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GLOBAL ECONOMICS

LATAM DAILY

February 16, 2024

# Latam Daily: Colombian GDP Recap, Q4 and 2023 Disappoint

- **Colombia: The economy grew well below expectations in Q4-23 and throughout the year due to a decline in investment and lower private consumption, recording its weakest performance since the pandemic**

## COLOMBIA: THE ECONOMY GREW WELL BELOW EXPECTATIONS IN Q4-23 AND THROUGHOUT THE YEAR DUE TO A DECLINE IN INVESTMENT AND LOWER PRIVATE CONSUMPTION, RECORDING ITS WEAKEST PERFORMANCE SINCE THE PANDEMIC

Data released by DANE on Thursday, February 15th showed that Colombia's real GDP grew a modest 0.3% y/y in Q4-2023, below BanRep's forecast, the market consensus, and our projections (~1% y/y). The economic activities that contributed the most positively were agriculture, public administration and defense, education, health, and finance and insurance, which together contributed 1.3 p.p. to the total expansion. On the other hand, manufacturing, retail trade, construction, and, surprisingly, arts and entertainment were the activities that showed a negative contribution of -1.4 percentage points in the fourth quarter. On a seasonally adjusted basis (chart 1), a slight growth of 0.04% q/q was recorded, which is a deterioration from the 0.3% q/q recorded in the previous quarter. According to the Economic Activity Index (ISE), Colombia weakened significantly in December, to 0.1% q/q, as some service-related sectors, such as leisure, began to show weaker results, in addition to the manufacturing and trade sectors, which were affected throughout 2023.

On the demand side, private consumption continued to moderate in Q4-2023 (+0.1% y/y). Demand for durable and semi-durable goods was very weak, with a negative contribution of -0.9 p.p. to the group variation and annual growth rates in contractionary territory (-5.3% y/y and -7.2% y/y, respectively). In contrast, expenditure on services grew by +1.5% and 0.7 p.p. in the fourth quarter, followed by consumption of non-durable consumer goods with a slight growth of +0.6% and 0.2 p.p. For its part, the final consumption expenditure of the general government saw an expansion of 12.5% y/y in Q4. However, once again, the main drag on GDP in Q4-2023 came from a significant drop in gross fixed capital formation (-27.2% y/y), which is largely explained by a drop in fixed capital formation, which contracted by 14% y/y, both in machinery and equipment and in construction (residential and non-residential).

It must be added that all the data for both GDP and ISE have been revised downwards for the most part of the last year in this latest presentation. Thus, the consolidated GDP for the year 2023 shows a growth of 0.6% compared to 2022 (the lowest balance since the pandemic and lowest in the century if we take off pandemic), driven by the activities of public administration and defense, education, human health care activities (+3.9% and contribution of 0.6 p.p.), financial and insurance activities (+7.9% and contribution of 0.3 p.p.), along with arts and leisure activities (+7.0% and contribution of 0.2 p.p). These increases were offset by a decline throughout the year in trade (-2.8% and contribution of -0.6 p.p.), manufacturing (-3.5% and contribution of -0.4 p.p.), and construction (-4.2% and contribution of -0.2 p.p.).

For 2023, final consumption expenditure grows by 1.1% compared to 2022, driven by household final consumption expenditure (+1.1% compared to 2022) and government final consumption expenditure (+0.9% compared to 2022). These increases offset the decline of -24.8% in gross fixed capital formation and -8.9% in gross fixed capital formation compared to 2022.

Yesterday's data showed that domestic demand fell mainly due to the poor performance of investment, while consumption decelerated every quarter despite the recovery in public consumption. This led to a further decline in domestic demand, lower imports, and


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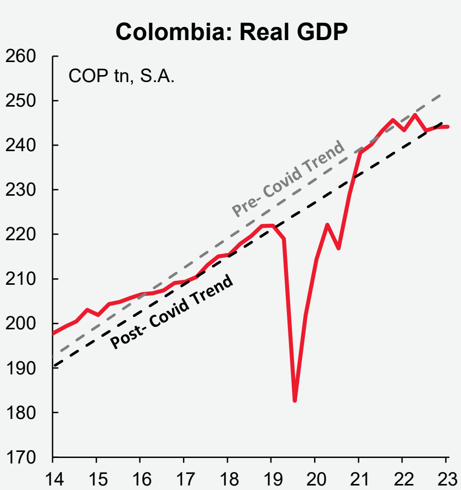
**Chart 1**




Sources: Scotiabank Economics, DANE.

a narrowing of the trade deficit. All of this occurred in the context of low consumer and business confidence, lower credit dynamics and a contractionary monetary policy. As a result, economic growth is expected to keep expansions below 2% in 2024, although higher than last year, due to a gradual decline in interest rates, a still contractionary local monetary policy and still low consumer and business confidence indices. As inflation converges to the target, internal financing conditions ease, favouring the recovery of growth in 2025. In 2024, total consumption is expected to be stable, with the public component growing faster than the private one. The investment will maintain its low dynamism in the first half of the year, but a gradual recovery is expected in the second half, driven by the reactivation of civil works and local investment projects. However, investment in civil engineering will remain low. In 2024, the contribution of net external demand to GDP will be much lower, due to the low growth of exports and the absence of new declines in imports.

