

Economic Analysis

# December inflation remained unchanged, leading to a 2024 closing at 5.2%

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## Food inflation pushed up in the December figure, while non-food inflation eased moderately

Inflation closed the year with an annual change of 5.20%, unchanged from the figure recorded in November. The monthly change was 0.46%, above the expectations of market analysts, who according to the Banco de la República's survey expected a monthly change of 0.41%.

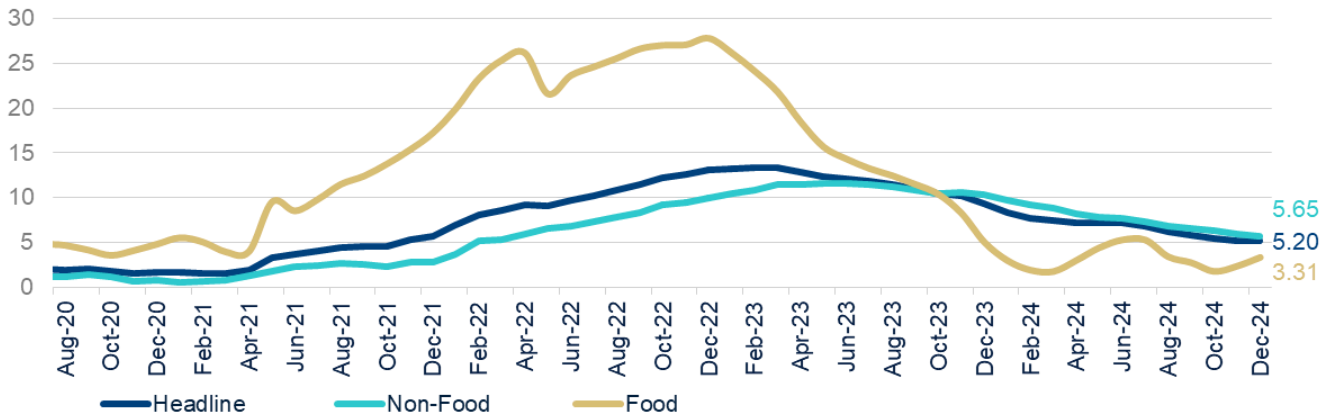
- **Food inflation was a major contributor to the fact that the overall figure did not continue to decline, increasing by 97 bps year-on-year.** This brought food inflation to 3.31%. This increase is largely explained by base effects, as inflation in December 2023 was negative. Although the monthly food data was expected to be at high levels, as a result of seasonal effects, it is worth noting that it was above its historical pre-pandemic average. This was in addition to upward pressures from the meat sub-basket.
- **Annual non-food inflation declined, but failed to offset increases in non-food inflation.** Annual non-food inflation was 5.65%, down 23 bps from the previous month's figure, signifying a moderation in its pace of decline compared to November. The reductions are mainly explained by downward base effects that offset upward pressures from specific subclasses. The baskets of services and regulated goods showed decreases in annual change in December, while the basket of goods remained stable.
- **Annual inflation in the services basket recorded its largest downward adjustment since January 2024 (-31 bps)** reaching an annual variation of 6.97%. It is important to note that in December, the monthly inflation of this basket was close to its historical average for this month. The reduction is mainly associated with base effects, in subclasses such as package holidays and cinemas and theatres. These downward pressures more than offset higher levels in sub-classes such as meals away from home and hotels. The subclass of rents also favoured moderation in annual terms with base effects despite its monthly change remaining high.
- **The second sub-basket that contributed most to the reduction was the administered prices sub-basket, which stood at 7.31% in its annual variation,** declining by 28 bps compared with the previous figure. The reductions in this sub-basket were explained by base effects, especially in electricity, which, although it recorded high levels in the monthly change in December, was lower than in December 2023.
- **The sub-basket of goods, meanwhile, was unchanged, remaining at an annual change of 0.62%, the lowest level among its peers.** These results are associated with opposing forces that offset each other internally: some base effects are seen in subclasses such as body care, oral care and beauty products, which had been at high levels in 2023 due to high input prices and have moderated increases in recent months. These are offset by subclasses that registered upward pressures in December, such as beer and soft drinks and vehicles.

