

**Economic Analysis**

# Annual inflation continued to decline, reaching 8.35%

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## **A large part of the reductions are explained by base effects, caution is required regarding persistence factors**

In January, monthly inflation was 0.92% and annual inflation was 8.35%, in line with market analysts' expectations, according to Banco de la República's survey. Thus, inflation decreased 93 basis points (bps) compared to the previous month's figure. Annual food inflation maintained a relevant pace of reduction, going from 5.0% to 3.0% (decreasing by 205 bps compared to December). Non-food inflation, on the other hand, decreased by 64 bps in its annual measurement compared to the previous month's figure, reaching 9.7%.

Food inflation declined in January to 3.0%, its lowest annual change since February 2019. This result is mainly explained by the perishable basket, which decreased by 432 bps compared to the previous month, reaching a negative annual variation of 2.7%. Such reduction was strongly influenced by base effects, when compared to January 2023, when there were high cost pressures in agricultural inputs. The products that contributed most to the annual reduction were bananas, onions, potatoes and cassava. Processed products also recorded significant decreases in the annual variation, going from 7.6% in December 2023 to 6.3% in January 2024 (a decrease of 125 bps). Within these, the sub-baskets that contributed most to the reduction were oils, dried pulses and corn. The meat sub-basket also moderated in annual terms from 4.6% to 3.9% (a reduction of 71 bps), which is also largely explained by base effects.

On the other hand, annual non-food inflation continued to decrease in the first month of the year, going from 10.3% to 9.7%, (falling by 64 bps compared to the previous month's figure). Thus, it reached the lowest figure since November 2022, in which base effects also played a decisive role in the result. Within the non-food inflation, the basket that presented the most reductions was that of goods, which went from an annual inflation of 7.1% to 5.8%, falling by 131 bps. Within this basket, downward pressures are evidenced by the subclasses of household appliances and recording equipment, and some upward pressures by subclasses such as beer, hygiene products and pharmaceuticals. In the analysis of this basket, two factors stand out in particular: this basket already shows monthly variations very close to its average and still reflects adjustments for base effects.

The second basket that presented the largest reductions in non-food inflation was that of administered prices, which stood at 16.4% in annual terms, 83 bps below the previous figure (17.2%). This basket accumulates a long path of increases, mainly pressured by adjustments in fuels, which are interrupted by the observed result, although mainly due to base effects. Despite this, high monthly variations are still observed, above the average, especially in fuels, electricity and transportation. In the case of fuels, the government's announcement that the gap with international prices would have been closed with the January increase stands out; however, the diesel adjustment is still pending, although this would have indirect impacts on transportation and prices of some products. As for energy, its acceleration from the fourth quarter of last year stands out, as a result of the strong increase in energy stock market prices due to the mitigation effects of the possible impact of the "El Niño" phenomenon on the

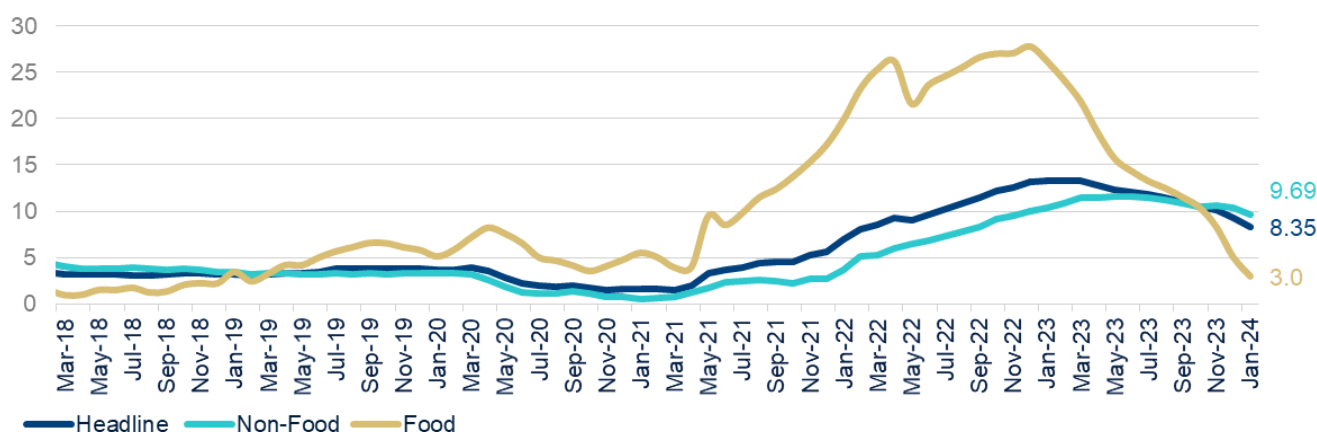
availability of water for generation in the first quarter of 2024, a situation that is still evident in the inflation result for the month of January for this service.

