Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

October 16, 2024

# Latam Daily: Colombia Confidence, Industry, Retail Sales, and Peru GDP Recaps

- **Colombia: Consumer confidence worsens, with reduced willingness to buy durable goods; Retail sales beat expectations while manufacturing is back in negative territory**
- **Peru: August GDP growth of 3.5% is led by domestic demand sectors; job markets reinforce GDP growth**


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

**Jackeline Piraján,** Head Economist, Colombia
+57.601.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@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:

**Valentina Guio,** Senior Economist
+57.601.745.6300 (Colombia)
daniela.guio@scotiabankcolpatria.com

**Carlos Filipe Cruz,** Intern
+57.601.745.6300 Ext. 1875 (Colombia)
carlos.cruz@scotiabankcolpatria.com


## COLOMBIA: CONSUMER CONFIDENCE WORSENS. WITH REDUCED WILLINGNESS TO BUY DURABLE GOODS

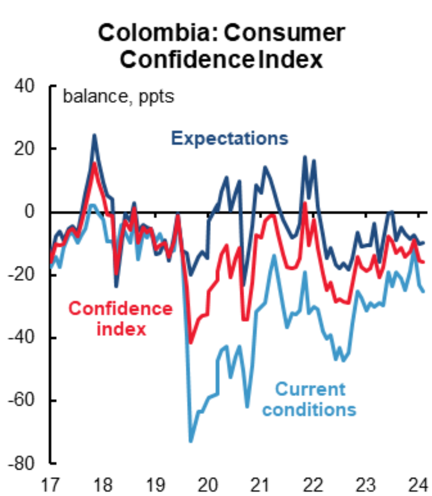
The Consumer Confidence Index (CCI) stood at -16.0 percentage points in September 2024, decreasing 0.7 ppts compared to August, and an increased 1.9 ppts compared to September 2023 (chart 1). The result showed a deterioration in the Economic Conditions Index (ECI), while the Consumer Expectations Index (CEI) slightly increased, which is the usual behaviour in the confidence indicator since 2020, people expect an improvement in future conditions but sentiment about current conditions is more negative.

Economic conditions continue to deteriorate, going from -23.2 ppts in August to -25.4 ppts in September, representing a fall of -2.2 ppts. It is worth noting the 7.2 ppts drop in the willingness to buy furniture and household appliances is the main driver of the economic condition's deterioration, while the perception of the household's economic conditions vs. their conditions one year ago slightly improved by 2.2% to -20%.

The expectations index improved by 0.2 ppts compared to August, standing at -9.8%. The improvement of this component is explained by better expectations about having good times in the forthcoming 12-months, despite the uncertainty about a tax reform and the fiscal accounts. However, households believe that in a year from now economic conditions will be worse.

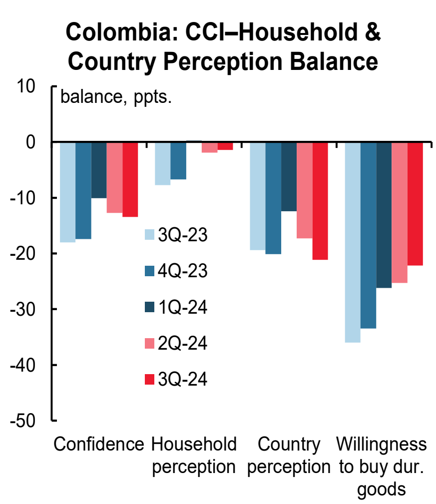
The expectations on the economic conditions in the third quarter worsened compared to Q2-2024 despite the deceleration in inflation and the latest BanRep rate cuts (chart 2). Despite the deterioration in willingness to buy durable goods, in quarterly terms, the third quarter's willingness to buy improved compared to previous quarters, which can be reflected in the recent growth in retail sales. Inflation deceleration and future BanRep cuts could improve consumer expectations about economic conditions.

**Chart 1**




Sources: Scotiabank Economics, Fedesarrollo.

**Chart 2**




Sources: Scotiabank Economics, Fedesarrollo.

