PUBLIC VERSION

Working Papers from the
Board of Directors
Banco de la República

Monetary Policy Report

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Monetary Policy Report

Economic Studies Division

MARCH

2017

I. External Context and Balance of Payments

1. The data available suggest that growth of the country's trading partners for 2017 would be somewhat higher than forecast a quarter ago, although it would still be modest.
2. In the United States, indicators of consumer and business confidence, as well as those of industrial production and retail sales, maintain a good behavior. Despite the slower pace of job creation during the first quarter, the unemployment rate continued to decline. This suggests that consumption would continue driving economic growth. Headline inflation decreased in March, reaching 2.4%, while core inflation posted at 2.0%. The market expects total inflation to be above the Fed's implicit 2.0% target for the remainder of 2017 and during 2018. Financial analysts assigned a 47% probability of a further increase in the Fed's benchmark rate in June.
3. In the euro zone, the GDP of the last three months of 2016 increased at a very similar rate to the one observed in previous quarters. Growth in this region continues to be explained by consumption and, unlike the previous quarter, by net exports, which have been favored by the depreciation of the euro. The consumer confidence indexes have remained high in the first months of the year, while the manufacturing PMI throughout the euro area and several countries show significant increases, surpassing the highest of the last few years. As for annual inflation, in March total inflation fell to 1.5%, and core inflation to 0.7%.
4. In China, the economy grew 6.9% in the first quarter, driven by investment and consumption. This value is greater than the one observed for 2016 (6.7%) and to the growth target for 2017 (6.5%).
5. In Latin America, with information to March, consumer confidence indicators show a tendency to recovery in Brazil and Chile, and some improvement compared to the records for January and February in Mexico and Colombia. However, they remain negative. On the contrary, for Peru, the indicator deteriorated in recent months, although it remains above its historical average. Important capital inflows to Latin America continued in March, focused on fixed income.
6. Regarding the international financial markets, the indices of volatility, although they remain low, have increased in the last few weeks due to geopolitical concerns, particularly in Europe. Interest rates for the developed economies have decreased due to a moderation in global optimism.
7. Colombia's terms of trade would have continued at levels higher than a year ago, thanks to the increase in the price of the main commodities exported by the

country (particularly oil and coal). As for oil, although there have been significant fluctuations in its price, it has remained above USD $50 per barrel (Brent) so far this year.

Exports

8. In February, exports in US dollars registered a yearly 15.8% growth thanks to the increase in the external sales of mining goods (43.5%). Exports of agricultural goods increased 0.9%. On the contrary, the groups of others exhibited a 13.2% fall on a yearly basis (**Table 1**).

Table 1: Behavior of Exports in US dollars

	February 2017			
	Annual Variation [Contribution]	**Main contributing items to annual variation, in the same direction:**		
		Item	**Annual variation of the item**	**Contribution to annual variation**
Total	15.8%			
Agricultural goods	0.9%	Coffee	17.0%	1.3
	[0.2]	Flowers	-12.5%	-0.8
Mining goods	43.5%	Oil	42.0%	9.4
	[20.3]	Coal	49.1%	7.1
Other exports*	-13.2%	Foods, beverages and tobacco, excluding coffee	-36.8%	-3.1
	[-4.7]	Other manufacturing and machinery	-26.5%	-0.7
Accumulated value for January-February 2017				
Total	27.9%			
Agricultural goods	14.4%	Coffee	29.8%	2.4
	[2.4]	Banana	8.1%	0.2
Mining goods	57.6%	Oil	58.1%	14.2
	[27.8]	Coal	62.5%	8.5
Other exports*	-6.4%	Foods, beverages and tobacco, excluding coffee	-19.8%	-1.5
	[-2.3]	Other manufacturing and machinery	-19.8%	-0.4

* Within this group, the destinations which contributed the most to growth were all other from ALADI[1], Mexico, and Ecuador, with annual increases of 17.8%, 23.6%, and 3.6%, respectively. The United States shrank 18.6% annually, and Venezuela continues exhibiting annual declines (79.8% in February).
Source: DANE

9. So far this year, total exports grew 27.9%, responding particularly to the 57.6% increase in mining goods. This increase is due mainly to the improvement in international prices for this type of goods, as its price index increased 72.4% on a yearly basis in the accumulated figure to February, while that of quantities fell.

