Research

Economic Analysis

Inflation maintained its downward trend in September and stood at 5.8%

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Food inflation dips below 3%, while non-food inflation moderates its declines

In September, monthly inflation was 0.24% and annual inflation was 5.81%, close to market analysts' expectations, according to Banco de la República's survey (0.27%). With this, the result is 31 bps below the previous month's figure.

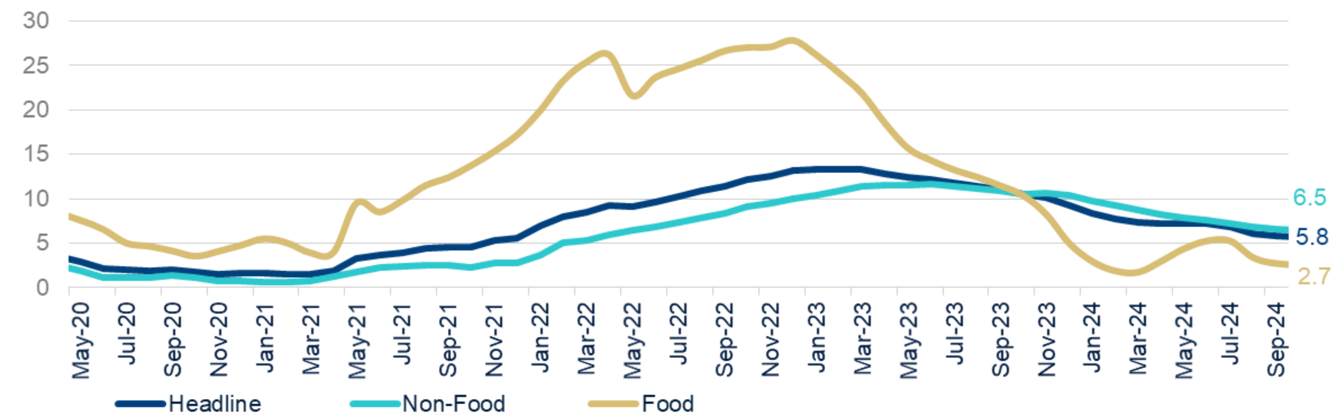
- **Food inflation continued its decline in September, reaching 2.73%, 65 bps lower than August's record.** The reduction was largely explained by the downward adjustment in the inflation of the perishables subbasket, which went from an annual variation of 5.02% in August to 3.27% in September, a reduction of 174 bps. The adjustment is mainly explained by comparison base effects, since in September 2023 there was a high monthly variation in this subbasket due to punctual pressures in some subclasses (tomato, onion and arracacha). On the other hand, processed foods showed a reduction of 30 bps, with an annual variation of 3.5%, and meats adjusted their inflation downward by 14 bps, reaching an annual variation of 0.8%..
- **Non-food inflation moderated its pace of decline in September, falling by 23 bps from 6.8% in August to 6.6% in September.** The pace of annual inflation reduction compared to the previous month slowed in September. In particular, although the regulated and goods baskets continued to show downward adjustments, services inflation did not decline this month. Base effects continue to play a role in the reductions, but the persistence in the services basket is more evident.
- **For the second consecutive month, inflation of the administered prices basket recorded monthly variations below the pre-pandemic level (2011-2019).** This basket registered the largest adjustment within non-food inflation, dropping from 11.13% in August to 10.15% in September, a reduction of 98 bps. Within this basket, the downward pressure is explained by public services such as electricity, which registered a negative monthly variation. To the above was added the base effect from fuels, since during 2023 there were increases in the price of gasoline to reduce the deficit of the Fuel Price Stabilization 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. Meanwhile, the diesel increase that materialized in September of this year does not have a relevant direct impact on household consumption; its indirect effects will be observed in the coming months.
- **Despite the low levels already reached in August (annual variation of 0.75%), the basket of goods continued to decrease in September, reaching an annual variation of 0.60%.** This basket maintained monthly variations below the pre-pandemic (2011-2019) historical average for the eighth consecutive month. The reduction was due to base effects in subclasses such as beer and beer towels and articles for body hygiene and pharmaceuticals, which in the same month of the previous year recorded high levels.