**September details:**

- **The Consumer Expectations Index stood at -9.8%, showing a 0.2 ppts increase from the previous month.** Consumers maintained their optimism about an improvement in their economic conditions, but these decreased from 17.6% in August to 15.1% last month. On the flip side, their expectations that economic times will generally be good increased by 1.9 ppts. to -30.4%, the balance is even lower than in September 2023 (-25.5%).
- **The Economic Conditions Index stood at 25.4% in September, falling 2.2 ppts from the previous month.** Consumers' perception of their current economic conditions improved; however, willingness to buy furniture and household appliances decreased by 7.2 ppts to -30.8%. The willingness to buy housing also decreased by 2.2 ppts from the previous month, standing at -30.4%, in which Cali and Bucaramanga were the only ones to show an improvement in willingness to buy housing.
- **The willingness to buy durable goods kept falling with 7.2 ppts compared to August, reaching -30.8%**. Even though inflation of goods is still low, the purchase of housing, and household appliances and other furniture is not still a priority in household expenses. However comparing the third quarter with the second quarter of 2024, the willingness to buy durable goods improved 3.2 ppts.
- **By socioeconomic level, consumer confidence decreased in the high and middle income levels.** In September, confidence in high incomes was -42.8, falling -11.9 ppts compared to August, while the middle income level decreased from -2.1 ppts. to -12.2%, maintaining the highest confidence compared to the other socioeconomic levels. The low income level showed an increase of 0.5 ppts in the indicator, reaching -17.2%, after it deteriorates -10.6 ppts. in August.

**—Jackeline Piraján & Carlos Felipe Cruz**

## RETAIL SALES BEAT EXPECTATIONS WHILE MANUFACTURING IS BACK IN NEGATIVE TERRITORY

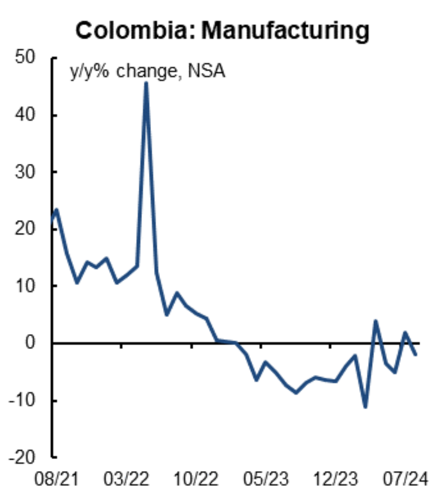
On Tuesday, October 15th, the National Institute of Statistics (DANE) published the manufacturing production and retail sales data for August 2024. Manufacturing production decreased 1.8% compared to August 2023, below the -1.4% expected by the market (chart 3). Meanwhile, retail sales increased 5.2% y/y, higher than the 2.3% expected by the market.

Manufacturing output is back to a negative trend and is not clear when there will be a sustained recovery. The results for August showed a better performance of manufacturing activity compared to the previous year (-1.8% y/y). On a seasonally adjusted basis, activity appears to have bottomed out (chart 4), however, the exit of agents in the automotive market (due to closure of Colmotores at the beginning of this year) where the automotive sector has been significantly affected, and the moderate internal demand, will continue to weigh on the recovery of the manufacturing sector.

Retail sales remained in positive territory for the third consecutive month. In August, retail trade registered a growth of 5.2% y/y, driven mainly by higher telecommunication equipment sales (+35.6% y/y) and household appliance sales (+14.6% y/y), something positive that is attributed to more favourable prices due to the FX stability in the country (chart 5). On the negative side, sales associated with the textile sector are the most worrying, registering falls for 19 consecutive months and decreasing by 7.8% y/y in the period. In marginal terms, retail sales in August grew by 1.3%, which is a significant recovery compared to the recent behaviour of the sector (chart 6).

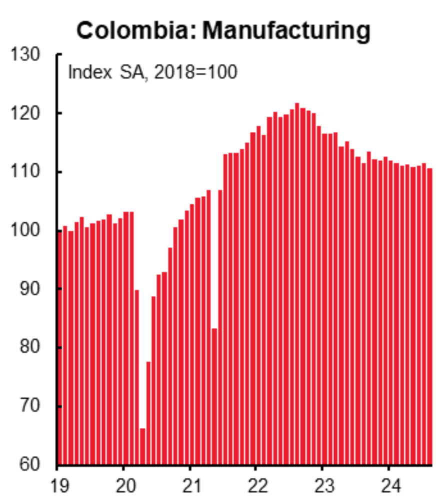
On Friday, October 18th, a broader picture of economic activity will be released with the publication of the ISE Economic Activity Index, in which we could see the recent positive figures for retail and the deceleration in manufacturing as well. However, it will be relevant to monitor whether the sectors that had a positive dynamic during the first half of the year begin this first month of the second