[1] ALADI excluding Ecuador, Perú, México and Venezuela.

10. According to the preview for foreign trade by DIAN, in March, exports excluding oil and its derivatives increased 37.7% on a yearly basis (according to this source, they had grown 3.1%; however, the increase reported later by DANE was 7.8%).

Imports

11. In February, the value of CIF imports in US dollars increased 5.3% annually. The variation of intermediate goods (7.4%) and consumer goods (6.1%) stands out (**Table 2**).

Table 2: Behavior of Imports in US dollars

	Annual Variation [Contribution]	Item	Annual variation of the item	Contribution to annual variation
February 2017				
		Main contributing items to annual variation, in the same direction:		
Total	5.3%			
Capital Goods	1.1% [0.3]	Parts and accessories for transp. equipment	20.4%	0.8
		Machines and office equipment	2.9%	0.1
Raw materials	7.4% [3.5]	Fuels	18.4%	1.7
		Chemical and Pharmaceutical Products	8.0%	1.2
Consumer Goods	6.1% [1.4]	**Non durable consumption goods**	**-1.5%**	**-0.2**
		Tobacco	-80.9%	-0.1
		Pharmaceutical products and toiletries	-3.1%	-0.1
		Durable consumption goods	**15.7%**	**1.6**
		Private transportation vehicles	21.5%	1.2
		Domestic machines and appliances	22.1%	0.4
Accumulated Value for January-February 2017				
Total	2.8%			
Capital Goods	-4.5% [-1.4]	Transport Equipment	-49.5%	-1.7
		Industrial Machinery	-11.7%	-0.9
Raw materials	4.9% [2.2]	Chemical and Pharmaceutical Products	7.9%	1.1
		Other raw materials for agriculture	26.6%	0.6
Consumer Goods	8.5% [1.9]	**Non durable consumption goods**	**3.0%**	**0.4**
		Food products	9.1%	0.4
		Beverages	16.6%	0.1
		Durable consumption goods	**15.2%**	**1.5**
		Private transportation vehicles	21.3%	1.2
		Domestic machines and appliances	10.9%	0.2

Source: DANE

12. So far this year, total imports grew 2.8%. In this period, the price index has exhibited an annual 0.5% decline, while the one for quantities exhibited a 3.3% growth.
13. According to the preview for foreign trade by DIAN, CIF imports recorded an annual 16.2% growth in March. (According to this source, they would have

fallen 4.3% in February; however, the figure reported later by DANE was 5.3%).

II. Projections of External Variables

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

14. As well as in the previous quarterly report, greater global uncertainty continues to be perceived. This is due to the possible policies restricting international trade and to possible political and financial turmoil in Europe and China. On this occasion, however, it is still assumed that, in the baseline scenario, these risks have no significant effects or do not materialize.
15. In the present report, growth figures for the country's trading partners were slightly revised upwards for this year and the next. Although it is expected to remain at low levels, a positive path is forecast towards 2018.
16. Growth in the United States has not changed compared to the last report. Consumption would continue driving the economy, supported by the continuous improvement of the labor market. The tax cuts and infrastructure investment plans announced by the new government would have some impact on growth for 2018.
17. In this scenario, two increases are expected in the Fed's policy rate, which would continue to increase gradually during 2018. The market assigns a 47% probability of a new increase in June.
18. Growth of the euro zone was revised upwards slightly, taking into account the good data on confidence, particularly in manufacturing. Together with consumption, net exports would be giving a boost to the economy. No acceleration is expected for 2018.
19. The monetary policy by the European Central Bank would continue to be expansive, although less than before. Inflation is expected to remain at low levels.
20. As for China, growth was revised upwards slightly, taking into account the good results for the fourth quarter of 2016 and the first of 2017. This economy would continue to slowdown, relying more on consumption. Authorities would continue taking measures to reduce the growth rate of credit. Additionally, the stimulus policies would be aimed at a not-so-marked slowdown.
21. For some Latin American countries, growth was revised downward. Mexico would now be more affected by the high levels of uncertainty associated with the new government in the United States. In Peru and Chile, supply shocks would impact growth for 2017 negatively.