- **The basket of services recorded a slight increase in the annual variation, from 7.45% in August to 7.48% in September.** Mixed results were observed, with high monthly variations in several subclasses of relevance within the basket, but offset by base effects in both directions (upward and downward). Rents remain at relatively high levels, close to pre-pandemic (2011-2019) historical highs, despite being somewhat lower than the monthly data recorded in September 2023. Airline tickets registered a significant increase in monthly terms, probably in anticipation of December shopping, a peak season month. On the other hand, food inflation in table service establishments has shown above historical averages for the second consecutive month, which could be explained as a peak in demand associated with the dynamics of the month, even so, in monthly terms they are below the data of a year ago. This is also the case for beauty salon services, which remain high, but with monthly variations lower than those seen in September 2023.

In foresight:

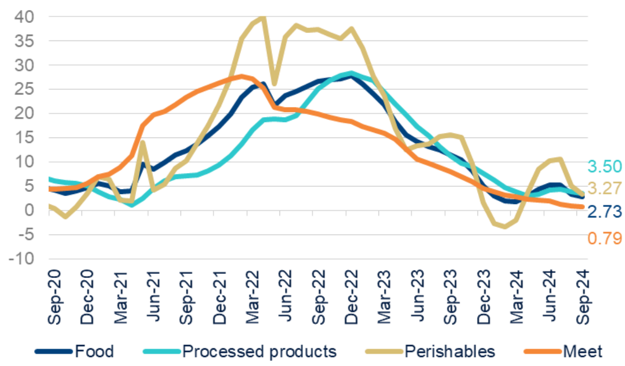
- **Food inflation may show some upward pressure in November and December due to base effects. In addition, uncertainty remains due to climatic factors.** In October, the base effects may continue to benefit the decreases in annual food inflation, on a transitory basis, but there will be opposite effects in November and December, months for which the comparison base is much lower. Additionally, the possible La Niña phenomenon could still affect the transportation of products, so this remains a risk in the short term, although limited by the expected intensity of the phenomenon.
- **Despite the marginal increase in the basket of services, the persistence of this may be alleviated by a lower demand for services in the remainder of 2024.** The expected reduction in private consumption of services, which will slow down in the last quarter of the year, may moderate the upward pressure on prices. Meanwhile, rent inflation is expected to moderate slowly in the remainder of the year, with monthly variations moderately weaker than those observed in 2023. On the other hand, the effects of the increase in 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. In spite of this, if the price of oil remains at high levels due to the conflict in the Middle East, additional increases in gasoline and gas could be seen, putting pressure on the CPI of these items and limiting the downward base effect.
- **Although the low levels of goods inflation have favored the reduction of non-food and total inflation in recent months, their reversal 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 core inflation that should be taken into account for the following year.
- **In the aggregate, BBVA Research expects inflation to maintain its downward path for the remainder of 2024.** Food inflation is expected to remain below the total inflation rate, despite some uncertainty due to climatic factors. Non-food inflation, on the other hand, will continue to fall, at a moderate pace due to the persistence of inflation in the services basket and despite risks such as the rise in diesel and gasoline prices, which could delay the downward trend. In terms of monetary policy decisions, the data will have an ambiguous reading by Banco de la República, because although inflation continues its downward path, a moderation in the pace of declines is perceived, with a persistence from services.

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



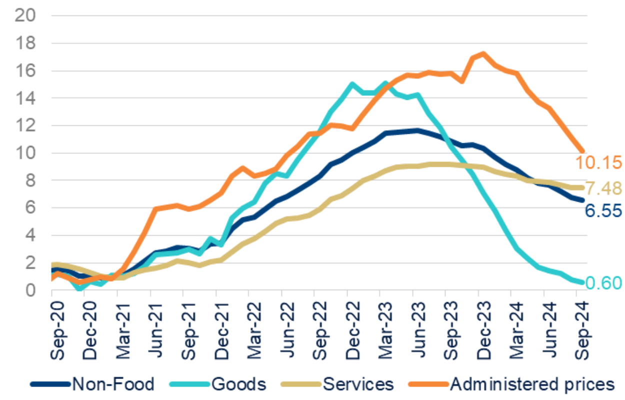
Source: BBVA Research with data from DANE

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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