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



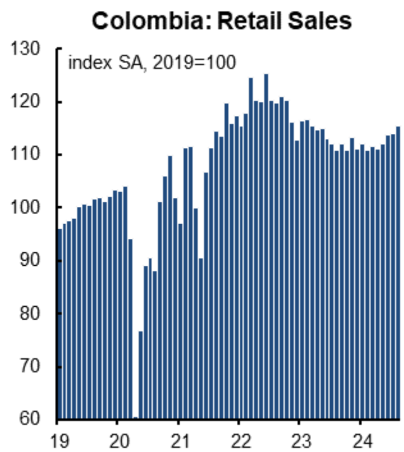
Sources: Scotiabank Economics, DANE.

half in the same way or whether it will be time to see how the transitory effects in agriculture and public administration will weigh against growth. All in all, the economic performance and the recent surprise growth in retail sales is a reason for the central bank to maintain the actual cut pace in the easing cycle. At Scotiabank Colpatria, the expectation is a 50bps rate cut at the monetary policy meeting on October 31st.

**Chart 5**


Sources: Scotiabank Economics, DANE.

**Chart 6**




Sources: Scotiabank Economics, DANE.

**Highlights:**

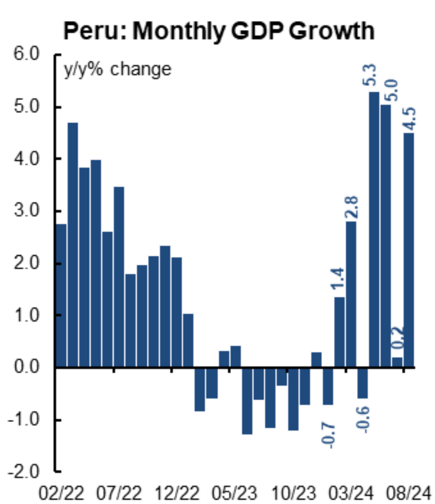
- **Manufacturing production decreased by 1.8% y/y. 26 of the 39 activities showed an annual decrease.** The pharmaceutical industry (-15.2% y/y), oil industry (-11.2% y/y), and vehicle manufacturing (-42.1% y/y) were the ones that contributed to the negative result for this month, contributing -1.9 ppts. On the positive side, the steel industry (+8.9% y/y) and other household products contribute +1 ppts to the result.
- **Retail sales grew 5.2% y/y. 14 of the 19 activities registered positive variations.** Telecommunication equipment sales (+35.7% y/y), vehicle sales (+10.2% y/y), other vehicle sales (+8.8% y/y), household appliance sales (+14.6% y/y) and sound equipment sales (+23.6% y/y) were the ones that contributed the most to retail sales growth. Meanwhile, on the negative side, clothing (-7.8% y/y) and vehicle parts (-1.6% y/y) were the ones that subtracted the most from the total.
- **So far this year, from January to August, the sale of textile products is the one that has registered the greatest deterioration** with a drop of -12.8% compared to the same period in 2023, while the sale of televisions and the sale of household appliances are the ones that have had the best performance.

**—Jackeline Piraján & Valentina Guio**

## PERU: AUGUST GDP GROWTH OF 3.5% IS LED BY DOMESTIC DEMAND SECTORS

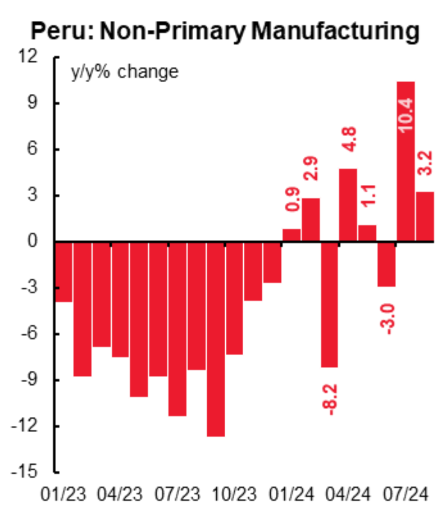
August GDP growth was a robust 3.5%, YoY (chart 7). This was broadly in line with our forecast of 3.7%. The main positive was that domestic-demand linked sectors led in growth, while resource sectors were mixed. What was particularly gratifying was the 3.2% YoY increase in industrial manufacturing GDP, together with the 4.1% growth in construction GDP (chart 8). Both are key domestic demand sectors that had been lagging earlier in the year. Their growth in August comes on the back of equally strong performances in July. However, we'll still need to see similar results in coming months to ensure continuity, as July–August were months in which households received the bulk of their pension fund withdrawals, bolstering demand. Whether similar growth rates will recur in non-withdrawal months is possible, but must be confirmed by actual data.

**Chart 7**




Sources: Scotiabank Economics, INEI.

**Chart 8**




Sources: Scotiabank Economics, INEI.