Although the results are below market expectations, the path would be compatible with the convergence of inflation towards the target. Therefore, in 2024 we expect that the effects of a high statistical base will continue to contribute to a significant correction of inflation in the first quarter of the year. As a result, annual inflation is expected to be below 8% in February, allowing BanRep to accelerate the easing cycle to a 75bps cut on March 29th.

**Key Highlights**

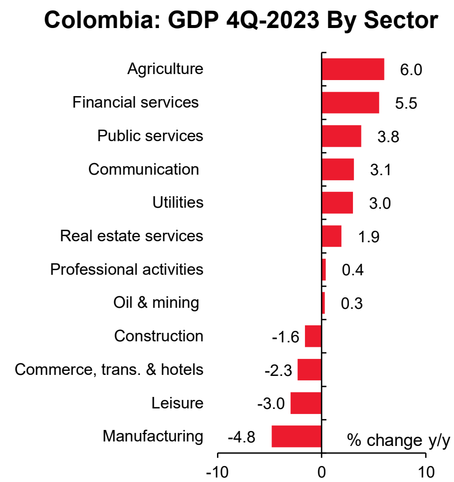
**From the supply side:**

- The sectors that contributed most positively in the fourth quarter were: i) agriculture, animal husbandry, and fishing (+6.0% y/y and a contribution of 0.6 p.p. to the annual variation); ii) public administration and defense, education and health (+3.8% y/y and a contribution of 0.5 p.p. to the annual variation); iii) finance and insurance (+5.5% y/y and a contribution of 0.2 p.p. to the annual variation).
- The sectors that contracted most in the fourth quarter were manufacturing (-4.8% y/y and a contribution of -0.6 p.p.), trade, transport and hotels (-2.3% y/y and a contribution of -0.5 p.p.), construction (-1.6% y/y and a contribution of -0.1 p.p.) and, unexpectedly, arts and recreation (-3% y/y and a contribution of -0.2 p.p.). Thus, these sectors accounted for -1.4 p.p. of the total variation in the fourth quarter (chart 2 and chart 3).
- In seasonally adjusted terms, the activities with the highest quarterly growth were: (i) financial intermediation (+4.7% q/q), agriculture (+2.7% q/q), and information and communication (+1.8% q/q). On the other hand, mining and quarrying and public administration were the activities that contracted the most in the last quarter (-3.5% q/q and -0.6% q/q, respectively).

**From the expenditure side:**

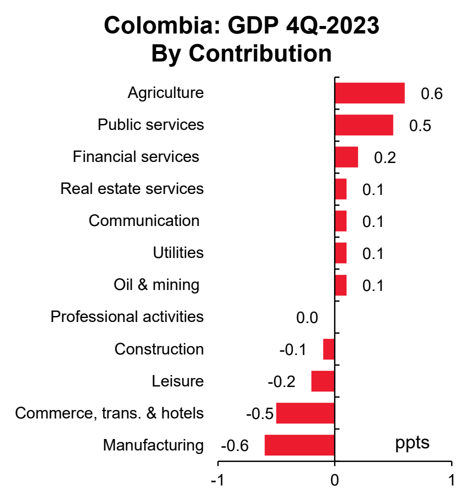
- Domestic demand contracted by 4.1% year-on-year in the fourth quarter of 2023 (chart 4), for the third consecutive quarter, reaching contraction rates not seen since 2020. Nonetheless, on a seasonally adjusted basis, domestic demand rebounded slightly in the final quarter of 2023, in contrast to the contractions of the previous four consecutive quarters.
- Final consumption expenditure continued to contribute positively to growth, albeit at a slower pace (0.1% y/y and a contribution of 0.1 p.p.). Specifically, household consumption grew by 0.1% y/y, driven by services (+1.5% y/y and 0.7 p.p.) and defensive goods (+0.2% y/y and 0.2 p.p.). In contrast, durable and semi-durable consumer goods fell by 5.3% y/y and -4.7% y/y respectively, with a joint contribution of -0.9 p.p. On the other hand, the government's final consumption expenditure grew by 12.5% y/y (driven by its three components: collective consumption expenditure, individual market, and non-individual market).

Chart 2



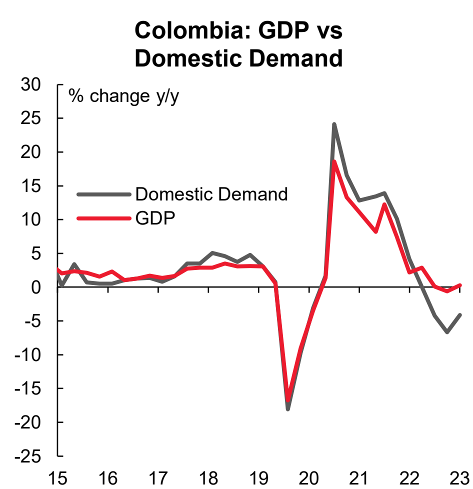

Sources: Scotiabank Economics, DANE.

