BBVA Research

Creating Opportunities

Economic Analysis

Inflation moderately increased in February, reaching 5.3%

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Both food and core inflation rose, but inflation excluding food and administered prices continued to decline

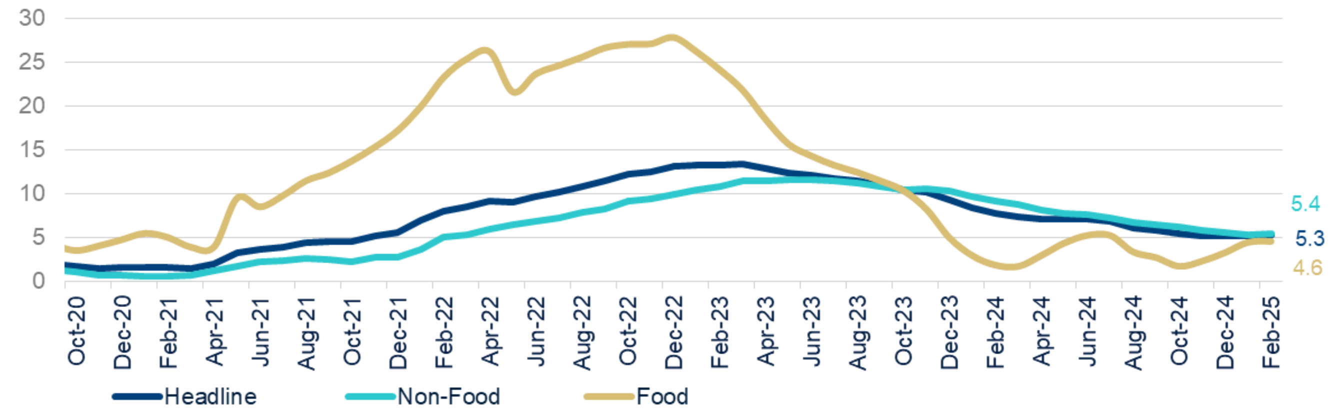
Monthly inflation in February was 1.14%, while annual inflation stood at 5.28%. This result exceeded market analysts' expectations, as the Banco de la República survey had anticipated a monthly variation of 0.98%.

- **Food inflation continued to rise in February.** Annual food inflation recorded a slight increase of 6 basis points (bps) from the previous month, reaching 4.6%. Within this category, the perishables sub-basket declined due to base effects, falling from 7.4% in January to 5.8% in February (a reduction of 159 bps), driven by significant declines in subcategories such as carrots, tomatoes, and oranges. However, this reduction was offset by increases in the processed foods and meats sub-baskets. Annual processed food inflation rose from 3.8% in January to 4.3% in February, mainly due to price increases in coffee, eggs, and panela. Meanwhile, the annual inflation rate for the meat basket increased from 2.5% to 3.5%, driven by upward pressures from beef and pork prices.
- **Annual core inflation (excluding food) registered a slight increase of 5 bps in February, reaching 5.4%.** The upward pressure came primarily from the administered prices basket, which posted the largest increase within this category. The goods basket saw a slight increase, while the services basket experienced a moderate decline. As a result, inflation excluding both food and administered prices, a key measure closely monitored by the central bank, recorded a slight moderation, decreasing from 5.0% to 4.9%.
- **Among the components of core inflation, the administered prices basket led the increase in February, rising from 6.6% in January to 7.2% in February, an increase of 57 bps.** The main driver was the gas subcategory, as tariff adjustments pushed prices higher due to increased gas imports in the domestic market.
- **The goods basket recorded a slight increase, rising from 0.6% annual inflation in January to 0.7% in February.** This was associated with higher prices in subcategories such as airline fares and personal hygiene products. The increase in airfare prices was mainly due to base effects, as they were at historically low levels a year ago.
- **The annual inflation rate for the services basket declined from 6.8% to 6.6%, primarily due to base effects, representing a 22 bps decrease.** The largest reductions were observed in higher education tuition fees and school transportation costs. However, upward pressures remained in subcategories such as tourist packages, cinemas and theaters, and vehicle insurance.

