Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: BanRep Survey Results; Retail Sales Exceed Market Expectations

- **Colombia: BanRep Survey—Upward adjustments in inflation and monetary policy rate expectations; Retail sales exceeded market expectations while industry remains in negative territory**

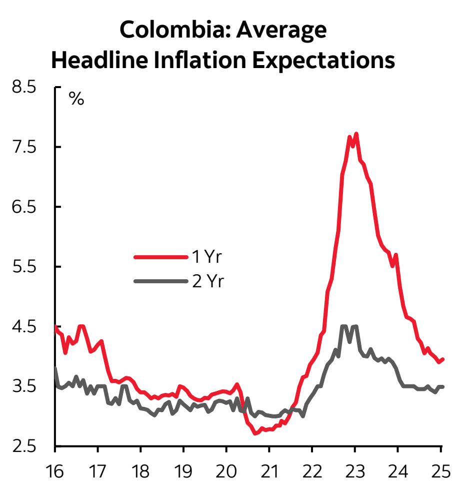
COLOMBIA: BANREP SURVEY—UPWARD ADJUSTMENTS IN INFLATION AND MONETARY POLICY RATE EXPECTATIONS

The Central Bank (BanRep) released the economist expectation survey for January late on Thursday January 16th. Inflation expectations increased, probably responding to the upside surprise in December and a higher-than-expected minimum wage increase for 2025. 2024 closed with an inflation rate of 5.20% y/y, higher than the 5.14% estimated by analysts. For 2025, the inflation expectation was revised from 3.91% in the December survey to 4.21%, representing an increase of 30bps. For the one-year horizon, the expectation was 4.06%, showing an increase of 15bps compared to the previous survey, while the two-year expectation increased from 3.45% to 3.51% (chart 1). In the short term, the inflation expectation for January is 0.82% m/m, which could lead to annual inflation falling from 5.20% to 5.10%. Scotiabank Colpatria's projection is 0.87% m/m and 5.15% y/y.

Regarding monetary policy, 2024 closed with a rate of 9.50% due to the slowdown in the pace of cuts by BanRep. The Board cut the interest rate by 25bps in the last month of the previous year, given an increase in inflationary risks. The consensus estimates a cut of 25bps at the meeting on January 31st, which would take the rate to 9.25%. For 2025, the expectation was adjusted upwards from 6.50% in the December survey to 7% in January. Scotiabank Colpatria expects BanRep to pause the easing cycle in January, resuming cuts of 25bps in March to close 2025 at 7.75%.

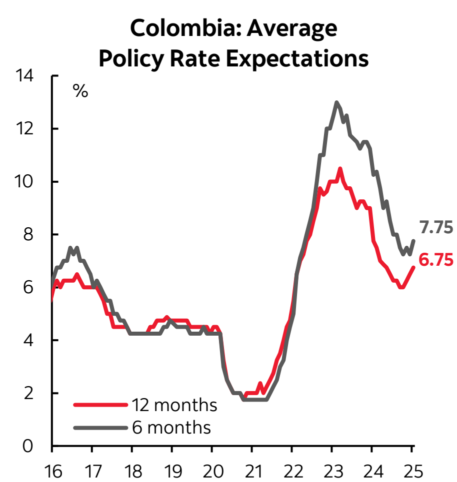
With a higher-than-estimated minimum wage increase, the inflation path was significantly revised upwards. In our base scenario, inflation would remain above the target range throughout 2025 to close at around 4.5%. An increase in inflation expectations, coupled with the uncertainty of the new Donald Trump administration, higher international interest rates, and local pressure from lower revenues on the fiscal front, would be sufficient arguments to be more cautious in the next meetings. However, the March meeting will be key to determining the position of the two new co-directors who join the board (Laura Moisá and Cesar Giraldo).

Chart 1



Sources: Scotiabank Economics, BanRep.

Chart 2



Sources: Scotiabank Economics, BanRep.

Table 1: Colombia—Headline Inflation Expectations		
	Average	Change vs previous survey, bps
Jan-2025, m/m % change	0.82	…
Dec-2025, y/y % change	4.21	30
1Y ahead, y/y % change	4.06	15
Dec-2026, y/y % change	3.65	20
2Y ahead, y/y % change	3.51	6

Sources: Scotiabank Economics, BanRep.