22. Once more, the risk balance would be biased downwards. Some of the negative factors that could affect growth are:
  - Policies restricting international trade.
  - Negative news arising from the negotiation of *Brexit* could impact the markets.
  - The stages of political and financial uncertainty in several countries in Europe could be materialized.
  - Possible financial instabilities in China.
23. The positive effects of the possible fiscal impulse in the United States are still considered an upward risk.

Table 3

Economic Growth Forecasts for Colombia's main Trading Partners

Country or Region	2017			2018		
	Low	Baseline	High	Low	Baseline	High
USA	1.5	2.3	3.0	1.0	2.3	3.0
Euro Zone	1.2	1.7	2.2	0.5	1.7	2.2
China	6.0	6.5	6.8	5.2	6.2	6.8
Brazil	(0.5)	0.5	1.5	1.0	2.5	4.0
Ecuador	(1.5)	0.2	1.0	(1.5)	0.5	1.5
Venezuela	(9.0)	(6.0)	(1.0)	(3.0)	0.0	1.0
Peru	2.3	3.5	4.3	3.0	4.0	5.0
Mexico	0.5	1.6	2.5	1.0	2.2	3.0
Chile	0.8	1.8	2.8	1.0	2.6	3.5
Trading partners	0.8	1.8	2.6	1.1	2.4	3.1

24. As for oil, the OPEC agreement is expected to continue, in part, and that supply by the United States continue at high levels. On the demand side, it would be driven by better prospects of growth in China and in the advanced economies. Considering these factors, an average price of USD 54 per barrel (Brent) is expected for 2017, and of USD 55 per barrel for 2018.

b. Projection of the Balance of Payments

25. With results to December 2016, the information available to date for the first quarter and the external context scenario presented in the previous section, the new estimate of the current account deficit for 2017 is 3.6% of GDP (USD 11,052 m), within a range between 3.0% and 4.1%. Uncertainty about the conditions and availability of financing, as well as the sensitivity of some capital flows to the prospects of the general economic activity, determine the forecast range.
26. The current account deficit projected for 2017 is lower than in 2016 when it reached 4.4% of GDP (USD 12,541 m). This correction is mostly explained by the lower deficit in the trade of goods, as a result of the expected improvement

in the terms of trade (**Table 4**). In addition to this, there would be a greater income due to current transfers. On the contrary, a widening of the deficit of factor income and services is expected, the latter to a lesser extent.

27. Thus, the additional adjustment to the current account for 2017 would be explained not by a reduction of expenditures, as happened last year, but by the increase in revenues, mainly due to higher exports of goods.
28. Regarding exports, an annual 15.3% growth is forecast, particularly due to increases in international prices of the main products, rather than to their volumes. For the rest of goods (other than mining and main agricultural products) growth is expected to be low (3.0%). As for imports in US dollars, an annual 3.3% increase is estimated, driven by the dynamics of investment and some real appreciation of the peso.
29. In addition, an increase in the deficit of services trade is expected, explained largely by higher payments of freight, given the growth of imports and the price of oil. Also, increases of imports of services related to the oil activity are considered.
30. Similarly, compared to 2016, an increase in net outflows of factor income is foreseen associated with the increase in the profits of companies from the mining and energy sector, and to the higher interest payments on loans and debt.
31. Regarding the forecast presented a quarter ago, the current deficit in US dollars for 2017 increased by USD 293 m, although as a proportion of GDP it lowered from 3.7% to 3.6% due to the effect of the exchange rate on the measurement of GDP in US dollars.
32. The upward revision to the current account deficit in US dollars was explained mainly by higher imports of goods. Particularly, this is the result of the data available for the first quarter. As for exports of commodities, a very similar growth rate to a quarter ago is expected, while the one for other products was reduced. In addition to this, the deficit of factor income and income by transfers were revised upwards, and the deficit of non-factor services was revised downward.

