

**Economic Analysis**

# Annual inflation in October falls more than expected: 10.48%

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## Although headline inflation declined by 51 bps, the reasons behind a faster decline could be diluted by November

In October, monthly inflation was 0.25% and annual inflation was 10.48% (Figure 1). The result surprised market analysts, who expected a monthly variation of 0.37%, according to Banco de la República's survey. Although the result declined, as expected, it did so in a higher magnitude, decreasing by 51 bps compared to September's annual figure. The main surprise came from annual food inflation, which dropped from 11.5% in September to 10.4% in October, a reduction of 111 basis points (Figure 2). Annual non-food inflation also registered decreases for the fourth consecutive month, going from 10.9% in September to 10.5% in October, with an adjustment of 37 bps (Graph 3).

Food inflation once again surprised analysts, this time due to the magnitude of its reduction compared to the previous month. However, this reduction occurs within the framework of a monthly inflation that remains positive but is closer to its historical average (2011-2019). Within this, the sub-basket of perishable products stands out: it decreased for the first time in annual terms since May of this year, partly due to base effects, but also because of lower increases in its products. With this, the annual variation stood at 15.0%, 56 bps below the previous month's figure (Figure 4). The subclasses that contributed the most in the month were potatoes, fresh fruits and eggs, due to the end of harvests in the case of the first two.

On the other hand, the annual variation of the processed products subbasket continued to decrease, thanks to base effects combined with moderate monthly variations of this group. Thus, it reached an annual variation of 9.8%, decreasing by 149 bps compared to September. Within this, the negative contributions were associated with dried vegetables and edible oils. Finally, the meat sub-basket also decreased in annual terms, standing at 6.9%, 108 bps below September's figure.

In this sense, the moderations in the processed subbasket and meat subbasket continue to consolidate, pointing to normal levels. This may be supported by a continuity in the moderation of international prices of raw materials such as wheat. On the other hand, despite the fact that the perishable sub-basket recorded this month an important moderation in annual terms, it is possible that it will continue to experience high volatility, mainly because climatic factors such as the El Niño phenomenon could affect it during the last months of the year and the beginning of 2024.

On the other hand, annual non-food inflation continued to decrease in October, falling by 37 bps compared to the previous month, from 10.9% to 10.5% (Figure 5). Within the basket of goods, the largest decreases were again seen in the basket of goods, whose annual inflation fell by 93 bps to 9.5%. In particular, the monthly variations of this basket are significantly close to its pre-pandemic average (2011-2019), so much of the important adjustment is due to base effects. In terms of subclasses, vehicles presented the largest negative contribution to the monthly variation.

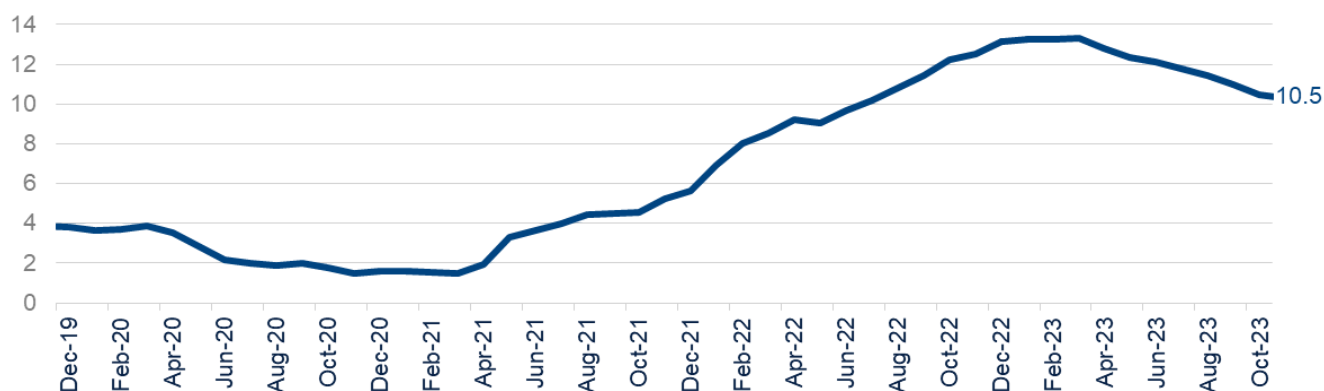
The services basket, the one with the highest weight within the consumer basket, maintained its annual variation almost unchanged at 9.1%, only 6 bps below the previous figure. This basket continues to show monthly variations above its historical average, with pressures from subclasses such as rents, airline tickets, package tours, meals away from home and table service, cinemas and theaters. In the case of rents, sustained increases may be associated with indexation effects, while the remaining subclasses may be resilient demand.

The administered prices basket, on the other hand, went from an annual inflation rate of 15.8% in September to 15.2% in October, decreasing by 59 bps. However, this significant decrease is mainly explained by the government's decision not to increase the price of fuel in October. This basket maintains high monthly inflations relative to its historical pre-pandemic average (2011-2019), suggesting that pressures remain. In terms of subclasses, electricity, gas and urban transportation show the highest monthly contributions in this basket. In the case of gas, the increases may be associated with increases in global and domestic commodity prices (some residual effect of the recent exchange rate depreciation in September is not ruled out), while for urban transportation, these are explained by increases in cab and motorcycle cab prices in some cities.

