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Latam Daily: Peru's GDP Growth Led by Public Sector Spending

- **Peru: Q1 GDP growth is led by public sector spending; the private sector to follow soon**

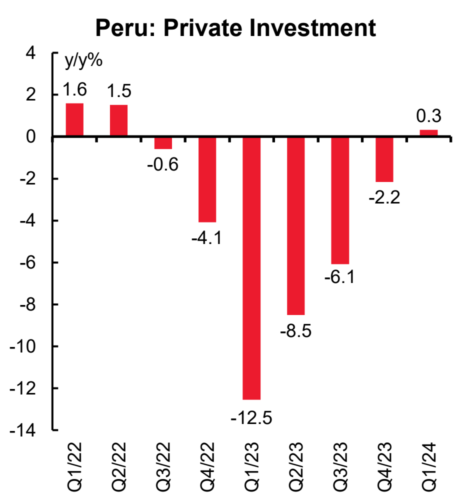
The BCRP released the first quarter GDP and domestic demand growth figures on May 24th. Although the figure of 1.4% YoY aggregate GDP growth was known, the breakdown was not, and came as a partial relief.

We already knew the figure for Q1-24 GDP growth (1.4% YoY), and that this was the first quarter of positive growth since 2022. What was reassuring was that all components showed positive growth as well, including private investment (albeit, barely, 0.3%), see chart 1. Furthermore, although exports fared well, the fact that domestic demand growth, up 2.1%, also outpaced GDP was encouraging.

But a closer look reveals some cracks that still need to be mended, especially in the private sector. It was clearly public sector spending that led growth in Q1-24. Of course, it is not bad that public investment increased nearly 40% YoY in Q1. The concern is that this is not triggering, at least not yet, a consequential increase in private investment. Mining investment rose a healthy 13.9%, but that has its own dynamics, and was off a very low base. The hope was that non-mining investment would start showing some life in Q1. It didn't. Non-mining investment, down 0.8% YoY, in the quarter, decreased for the fifth consecutive quarter, also off a very low base. This is a glass half empty, glass half full situation. What a relief that private investment is finally growing, and what a disappointment that this growth goes no further than mining. Peru's post-recession recovery will only gather strength once non-mining investment begins to perform.

Looking at GDP growth overall, the glass does look rather more than half full going forward. Growth in the first quarter should be the lowest for the year. There are a number of reasons why one may be optimistic despite the weak private sector demand figures during Q1. These include the upsurge in metal prices that has been taking place, the increase in household resources from pension fund and worker compensation withdrawals in Q2 and Q3, the restoring impact of lower inflation on real wages, declining interest rates, and the energy the government has been putting into accelerating infrastructure projects and permits for mining. With all these tailwinds, we remain comfortable with our forecast of 2.7% GDP growth in 2024, and even see some upside to it. If only politics do not get in the way.

Chart 1



Sources: Scotiabank Economics, BCRP.

Table 1: Peru—GDP & Domestic Demand Growth y/y%

	Q1-23	Q2-23	Q3-23	Q4-23	Q1-24
Domestic demand	**-1.9**	**-3.7**	**-1.9**	**-0.9**	**2.1**
Private Consumption	0.2	0.4	-0.1	0.2	1.2
Public Current Spending	-0.1	5.4	3.2	9.2	3.2
Private Investment	-12.5	-8.5	-6.1	-2.2	0.3
Mining Investment	-20.2	-18.7	-7.1	0.5	13.9
Non-mining Investment	-11.8	-7.4	-6.0	-2.5	-0.8
Public Investment	2.6	4.3	-3.9	6.4	39.9
Change Inventories (p.p.)	0.6	-3.1	-0.8	-2.4	-0.5
Exports	**2.6**	**10.2**	**2.3**	**4.9**	**2.5**
Imports	**-3.6**	**-3.5**	**-1.8**	**3.0**	**5.4**
GDP	**-0.4**	**-0.5**	**-0.9**	**-0.4**	**1.4**

Sources: Scotiabank Economics, BCRP.

—Guillermo Arbe