Regarding the exchange rate, the consensus adjusted its outlook upwards. For December 2025, analysts estimate a rate of 4,336.9 pesos, higher than the 4,315.8 pesos projected in December 2024. For 2026, the expectation remained relatively stable, going from 4,246.3 to 4,248.7. Scotiabank Colpatria's projection for 2025 is 4,367, and for 2026, 4,364 pesos.

Key points from the survey:

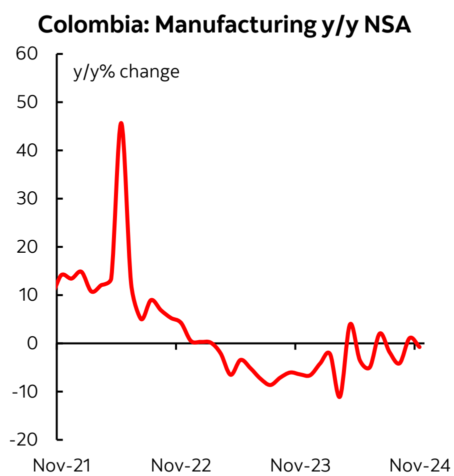
- **Short-term inflation expectations.** For January, the consensus is 0.82% m/m, which implies an annual inflation of 5.10% y/y, lower than the current 5.20%. The maximum expectation is 1.09% and the minimum is 0.50%. Scotiabank Colpatria Economics' projection is 0.87% m/m and 5.15% y/y. Core inflation, excluding food, projected by analysts is 0.76% m/m.
- **Medium-term inflation expectations increased moderately.** Inflation expectations for December 2025 rose 30bps to 4.21% (table 1). The expectation for a one-year horizon increased by 15bps to 4.06%, and expectations for two years increased by 6bps to 3.51%.
- **Monetary policy rate.** The median of expectations is for a 25bps cut at the January 31st meeting, which would leave a rate of 9.25%. For 2025, the rate is estimated to fall to 7% (chart 2).
- **FX.** Projections for the US dollar exchange rate for the end of 2025 averaged 4,336.9 pesos (21 pesos more than the previous survey). By December 2026, respondents, on average, expect an exchange rate of 4,248.7 pesos.

—Daniela Silva

RETAIL SALES EXCEEDED MARKET EXPECTATIONS WHILE INDUSTRY REMAINS IN NEGATIVE TERRITORY

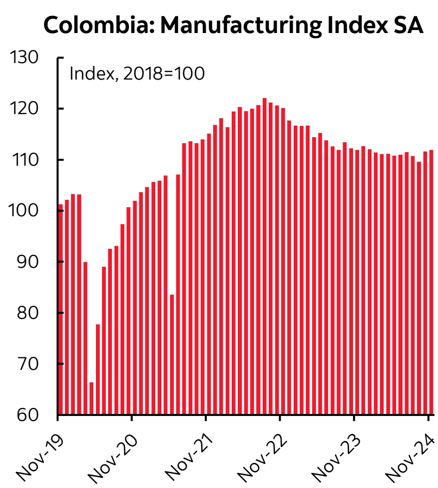
On Friday, January 17th, the National Institute of Statistics (DANE) published the manufacturing production and retail sales data for November 2024. Manufacturing production decreased 0.8% y/y, below the market expectation of -0.6% y/y. Meanwhile, retail sales increased 10.4% y/y, well above the market expectation of 4.6%. Retail sales indicators pointed to positive prints. We attributed the strong performance partially to statistical base effects coming from a 3.3% y/y contraction in November 2023, and to the surge of better demand for durable goods in the case of retail sales; it is worth noting that in November, the National Auto showroom event, and temporary discounts (Black Friday and Cyber Monday) impulse a stronger demand in 2024. Having said that, it will be interesting to monitor how the demand recovery evolves given that FX depreciation could have some impact on imported prices but also taking into account that the minimum wage increase also impacts consumer inflation.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

Manufacturing output reversed the positive trend observed in October and contracted during the period. November results showed a negative performance in the manufacturing sector compared to the previous year (-0.8% y/y), following a 6.4% drop during the same period last year (chart 3). However, on a seasonally adjusted basis, activity appears to be continuing its expansion (chart 4). In this context, positive contributions came from sugar and panela production, the transport equipment industry, and beverage manufacturing. However, the pharmaceutical sector, oil and fuel production, and the iron and steel industry detracted from growth during this period.