Thus, annual non-food inflation moderates to a large extent due to base effects in the basket of goods, approaching its average pre-pandemic levels (2011-2019), and due to a pause in the increase of gasoline prices in the basket of administered prices. Meanwhile, pressures due to indexation and demand effects in specific services remain. With the above, core inflation is likely to remain above historical averages for the remainder of 2023, to which will be added some effects of distortions from weather events and the start of collection of healthy taxes. These effects will continue to affect inflation at the beginning of 2024, to which will be added the pressure from indexation to still high inflation, an adjustment of the minimum wage at high levels and the expected adjustments to diesel prices.

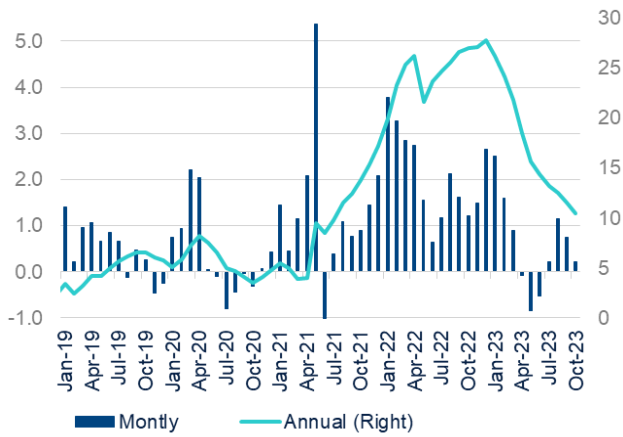
Thus, total inflation would continue to ease in 2023 despite additional pressures on food inflation and core inflation, led by the basket of goods, so that the annual variation of total inflation would close at around 9.7%. For 2024, total inflation is expected to show pressures at the beginning of the year, which will moderate throughout the year, aiming at a closing close to 5.4%.

Figure 1. **HEADLINE INFLATION (ANNUAL CHANGE, %)**



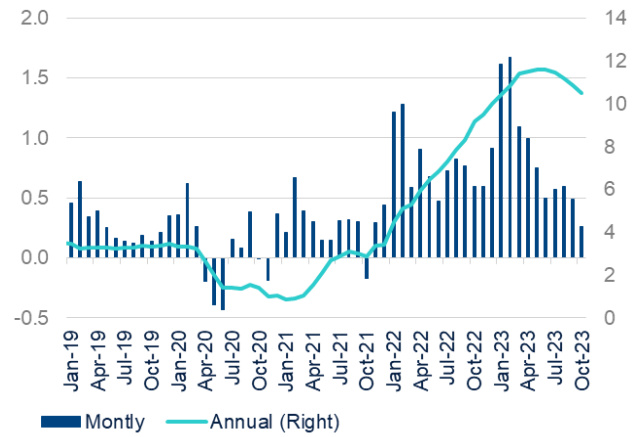
Source: BBVA Research with data from DANE

Figure 2. **FOOD INFLATION (MONTHLY AND ANNUAL CHANGE, %)**



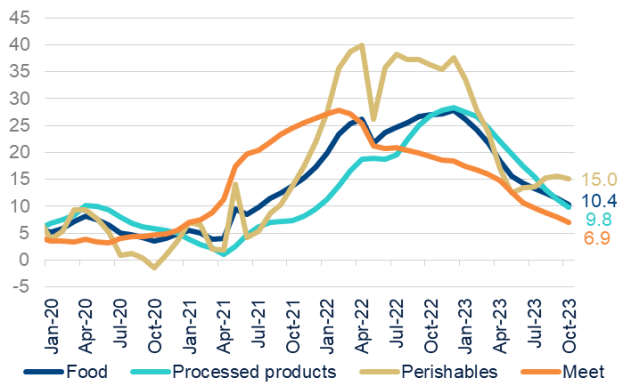
Source: BBVA Research with data from DANE

Figure 3. **CORE INFLATION (MONTHLY AND ANNUAL CHANGE, %)**



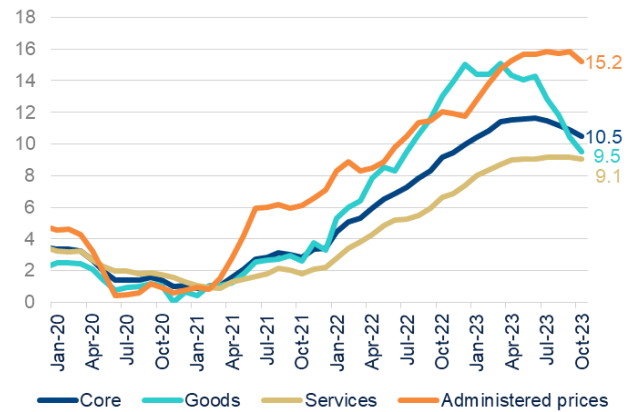
Source: BBVA Research with data from DANE

Figure 4. **FOOD INFLATION AND MAIN SUB-BASKET (MONTHLY CHANGE, %)**



Source: BBVA Research with data from DANE

Figure 5. **ADMINISTERED PRICES BASKET INFLATION (MONTHLY CHANGE, %)**



Source: BBVA Research with data from DANE

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