

**Economic Analysis**

# Inflation completes 12-month decline to 7.4% in March

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## Over the last year, annual inflation has reduced by about 600 bps

In March, monthly inflation was 0.70% and annual inflation was 7.4%, close to market analysts' expectations, according to the Banco de la República's survey (0.64%). Thus, inflation decreased 37 basis points (bps) compared to the previous month's figure and completes 12 months of reductions since its peak observed in March 2023, with a cumulative reduction of 597 bps. Annual food inflation moderated its pace of declines, decreasing by just 15 bps from the previous month's figure and standing at 1.7%. Non-food inflation, on the other hand, decreased by 44 bps in its annual measurement compared to the previous month's figure, standing at 8.8%.

Food inflation declined at a slower pace in March, marking the turning point for this path. The annual change reached 1.7%, favoured by the reduction of inflation in the processed food and meat sub-baskets. The former reached an annual variation of 3.8%, 100 bps lower than in February, with the largest downward contribution from edible oils. Meats, on the other hand, presented an annual change of 2.7%, decreasing by 40 bps with respect to February, with reductions mainly from the poultry subclass. This behaviour counteracted the upward effect observed in the annual inflation of perishables, which went from -3.4% to -2.1% (an increase of 131 bps). In this sub-basket, the strongest upward pressures came from fresh fruits.

The moderation in food inflation is expected to have come to an end this month, tending to stabilise towards 3.0% in the coming months. This is explained by the fact that next quarter the comparison base will be low and due to the statistical effect there will be increases in the annual food data.

Inflation without food still maintains its moderation pace, decreasing by 44 bps compared to February, bringing the annual change to 8.8%. The dynamics within it remain similar to those observed in the previous month: the main reduction comes from the basket of goods, followed by the basket of administered prices and with smaller movements from the basket of services.

The annual change in the basket of goods decreased by 125 bps to 3.1%. In monthly terms, this basket exhibits lower levels than its historical average for this month. This behaviour may be associated with the moderation in the exchange rate, which has facilitated an adjustment of inventories to lower prices, as well as a moderation in consumption, which has implied low upward pressures from the demand side. Within this basket, downward contributions from mobile telephone equipment and vehicles stand out.

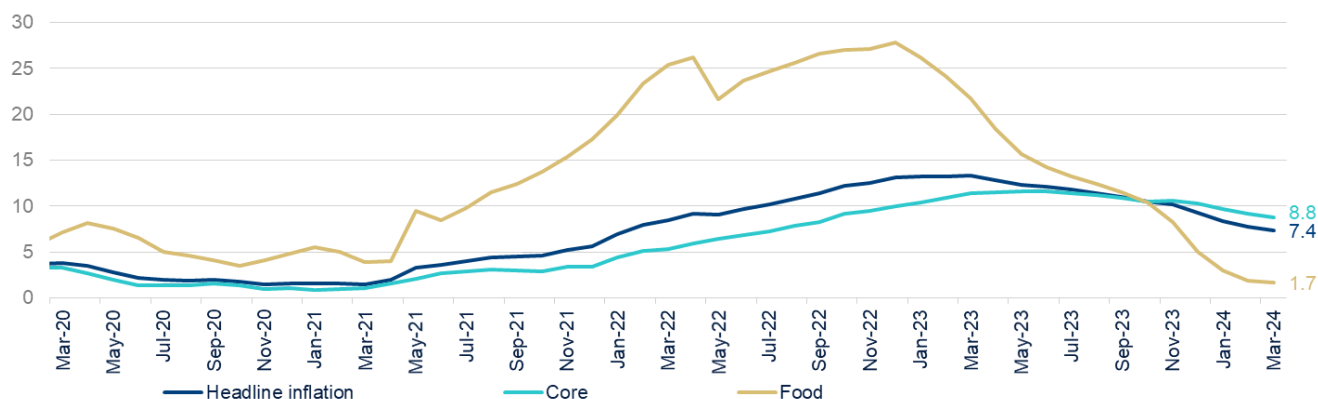
The administered prices basket registered an annual change of 15.8%, down 23 bps from last month, the smallest reduction of the current year. The reductions in this basket are mainly due to the effects of high levels of comparison with the same month of the previous year, partly as a result of the increases in gasoline that have already ended, while pressures from subclasses such as urban transport remain. In particular, it is worth noting that this basket presents the highest level within the inflation baskets. This may be associated with the fact that it maintained an upward path for much longer and reached the highest level among its peers (in December 2023),

