

Economic Analysis

October inflation surprised on the downside and stands at 5.4%

Laura Katherine Peña
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Food prices accelerated their decline and non-food inflation maintains the previous month's pace of reduction

In October, monthly inflation was -0.13% and annual inflation was 5.41%, below market analysts' expectations, according to Banco de la República's survey (0.17%). With this, the result is 40 bps below the previous month's figure.

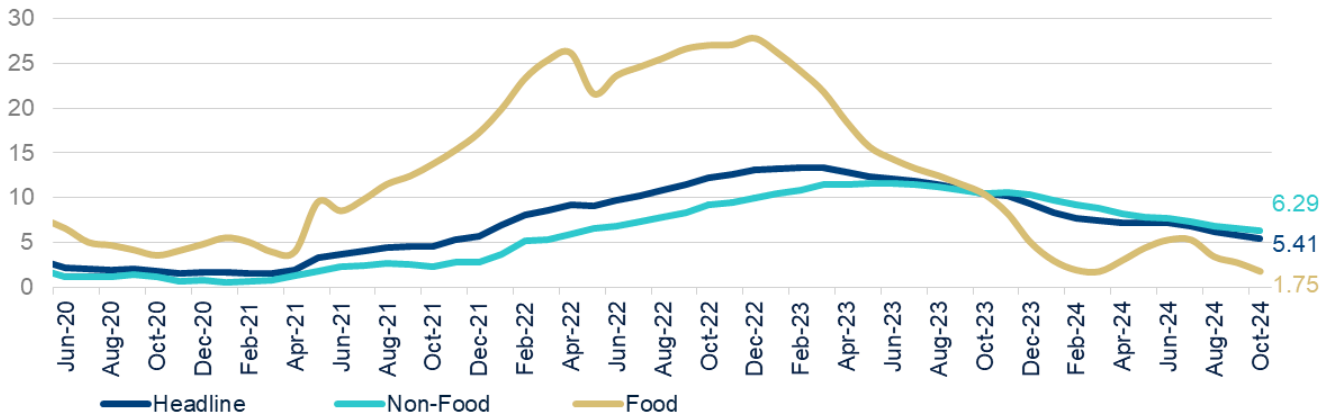
- **Annual food inflation recovered its leading role, dropping nearly 100 bps compared to September to 1.75%.** The reduction was largely explained by the downward adjustment in the inflation of the perishables sub-basket, which went from an annual variation of 3.27% in September to -0.40% in October. Within this basket, the downward adjustment was mainly due to a reduction in the inflation of perishables, which reached a negative annual variation (-0.40%). Meanwhile, the annual inflation of processed products remained stable at 3.5% and that of meats registered a slight increase, but remains at low levels, reaching 0.97% in annual variation.
- **Annual non-food inflation did not lag behind, maintaining the reduction rate of the previous month, dropping by 26 bps to 6.29%.** In this month, all of its sub-auctions showed reductions. The one that fell the most was that of administered prices inflation, followed by goods and services. The results are explained to a lesser extent by base effects, indicating that non-food inflation is getting closer to normal levels in its components. On the other hand, the services basket shows better signs of moderation despite its slow pace of decline.
- **Inflation of the administered prices basket continues to fall, although at a more moderate pace.** Despite this, it is the basket that recorded the greatest reduction in non-food inflation, falling from 10.15% in September to 9.50% in October, with an adjustment of 66 bps in its annual variation. Within the latter, the downward pressure is explained by the reduction in electricity and gas inflation. In the case of the former, the adjustment was partly associated with the suspension of the tariff option charge on the north coast. Meanwhile, the increase in diesel fuel implemented in September of this year has not yet had a strong impact on inflation, although effects in the last months of the year are not ruled out, when the greater demand for goods may exacerbate its effects.
- **Basket of goods continues to decline in October, reaching its lowest level since January 2021.** Thus, it decreased by 18 bps from the previous month, consolidating its position as the basket with the lowest annual CPI inflation. The downward adjustment is mainly explained by price reductions in vehicles, mobile telephony, and other subclasses associated with recreation and culture.
- **The basket of services decreased again, after the rise recorded in the previous month, reaching an annual change of 7.34%.** This result was 14 bps lower than the previous month's figure and was largely

