LATAM DAILY

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Contributors

Juan Manuel Herrera
Senior Economist
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 Ext. 9166 (Colombia)
daniela.guio@scotiabankcolpatria.com

Rodolfo Mitchell, Director of Economic and Sectoral Analysis
+52.55.3977.4556 (Mexico)
mitchell.cervera@scotiabank.com.mx

Brian Pérez, Quant Analyst
+52.55.5123.1221 (Mexico)
bperezgu@scotiabank.com.mx

Miguel Saldaña, Economist
+52.55.5123.1718 (Mexico)
msaldanab@scotiabank.com.mx

Latam Daily: Colombia's Economic Activity; Mexico Retail Sales and Citi Survey

- **Colombia: Economic activity in November was below expectations but pointed to a consumer demand recovery**
- **Mexico: Retail sales continue to show weakness in November; Divided opinions among analysts over Banxico's next move**

COLOMBIA: ECONOMIC ACTIVITY IN NOVEMBER WAS BELOW EXPECTATIONS BUT POINTED TO A CONSUMER DEMAND RECOVERY

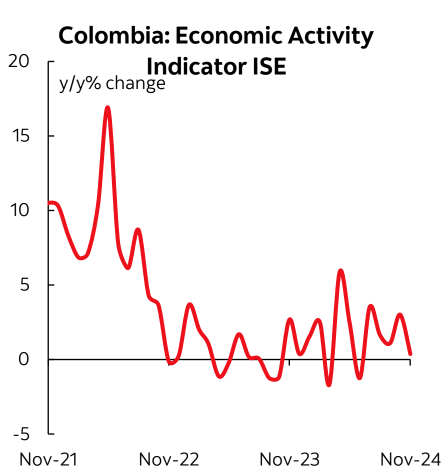
On Tuesday, January 21st, DANE released the November data for the Economic Activity Indicator (ISE). The indicator registered a +0.4% y/y increase (chart 1), below the +2.0% y/y market expectation and showing negative variations in six activities (out of the nine in the survey). In marginal terms, economic activity showed a weaker performance, falling by -0.9% m/m s.a. compared to October (chart 2).

Economic activity performed below expectations. The negative performance was due to weak activity in manufacturing, construction, and some services. Industry and construction showed a contraction of -2.6% y/y and -1.2% m/m, reversing the expansion of +0.7% m/m in October. Agriculture recorded a contraction of -1.7% y/y and -3.6% m/m, in contrast to the sector's positive performance in previous months, so the agricultural sector may face challenges as expected weather conditions could affect the sector and counteract the growth achieved so far. Utilities and communication services registered a contraction of -1.2% y/y, communication services continue with a negative trend after a contraction of -5.9% y/y in October, the second sharpest contraction since the end of 2020. It is important to highlight the contraction in public administration, health, and leisure which contracted by -1.2% y/y, the first decline since June.

On the positive side, commerce showed an expansion of +5.8% y/y and +1.2% m/m, continuing with the expansion of +2.1% m/m registered in October, signaling further recovery, particularly in the demand for durable goods consumption. Moreover, real estate (+1.8% y/y and +0.1% m/m) and the financial and insurance sector (+1.5% y/y and +0.4% m/m) registered positive variations.

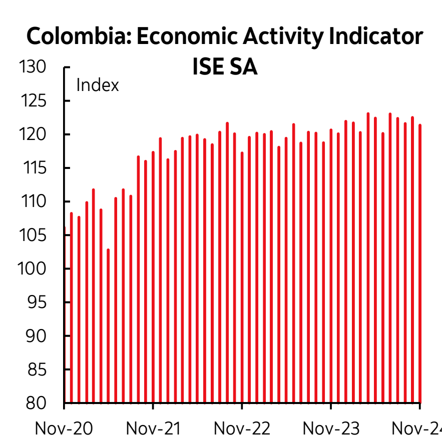
Despite the negative results, BanRep will not be in a hurry to accelerate the easing cycle. We affirm our call for rate stability at BanRep's meeting on January 31st. The increase in inflation expectations and global uncertainty support the Board's cautious approach. In addition, the central bank is more concerned about political issues related to fiscal policy and the impact of the minimum wage.

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2

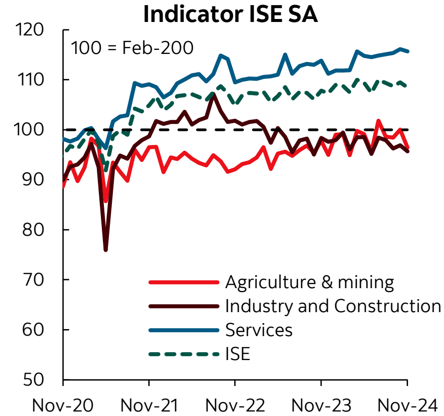


Sources: Scotiabank Economics, DANE.

Key Highlights:

Chart 3

Colombia: Economic Activity Indicator ISE SA



Sources: Scotiabank Economics, DANE.

