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Inflation rises for the fourth consecutive month and reaches 5.5% in October

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In October, both the food and non-food baskets continued to exert upward pressure on inflation

Monthly inflation in October was 0.18%, higher than expected by analysts (0.14%, according to the Central Bank survey) and by BBVA Research (0.10%). As a result, annual inflation stood at 5.51%, rising 33 basis points (bp) compared to September and marking four consecutive months of increases.

- **The acceleration in annual inflation in October was driven by the behavior of both baskets —food and non-food—,** although the former showed a more pronounced increase.
- **Despite a monthly food inflation of -0.35%, its annual variation rose to 6.64% (+43bp versus September).** This rebound was explained by a significant base effect from October 2024, when monthly inflation for this category was -0.77%. Among the components that most contributed to the annual increase were perishables (+135bp) and meat (+56bp). Within perishables, the strongest increases were observed in onions (+1,365bp), potatoes (+890bp), and cassava (+832bp). However, some products helped to contain inflation, such as tomatoes (-1,281bp) and vegetables (-228bp). In the case of meat, the increase was mainly explained by beef (+146bp). In contrast, processed foods showed a relief of 18bp, particularly in condiments (-782bp) and rice (-100bp).
- **As for the non-food basket, annual inflation also increased, reaching 5.25% (+31bp versus September).** This result was mainly explained by the behavior of administered prices and goods. Inflation excluding food and administered prices, closely monitored by the Central Bank, rose to 4.99% (+16bp versus September), ending the relative stability observed between May and September.
- **Within the non-food basket, administered prices showed annual inflation of 6.1% (+81bp versus September).** This increase was mainly due to the behavior of electricity prices (+269bp), associated with a significant base effect in October 2024, when the monthly variation for this item was -2.25%. Water supply also recorded a notable increase (+163bp).

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- **Goods posted another upturn, similar in magnitude to the previous month.** Their annual inflation reached 2.6% (+34bp versus September), extending the uninterrupted upward trend observed since January. This result suggests possible demand pressures, consistent with resilient consumption. The products that most explained this acceleration were new or used private vehicles (+77bp), due to a relevant base effect in October 2024, when monthly inflation for this category was -0.66%. Mobile phone equipment (+182bp) and pharmaceutical and dermatological products (+79bp) also contributed.

- **Services recorded a slight increase in annual inflation, reaching 5.9% in October (+9bp versus September).** This result was mainly driven by increases in cinemas and theaters (+670bp), package holidays (+279bp), and meals in full-service and self-service restaurants (+16bp). The sharp rebound in cinemas and theaters was due to a significant base effect from October 2024, when monthly inflation for this category was -3.23%. In contrast, rentals continued to exert downward pressure on services inflation (-4bp).

- **In summary, October's inflation once again surprised to the upside, showing that price pressures persist.** The increase was broad-based—driven by both the food and non-food baskets—and was accentuated by a significant base effect. In the food basket, the annual variation rose mainly due to perishables and meat. While, in the non-food basket, the largest contributions came from electricity, durable goods, and certain services. The behavior of goods and services continues to reflect possible demand pressures, supported by resilient consumption. Although the disinflation process in Colombia remains challenging, moderate reductions are expected in the coming months, which would allow the year to close slightly above 5.1%.

- **The October outcome reinforces the cautious stance adopted by the Central Bank's Board in its recent monetary policy meetings**. This reflects not only that headline inflation has risen for four consecutive months and remains above 5%, but also the persistence of non-food inflation and the evidence of possible demand pressures. In this context, the Board is expected to keep interest rates stable for the remainder of the year, likely until a more marked and sustained easing in inflation becomes evident.

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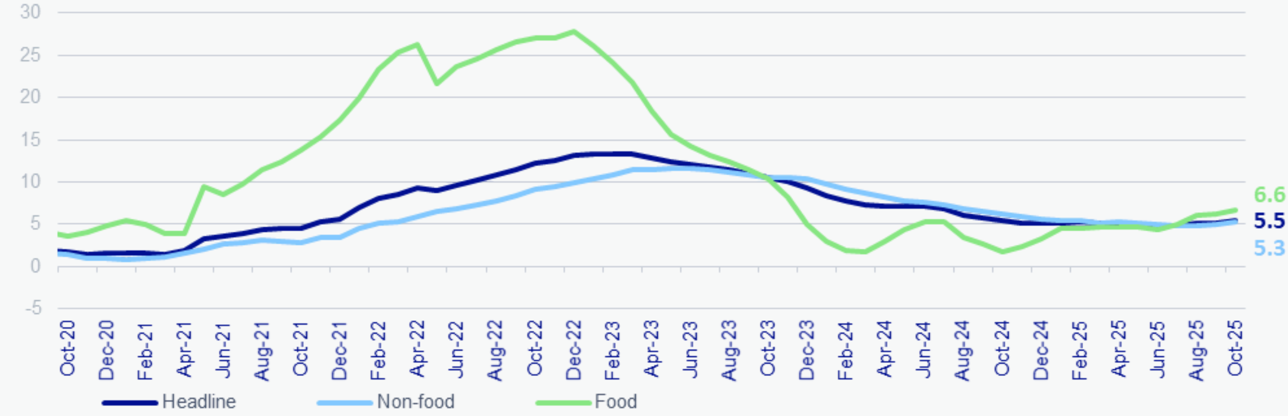
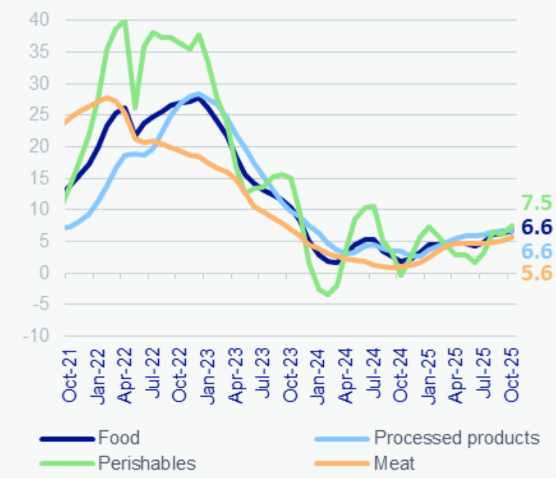
TOTAL, FOOD AND NON-FOOD INFLATION (ANNUAL CHANGE, %)



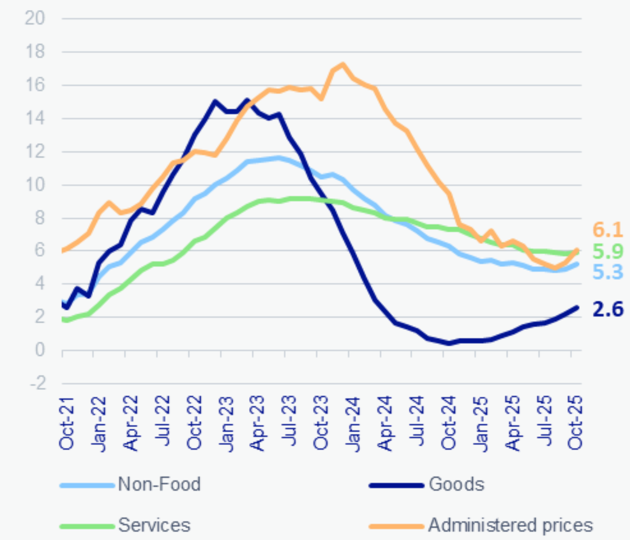
Source: BBVA Research with DANE data.

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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