Latam Daily: May Activity Tells Different Story in Colombia vs. Peru; Chile Primaries

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- **Peru: GDP growth continues to show robust rebound; unaffected by political uncertainty**
- **Chile: Weekend's coalition party primaries to deliver key presidential candidates**

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COLOMBIA: MAY DATA SHOWS SIGNIFICANT IMPACT OF NATIONWIDE STRIKES ON ECONOMIC ACTIVITY; MODEST RECOVERY EVEN FROM LOW 2020 BASE

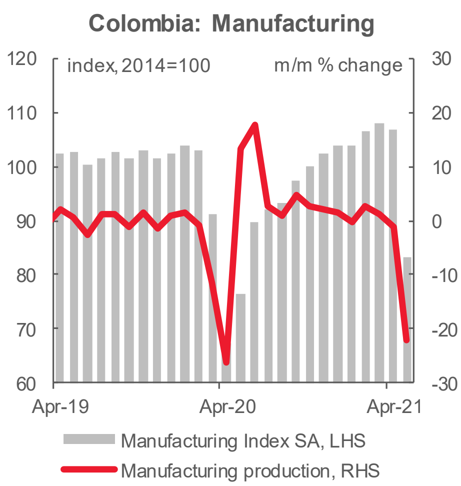
May manufacturing production and retail sales data published by Colombia's statistical agency (DANE) on July 15 showed the extent of the impact of the nationwide strikes and lockdowns. Compared to the very low basis of 2020 when activity was heavily suppressed due to lockdowns, May 2021 showed only modest positive y/y gains.

MANUFACTURING PRODUCTION

In May, manufacturing production was hard-hit by the nationwide strike, growing by a modest 8.6% y/y compared to the same month of 2020—one of the slowest months due to the COVID-19 lockdowns imposed at that time. May's figure came in below Bloomberg's survey consensus of 21.6% y/y and our own expected 33.2% y/y. Compared against the same period pre-pandemic (May 2019), the contraction was 20.1%. And, on a monthly basis, manufacturing fell by 22.1% m/m in seasonally adjusted figures (chart 1), a reduction similar to the one observed in April 2020 at the onset of strict lockdowns that suppressed around 30% of economic activity.

The most affected activities in May were concentrated in industries in the country's southwest, consisting mainly of food and chemical-related production. Notably: beverages (-18%m/m), cleaning products (-38.3% m/m), paper and craft (-39.0% m/m); sugar and cane sugar production (-57.6% m/m) and threshing coffee (-59.9% m/m). The most affected locations were Valle del Cauca, Cauca, Risaralda and Tolima (accounting for 13.4ppts to the annual variation); those were offset by improved dynamics in Antioquia and Bogotá (which added 9 ppts to the total annual variation). YTD, industrial production has increased by 15.1%, mildly above pre-pandemic levels (YTD up to May 2019), while employment in the sector is 4.9% below pre-pandemic.

Chart 1



Sources: Scotiabank Economics, DANE.

RETAIL SALES

Retail sales expanded by 22.8% y/y, below the expected 26.7% in Bloomberg's survey and our 40.5% y/y estimation. Compared to pre-pandemic levels (May 2019), retail sales are still 10.2% below. **Total retail sales, excluding vehicles, fell by -13.1% m/m seasonally adjusted in May (chart 2), showing a huge sensitivity to the nationwide strike, noting particularly a contraction in gasoline demand.**

On a yearly basis, large increases were registered in other (non-car) vehicles and motorcycles (+116.5% y/y) and vehicles for household use (+85.1% y/y). In a reflection of life during a pandemic, the best performing lines were computers for domestic use (+37.4%), and cleaning products (+33.3%), compared to May 2019. On the negative side, the most significant declines relative to pre-pandemic times, were gasoline (-26.4% y/y), again showing impacts from the nationwide strike. **By region, Valle del Cauca also led the contraction (-1.9%), while Bogota led gains with a 28.3% y/y increase.**

While May's manufacturing and retail activity showed weakness due to disruptions resulting from social unrest, we believe that the worst is behind us. We therefore expect to see a strong recovery in June's activity, given the moderation of social protests and a broad economic reopening in main cities. As is the case elsewhere in the region, the labour market remains a concern as employment remains around 5% below pre-pandemic levels in manufacturing and 4.4% below in retail sales. On Monday, DANE will release the economic activity index (ISE) which will show a more precise impact from the strike. Our expectation for GDP growth in 2021 is 6%, but we think this could skew to the upside despite impacts from the nationwide strike. **On this basis, we reaffirm our view that the central bank (BanRep) will begin moving toward hikes in September 2021.**

COLOMBIA: BANREP'S JULY SURVEY OF ANALYSTS SHOWS HIGHER INFLATION EXPECTATIONS FOR END-2021, THOUGH ANCHORED OVER MEDIUM TERM; RATE HIKE EXPECTED IN Q4

The Central Bank, BanRep, released the July edition of its monthly survey of economic analysts. A top takeaway is an expectation that inflation will close above the 3% y/y target in 2021; but remain anchored over the long run. Analysts further affirmed the expectation of a rate hike in October/2021, to close the year at 2%; while the terminal rate for 2022 is now expected to be 25bps higher than in the previous survey, to reach 3.25%. The economic activity forecast also increased, and the USDCOP is expected to appreciate by year-end.