To add to the domestic demand story, nearly all sectors linked to domestic demand rose in August. The exception was financial services, down 1.2%, YoY. Not to fear, however, as the very same pension fund withdrawals that fed consumption demand in August, led to a decline in outstanding household bank loans, through pre-payments.

GDP growth would have been even greater, if resource sectors had shown similar growth. Mining GDP rose an unexpectedly high 8.9%, YoY, which most likely reflects normal volatility. Fishing fell 28% YoY, but this had little bearing on aggregate growth as August was an off-season month, when the weight of fishing is low. More importantly, agriculture GDP fell 5.2%, reflecting the havoc wreaked by the 2023 El Niño on the agricultural production cycle, making YoY comparisons unpredictable. This is not to say that 2024 is a bad year, however, as agriculture GDP is up 3.6% in the year-to-date (table 1).

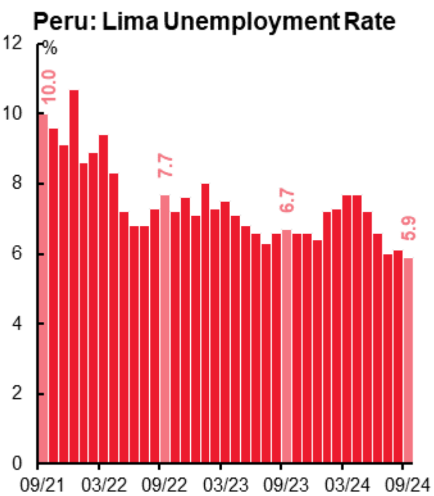
Aggregate GDP growth came in at 2.9% in the year-to-August, which is very close to our forecast of 3.0% for the full-year. This gives us confidence that our forecast will be made, and possibly then some.

## JOB MARKET REINFORCES GDP GROWTH

The Lima labour market in August performed just as auspiciously as GDP growth. The unemployment rate for Lima fell to 5.9%, the lowest level since at least 2019 (chart 9). This was for the three months June-to-August, which is how employment is measured. Total employment rose 4.9% YoY, which is quite a healthy increase (chart 10). Furthermore, the new jobs were in the formal sector of the economy. Adequate, or formal, employment rose 7.7% YoY, in the three months to August, whereas informal employment rose only 0.7%.

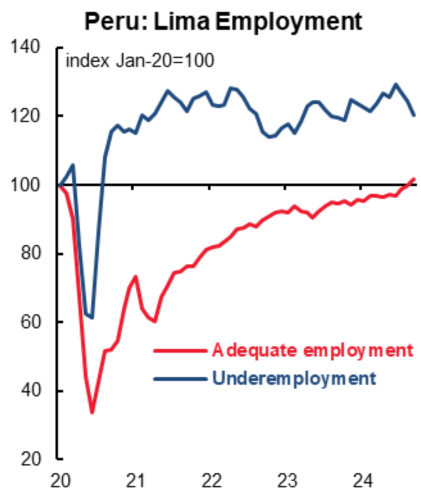
**—Guillermo Arbe**

**Chart 9**




Sources: Scotiabank Economics, INEI.

**Chart 10**




Sources: Scotiabank Economics, INEI.

**Table 1: Peru—GDP Growth (%, August 2024)**

| | Aug y/y | Aug m/m | Jan-Aug y/y |
|---|---|---|---|
| **GDP** | **3.5** | **0.6** | **2.9** |
| Tax collection | 3.8 | na | 2.2 |
| Agriculture & Livestock | -2.3 | -0.6 | 2.7 |
| Agriculture | -5.2 | na | 3.6 |
| Fishing | -27.8 | 5.7 | 33.6 |
| Mining, Oil & Gas | 8.9 | 2.4 | 3.0 |
| Mining | 8.9 | na | 3.0 |
| Oil & Gas | 9.0 | na | 2.6 |
| Industrial Manufacturing | 3.2 | na | 1.3 |
| Electricity and Water | 2.1 | 0.3 | 2.5 |
| Construction | 4.1 | 1.1 | 4.4 |
| Commerce | 2.9 | 0.2 | 2.6 |
| Transportation | 6.3 | 0.3 | 5.8 |
| Hotels & Restaurants | 7.5 | 1.0 | 3.2 |
| Telecom | 0.1 | -0.8 | 0.8 |
| Financial Services | -1.2 | -1.1 | -2.3 |
| Business Services | 4.3 | 0.2 | 3.4 |
| Government Services | 4.0 | na | 3.8 |
| Other services | 5.1 | na | 3.8 |

Sources: Scotiabank Economics, INEI.