by the Central Bank (applied at the beginning of June), inflation expectations to December this year posted at 3.36%, a figure lower than in May (3.33%). Expectations to 12 months also increased (from 3.27% in May to 3.31% in June). Expectations to twenty-four months (3.21%) in June fell *vis-à-vis* the records from May (3.23%). On the other hand, according to the latest quarterly expectations survey (April 2018), the market expects annual inflation in December 2018 to end at 3.59%, to 12 months at 3.58%, and to twenty-four months at 3.55%.
70. Inflation embedded in public debt bonds (Breakeven inflation, BEI) extracted from the TES denominated in pesos and UVR (with data to 26 June) increased 27 bp, 28 bp, 31 bp, and 27 bp to 2, 3, 5, and 10 years, respectively. The average BEI so far in June posts at 2.97%, 3.08%, 3.21%, and 3.40% to 2, 3, 5, and 10 years, respectively.
71. Using the Forward Break-Even Inflation (FBEI) curve, the estimation of annual inflation for 2018 is 4.18% (obtained by adding the accumulated inflation observed for the remainder of the year to inflation expectations). For 2019, 2020 and 2021, it is at 3.33%, 3.46%, and 3.57%, respectively.