Chart 4

BALANCE OF PAYMENTS - (Millons of USD)	2016	2017 Baseline	Variation
CURRENT ACCOUNT (A+B+C+D)	**(12,541)**	**(11,052)**	**1.489**
Percentage of GDP	**(4.4)**	**(3.6)**	**0.8**
A. Goods	**(10,261)**	**(6,669)**	**3.592**
a. Exports	32,965	38,003	5.039
Main products	19,712	24,366	4.653
Other exports	13,253	13,638	385
b. Imports	43,226	44,673	1.447
B. Non-factor Services	**(3,020)**	**(3,417)**	**(396)**
C. Factor Income	**(4,910)**	**(6,935)**	**(2,025)**
D. Current Transfers	**5,650**	**5,968**	**319**

33. As for capital flows, resources for direct investment are expected to be the main source of funding in 2017, despite being lower than those recorded in 2016, followed by the investment portfolio and other external loans and credits (**Table 5**).
34. Foreign direct investment flows (FDI) in Colombia recorded an annual 17.9% fall as a result of base effect of the sale of Isagen in 2016. Not considering this effect, FDI would grow 8.4%, driven by increased investment in the mining and energy sector.
35. A significant amount of net purchases of TES by foreign investors is expected for portfolio investment, according to the figures available for the first half of the year; also, placement of bonds on international markets by the Government and other public entities is expected. Regarding the private sector, constitution of net assets abroad is expected.
36. In addition, capital inflows related to loans and other external credits granted mostly by multilateral agencies would be considered.

Table 5

BALANCE OF PAYMENTS - (Millons of USD)	2016	2017 Baseline
CAPITAL AND FINANCIAL ACCOUNT (A+B+C+D+E)	**(12,764)**	**(11,052)**
A. Net Foreign Investment in Colombia	**(9,076)**	**(7,138)**
a. Foreign Investment in Colombia	13,593	11,154
b. Colombian Investment abroad	4,516	4,015
B. Portfolio Investment	**(3,693)**	**(3,380)**
a. Public sector	(4,097)	(5,046)
b. Private sector	404	1,666
C. Derivative Instruments	**(640)**	**0**
D. Other investment (loans and other credits)	**481**	**(1,094)**
a. Assets	2,090	1,646
b. Liabilities	1,609	2,740
E. Reserve Assets	**165**	**560**
ERRORS AND OMISSIONS	(223)	0

