

Economic Analysis

In February, inflation fell to 7.7%

Laura Katherine Peña
March 8th, 2024

Food inflation is on a good pace of decline, but non-food inflation is on a slower pace

In February, monthly inflation was 1.09% and annual inflation was 7.7%, above market analysts' expectations, according to Banco de la República's survey. Thus, inflation decreased 61 basis points (bps) compared to the previous month's figure. Annual food inflation continued to fall, from 3.0% to 1.9% (down 107 bps compared to January). Non-food inflation, on the other hand, decreased by 49 bps in its annual measurement compared to the previous month's figure, reaching 9.2%.

Food inflation maintained its decline in annual terms in February, reaching its lowest level since December 2018. In monthly terms, the figure increased but was at a level close to the average for this division in this month. Within the basket, all sub-baskets showed decreases in the annual measurement. The processed products sub-basket registered the largest decreases, falling 158 bps to 4.8% in the annual variation. Within it, sub-baskets such as oil, corn and pulses were the main contributors to the annual decrease. The second sub-basket with the largest reductions within food was meat, which went from 3.9% to 3.1% inflation (a decrease of 72 bps). It is important to note that all sub-baskets presented negative monthly variations. Finally, perishables decreased by 65 bps, showing an annual variation of -3.4%, being negative for the second consecutive month.

Food has remained resilient to the weather effects of the El Niño phenomenon and the high levels of the first quarter of 2023 with which it compares favor accelerated reductions in the annual inflation of this basket.

Meanwhile, annual non-food inflation stood at 9.2%, 49 bps below the previous figure, reaching its lowest level since October 2022. The largest reduction came from the basket of goods, which decreased by 148 bps compared to January's figure, standing at 4.3% in the annual variation. In this basket, downward pressures remain from subclasses such as vehicles and recording equipment. It should be noted that this basket reflects inflation levels similar to its historical average, so no major risks are estimated from this one.

The basket of administered prices registered the second largest decrease among non-food inflation, reaching an annual inflation rate of 16.0%, 40 bps lower than in the previous month. Within this basket, subclasses such as fuels, electricity and urban transportation generated pressures in annual terms. Despite the above, it is worth noting that fuels in particular show lower pressures in monthly terms, favored by the end of gasoline price increases to close the gap with international benchmarks. Despite the reductions, this basket shows the highest annual inflation among all the baskets reviewed here, partly due to the effects of the increases in fuels in the previous year, but also due to indexation factors, for example in public services.

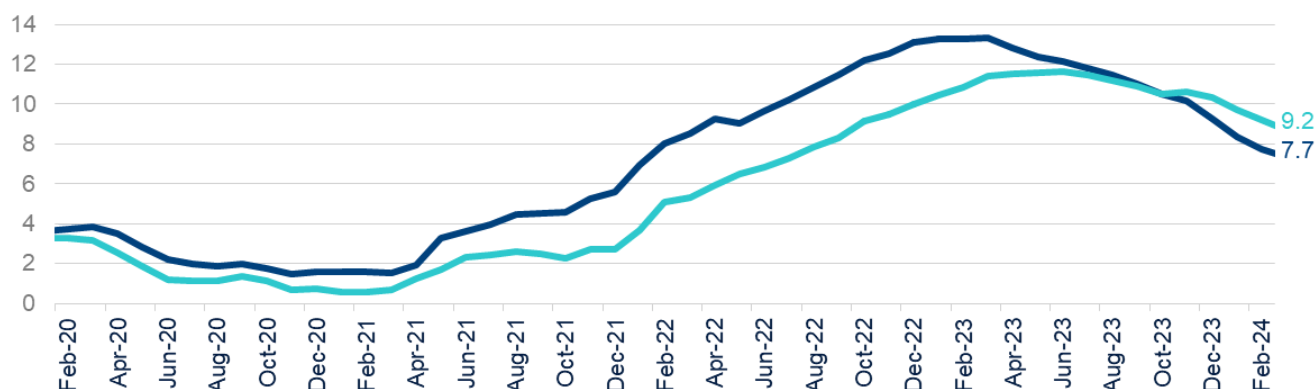
February, and standing at 8.5% in the annual variation. Within this, there continue to be upward pressures from rents, meals away from home, catering services, co-ownership services and higher education enrollment. These pressures are also associated with indexation factors: in the case of rents, there have been increases that are higher than those seen in the last 15 years, partly due to indexation factors and also due to a component of a reduction in the supply of housing for sale, which increases the relative demand for rents. As for restaurants and

fast food services, high service costs and increases in the minimum wage may explain the price increases. Finally, in the case of educational tuition, increases are also associated with indexation factors. The basket of services presents a level of inflation that continues to be above total inflation and shows some persistence, with a moderation of only 60 bps in the last 9 months. This is relevant insofar as this basket weighs 48.9% of total inflation.

