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GLOBAL ECONOMICS

**LATAM DAILY**

April 16, 2024


## Contributors

**Juan Manuel Herrera**
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

**Guillermo Arbe,** Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

**Sergio Olarte,** Head Economist, Colombia
+57.601.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

**Jorge Selaive,** Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

**Eduardo Suárez,** VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

**TODAY'S CONTRIBUTORS:**

**Santiago Moreno,** Economist
+57.601.745.6300 Ext. 1875 (Colombia)
santiago1.moreno@scotiabankcolpatria.com


# Latam Daily: Colombia and Peru Macro Recap

- **Colombia: Coincident indicators surprised in February with smallest y/y drop in a year but completing twelve months of declines**
- **Peru: Robust February 2.9% GDP growth ratifies that the economy has turned, leap year or not**

## COLOMBIA: COINCIDENT INDICATORS SURPRISED IN FEBRUARY WITH SMALLEST Y/Y DROP IN A YEAR BUT COMPLETING TWELVE MONTHS OF DECLINES

On Monday, April 15th, the National Statistics Institute (DANE) published the manufacturing and retail sales data for February 2024. Real manufacturing production contracted by 2.2% y/y in February 2024, above analysts' forecasts (-2.8 y/y). As for real retail sales, they fell 1.8% y/y in February, surprising up the market (-2.7% y/y). Although the data remained in contractionary territory and completed twelve months of contraction, it showed a slight improvement considering that both industry and retail recorded the smallest decline in a year. On the manufacturing side, the production of vegetable and animal oils, non-metallic mineral products, bakery products, and the production of motor vehicles were the main contributors to the February result, with a combined -1.2 p.p. contribution. On the retail side, there was a decline in the sale of motor vehicles, motorcycles and parts, along with computer and telecommunications equipment (computers and mobile phones) and clothing, which together made a negative contribution of 3.5 p.p., continuing to highlight the strong year-on-year impact on consumer demand for durable and semi-durable goods.

At the margin (seasonally adjusted), the data are not encouraging. The manufacturing sector contracted slightly for the second consecutive month, by 0.5% m/m, while retail sales declined by a modest 0.9% m/m, down from the previous month's modest expansion of 0.6% m/m.

The current results indicate that although the retail and industrial sectors continue to show contractionary performance, moderate improvements are beginning to be seen in some specific subsectors of durable and semi-durable goods. Other subsectors are expected to show slight signs of life in the months ahead, especially in the second half of the year. These factors leave room for the Board of BanRep to continue the easing cycle, although it is expected that they will maintain a cautious approach in the upcoming meetings. We expect them to continue the easing cycle at a rate of 50 basis points, with a split vote, similar to what happened in the March meeting. We expect the policy rate to end the year at 8.25% and to stabilize around 5.50% in the long run.

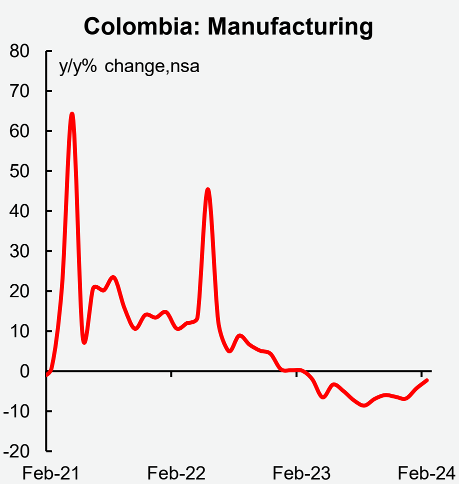
**Key Highlights:**

**Manufacturing Production:**

Manufacturing production fell 2.2% y/y in February 2024 (chart 1), a better number than analysts expected (-2.8% y/y). This completed twelve consecutive months of declines, although recording the smallest drop during this same period. In seasonally adjusted terms (chart 2), the manufacturing sector also contracted slightly for the second month in a row, by 0.5% m/m. Out of the thirty-nine industrial activities covered by the survey, a total of thirty registered negative annual variations in their real output, subtracting 4.4 percentage points from the annual variation, and nine subsectors with positive variations added a total of 2.2 percentage points to the annual variation.