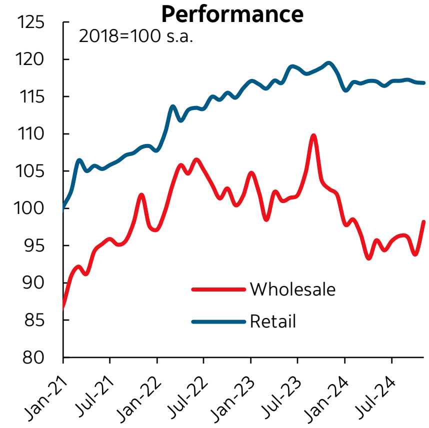
- **The primary sector is losing traction and recorded a significant contraction in the period.** In November, both agricultural and mining activities fell by -1.7% y/y. Coffee exports grew by 30.5% y/y, however, overall agriculture exports decreased by -3.0% y/y. On the domestic front, the supply of agricultural products saw a contraction of 1.4% y/y after the significant rise in October growing by 8.9%. Moreover, mining, coal, and extractive industries showed signs of contraction, mainly due to weaker domestic demand, which was reflected in a 13.0% y/y decline in mining exports.
- **Secondary activities fell by -2.6% y/y.** Both the manufacturing and construction sectors returned to negative trends, which was in line with the manufacturing output that contracted by -0.8% y/y during the same period. Therefore, the notable contributors to the manufacturing output 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). Despite this, 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. In contrast, construction is apparently still in negative territory. However, it has a possibility of accelerating due to a potential better performance in civil works and a potential recovery in the housing sector as home sales have increased +57% y/y, which is linked to declining interest rates.
- **The services sector continued expanding but with heterogeneous performance compared to the previous month. On an annual basis, four of the seven service sectors registered negative variations.** Utilities (-1.5% y/y and -1.4% m/m), communication services (-1.5% y/y and -0.8% m/m), public administration, health, and leisure (-1.2% y/y and -0.2% m/m) and professional activities (-0.6% y/y and +0.5% m/m), contributed negatively to the sector, offset by commerce (+5.8% y/y and +1.2% m/m), financial and insurance services (+1.5% y/y and 0.4% m/m) and real estate (+1.8% y/y and +0.1% m/m) (chart 3).
- **Economic activity grew by 1.7% y/y in the YTD, improving vs the previous year's growth of 0.7% y/y in the same period, but still below potential.**

—Jackeline Piraján & Valentina Guio

MEXICO: RETAIL SALES CONTINUE TO SHOW WEAKNESS IN NOVEMBER

Chart 4

Mexico: Retail and Wholesale Sales Performance



Sources: Scotiabank Economics, INEGI.

In November, retail sales fell by -1.9% y/y, compared to -1.2% the previous month, marking the seventh consecutive month of declines. By components, the strength in grocery and tobacco trade stood out with an increase of 1.8% (3.5% previously), as well as online sales with a rise of 8.6% (16.4% previously), while textiles augmented by 0.1% (2.5% previously), and healthcare fell by -8.9% (-5.8% previously). On a monthly comparison, retail sales decreased by -0.1% (chart 4).

Additionally, wholesale trade suffered a decline of -5.0% y/y, from -7.7% previously, marking twelve consecutive months of declines, with five of its seven components in negative territory this time. Pharmaceuticals and entertainment showed the most pronounced drop, with -15.6% (-10.5% previously), while intermediation fell -13.6% (-12.7%), while groceries and tobacco increased by 4.8% (2.0% previously), as well as cars and parts 8.0% (-0.3% previously). Monthly, wholesale sales surged by 4.7%, from the previous -2.4%.

Data suggests a mixed outlook for retail sales. In the short term, we expect them to face challenges due to the sustained decline in several key components, such as textiles and healthcare. However, the positive performance in segments like groceries, tobacco, and online sales could provide a partial buffer, helping to mitigate some of the negative impacts and offering some support to the sector. Additionally, the political and economic uncertainty generated by Trump's policies and the lower economic activity projected for 2025 could exacerbate these challenges, so retailers will need to seek strategies to maintain their business.

Particularly, the monthly rebound in wholesale sales could be partly explained owing to advance purchases in anticipation of increased volatility and the expectation of USDMXN once Trump's policies take effect. In a more complex environment, retailers will need to adapt their strategies amid a slowdown in their sales and the possibility of tariffs.

DIVIDED OPINIONS AMONG ANALYSTS OVER BANXICO'S NEXT MOVE

The results of the Citi Survey showed divided opinions on Banxico's rate cut in February. Most respondents still anticipate a rate cut of 25 basis points, while 13 out of 30 now expect the cut to be 50 basis points, in line with the comments from the minutes of the last policy meeting, which indicated the intention of several Board members to increase the magnitude of the cuts. However, the forecasted rate for the end of the year remained at 8.50%, and 7.50% for the end of 2025. Regarding the exchange rate, the median of the forecasts also remained at $20.95, although it rose to $21.49 for the end of 2025. Concerning GDP growth, respondents expect to increase by 1.0% during 2025, below the 1.5% forecasted for 2024. Particularly for inflation in the first half of January, analysts anticipate a sequential increase of 0.27% in the headline rate and 0.23% in the core component, implying an annual variation of 3.76% and 3.67% respectively. By the end of the year, the consensus expects headline inflation of 3.90% and 3.68% in the core component.

—Rodolfo Mitchell, Brian Pérez & Miguel Saldaña