Retail sales continued their positive trend for the sixth consecutive month, showing an acceleration compared to the previous month's performance. In November, retail sales increased by 10.4% y/y, explained by strong vehicle sales (+36.4% for other vehicles and +20.1% for household vehicles) and telecommunication equipment sales (+43.0% y/y), which together accounted for 6.7ppts of the total growth. This positive performance could be attributed to the price stability of tradable goods for many months; however, the impact of the FX volatility is something that we must monitor. Additionally, special discount events such as the National Auto showroom, and the extended period of discounts apart of Black Friday and Cyber Monday helped to boost the demand (charts 5 and 6).

On the downside, sales in the textile sector, which fell by -6.2% y/y, are particularly concerning as they have declined for 22 consecutive months. In monthly seasonally adjusted terms, retail sales in November (excluding other vehicles) increased by 3.11% m/m explained by the recovery in the automotive sector. It is also important to note that a National Auto showroom in November likely contributed to the significant growth observed during this period.

On Tuesday, January 21st, a broader picture of economic activity will be released with the publication of the ISE Economic Activity Index for November 2024, in which we could see the recent figures for retail and manufacturing. However, it will be relevant to monitor whether the sectors that had a positive dynamic during the first half of the 2024 continue this month in the same way or whether it will be time to see that the transitory effects in agriculture and public administration will weigh against growth. All in all, the economic performance so far in 2024 is a reason for the Central Bank to continue the easing cycle, however, it won't motivate an acceleration of this process. At Scotiabank Colpatria, the expectation is that the Central Bank will keep the interest rate unchanged at 9.50% during the meeting on January 31st.

Key Highlights:

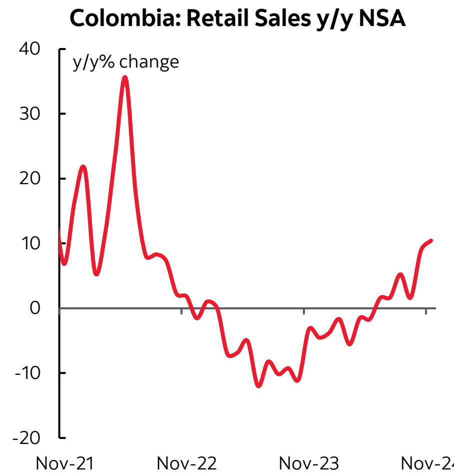
- **Manufacturing production decreased 0.8% y/y. 23 of the 39 activities showed annual contraction.** On the positive side, notable contributors included the sugar and panela production sector (+61.0% y/y), the transport equipment industry (+39.7% y/y) and beverage manufacturing (+2.2% y/y), together contributing +10.3ppts to the result. In contrast the pharmaceutical industry (-15.2% y/y), the fuel and oil industry (-7.1% y/y), and the iron and steel industry (-14.1% y/y) were the main sectors driving the negative outcome for the month, collectively contributing -1.7ppts.

- **Retail sales grew 10.4% y/y. 18 of the 19 activities registered positive variations.** Vehicle sales (+36.4% for other vehicles and +20.1% for household vehicles), telecommunication equipment sales (+43.0% y/y) and food (+4.9% y/y) were the ones that contributed the most to retail sales growth. Meanwhile, on the negative side, textile sector sales (-6.2% y/y) subtracted the most from the total.

- **From January to November 2024, the sale of textile products has experienced the greatest deterioration** with a drop of -11.5% compared to the same period in 2023, while the sales of vehicles and telecommunication equipment are the ones that have had the best performance with an expansion of +7.0%.

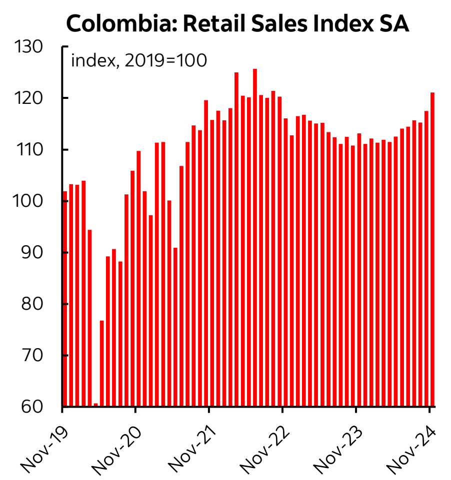
—Jackeline Piraján & Valentina Guio

Chart 5



Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.