

Economic Analysis

Inflation in August accelerated its decline to 6.12%

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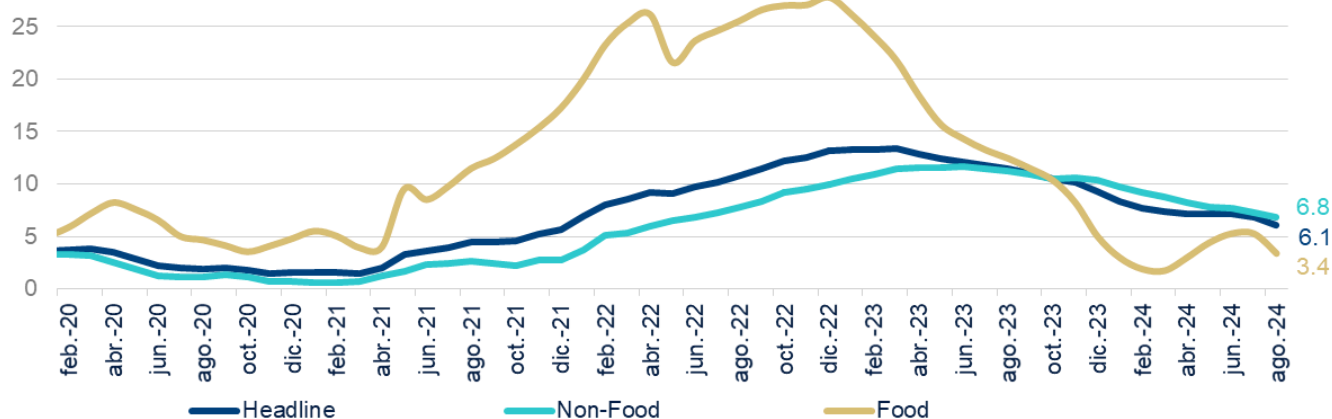
Food inflation fell sharply, while non-food inflation maintained its pace of decline

In August, monthly inflation was 0.00% and annual inflation was 6.12%, surprisingly well below market analysts' expectations according to Banco de la República's survey (0.24%). With this, the result is 74 bps below the previous month's figure and accelerates the pace of adjustments of previous months.

- **Food inflation recorded its largest downward adjustment since January 2024, falling from 5.26% to 3.38%**, down 188 bps from the previous month's figure. This variation was mainly explained by two factors: decreases in perishable food prices, as was the case of adjustments in subclasses such as potatoes, onions and vegetables; and an important base effect, mainly in the perishable basket, where the previous year's measurement recorded a monthly variation of 3.1%, compared to this month's monthly variation of -2.1%, which led to a decrease in the annual measurement of this basket from 10.5% to 5%.
- **Non-food inflation also made a significant contribution to the reduction in total inflation, falling to 6.78%**, down from 7.24% in July. Thus, the pace of reduction was maintained with a downward adjustment of 46 bps (close to the previous month's 40 bps decline). The adjustment in non-food inflation is associated with reductions in all three baskets. Although base effects continue to play a role in the reductions, there is also a gradual moderation in the persistence of inflation in baskets such as services.
- **Inflation in the administered prices basket reached for the first time a monthly change below the pre-pandemic (2011-2019) historical average.** This basket recorded the largest adjustment within non-food inflation, falling from 12.17% in July to 11.13% in August, a reduction of 104 bps. Within this, the downward pressure is explained by utilities such as electricity and rubbish collection, which recorded negative monthly variations. To this was added the base effect on account of fuels, as during 2023 there were increases in the price of gasoline in order to close the deficit of the Fuel Price Stabilisation Fund (FEPC), which ended in January, generating a high level of comparison compared to the current month, when no significant adjustments in fuels were implemented.
- **The basket of goods, which was already at low levels, continued to decline in August, reaching an annual change of 0.75%.** This basket decreased by 25 bps this month, from the annual change of 1.20% recorded in July, making it the second largest downward adjustment within non-food inflation. This basket maintains monthly changes below the pre-pandemic historical average (2011-2019). The reduction was due to adjustments in subclasses such as mobile telephone equipment, technological and electrical appliances.
- **The basket of services continues to show signs of moderation despite marked persistence over the past year, declining to 7.45% in August from 7.69% in July, a reduction of 24 bps.** The declines were helped by adjustments in subclasses such as airline tickets, package tours, tuition fees at higher education institutions and transport insurance.