In foresight:

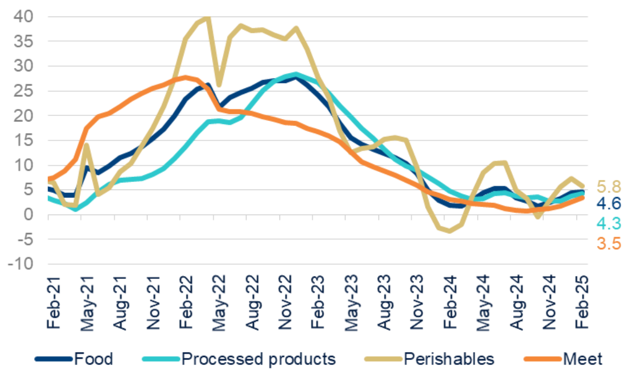
- **Food inflation may continue to face upward pressures in the first half of 2025.** Although the increase in food inflation in February was moderate, monthly variations in the Producer Price Index (PPI) indicate potential cost pressures that could be passed on to consumers through higher food prices in the coming months. In particular, this category faces risks associated with road blockages, rising transportation costs, and climatic factors, which have not yet materialized in our forecast.
- **Service inflation will likely remain persistent in the first half of 2025, particularly in subcategories such as rent and dining out.** In February, rental prices continued to show persistence in their monthly variation, reaching levels similar to those observed in the same month of the previous year. This resulted in only a marginal moderation in annual variation, from 7.0% to 6.9%. This outcome may reflect higher relative demand due to the sluggish housing sales cycle, which could be limiting the pace of disinflation in this category despite being indexed to lower inflation rates than in recent years. Consequently, monthly rental inflation is expected to remain high in the first half of the year, surpassing pre-pandemic peaks but staying below 2024 levels.
- **Dining out inflation remains elevated compared to historical averages, driven by high operating costs that businesses continue to pass on to consumers amid still-strong demand for services.** Elevated monthly inflation in this category is expected to persist for a few more months before gradually returning to average levels as service demand moderates. Indexation effects will also continue to be reflected in the early months of the year across other subcategories, such as beauty salons and domestic services. Nonetheless, high base effects provide room for a gradual decline in annual service inflation in the first half of the year, though at a slow pace.
- **Administered prices inflation could continue to present upside surprises in 2025.** Inflationary pressures from rising gas tariffs may persist in March. Additionally, risks remain related to further increases in fuel prices as part of the process of closing the deficit in the Fuel Price Stabilization Fund (FEPC). However, these pressures could be more contained if oil prices maintain the downward trend observed in recent weeks.
- **Overall, BBVA Research expects inflation to return to a downward path in the coming months and maintain a disinflationary trend throughout 2025.** Indexation effects from both end-2024 inflation and the minimum wage increase will be more pronounced in the early months of the year. However, base effects will support disinflation, particularly within the services basket. Inflation is expected to close above the Banco de la República's target range. Despite inflation persistence in recent months, inflation excluding food and administered prices continued to decline. These mixed results will likely generate extensive debate within the central bank as it evaluates its monetary policy stance in the coming months. The headline inflation result calls for caution, whereas the decline in core inflation (excluding food and administered prices) supports the case for resuming interest rate cuts.

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



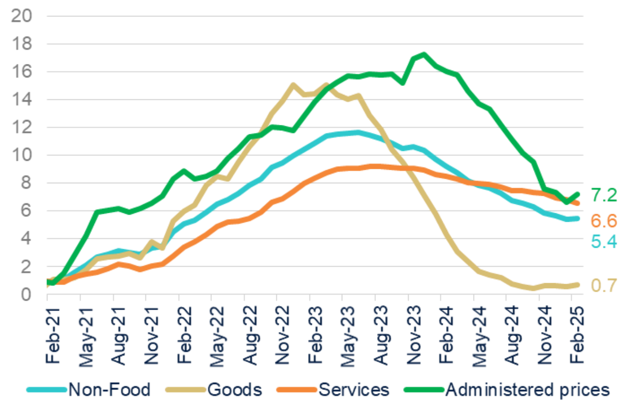
Source: BBVA Research with data from DANE

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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