III. Growth, Domestic Demand and Credit

37. The most recent results of the performance indicators of real activity exhibit weakening of the pace of expansion of GDP, higher than expected by the technical staff at *Banco de la República*.. It should be noted that the forecasts for growth implicit in previous versions of the Inflation Report already considered the effects of one more working day in February 2016 and the Easter holiday happening in March and not in April in 2017. Thus, output growth in the first quarter of the year would have been low, below the one observed in the last quarter last year (1.6%).
38. This is confirmed by the dynamics observed of the seasonally adjusted series of ISE of DANE. This indicator expanded at an annual 0.3% rate in February, a slowdown *vis-à-vis* the record for January (1.2%) and for the fourth quarter of 2016 (1.5%). The aggregate for the two-month period of January-February grew 0.8%.
39. Between January and March there would have been a recovery in domestic demand, driven mainly by a good dynamism of investment in civil works. The rest of investment, except for transportation equipment, would have continued to exhibit a mediocre behavior. Total consumption would have grown at a slightly higher pace than at the end of 2016, as a result of a slight deceleration of the private component and a better performance of the public one, the latter on account of the increased level of expenditure by regional and local governments. Net exports would have contributed negatively to GDP, on account of a contraction of external sales in constant pesos (particularly of the main export products), and an increase in real imports.
40. The information from the short-term indicators supports this. According to the results of the monthly survey of retail sales (EMCM by DANE), retail sales fell 7.3% annually in February. The aggregate for the first two months of the year had a -4.4% variation, exhibiting a slowdown versus the figure for the end of 2016 (+4.9% annual).
41. The sales different to vehicles and fuels also registered an annual 6.9% fall. The aggregate for the bimester shrank 3.7%, which contrasted with the 2.3% growth figure in the fourth quarter last year. This behavior was lower than forecast by the technical staff.
42. On the other hand, vehicle sales set back 10.4% compared to the same month in 2016. The aggregate of the bimester fell 8.5%, a significantly lower than recorded in the fourth quarter last year, in the context of the 15th International Motor Show in Bogotá (20.6% on a yearly basis).
43. Part of the bad behavior of retail sales can be attributed to the real short-term effect of the increase in the VAT on household consumption. Additionally,

anticipation of expenditure by the families that took place in the last quarter of 2016 (particularly in durables and semi-durables) as a response to the increase of the VAT on some products in the basket would have ended.

44. Other auxiliary indicators of private consumption suggest a mediocre performance of this item beginning 2017. The consumer confidence index (ICC) in March recovered slightly versus the records of January and February, but remained significantly lower than the average calculated since November 2001. The expectations and the current economic conditions of households are low.
45. The trend of the seasonally adjusted series of the balance of sales to February from the monthly survey of economic expectations (EMEE) by the Central Bank also allows to anticipate that private consumption would have continued slowing down.
46. The recent performance of the labor market indicators also support the estimates of a less-dynamic household consumption. The upward trend in the unemployment rate for the national total and for the 13 areas that had been observed since the second half of 2016 intensified in the first two months of 2017. This phenomenon coincides with a slow growth of employment that started several months ago. Further deterioration in the labor market is forecast for the rest of the year.
47. Regarding investment, the figures for imports of capital goods (in constant pesos) suggest that during the first quarter of 2017, the aggregate of investment in machinery, equipment, and transport equipment would have fallen, although at a slower pace than in previous quarters. The results of investment expectations of the EMEE to February are akin to this projection.
48. As for external trade, the figures published by DANE of exports in US dollars to February and the information published by DIAN to March suggest a fall of this item of GDP in real terms. This behavior would be consistent with the poor performance estimated for exported quantities. On the contrary, imports would exhibit a modest growth, but contrasting with the figures of the second half of 2016 (-7.7%). This would be consistent with the performance forecast for domestic demand intensive on goods from abroad.
49. As for indebtedness, during the first quarter of the year, the one for corporates contracted in real terms (using the absorption deflator), mainly due to the behavior of banking credit, while that for households maintained a real growth rate close to 9.0%, due to the acceleration of the disbursement of consumer credit. This takes place within a context in which the transmission of the reduction in the benchmark interest rate has been higher to commercial credit rates than to household rates.
50. On the supply side, the indicators available for the first quarter of 2017 show unfavorable results, except for agriculture.