The largest annual declines were recorded in the manufacturing of vegetable and animal oils and fats (-16.1% y/y and -0.35 p.p.), the manufacturing of non-metallic mineral products (-5.3% y/y and -0.31 p.p.), the manufacturing of bakery products (-10% y/y and -0.29 p.p.) and the manufacturing of motor vehicles and their engines (-32.5% y/y

**Chart 1**




Sources: Scotiabank Economics, DANE.

and -0.28 p.p.). These activities accounted for -1.2 p.p. of the total annual variation in manufacturing output.

However, some activities related to the production of durable and semi-durable consumer goods, such as the manufacturing of furniture and mattresses (-1.6% y/y), clothing (-0.5% y/y) and footwear (-3.3% y/y), although remaining in negative territory, recorded the smallest decreases in almost a year, with contributions of 0 p.p. to the group's variation. Thus, some signs could materialize in moderate variations close to zero and even positive in the following months of 2024, especially in the second half of 2024.

On the other hand, the best-performing activities were the manufacturing of soap, detergents, and perfumes (+9.3% y/y and +0.5 p.p.), the manufacturing of pharmaceuticals and medicinal chemicals (+12.1% y/y and +0.5 p.p.), the manufacturing of electrical machinery and equipment (+16.2% y/y and +0.4 p.p.) and the manufacturing of beverages (2.7% y/y and +0.3% p.p.). These activities contributed +1.8 p.p. to the total annual variation in manufacturing production.

YTD up to February 2024, real manufacturing output showed a variation of -3.2%, mainly due to decreases in the manufacturing of non-metallic mineral products (-8.4%), the manufacturing of wearing apparel (-10.6%) and the manufacturing of vegetable and animal oils and fats (-15.7%), which together contributed -1.2 p.p. to total production.

**Retail sales:**

Retail sales fell 1.8% y/y in February (chart 3), surprising market expectations (-2.7% y/y). As in the manufacturing sector, this was the smallest decline in a year, despite twelve months of contraction. During the month, nine of the nineteen basic commodity groups posted negative year-over-year changes in their real sales, while ten commodity groups posted positive year-over-year changes in their sales. In seasonally adjusted terms (chart 4), retail sales excluding trucks and public transport fell slightly by 0.9% m/m, down from a modest 0.6% m/m growth in the previous month.

In annual terms, the main negative contributors to the annual rate of change were other motor vehicles and motorcycles (-18.7% y/y and -1.7 p.p.), computers and telecommunications equipment for personal or household use (-13.2% y/y and -0.7 p.p.), motor vehicles and motorcycles (-7.6% y/y and -0.7 p.p.) and clothing (-12% y/y and -0.5 p.p.), which together accounted for -3.1 p.p. of the total variation in retail sales.

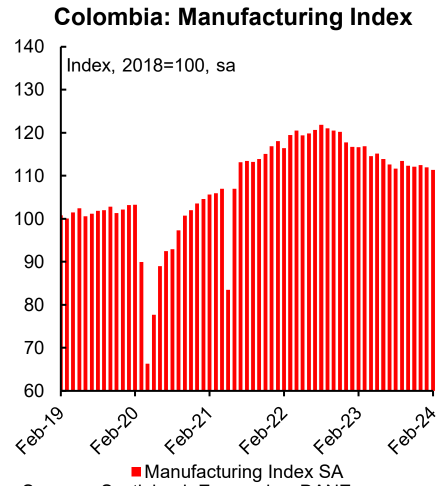
The largest positive contributions came from the sale of automotive fuels (-6.6% y/y and +1.3 p.p.), food (1.9% y/y and 0.4 p.p.), and household equipment and furniture (7.8% y/y and 0.2 p.p.), which together added 1.7 p.p. to the total. The expansion of the latter represents a boost for the second consecutive month of a sector strongly affected by high inflation and high-interest rates. It is expected that during the whole year, they will continue to show moderate expansion results in several of the product lines related to durable and semi-durable goods.

