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Latam Daily: Colombia and Peru Macro Recap

- **Colombia: Manufacturing production resumes downtrend while retail sales appear to stagnate**
- **Peru: May GDP growth at 5.0% for second consecutive month**

COLOMBIA: MANUFACTURING PRODUCTION RESUMES DOWNTREND WHILE RETAIL SALES APPEAR TO STAGNATE

On Monday, July 15th, the National Institute of Statistics (DANE) published manufacturing production and retail sales data for May 2024. Manufacturing production fell by -3.6% compared to May 2023 (chart 1), while retail sales registered a contraction of -1.7% y/y.

May's manufacturing production showed that economic activity remains weak (chart 2). The March and April data were volatile due to the statistical effects that arose from the impact of Easter on the number of business days (2024 vs 2023), while cleaner May data shows that the manufacturing sector still does not have a recovery trend. In annual terms, manufacturing production fell -3.6%, with vehicle manufacturing being the activity that registered the greatest contraction (-60.8% y/y), reflecting the low demand and exit of agents in the segment, such as the closure of the Generals Motors plant in the country.

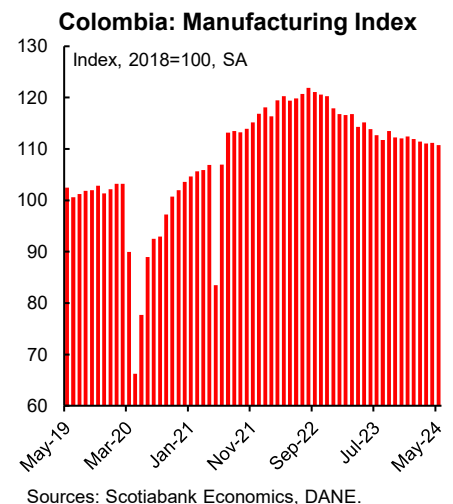
The dynamics of retail sales show a lower household willingness to consume and focused on a so call defensive goods consumption such as food. At the same time, durable goods consumption has been hit by a lower demand. In May, the celebration of Mother's Day helped the dynamics of sales since in monthly terms it registered a modest growth of 0.78%, however, in annual terms retail sales fell -1.7% (chart 3), reflecting a weak performance in the sale of clothing and other textile products, this being one of the segments that contribute the most to the general result (-0.7 ppts). Products associated with the automotive sector continue to register declines in sales even though the prices of vehicles and parts are at a more favourable level for purchase even with negative inflation in the tradable transportation sector, which as of May was at -5.18% annually. On the positive side, the sale of televisions stands out, which could be associated with advance purchases to view different soccer championships such as the European Championship and the Copa America.

On July 18th, the Economic Monitoring Indicator (ISE) will be published, in which the behaviour of the different sectors can be seen more widely. Although the manufacturing sector and the commercial sector maintain a negative dynamic, the trend would not affect the prospect that BanRep will maintain a cautious stance at the next monetary policy meeting, in which we expect a cut of 50bps that will bring the reference rate to 10.75%.

Chart 1



Chart 2



Highlights:

- Manufacturing production fell 3.6% y/y, showing that the positive result in April was only a seasonal effect.** So far this year until May, real production has recorded a contraction of -3.5%. The production of drugs and personal hygiene products has had the best performance, which may be related to climatic phenomena that influence health, generating greater demand for these products. On the negative side, the lower manufacturing of textiles and automobiles stands out, associated with lower sales.
- Retail sales registered a fall of 1.7% annually.** The segments that contributed the most to the negative variation were fuel sales (-0.7 ppts), clothing sales (-0.6 ppts), and vehicle sales (-0.5 ppts). In response to a lower willingness to buy on the part of consumers, considering that the cost of credit remains high. However, this would improve as BanRep continues with the flexibility cycle and credit rates become more favourable for the acquisition of durable goods.
- On the positive side, retail sales of other vehicles (public transportation and freight transportation) were the ones that most offset the result,** contributing +0.6 ppts, followed by audio and video equipment (televisions) that contributed +0.2 ppts. In addition, the good dynamics that sales of domestic and personal hygiene products have had stand out.
- In marginal terms, retail sales grew 0.78% compared to April.** The celebration of Mother's Day usually influences this behaviour, given an increase in household demand (chart 4).

