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**Latam Daily: Colombia Econ Activity Recap**

• **Colombia: Economic activity continues to grow better than expected in August**

On Friday, October 18<sup>th</sup>, DANE published August data on the Economic Activity Indicator (ISE). The indicator stood at 2.0% y/y (chart 1), exceeding the 1.6% expected by the market and showing positive variations in seven of the nine activities. However, in marginal terms, economic activity showed a negative performance compared to July, decreasing by 0.5% m/m (chart 2).

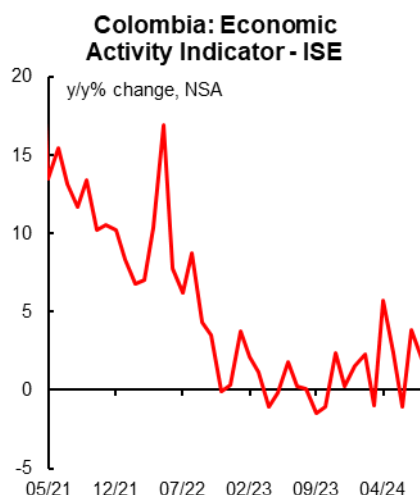
Economic activity performed better than expected. The positive performance was concentrated in the primary sector and services, offsetting the secondary sector's contraction (industry and construction). On the positive side, agriculture showed the greatest growth with an expansion of 3.5% y/y but a contraction of 2.2% m/m, setting back the significant advance of 6.4% m/m in July. Despite the still positive performance of the agricultural sector, the future could be challenging as the lack of rain has lasted longer than expected, which could adversely affect production for the rest of the year. Wholesale and retail commerce were the second activities with the greatest expansion (+3.2% y/y and +2.2% m/m), showing more signals of recovery, mainly in durable goods consumption. Public administration activities, health, and leisure showed an expansion of 2.8% y/y but a negative marginal behaviour with a decrease of 3.6% m/m, in contrast with the behaviour in the last month where many traditional celebrations and sports events took place. On the negative side, manufacturing, construction, and professional activities were the only activities that showed a decrease in this period, and in marginal terms, these activities registered a fall of -0.7% m/m and -0.4% m/m.

The results suggest that BanRep will not be in a hurry to accelerate the easing cycle; we continue to think that there are more points in favour of a 50bps cut at the next meeting. The problems of economic growth are structural: the lack of investment continues to weigh on industry and construction, and the high cost of borrowing continues to pressure some part of the household's consumption. In addition, the central bank is more concerned about political issues related to fiscal policy and minimum wage negotiation. With this context, for the decision on October 31<sup>st</sup>, we expect the rate to fall from 10.25% to 9.75%, with fiscal issues, inflation, and international financial conditions being the main factors that could support this decision.

**Highlights:**

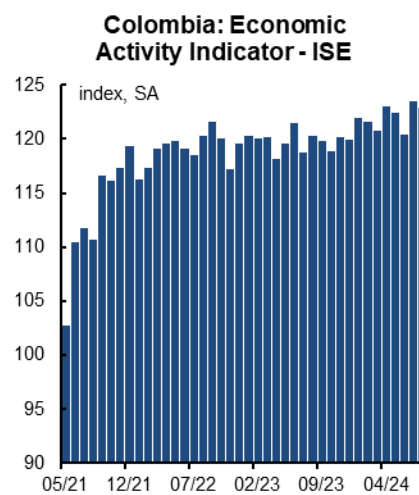
- **The primary sector accounted for about 50% of the overall result.** In August, agricultural and mining activities grew 3.5% y/y. According to August, coffee exports

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2

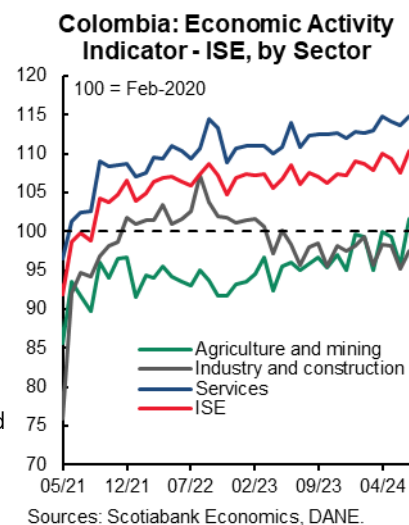


Sources: Scotiabank Economics, DANE.

grew 42.3% y/y, and in general, agriculture grew 33.9% y/y. Fruits and flowers also complement the better picture of the sector. In terms of livestock, the activity is also expanding and continues with a recovery. In contrast, for mining, the coal and extractive industries are in a contraction mode due to lower domestic demand which was reflected with a contraction of 14.3% y/y in the exports.

- Secondary activities decreased 1.4% y/y.** Manufacturing returned to a negative trend, in line with a contraction in manufacturing output of 1.8% y/y. The exit of agents in the automotive market has significantly affected the sector and the moderate internal demand. Meanwhile, construction could have a negative performance associated with the housing sector, which continues to have a weak performance.
- The services sector continues to be supported by growth in public administration, leisure, and health activities.** In annual terms, all service activities except professional activities, showed positive variations, with public financial activities (+3.0% y/y), administration standing out (+2.8% y/y), and public services (+0.6% y/y). However, in marginal terms, public administration, leisure, and health activities, professional and real estate activities were the only activities that fell, with a variation of -3.6% m/m, -0.4% m/m, and -0.1% m/m, respectively (chart 3).

Chart 3



—Jackeline Piraján & Valentina Guio

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