Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia Monetary Policy Views and Peru June GDP Preview

- **Colombia: Monetary policy views**
- **Peru: New data point to a weak GDP number for June**

COLOMBIA: MONETARY POLICY VIEWS

Central banks continue to be in the spotlight across the world. The Fed is finally expected to start its easing cycle at its September 2024 decision, the BoC, BoE, and ECB have already started, and Latam countries are in the midst of policy rate normalization. However, uncertainty around the timing and the pace of the easing cycle is rising and economic surprises are driving significant volatility across markets as each piece of information contributes to model expectations about whether the economy, especially the US's is facing a soft, hard, or no landing. What is true is that the main topic of conversation is around monetary policy rates.

In Colombia, BanRep has shown that graduality and patience in the policy rate normalization is the necessary strategy given elevated uncertainty in domestic and international inflation, while market volatility has resulted in unusual FX volatility. The recent Monetary Policy Report, with information up to May, ratifies the graduality approach, however things can change quickly, the most recent example was the US employment data that brought into the conversation the possibility of having a more aggressive Fed easing cycle. In Colombia, we had our own episode of unexpected deterioration in the labour market: in June nationwide unemployment jumped by 1ppts to 10.3% with employment destruction at the margin of 131 thousand y/y (-43 thousand in S.A. terms). Thus, is it possible that the new data can trigger a more aggressive path for BanRep's easing cycle?

The next BanRep meeting will be on September 30th, while the Fed's meeting is on September 18th, which can bring some easing to BanRep's board to increase the speed of the easing cycle if the Fed confirms the dovish tone due to weaker economic activity in the US. On the domestic front, services data is already showing a weaker performance, in fact, in June the services sector destroyed 177k employments y/y, implying that tertiary sectors are no longer boosting Colombian economic activity, which also would help core inflation to decelerate faster. Additionally, inflation expectations measured by analysts' surveys and BEIs put headline inflation within the target range by June next year, dissipating somehow, credibility issues that for now, are the main concern for the majority of BanRep.

Of course data will be key and Colombia will have a lot of it before BanRep's board decides again. We will have July and August inflation, Q2-2024 GDP growth on August 15th, and July and August labour data. According to our expectations, headline inflation in August will be 6.4% while core inflation will be 5.9%, and although Q2-2024 GDP will show a relatively good growth of 3%, it is going to be rather temporary due to one-timers such as better-than-expected coffee crops this years, statistical base effects on the public sector, and extraordinary electricity production through thermos amid "El Niño" weather phenomenon. Additionally, we will continue to see a lack in the investment part of the economy and a continued weakness in private consumption. All in all, we do see that external and domestic inflation and economic activity data will support an acceleration in the easing cycle path from BanRep by the September meeting, ending 2024 at 8.5% as the monetary policy rate.

—Sergio Olarte & Jackeline Piraján

PERU: NEW DATA POINT TO A WEAK GDP NUMBER FOR JUNE

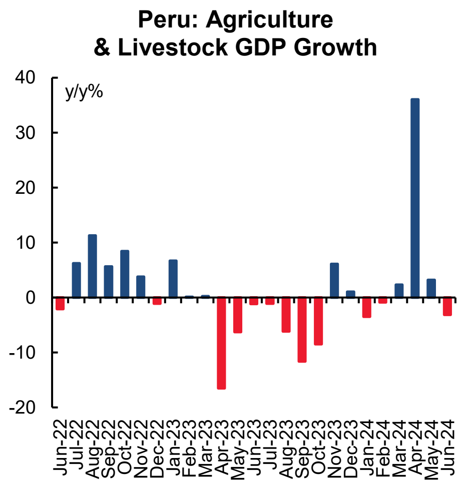
Early sector information for June GDP just keeps getting worse. Agriculture GDP figures for June were released this week, showing a 3.1% y/y decline. This throws our forecast of 2.0% y/y growth for June off track. We now expect something closer to 1.0%. Still positive, but quite a distance from the +5.0% growth of April–May. The decline in growth involved both products for domestic demand and agro-industrial goods. There is a chance that the volatility that we are seeing in agriculture this year (chart 1) reflects the volatile impact of El Niño on the sector last year, especially in terms of generating year-to-year changes in the growth and harvest timing. This volatility may persist for a few months still.

The weak June agriculture growth number adds to other weak early indicators, as stated last week: mining GDP fell 8.1% y/y, in June; cement demand was down 5%, and while fishing (+57%) and public investment (+9%) were both positive, they were much lower than the triple -digit growth figures in fishing and double-digit in public investment, of previous months. In addition, this year there was one day less in June than in 2023, due to a new holiday, although the impact of this should be rather marginal.

There is not much hope that domestic demand sectors will pick up the slack, considering that electricity growth was very weak, 0.6% y/y, in June. July may be better, however, if only because pension fund withdrawals began in late June, and should help bolster consumption to some extent starting in July. There is, therefore, no need to revise our full year GDP growth figure of 3.0%.

—Guillermo Arbe

Chart 1



Sources: Scotiabank Economics, MIDAGRI.