

Inflation of September at 5.18%, third consecutive increase

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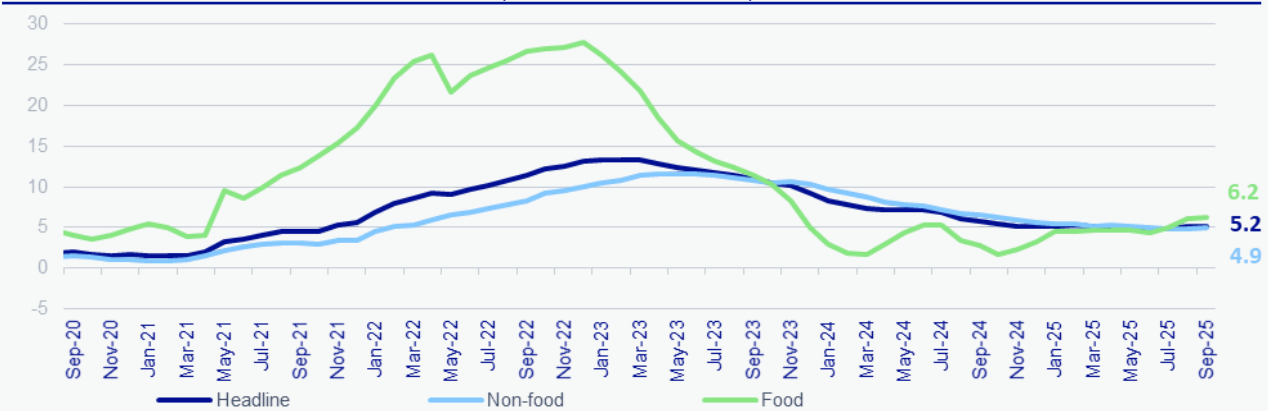
In September, both the food and the non-food baskets pushed inflation upward

Monthly inflation in September was 0.32%, above the expectations of analysts (0.24% according to the Central Bank's survey) and BBVA Research (0.23%). As a result, annual inflation stood at 5.18%, an increase of 8 basis points (bp) compared to August, marking three consecutive months of increases.

- **Annual inflation accelerated in September due to the behavior of both the food basket and the non-food basket**, each recording an 8 bp increase in their annual variation compared to the previous month.
- **In the food basket, the monthly variation was 0.18% and the annual variation was 6.21% (+8bp compared to August)**. Within its components, the annual inflation of processed foods (+2bp compared to the previous month) and meat increased (+21bp). Among processed foods, prepared meats (+225bp) and cheese (+180bp) stood out; within meats, the increase was explained mainly by beef (+68bp). While, perishables showed a reduction in annual inflation (–34bp compared to August), especially due to tomato (–2.238 bp) and fresh fruit (–760bp). However, onion, cassava, and plantain continued to exert upward pressure on food inflation.
- **Regarding the core basket, excluding food, an increase was also observed, reaching 4.94% (+8bp compared to August)**. This outcome reflected the behavior of the administered prices and goods sub-baskets. Inflation excluding food and administered prices—closely monitored by the Central Bank—remained relatively stable compared with prior months, at 4.83% in September (+1bp compared to the previous month).
- **Within the core (non-food) basket, administered prices posted 5.3% annual inflation (+33bp compared to August)**. The increase was explained mainly by electricity (+242bp compared to the previous month), due to a relevant base effect in September 2024 when this item recorded –1.97% monthly inflation. Also notable was the behavior of secondary education (–137bp) and preschool and primary education (–84bp), both with significant base effects, since in the same month of 2024 they registered strong monthly increases.