associated with base effects, as well as being favoured by the moderation in pressures from meals away from home. Within the basket, upward pressures continue from rents, whose monthly change remains close to historical pre-pandemic highs, suggesting that there are still disturbances in this market; nevertheless, annual inflation is declining, albeit at a very slow pace. On the other hand, inflation in restaurants and meals away from home moderated in October, after showing some upward pressure in September, suggesting that demand for services is slowing.

In foresight:

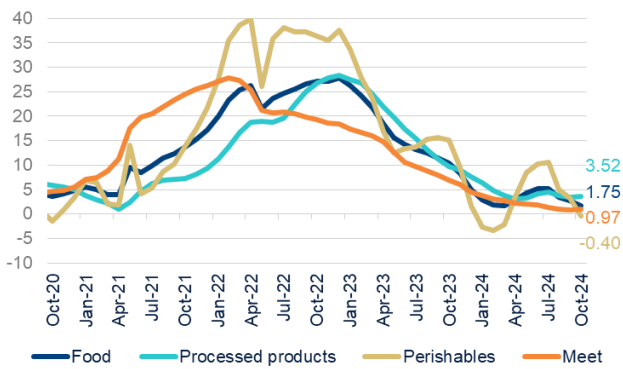
- **Food inflation will register increases in November and December, but will end the year at moderate levels, just above 3.00%.** In the next two months, base effects will lead food inflation to rise, after very low records in 2023 for these months. Weather events have not yet clearly impacted the basket, but it is not excluded that they could contribute to increases in the basket towards the end of the year.
- **Services still have room to decline in 2024, but will fall slowly.** The lower inflation of restaurants and meals away from home in October may be reaffirming expectations of moderation in private consumption of services, which will favour the continuity of reductions within this basket. For its part, rent inflation will remain high in recent months, compared with historical pre-pandemic averages, but will be favoured in annual terms by high levels of comparison in 2023. This will lead to annual rental inflation remaining at high levels, but declining, albeit at a slow pace. With this, services inflation will decline slowly, reflecting some persistence..
- **Administered prices inflation will continue to decline in the remainder of 2024 due to base effects and low inflation in some utilities.** Subclasses such as fuel and electricity showed high closures in 2023, which will serve as a high basis of comparison for November and December, leading this basket to maintain a good pace of reductions in the remainder of the year.
- **In aggregate, BBVA Research expects inflation to remain on a downward path in 2024.** Although food inflation will increase during the last two months of the year, it will close slightly above 3%, a moderate level. Meanwhile, non-food inflation will remain on a downward path, helped by base effects and lower demand for services. Despite this, it will maintain a moderate pace of decline due to the persistence of rental inflation and risks of upward pressures from climatic factors, exchange rate pressures and adjustments in some administered prices.

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



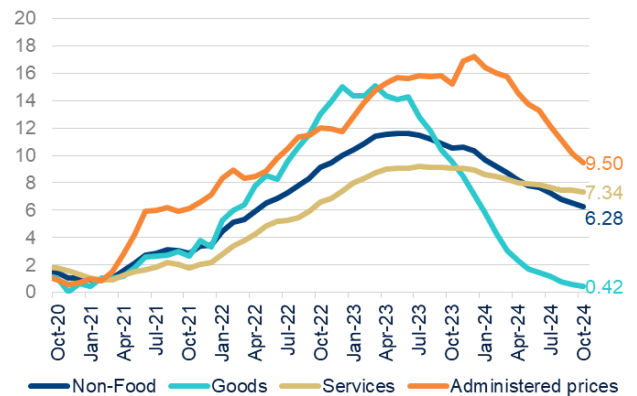
Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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



Source: BBVA Research with data from DANE

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