BBVA Research

Inflation remains stable at 6.30% in October

Mariana Quinche Bustamante
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- **Annual inflation remained stable at 6.30% in October, although it remains 120 bps above the level observed at the end of last year.**
- **The stability in annual inflation was explained by offsetting pressures across baskets:** while food inflation increased, inflation excluding food declined.
- **Food inflation completed three consecutive months of increases, mainly driven by perishables,** likely affected by less favorable weather conditions resulting from the El Niño phenomenon.
- **Inflation excluding food completed two consecutive months of declines, mainly driven by goods, although regulated items and services also contributed.** In goods, the relief mainly came from vehicles and personal care and cleaning products; in regulated items, from water supply; and in services, from air transport and package holidays. It is worth noting that both goods and regulated items completed two consecutive months of moderation. In the case of goods, this behavior could be associated with the lagged effect of the cumulative exchange rate appreciation throughout the year.
- **Rent inflation remained stable at 5.06%, after two consecutive months of increases.** This behavior is good news, as it suggests that the additional pressures stemming from the August 10 earthquake may have been temporary.
- **We believe that the stability in inflation will be temporary and that inflation will resume its upward trend in the coming months,** particularly affected by the intensification of the effects of the El Niño phenomenon, which would impact not only food but also regulated items. In this context, we maintain our forecast of 7.0% inflation at the end of 2026.

Monthly inflation in October stood at 0.20%, below BBVA Research expectations (0.29%) and analysts' forecasts (0.27%). **As a result, annual inflation remained stable at 6.30%,** although it remains 120 basis points (bps) above the level observed at the end of last year.

The stability in annual inflation was explained by offsetting pressures across baskets: while annual food inflation increased, inflation excluding food declined.

On the one hand, annual food inflation increased to 7.31%, 57 bps above the level recorded in the previous month, completing three consecutive months of increases. This behavior was mainly driven by perishables, whose annual inflation increased to 15.31% (+225 bps). The main pressures came from potatoes, tomatoes, and vegetables and dried pulses. This behavior is not surprising, considering that annual inflation in these products has shown significant increases over the past couple of months. These pressures are likely associated with less favorable weather conditions resulting from the El Niño phenomenon.

In processed foods, annual inflation increased slightly to 2.51% (+13 bps), mainly driven by eggs and rice. Meanwhile, annual meat inflation declined to 6.89% (-35 bps), explained exclusively by beef, completing three consecutive months of declines.

We believe food inflation will continue increasing over the remainder of the year, as the effects of the El Niño phenomenon on this basket intensify. IDEAM officially declared the 2026–2027 El Niño phenomenon, following five consecutive rolling quarters under El Niño conditions. In addition, according to the National Oceanic and Atmospheric Administration (NOAA), there is an 83% probability that a strong or very strong El Niño event will persist through January–March 2027. In this context, we expect the effects of the El Niño phenomenon on food prices, which may already be beginning to materialize in some products, to intensify over the remainder of this year and during the first quarter of 2027.

On the other hand, annual inflation excluding food declined to 6.07%, 12 bps below the level recorded in the previous month, completing two consecutive months of declines. This behavior was mainly driven by goods, although regulated items and services also contributed.

In goods, annual inflation declined to 2.55% (-32 bps), mainly due to vehicles and personal care and cleaning products. The relief coming from vehicles is not surprising, considering that their annual inflation has been declining since the end of last year. With this result, annual goods inflation completed two consecutive months of declines. This behavior could be associated with lower inflationary pressures stemming from the lagged effect of the cumulative exchange rate appreciation throughout the year.

In regulated items, annual inflation declined to 6.56% (-13 bps), mainly driven by water supply and, to a lesser extent, sewerage and garbage collection services. In these components, a base effect also contributed to amplifying the decline in their annual inflation rates. With this result, annual inflation in regulated items completed two consecutive months of declines.

In contrast, vehicle fuels and gas exerted slight upward pressure. In the former, the increase was associated with the 19% rise in the price of natural gas for vehicles recorded during the month. In the latter, it was likely related to the effects of the El Niño phenomenon, which could generate upward pressures on tariffs due to greater thermal generation requirements and imports of more expensive gas. In fact, after two consecutive months of negative monthly variations, gas tariffs recorded a monthly increase of 0.87% in October.

In services, annual inflation declined slightly to 7.15% (-4 bps), mainly due to air transport and package holidays. The relief coming from air transport could reflect a reversal of the significant increase observed in September.

