

Economic analysis

Headline inflation breaks a four-month streak of stability, and decreased in March, settling at 5.1%

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Core inflation, excluding food, accounted for the moderation in the headline inflation for the month, primarily due to the basket of regulated prices.

March's monthly inflation was 0.52%, lower than the analysts' expectation in the Banco de la República survey (0.58%). With this result, the annual inflation rate stood at 5.1%, breaking a four-month streak of stability or slight increase.

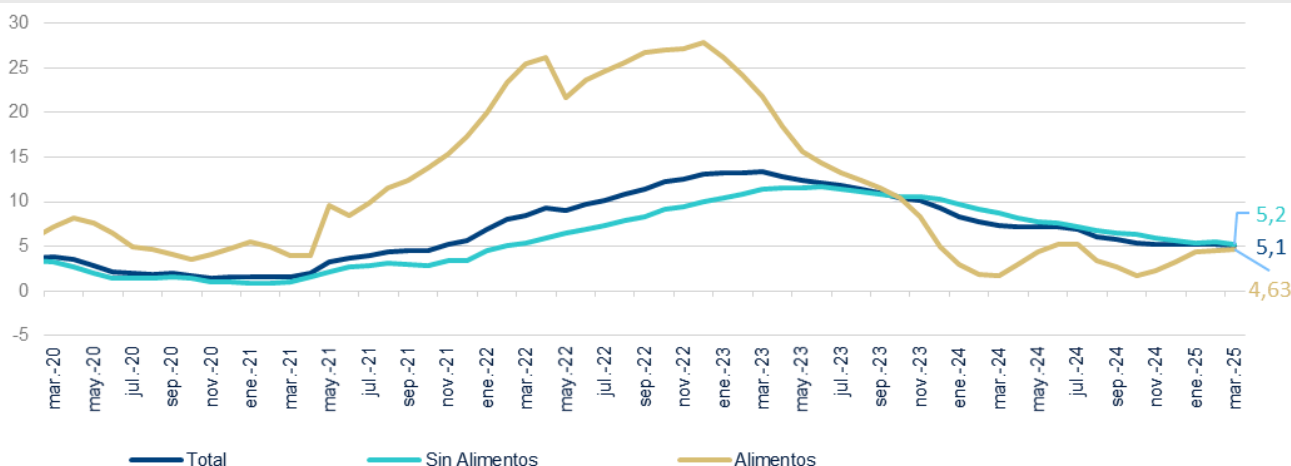
- **Core inflation excluding food decreased in March, supporting the reduction in headline inflation.** The annual variation of this basket in March was 5.2%, 26 basis points below its February print. This result was especially supported by the moderation of the regulated price basket and to a lesser extent in the services basket. On the other hand, the goods basket showed an increase during the month. Consequently, the core inflation closely monitored by the Banco de la República stood at 4.8% in March, a reduction of 6 basis points from its February figure.
- **The regulated price basket explained most of the reduction in both headline and food-excluding inflation.** In March, this basket showed an annual variation of 6.3%, reducing by 91 basis points from its February print. This result is due to the moderation of categories such as urban transportation, resulting from base effects given an earlier increase in 2025 compared to 2024 in fares and a reduction in household gas, driven mainly by Bogotá, after a rise in this component in February. Energy, despite showing a positive monthly variation, continues to have a relatively low annual variation, although new upward pressures were observed in this basket in some cities on the northern coast.
- **Services continued to show a gradual reduction in their annual variation in March.** This basket showed a moderation in its annual variation of 19 basis points, reaching a figure of 6.38%. This result was due to a general moderation in the components of the basket, highlighting a more favorable, albeit still high, price variation in rentals. In this component, the annual variation in March decreased by 18 basis points (similar to the aggregate of the group) and showed a monthly variation of 0.57%, lower than the 0.69% reported in February. Among other components, a moderation of 52 basis points was noted in the category of restaurants and other food venues.
- **Goods showed an acceleration in their annual variation in March.** The annual variation of this basket stood at 0.9%, increasing by 26 basis points from its February print and breaking a trend of stability in this basket. This result is mainly associated with increases in the annual variation of cleaning and hygiene products and a lower negative inflation in the vehicle component. These behaviors are linked to a combination of improved demand for these products but also to lagged effects of the exchange rate depreciation at the end of 2024 and beginning of 2025.

- **Annual food inflation showed a slight increase in March.** The basket showed an annual price variation of 4.6%, 11 basis points higher than reported in February. This result is due to a rebound in processed products and meat, which was partially offset by a moderation in the perishables component, which saw another month of relief. Within processed foods, some upward pressure was observed in mill products (bread and other bakery products), oils, and some dairy products. On the perishables side, fruits like orange and tamarillo showed significant moderations in the annual price variation, which managed to offset some increase in tubers such as potatoes and cassava.