—Sergio Olarte & Daniela Silva

PERU: MAY GDP GROWTH AT 5.0% FOR SECOND CONSECUTIVE MONTH

May's heartwarming 5.0% GDP growth, y/y, followed a similar 5.3% y/y growth for April (chart 5). There was a difference, however. High GDP growth in April benefited from two extra days due to a calendar shift in the Easter holiday season. Unlike April, there were no calendar anomalies in May, which was a more normal month. May's figure was, thus, stronger than April's.

One could get used to 5% growth. Only, it won't recur easily. Calendar issues aside, what did help boost growth in May was an excellent fishing season in 2024, versus none at all in 2023. Fishing, up 329% y/y directly, and 450% indirectly through fishmeal processing, provided well over one percentage point to growth in May. That will change going forward, as the low base due to 2023's El Niño wears off.

Given this, if one wished to look at sustainable growth drivers over time, it's best to focus on sectors that are linked to domestic demand. Here the results are more patchy. Industrial manufacturing was up a soft 1.1% y/y, for instance, while financial services continued to decline in May, -1.1% y/y, and telecom, electricity and commerce fluctuated in a range from nil to 2.1%.

Moreover, month-on-month growth was weak pretty much all around, with the sole exception being mining and oil & gas, up 3.8%.

Among domestic demand linked sectors, only construction GDP rose a healthy 5.5%, although this was linked to public sector spending more than to private sector demand (table 1).

Looking at trends, cumulative growth in the year to May was an encouraging 2.9%. If growth stabilizes in this vicinity, or perhaps a little higher, as it very well could, then we'll be able to

Chart 3



Chart 4

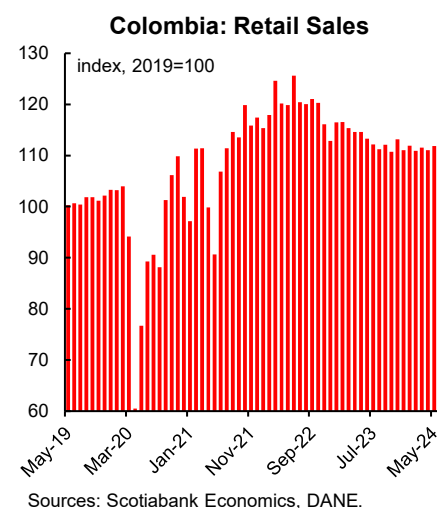
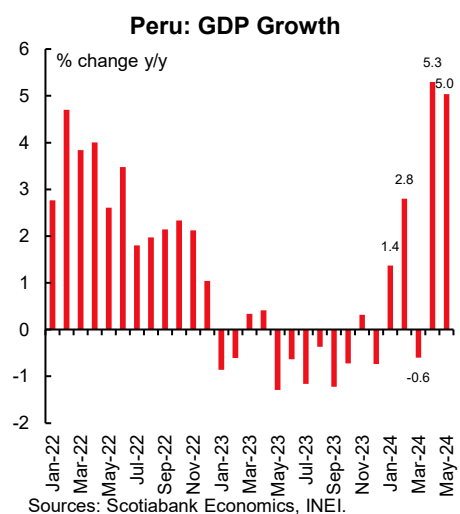


Chart 5



count 2024 as a good year. There are still some notable tailwinds going forward, foremost among these is the pension fund withdrawals. Note that domestic demand in May was still not bolstered by pension fund withdrawals, which should begin having an impact for a few months starting in July. More intriguingly, there is an underlying sensation that things are starting to pick up with some conviction, even if domestic demand growth sectors still do not show it.

As an aside, the BCRP board members no doubt had good information on the May GDP growth number when they decided to maintain the reference rate stable at 5.75%. With growth like this, why hurry in lowering interest rates?

—Guillermo Arbe

	May y/y	May m/m	Jan-May y/y
GDP	5.0	0.1	2.9
Agriculture	2.6	-5.7	5.4
Fishing	329.2	112.4	43.7
Mining and Oil & Gas	1.8	5.0	3.9
Mining	2.4	na	4.6
Oil & Gas	1.7	na	-0.5
Industrial Manufacturing	1.1	na	0.1
Electricity and water	1.7	0.7	3.2
Construction	5.5	1.2	5.6
Commerce	2.1	0.2	2.5
Transportation	7.0	0.8	5.4
Hotels & Restaurants	1.1	-0.4	1.7
Telecom	0.1	1.1	0.3
Financial Services	-1.1	0.4	-3.5
Business Services	3.1	0.3	3.1
Government Services	3.7	na	3.7
Other services	3.9	na	3.3

Sources: Scotiabank Economics, INEI.

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