In the first two months of 2024, retail sales declined by 2.9% compared to the first two months of 2023. During this period, the subsectors with the largest negative contribution to sales were motor vehicles and motorcycles (-8.3%), other vehicles (-14%), and clothing and textiles (-14.7%), which together contributed -2.5 percentage points.

**Services and hotels:**

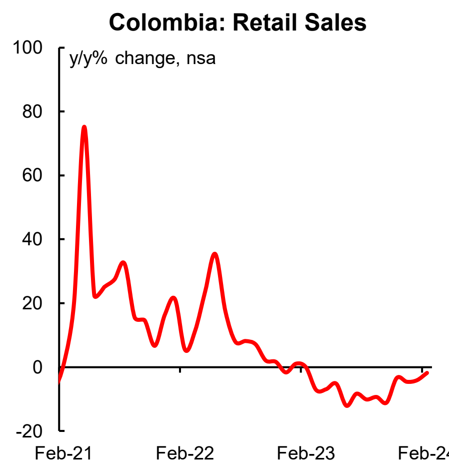
In February, fifteen out of the eighteen service subsectors recorded positive year-on-year changes in total nominal turnover. The best-performing subsectors were health services (17%

Chart 2



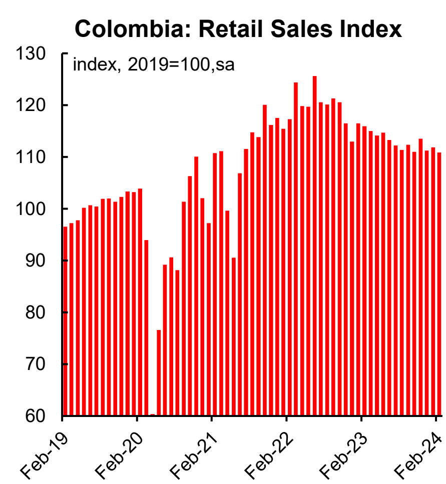
Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

y/y), entertainment services (14% y/y), advertising (13.8% y/y), courier services (12.1% y/y), and restaurants (10.9% y/y). In contrast, the sub-sectors with the largest decreases were call centers (-9.5% y/y), professional and technical activities (-7.4% y/y), and activities related to news agencies (-3.4% y/y).

In the hotel sector, turnover fell by 4.6% in real terms in February 2024, ending eleven months of decline, but with the smallest decrease in a year. In addition, seasonally adjusted growth was 3.3% m/m, compared to -2.2% in January. As for hotel occupancy, it reached 51.4% in the second month of 2024, the best level in three months and above the pre-pandemic average (49.1%).

**—Sergio Olarte & Santiago Moreno**

## PERU: ROBUST FEBRUARY 2.9% GDP GROWTH RATIFIES THAT THE ECONOMY HAS TURNED, LEAP YEAR OR NOT

GDP had a good month. There was no Niño and the summer weather was fine, people worked and partied instead of protesting, and the leap year added an extra day. As a result, GDP growth was 2.9% YoY, the highest figure since mid-2022. In month-on-month terms, growth was a robust 1.2%.

The most noticeable aspect for February is that nearly all domestic demand-linked sectors showed reliable, if not robust, growth. The two demand sectors that concerned us in the past, industrial manufacturing and construction, rose 1.9% YoY, and 6.4%, YoY, respectively. True, construction GDP growth was assisted by a significant increase in public sector investment, but it's also true that there was +2% growth nearly across the board of demand-linked sectors. The sole exception was financial services.