Thus, non-food inflation continues to be pressured by indexation factors, despite the fact that moderations in annual terms have been favored by the high levels of comparison of 2023. Although this dynamic, typical of the first months of the year, has been accentuated by the still high levels of inflation at the end of the previous year.

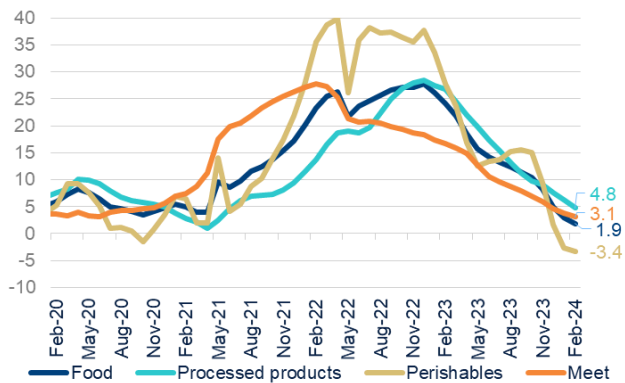
With the above, BBVA expects inflation to maintain its downward trend, but with pressures due to indexation factors that are reflected in slower moderations from the services and administered prices baskets. Meanwhile, food inflation will continue at low levels, although it will register some increases during the second half of the year due to very low comparison levels in this basket in 2023. With this, total inflation will close 2024 at 5.4% and 2025 at 3.8%.

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



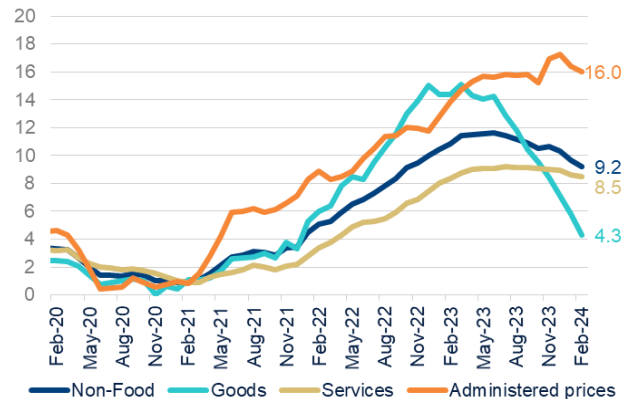
Source: BBVA Research with data from DANE

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

DISCLAIMER

This document, prepared by the BBVA Research Department, is informative in nature and contains data, opinions or estimates as at the date of its publication. These arise from the department's own research or are based on sources believed to be reliable and have not been independently verified by BBVA. BBVA therefore offers no express or implicit guarantee regarding its accuracy, completeness or correctness.

Any estimates contained in this document have been made in accordance with generally accepted methods and are to be taken as such, i.e. as forecasts or projections. Past trends for economic variables, whether positive or negative, are no guarantee of future trends.

This document and its contents are subject to change without prior notice, depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating this content or for giving notice of such changes.

BBVA accepts no liability for any direct or indirect loss that may result from the use of this document or its contents.

Neither this document nor its contents constitute an offer, invitation or request to acquire, disinvest or obtain any interest in assets or financial instruments, nor can they form the basis for any kind of contract, undertaking or decision.

The content of this communication or message does not constitute a professional recommendation to make investments under the terms of Article 2.40.1.1.2 of Decree 2555 of 2010 or the regulations that modify, replace or supplement it.

With particular regard to investment in financial assets that could be related to the economic variables referred to in this document, readers should note that under no circumstances should investment decisions be made based on the contents of this document; and that any persons or entities who may potentially offer them investment products are legally obliged to provide all the information they need to make such decisions.

The contents of this document are protected by intellectual property laws. The reproduction, processing, distribution, public dissemination, making available, excerpting, reuse, forwarding or use of the document in any way and by any means or process is expressly prohibited, except where legally permitted or expressly authorized by BBVA on its website www.bbvarresearch.com.

ENQUIRIES TO:

BBVA Research Colombia Carrera 9 No 72-21, 10 floor. Bogotá, (Colombia).
Tel.: 3471600 ext 11448
www.bbvarresearch.com