51. In February, the industry presented a 3.2% annual contraction (below the staff's expectations), and 1.8% so far this year. Excluding oil refining, industry fell 5.7% in February and 3.3% in the year to date.
52. For the same month, indicators of orders, stocks (counter-cyclical to production), and production expectations to three months from the survey by Fedesarrollo, as well as the trends in these series, suggest further deterioration of the sector. As a result, the confidence of the industrialists fell.
53. With information to March, total energy demand increased 0.7% annually, with which the aggregate for the first quarter reported a 2.4% fall. It is noteworthy that during the first few months of 2016 energy demand increased on account of *El Niño*, for which part of the setback would be due to an effect of a high basis of comparison. Both the regulated component (-2.3%) as the non-regulated one (-2.7%) exhibited an annual contraction in the first quarter of the year.
54. On the other hand, the mining sector exhibited significant deterioration. In March, oil production was 804 thousand barrels per day (db) (-12.3% on a yearly basis), with which the first quarter closed with an average production of 841,000 db (-11.4% on a yearly basis). In part, this fall is due to the closure of the *Caño Limón-Coveñas* oil pipeline during 40 days.
55. Contrastingly, according to the Federation of Coffee Growers, coffee production in March stood at 1,020,000 bags, which meant an annual 8.1% increase and a 12.8% increase in the first quarter.
56. Consequently, this information allows forecasting that yearly GDP growth for the first quarter of 2017 would have posted between 0.8% and 1.8%, with 1.3% as the most likely figure.
57. For 2017, the midpoint on the interval and the range for economic growth forecast were revised downward. Thus, the expectation in this report is an annual expansion of GDP between 0.8% and 2.6%, with 1.8% as the most likely figure (before, it was 0.7%, 2.7%, and 2.0% as baseline data). The range remains wide and continues to be downward-biased, which evidences the high level of uncertainty and the risk implicit in the projections for the current year.

IV. Behavior of Inflation and Prices

58. In March 2017, annual consumer inflation was 4.69%, lower than a month before (5.18%), completing eight consecutive months of decline from its recent peak (8.97%) last July **(Table 8)**. Monthly variation was 0.47%, lower than expected by the market (0.54%) and close to the technical staff's projection.
59. The bulk of the fall in the month is explained by food (perishable and processed foods, mainly). Also, by regulated and tradable items, although to a lesser extent. The contribution of tradables to the deceleration of inflation in March

suggests that the greater part of the upward impact of the tax reform (increase in the VAT and the "green tax") and of the Liquor Act on consumer prices would have taken place during the first two months of the year.

Table 8

Headline and Core Inflation to March 2017

Description	Weight	Dec 2015	Dec 2016	Jan 2017	Feb 2017	Mar 2017	Participation percentage in monthly deceleration	Participation percentage in deceleration of the year to-date
Headline inflation	**100.00**	**6.77**	**5.75**	**5.47**	**5.18**	**4.69**	**100.00**	**100.00**
Non-food inflation	**71.79**	**5.17**	**5.14**	**5.26**	**5.17**	**5.13**	**8.11**	**3.88**
Tradables	26.00	7.09	5.31	5.37	5.75	5.59	**7.20**	(4.79)
Non-tradables	30.52	4.21	4.85	4.83	5.06	5.33	**(14.99)**	(12.15)
Regulated items	15.26	4.28	5.44	5.93	4.55	4.05	**15.91**	20.82
Food inflation	**28.21**	**10.85**	**7.22**	**5.97**	**5.21**	**3.65**	**91.89**	**96.12**
Perishables	3.88	26.03	(6.63)	(10.15)	(9.60)	(13.09)	40.68	34.98
Processed food	16.26	9.62	10.74	9.38	7.69	6.28	44.72	64.57
Eating out	8.07	5.95	8.54	9.26	9.31	8.94	6.49	(3.43)
Core inflation indicators								
Non-food inflation		5.17	5.14	5.26	5.17	5.13		
Core 20		5.22	6.18	6.18	6.03	6.01		
CPI excluding perishable foods, fuel and utilities		5.93	6.03	5.95	5.74	5.61		
CPI excluding food and regulated items		5.42	5.05	5.06	5.35	5.44		
Average of core inflation indicators		**5.43**	**5.60**	**5.61**	**5.57**	**5.55**		