starting the decline later. In addition, some of its subclasses show the usual price adjustments of the beginning of the year, as in the case of transport, and some show indexation effects, as in the case of water and sewerage.

Finally, the basket showing the smallest decline was services, with an annual change of 8.3%, 18 bps lower than in February. This basket continues to show upward pressures from subclasses such as rents (although they reflected a slower monthly rate of change than that observed in the first two months of the year), table service establishments and meals away from home, and services related to co-ownership. Indexation factors are also present in this basket and are expected to remain strong for a few more months.

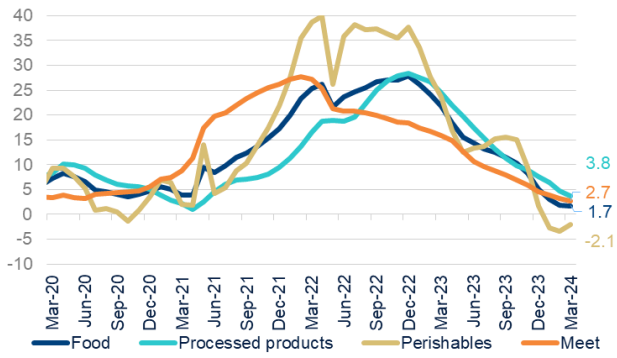
At BBVA Research, we expect food inflation to start to rise gradually to stabilise at around 3.0%, while non-food inflation will have a sustained path of declines despite continuing to be affected by the effects of indexation. This would bring total inflation to close the year at around 5.4%.

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



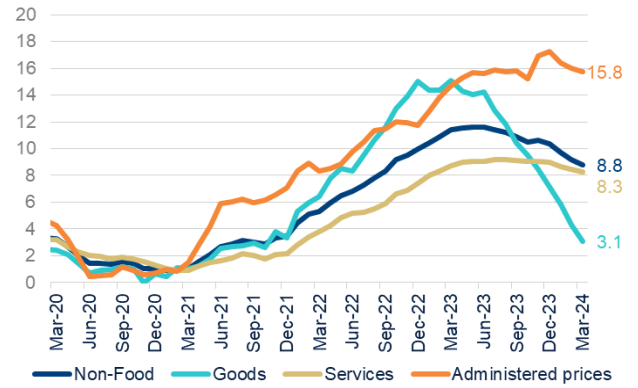
Source: BBVA Research with data from DANE

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



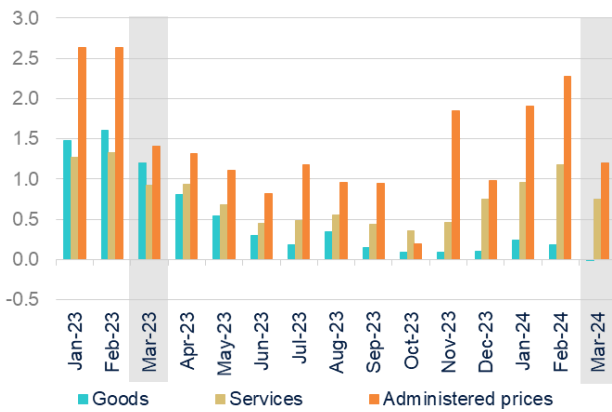
Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

Figure 4. **NON-FOOD INFLATION: MAIN SUB-BASKETS (MONTHLY CHANGE, %)**



Source: BBVA Research with data from DANE

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