Mining GDP is once again leading in growth so far in 2024, as it did in 2023. Except that in 2023 it came as no surprise, since that was the first full year of the new Quellaveco copper mine. Meanwhile this year, strong growth of 17.1% YoY in February and 10.7% YTD, doesn't reflect new operations, but appears to be a combination of fewer interruptions from seasonal rains or protests, and the simulative effect of higher metal prices on current operations.

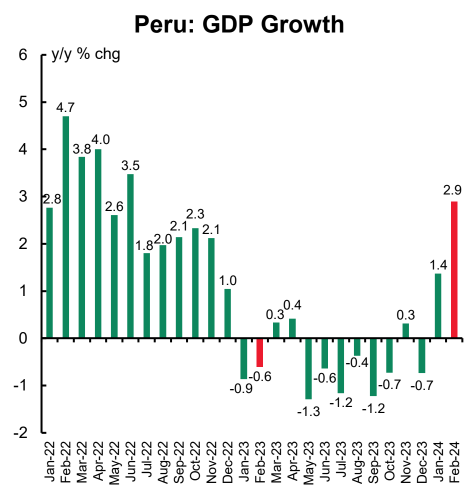
**Table 1: Peru—GDP Growth in February (%)**

| Groups | Feb y/y | Feb m/m | Jan-Feb y/y |
|---|---|---|---|
| **GDP** | **2.9** | **1.2** | **2.1** |
| Agriculture | -2.0 | -1.3 | -2.4 |
| Fishing | -31.3 | -12.4 | -28.5 |
| Mining and Oil & Gas | 15.9 | 6.1 | 9.8 |
| Mining | 17.1 | na | 10.7 |
| Oil & Gas | 8.9 | na | 4.4 |
| Industrial Manufacturing | 1.7 | na | 1.9 |
| Electricity and Water | 8.1 | 5.1 | 5.8 |
| Construction | 6.4 | -1.5 | 9.7 |
| Retail | 3.0 | 0.7 | 2.7 |
| Transportation | 5.2 | 4.4 | 5.2 |
| Hotels & Restaurants | 2.7 | 0.1 | 2.7 |
| Telecom | 2.0 | 2.3 | -0.5 |
| Financial Services | -5.1 | -1.3 | -4.2 |
| Business Services | 2.9 | 0.6 | 2.4 |
| Government Services | 3.7 | na | 3.7 |

Sources: Scotiabank Economics,INEI.

Resource sectors were at both ends of the sector growth spectrum. Just as mining led in growth, agriculture and fishing were the main drags on growth. Agriculture, down 2.0% YoY and 2.4% YTD in February, remains the only sector still affected by last year's Niño, which has led to less land be cultivated and to lower productivity. This impact shouldn't last too much longer. Fishing fell more dramatically, 31% YoY in February and 28% YTD. Note, however, that it has a much lower weight in GDP. Weather patterns led to an earlier fishing season this year, in contrast to 2023.

Chart 5




Sources: Scotiabank Economics, INEI.

The only other sector with persistent negative growth was financial services, down 5.1% YoY in February. The sector continues to lag the rest of the economy, rather than leading it as it normally does, which may reflect how little investment is contributing to growth. Additionally, interest rates continue to be high, and there are signs that cash virtual wallets are competing increasingly with credit cards as a means of purchase.

Aggregate growth year-to-date was 2.1% YoY. This puts our full-year forecast of 2.7% in sight, if you consider that the year is just beginning, and that most of the low 2023 base year effect is still before us. As a result, growth in the second semester should be stronger than in the first. There may be a few bumps in the road along the way, however. The first bump is likely to occur in the month of March, when the Easter holidays date switch will play against growth. Not to worry, though, as whatever is lost in March due to Easter will be recovered in April.

The question is, how much of what we are seeing is rebound, and how much is something more organic? Probably most of growth is rebound… for now. Having said that, the road to 2.7% growth in 2024 is intact. May we dream of +3% growth? It's not impossible.

**—Guillermo Arbe**