As a result, the year-end 2024 achieved a total reduction of 400 bps from 9.3% to 5.2%. The largest adjustment of the year came from the administered prices basket, which declined by about 992 bps from the previous year, from 17.24% in 2023 to 7.31% in 2024. The second largest adjustment came from the goods basket, which declined by about 650 bps, falling from 7.11% to 0.62%. The food basket ranked third in reductions, falling by 284 bps between 2023 and 2024, from 4.6% to 1.7% in annual change. Finally, the basket that presented the greatest resistance to its reduction in the year was the basket of services, which decreased by only 200 bps, going from 9.0% to 7.0%.

**In foresight:**

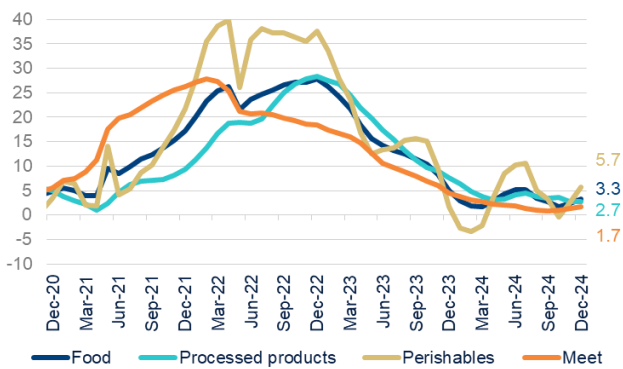
- **Food inflation could show rises in the first part of 2025.** The seasonality of this basket favours price increases at the beginning of the year on a regular basis, so it is possible that they will maintain increases during the first quarter, after which corrections may be observed. In particular, this basket faces risks associated with the impact of roadblocks and the transmission of transport costs, which for now do not materialise within our expectations.
- **Services inflation will maintain some persistence in 2025, mainly associated with rents.** Inflation moderated from 9.3% to 5.2%, which will help to observe lower monthly increases in rents, although still above their historical averages. Other subclasses within this basket will also face pressures from indexation factors, especially indexation to the minimum wage due to indirect effects; however, these effects will have a moderate impact as demand for services moderates in 2025.
- **Administered prices inflation will be highly uncertain in 2025.** During the first quarter of 2025, the basket will reflect downward base effects, which will favour reductions, however, the pace of declines or reversals will depend on the decisions that materialise on fuel price increases (in the framework of closing the Fuel Price Stabilisation Fund -Fepc- gap), and in particular on electricity and gas tariffs.
- **In the aggregate, BBVA Research expects inflation to continue to moderate in 2025, although the pace may be slowed by some latent risks.** The December 2024 result suggests a slightly higher starting point for inflation in 2025, which will add to other pressures, such as indexation factors, to generate an inflation path this year that will remain downward, but aims to close near the upper end of the Bank of the Republic's target range.

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



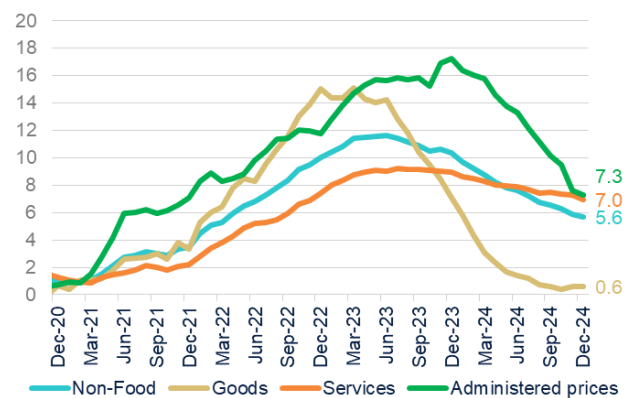
Source: BBVA Research with data from DANE

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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