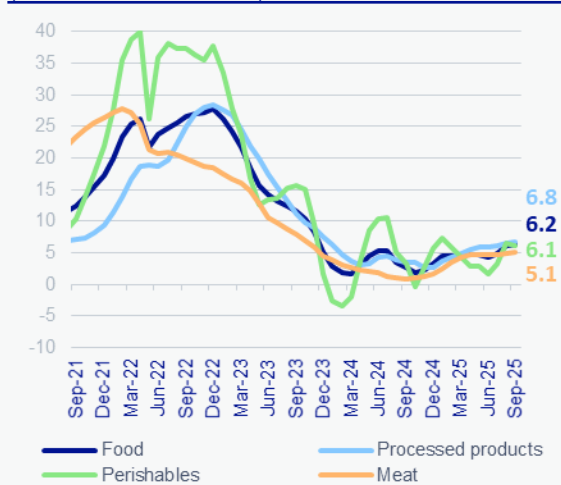
- **Goods showed a further upturn, stronger than in previous months. Their annual variation reached 2.3% (+31bp compared to August)**, continuing the uninterrupted upward trend observed since January, mainly as a result of possible demand pressures given the behavior of goods consumption reported across the country's various spending statistics. Items explaining this acceleration included: beer (+171bp), other personal care products (+84bp), men's clothing (+80bp), and body hygiene products (+69bp).
- **Services, meanwhile, showed a reduction in annual terms, standing at 5.8% in September (–11bp compared to August)**. This result was mainly supported by a notable moderation in rental inflation (–22bp compared to the previous month). There was also downward pressure in restaurants and hotels, particularly in food at full-service and self-service establishments (–42bp) and food away from home (–14bp). In contrast, telephony and internet services exerted upward pressure (+161bp). Despite the decline observed, the services basket remains persistent and rigid, with only very marginal moderation so far this year.
- **September inflation surprised to the upside, showing signs of persistence and rigidity**. This outcome is explained by the behavior of both the food and non-food baskets. The upturn in food inflation shows some signals of supply-side pressures due to weather factors, although demand effects in specific items cannot be ruled out. Additionally, the upturn in non-food inflation may reflect demand pressures in both goods and services. In October, due to relevant base effects, especially in food, inflation will accelerate again. Although the disinflation process in Colombia remains challenging, some moderation is expected in the following months, ending the year slightly above 5.0%.
- **September inflation reinforces the cautious stance adopted by the Board of the Central Bank in recent policy meetings**, not only because headline inflation has increased for three consecutive months and stands above 5.0%, but especially due to the persistence and rigidity in non-food inflation and evidence of some demand pressures. Consumption-led economic growth, solid job creation, and the fiscal situation also support this stance. This reinforces the cautious and stable stance on policy rates by the Board of the Central Bank for the remainder of the year—and possibly until a more marked and durable easing in inflation is evident.

TOTAL, FOOD AND NON-FOOD INFLATION (ANNUAL CHANGE, %)



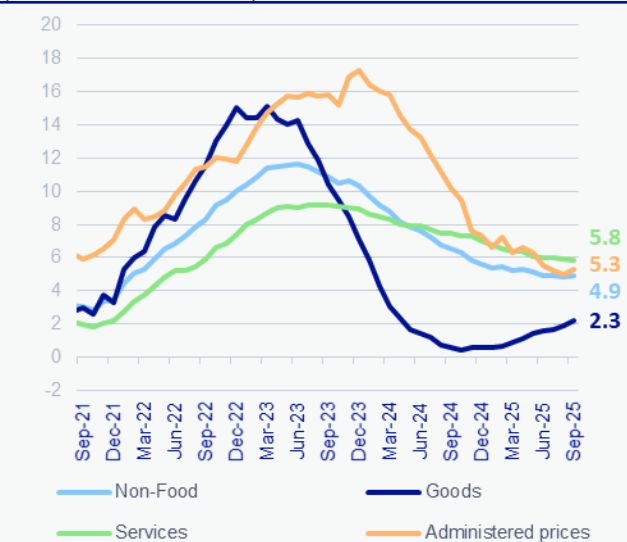
Source: BBVA Research with DANE data.

FOOD INFLATION AND MAIN BASKETS (ANNUAL CHANGE, %)



Source: BBVA Research with DANE data.

INFLATION OF MAIN NON-FOOD BASKETS (ANNUAL CHANGE, %)



Source: BBVA Research with DANE data.

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