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

60. Core inflation, measured by the average of the four indicators monitored by the Central Bank, has not exhibited significant changes in the last four months, closing March at 5.55%. However, the different indicators exhibited mixed behaviors. The CPI excluding food decreased (from 5.17% to 5.13%), as did the CPI excluding primary food, fuel, and public utilities (from 5.74% to 5.61%). The one with higher level, Core 20, remained relatively stable (stepping from 6.03% in February to 6.01% in March), while the CPI excluding food and regulated items increased (from 5.35% to 5.44%) (**Table 8**).
61. Within the CPI excluding food, the annual variation of tradables (excluding food and regulated items) decreased from 5.75% in February to 5.59% in March, while that for non-tradable inflation (excluding food and regulated items) rose from 5.06% to 5.33%. This gain is explained by the behavior of leases, whose annual variation (4.43%) exceeded by 20 bp the figure observed in February. This acceleration was concentrated in Bogotá and particularly on the CPI of medium income.
62. Within non-tradables excluding food and regulated items, the group of others also increased (from 3.91% in February to 6.09% in March). This is explained by the increase in services related to entertainment (which includes soccer tickets) and financial services. The items affected by the exchange rate via costs and indexed items also increased, although to a lesser extent (from 5.19% to

5.67% and from 6.91% to 6.95%, respectively). This last segment has been affected by the high adjustments on wages and by the activation of indexation mechanisms, especially regarding education.

63. For regulated items, the variation in the CPI fell again in March (reaching 4.05% compared to 4.55% in February). This fall is explained by public utilities (from 4.14% in February to 2.36% in March), given that annual growth of all its components slowed down and, to a lesser extent, by transport (from 4.53% to 4.29%). In contrast, fuels increased from 5.95% to 8.98% (due to the statistical basis of comparison and the COP $141 per gallon increase in the price of gasoline).
64. On the other hand, food continued its downward path, moving from 5.21% in February to 3.65% in March. This uninterrupted deceleration since last July is the product of a wide supply of food in the last few months throughout the country (thanks to the favorable weather and the reversal of *El Niño*), the accumulated appreciation of the peso in the last twelve months to March (6.42%), and the low increase in international food prices.
65. Unlike the month of February, in March the decline in food was widespread. Perishables moved from -9.60% to -13.09% (with other vegetables and legumes, potatoes, and peas standing out), processed foods from 7.69% to 6.28% (mainly rice), and meals outside the home from 9.31% to 8.94%. Despite the decline, the latter subgroup has been driven upwards by the adjustment of the minimum wage (7.0%) and by the high increases in the price of beef (annual adjustment higher than 17.0%), mainly.
66. Non-labor costs, after several months of decline, picked up again in March. Indeed, annual variation of the PPI for domestic supply (domestically produced and consumed items plus imported goods) rose from -0.17% in February to 0.55% in March. This can be explained by the increase in the PPI for imported goods, from -6.15% to -2.66%. On the contrary, the local PPI fell from 2.64% to 2.01%.
67. As for labor costs, in February the adjustment of the wages declined in sales and industry (closing at 6.0% in both cases), although they remain well above the inflation target. Regarding the salaries for construction, in March, the pace of adjustment increased in housing (from 5.3% to 6.4%) and remained stable for heavy construction (4.5%). The salary costs have been generating inflationary pressures in 2017, despite the slack in the labor market.
68. According to the latest monthly survey to financial analysts (applied at the beginning of April), inflation expectations to December 2017 dropped from 4.49% in March to 4.39% in April, as did the expectations to twelve and twenty-four months (from 3.85% to 3.65%, and from 3.48% to 3.40%, respectively). Inflation expectations obtained from the quarterly survey (from

April) also lowered, standing at 4.77% to December 2017, 4.39% to March 2018, and 4.16% to March 2019.

69. Inflation expectations embedded in public debt bonds continue their downward trend. Breakeven Inflation (BEI), decreased 60 bp, 41 bp, and 24 bp for 2, 3 and 5-year terms, posting at in 3.26%, 3.21%, and 3.17%, respectively. The FBEI for the remainder of 2017 is 3.26%. For 2018, the FBEI is 3.15%; for 2019 it is 3.09%, and for 2020 it is 3.09%.