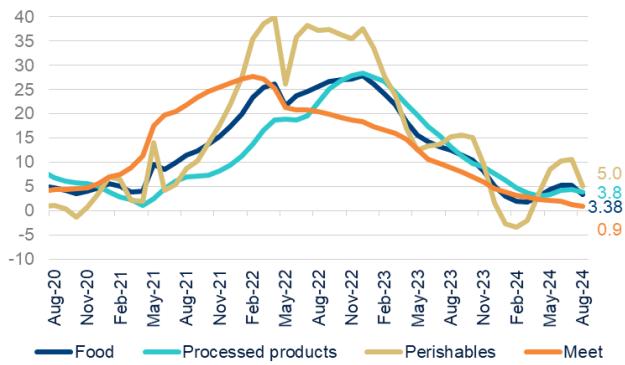
- **Food inflation may still continue to decline over the next two months, but uncertainty remains due to weather-related factors.** In September and October, base effects may continue to benefit the declines in annual food inflation, after monthly records that were above average for these same months in 2023. However, the La Niña phenomenon remains a factor of uncertainty, as it may affect transport routes and have unexpected impacts on food inflation.
- **The moderation in the persistence of the services basket will benefit from more moderate services consumption and base effects in the remainder of 2024.** Private consumption of services has already started to lose momentum and the trend is expected to decelerate, which will reduce the ability of suppliers to maintain price pressures. On the other hand, although rents, of great importance within this basket, are expected to maintain high monthly variations, these will be lower than those recorded in 2023, so that base effects will favour a decrease in annual inflation. On the other hand, the effects of higher gasoline and electricity tariffs, which were recorded in the latter part of the previous year, will act as high levels of comparison that will subtract from the annual inflation of the basket.
- **Although the low levels of goods inflation have favoured the reduction of non-food and total inflation in recent months, their decline could pose risks for 2025.** The low monthly variations, which have accumulated since February 2024, generate a low level of comparison in 2024, to which is added the expectation that activity will gradually recover, particularly in goods consumption, which would lead to pressures towards 2025. This would lead to upward pressures on the baseline that should be taken into account for the following year.
- **In the aggregate, BBVA Research expects inflation to maintain its downward path in the remainder of 2024.** The persistence of non-food inflation will continue to dissolve gradually from baskets such as services, to which will be added downward base effects from subclasses such as fuel, electricity and rents. However, uncertainty remains regarding the effect of weather factors and inflationary inertia factors. In terms of monetary policy decisions, the data will have a positive reading, mainly due to the reduction in non-food inflation, which gives the Bank of the Republic room for a possible acceleration of its reductions in the next meetings. Despite this, the Bank of the Republic has received mixed signals on economic activity, so there is still a bias for the path of reductions to be less aggressive than what BBVA Research has proposed.

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



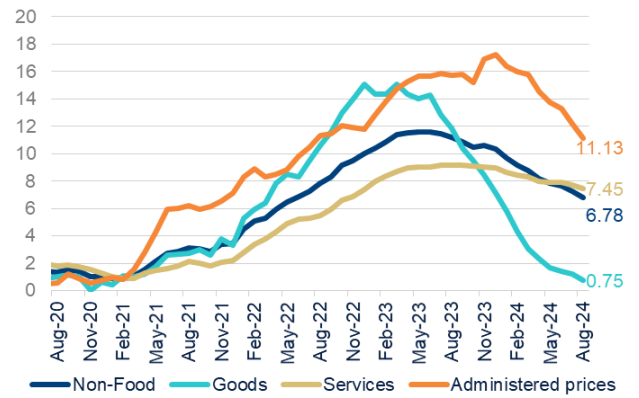
Source: BBVA Research with data from DANE

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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