In prospect:

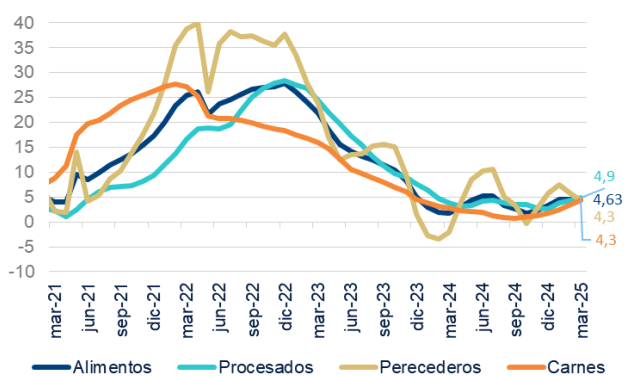
- **March results break with a streak of annual inflation stability, marking a first step towards reclaiming the downward trend, though it is still too early to confirm this.** The moderation in inflation primarily stemmed from regulated prices and services, which continues to be supported by base effects that will remain in place for a couple more months. However, it is expected that in the latter part of the year, these effects will dissipate, and the moderation due to this basket will contribute less to the reduction of headline inflation. Nonetheless, some relief is beginning to be seen in the rental sector, one of the components that has exerted the most pressure on inflation, particularly on the slowness in the moderation of services. If this improved behavior continues in the coming months, it could help reduce the pressure on headline inflation and replace the favorable effect that regulated items have had.
- **Goods, on the other hand, are beginning to show signs of pressure from low levels, which could intensify for the remainder of the year.** The goods basket has been the main factor in moderating total inflation between 2023 and 2024, reducing to near-zero levels in its annual variation. In recent months, it had remained relatively stable at low levels, but with signs in some specific products of a trend change. This materialized in March with the acceleration of the annual variation, although it does so from low levels and continues to contribute to keeping headline inflation at lower levels than those observed at the beginning of 2024. This behavior already shows some improvement in demand for this type of product accompanied by some lagged pressure from the exchange rate. In the current context, further upward pressure on goods inflation could be expected due to recent exchange rate depreciation, especially if it persists, and the expected improvement this year in the demand for durable and semi-durable goods.
- **Overall, BBVA Research expects that inflation will consolidate this new beginning of reductions, although it is expected to be at a gradual pace over the next few months due to the conflicting trends previously mentioned.** Overall, annual inflation is expected to continue moderating in the coming months and to close the year around 4.4%. This behavior will be explained mainly by the moderation of services and to a lesser extent by regulated items. Conversely, some pressure from goods is anticipated, although not marked enough to change the overall basket trend. Food could face some months of pressures, especially due to exchange rate effects on processed items, although a moderation in prices has also been observed recently due to global activity dynamics and economic policy. Greater uncertainty and volatility in this component are not ruled out, but some relief is possible, especially towards the end of the year. It is still premature to conclude that this moderation of inflation represents a definitive trend change, so it is possible that the Banco de la República will continue with its stance of caution in light of this result and in anticipation of confirmation of the highlighted trends.

Chart 1. **TOTAL, FOOD, AND NON-FOOD INFLATION (ANNUAL VARIATION, %)**



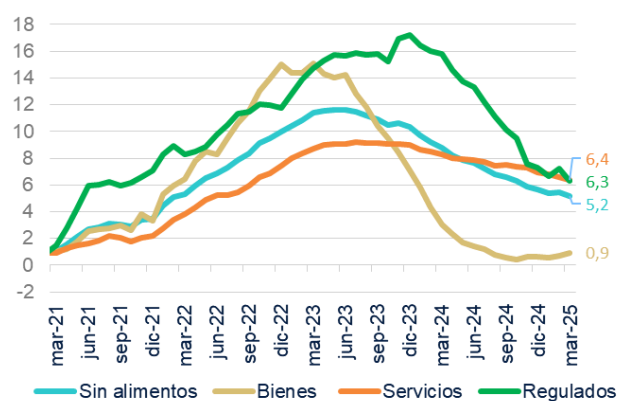
Fuente: BBVA Research con datos de DANE

Chart 2. **FOOD INFLATION AND MAIN SUB-BASKETS (ANNUAL VARIATION, %)**



Fuente: BBVA Research con datos de DANE

Chart 3. **INFLATION OF MAIN NON-FOOD BASKETS (ANNUAL VARIATION, %)**



Fuente: BBVA Research con datos de DANE

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