Chart 3




Sources: Scotiabank Economics, DANE.

Chart 4




Sources: Scotiabank Economics, DANE.

- In seasonally adjusted quarterly terms, final consumption expenditure declined by 0.2% q/q, due to a decline in government consumption expenditure, which fell by 3.8% q/q. On the other hand, household final consumption expenditure grew by 0.6% q/q, driven by a recovery in expenditure on durable goods and services (+2.4% q/q and +1.1% q/q, respectively), which offset declines in both non-durable and semi-durable consumer goods (-0.7% q/q and -1.0% q/q, respectively).

- Gross fixed capital formation contracted by 27.2% y/y and made a negative contribution of -4.3 p.p. to the total variation of GDP in the third quarter of 2023, approaching the peaks recorded during the pandemic (chart 5). This decline is mainly associated with a fall in gross fixed capital formation (investments), which contracted by 14% y/y, driven by the fall in machinery and equipment (-25.7% y/y and -12.6 p.p.), followed by housing (-9.8% y/y and -2 p.p.).

- In seasonally adjusted terms, there was a rebound of 5.7% q/q, the best result of the year, after three consecutive quarters in negative territory. On the other hand, gross fixed capital formation contracted by 4.1% q/q, a deterioration compared to the previous quarter (-2.4% q/q in Q4-2010). Within this component, the most significant declines were in machinery equipment and housing (-10.3 q/q and -7.5 q/q, respectively).

- The constant external deficit amounted to 7.0% of GDP in Q4-2023 (chart 6). Exports grew by 6.6% y/y and contributed 1.4 p.p., while imports contracted by 12.8% y/y and contributed 3 p.p., reflecting the contraction in domestic demand and a significant reduction in imports, justifying a narrowing of the real external deficit.

**Economic Activity Indicator (ISE):**

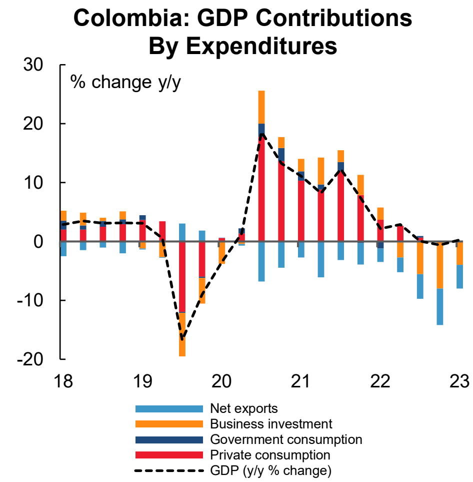
- In December 2023, the ISE slowed significantly to 0.1% y/y (chart 7), due to a decline in manufacturing (-4.8% y/y and -0.6 p.p.), arts and recreation (-2.7% y/y and -0.2 p.p.), trade, transport and accommodation (-0.5% y/y and -0.2 p.p.). On the other hand, the sectors that most compensated for the decline with more significant growths and contributions were agricultural activities (+5.4% y/y and 0.4 p.p.), financial activities (+8.8% y/y and 0.4 p.p.), along with public administration and defense, education, human health activities (+1% y/y and 0.1 p.p.).

- For the period January–December 2023, the ISE recorded a growth of 0.64% compared to the same period of the previous year, while for the year 2022, from January to December, it recorded a growth of 6.40%.

- In seasonally adjusted terms, the ISE recorded a contraction of 0.2% m/m in December, due to a decrease in the three groups of economic activities: primary activities -1.3% m/m, secondary activities -0.7% m/m and tertiary activities -0.3% m/m. From a sectoral point of view, finance and insurance activities recorded the largest increase (+5.3% m/m), while recreation and culture recorded the largest decrease (-9.8% m/m).

**—Sergio Olarte & Santiago Moreno**

**Chart 5**

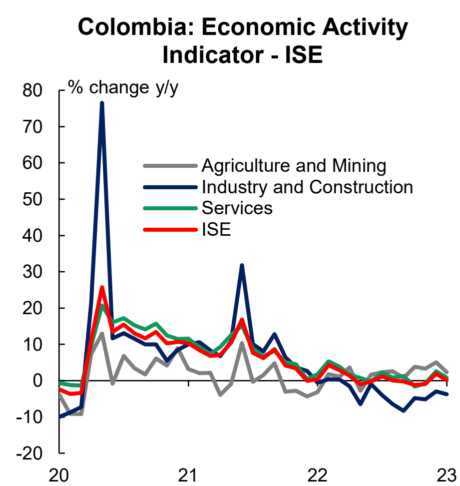



Sources: Scotiabank Economics, DANE.

**Chart 6**


Sources: Scotiabank Economics, DANE.

**Chart 7**

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