

Economic Analysis

Inflation continues its downward trend in November, reaching 10.15%

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Although the figure was in line with market analysts' expectations, the reasons differed from those expected

In November, monthly inflation was 0.47% and annual inflation was 10.15%, in line with market analysts' expectations, according to Banco de la República's survey. Thus, the figure decreased by 33 basis points compared to the previous month's figure. Within the result, annual food inflation fell faster in November, from 10.4% to 8.3% (down 213 bps compared to October). Non-food inflation, on the other hand, increased by 10 bps in its annual measurement compared to the previous month's figure, standing at 10.61% (Graph 1).

Food inflation decreased more than analysts expected, reaching a negative monthly variation (-0.46%). With this, annual food inflation was 8.3%. This result is largely explained by a significant reduction in the inflation of the perishables sub-basket, which went from 15.0% in October to 9.5% in November, dropping 556 bps. Within this subbasket, products such as fresh fruits, tomatoes and onions contributed the most to the monthly variation. The meat sub-basket, on the other hand, continued its decrease in annual terms, standing at 6.0%, 93 bps below the previous figure. Likewise, the processed products basket continued its decline and its annual variation was 9.0%, 74 bps less than the previous figure (Graph 2).

It is worth noting that some subclasses within the food division may have been affected by the implementation of the healthy tax measure, as particular increases were recorded in those associated with ultra-processed products and sugar-sweetened beverages. However, as expected, the pressures of some of these products are low within the basket as a whole.

The decline in food was driven by the most volatile sub-basket within it. Looking ahead to the coming months, this sub-basket could face additional pressures due to supply-side effects caused by the El Niño phenomenon, so that the pace of reduction in food inflation could be expected to be more moderate in the coming months.

Non-food inflation registered an increase in its annual measurement for the first time since June of this year, when it reached its peak, before beginning the decline that had been sustained until October. The figure is primarily explained by an increase in the inflation of the administered prices basket, which rose by 170 bps compared to the previous month's figure, from 15.2% to 16.9% (Graph 3 and 4). The decline is mainly explained by the return of gasoline price increases for this month, bringing inflation in this subclass to 47.2%. Likewise, the increase in the electricity subclass stands out, due to the generation tariffs and the tariff option component, with which this subclass reached an annual variation of 15.7%.

Meanwhile, the basket of services also still shows pressures, reflecting for the second consecutive month very marginal reductions, so that its annual inflation remains at 9.0% (Graph 3 and 5). Within the latter, rents and meals outside the home remain at levels above their historical average in November's monthly variation. In the case of the

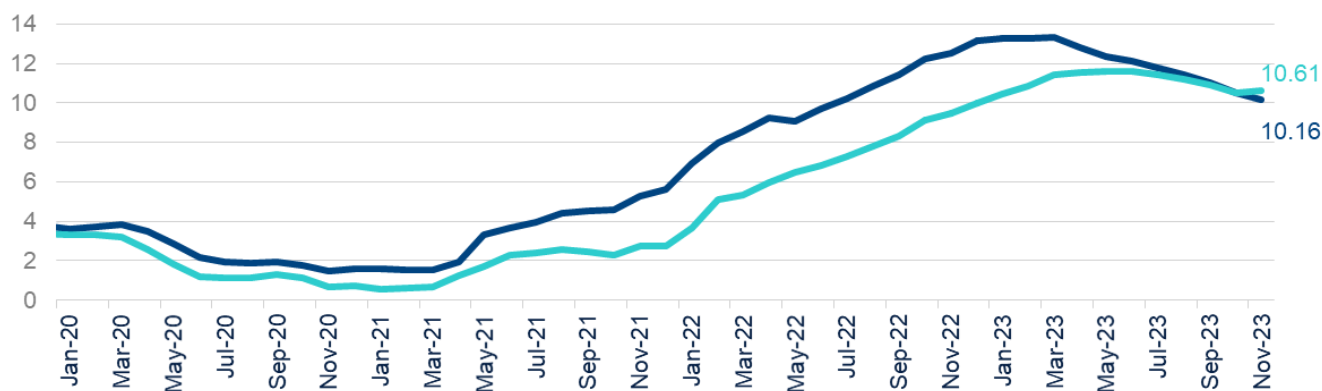
former, sustained increases may be associated with expectations, or may be the result of reductions in rent supply. In the case of the latter, the result could be reflecting some demand pressures.

Finally, the basket of goods continues to moderate. In November, it reached an annual variation of 8.4%, 106 basis points below October's figure of 9.5%, with monthly variations that remain close to their historical average. Within this, subclasses such as beer and beer bottle, in addition to cleaning and maintenance products and pharmaceutical products continue to generate some pressures, which are counteracted by vehicles, which show a monthly variation of -0.71%.