The basket of services was the one that showed the least adjustments compared to the closing result for 2023. It went from an annual inflation of 9.00% to 8.63%. However, this reduction of 33 bps was the largest recorded in this basket since it began its downward cycle. This basket shows downward pressures from the air transportation subclass, and upward pressures from subclasses such as rents, meals at the table and away from home, and domestic service. The reductions in air transportation rates are directly associated with the end of the high season. In the case of meals at table and away from home, measurements are high compared to the historical average, which reveals the effects of indexation to the minimum wage and the increase in public services; however, there are relevant base effects that favor a moderation in annual terms. Domestic services, on the other hand, have the same effects as those mentioned for meals outside the home: a high level for the historical average, which nevertheless contributes to the reduction of annual inflation due to base effects. However, the case of rents generates a warning, since they are located at levels even higher than those seen in 2023, generating additional pressures on the basket and, due to their weight in the CPI, also for the total inflation register.

Overall, non-food inflation is experiencing two opposite phenomena: on the one hand, it is favored by base effects in the three baskets that compose it: goods, services and administered prices; but on the other hand, it continues to show upward pressures in two baskets that maintain monthly results above their historical average: services and administered prices. This reflects the persistence of inflation, which will be the protagonist during the first months of the year.

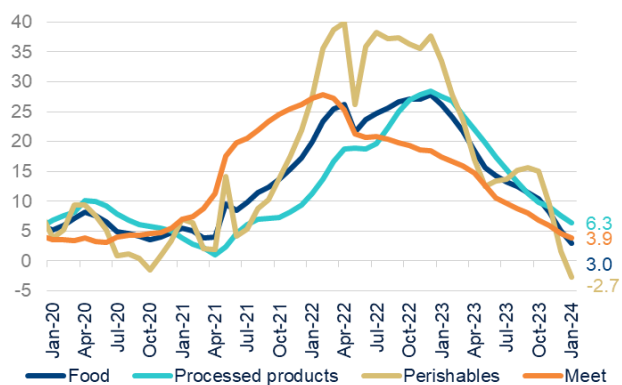
Thus, BBVA Research expects inflation to show reductions during the following months, although important pressures associated with indexation factors and the "El Niño" phenomenon will persist. The reductions will continue to be favored in the first quarter by base effects, although monthly variations may remain above average, particularly in the subclasses associated with indexed products. Thus, we expect inflation to close 2024 about 5.4%.

Figure 1. **HEADLINE, NON-FOOD AND FOOD INFLATION (ANNUAL CHANGE, %)**



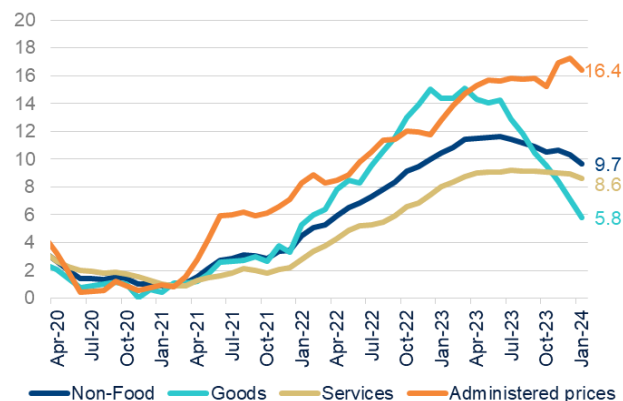
Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

Figure 3. **NON-FOOD INFLATION AND MAIN BASKETS**  
INFLATION (ANNUAL CHANGE, %)



Source: BBVA Research with data from DANE

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