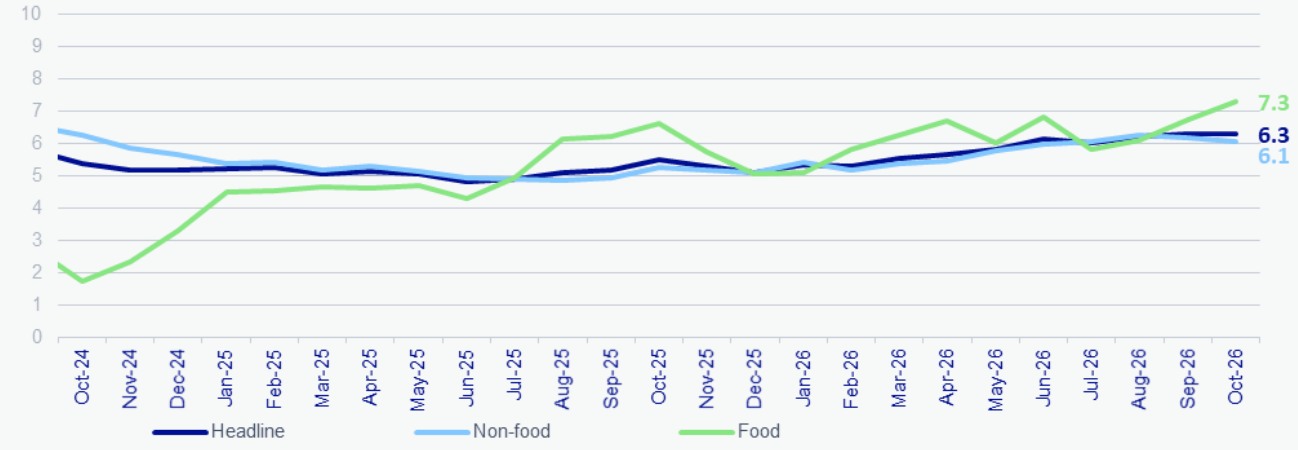
It is worth noting that annual rent inflation remained stable at 5.06%, after two consecutive months of increases. Although monthly rent inflation remains above its historical average due to weak housing supply, in October it stood much closer to that average than in August and September, when more pronounced increases were observed, likely related to the effects of the August 10 earthquake. This behavior is good news, as it suggests that the additional pressures on rents stemming from the earthquake may have been temporary.

We believe that the decline in annual inflation in regulated items will be temporary and that it will resume an upward trend over the remainder of the year, mainly due to the effects of the El Niño phenomenon on electricity and gas tariffs. This would reflect greater thermal generation requirements and imports of more expensive gas, with potential second-round effects on sectors such as industry and transportation.

Annual inflation excluding food and regulated items —a measure closely monitored by the Central Bank— declined to 5.91% (-12 bps), completing two consecutive months of declines. This result reinforces the decision of the Central Bank's Board of Directors to keep the policy rate unchanged at 12.25% at its October meeting.

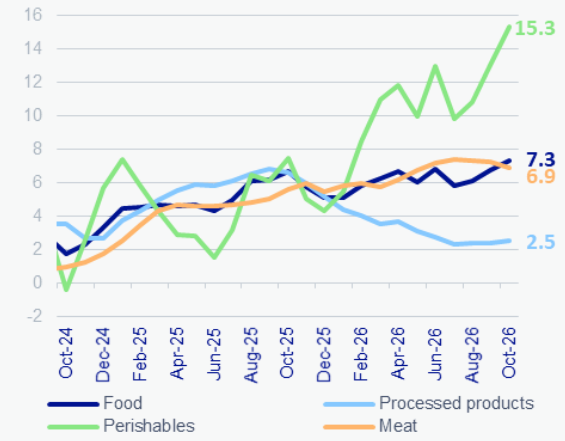
In conclusion, the stability in inflation observed in October reflected offsetting pressures across baskets: while food inflation increased, inflation in goods, regulated items, and services declined. **However, we believe this stability will be temporary and that inflation will continue increasing in the coming months,** particularly affected by the intensification of the effects of the El Niño phenomenon, which would impact not only food but also regulated items. **In this context, we maintain our forecast of 7.0% inflation at the end of 2026.**

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



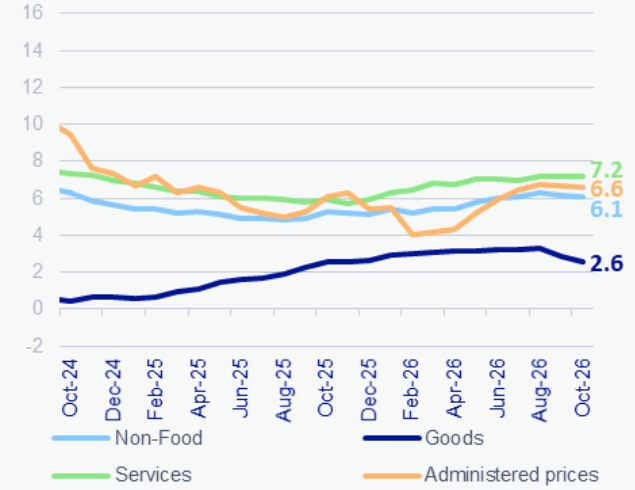
Source: BBVA Research with DANE data.

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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