Thus, non-food inflation continues to moderate, but has not kept the expected pace. By the beginning of 2024, the subclasses impacted by indexed inflation will reflect additional pressures, following an inflation that will close at high levels in 2023. Additionally, inflation without food and administered prices moderated from 9.2% to 8.9% (a reduction of 33 bps), which could be considered positive in the eyes of the Banco de la República's board.

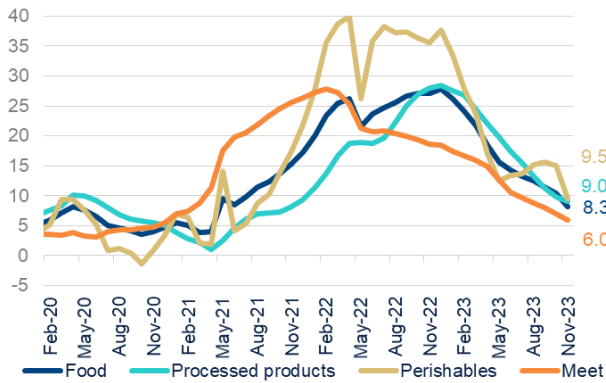
At BBVA Research we expect inflation to continue moderating. In 2024, contrary effects will be seen during the first part of the year, with important base effects at the beginning of the year, which will counterbalance indexation pressures typical of the first half of the year, which will be fueled by the high close of the figure for 2023. In addition, there will be effects of the El Niño phenomenon that will mainly impact the first quarter, with effects that will be diluted throughout the year, slowing the decline in total inflation. Thus, we expect inflation to close 2024 at 5.4%.

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



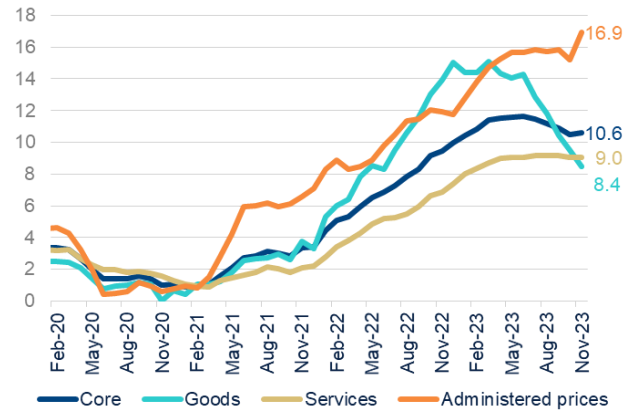
Source: BBVA Research with data from DANE

Figure 2. **FOOD INFLATION AND MAIN SUB-BASKETS (ANNUAL CHANGE, %)**



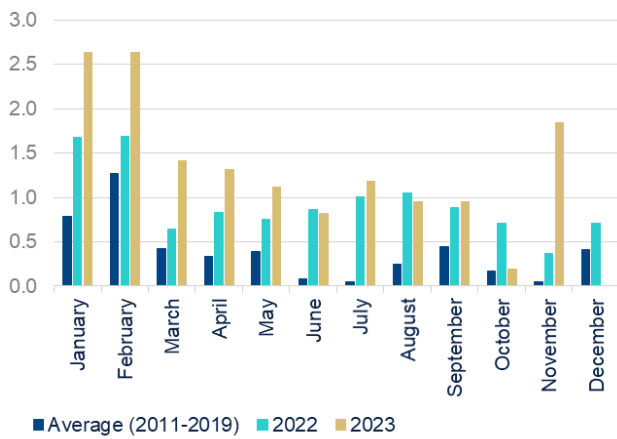
Source: BBVA Research with data from DANE

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



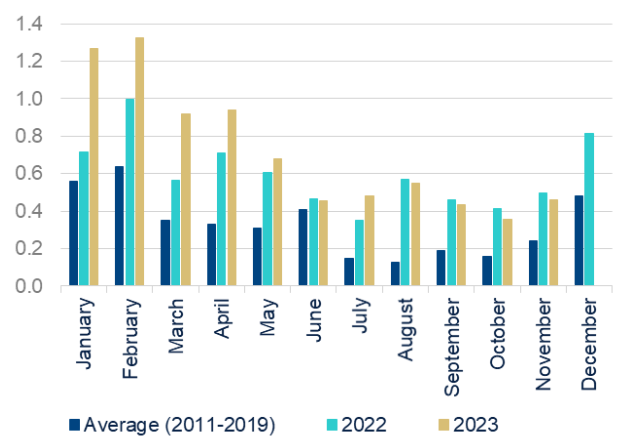
Source: BBVA Research with data from DANE

Figure 4. **ADMINISTERED PRICES BASKET INFLATION (MONTHLY CHANGE, %)**



Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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