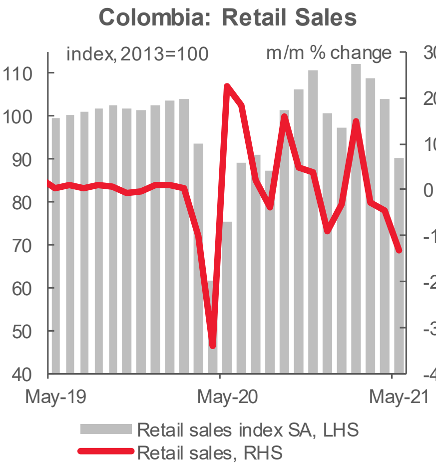
- **Near-term inflation.** July's monthly inflation is expected to come in at 0.04% m/m, putting annual inflation to July at 3.67% y/y (from the 3.63% in June). However, survey dispersion remained high with a minimum expectation of -0.35% m/m and a maximum of +0.26% m/m, signaling still high uncertainty amid recent developments and their impact on prices. Scotiabank Economics expects July's monthly inflation at +0.26% m/m and 3.90% y/y, given that food inflation is not falling as expected due to long-lasting effects in the supply chains of critical products due to the recent protests and bottle necks in import goods logistics; additionally, utility fees are expected to rise.

Table 1
Colombia: Headline Inflation Expectations

	Average	Change vs previous survey, bps
Jun-2021, m/m % change	0.04	…
Dec-2021, y/y % change	3.73	9
1Y ahead, y/y % change	3.18	21
Dec-2022, y/y % change	3.27	3
2Y ahead, y/y % change	3.14	5

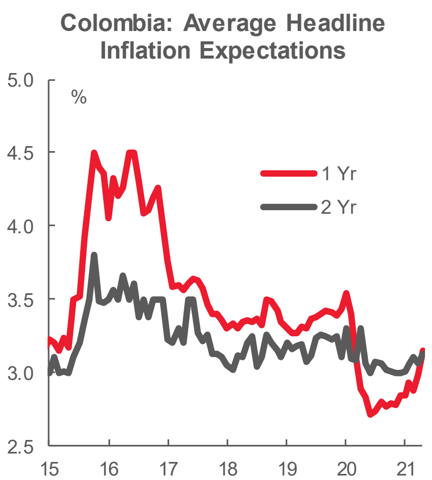
Sources: Scotiabank Economics, BanRep.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, BanRep.

Chart 4

Sources: Scotiabank Economics, BanRep.

- **Medium-term inflation.** Inflation expectations rose to 3.73% y/y by December 2021, 9 bps higher than in last month's survey (table 1), which shows that the recent inflation surprise is attributed to temporary shocks. Expectations over the medium term continue to hover around 3% y/y: 1Y forward inflation stood at 3.18% y/y (above last month's reading at 2.97% y/y); and 2Y forward stood at 3.14% y/y, underscoring that expectations remained anchored over the monetary policy horizon (chart 3) despite the recent increase. Scotiabank Economics expects CPI inflation to close 2021 at 3.93% y/y and end-2022 at around 3.0% y/y, noting that current inflation pressures are higher than the market's expectation, but indeed transitory.

- **Economic activity** (this data point is released quarterly): The market expects GDP growth for 2021 at 6.41%, better than what was expected in April's survey (4.81%), but below the central bank expectation of 6.5%. For 2022 a 3.53% expansion is expected.

- **Policy rate.** Consensus still expects one hike this year in the policy rate to 2% (from the current 1.75%); the first movement is anticipated in October (chart 4). Scotiabank Economics' forecast is more front-loaded, with a hike expected in September 2021 given the better economic recovery and as inflation is likely to consolidate well above 3% y/y. For 2022, consensus expects a policy rate at 3.25% by the end of the year, 25bps higher than what analysts expected in the previous survey.

- **FX.** USDCOP forecasts for end-2021 stood at 3,655 (79 pesos above from the previous survey). For December 2022, respondents think, on average, that the peso will end the year at USDCOP 3569 (+47 pesos above the previous survey). We believe that USDCOP would appreciate by the end of the year to 3,525.

—Sergio Olarte & Jackeline Piraján

PERU: GDP GROWTH CONTINUES TO SHOW ROBUST REBOUND; UNAFFECTED BY POLITICAL UNCERTAINTY

GDP growth came in at 47.8% y/y in May, according to figures released on July 15 by Peru's statistical agency, INEI. This is higher than our expected 42% y/y growth. As has been the case since March, such huge growth figures reflect the very low base of comparison against May of 2020, a time of stringent pandemic lockdowns. Compared against pre-pandemic figures, May 2021 was only 0.4% lower than in May 2019, per our estimates. Peru GDP is now very near pre-COVID levels, attesting to a robust rebound, but also meaning that there has been no real growth in two years. The data is nonetheless encouraging.

GDP growth for the January–May 2021 period was 19.7% y/y (which includes the April–May '20 period, at the height of COVID-19 lockdowns). Monthly GDP growth should begin softening over the coming months as base effects dissipate, however, we see an upside to our full year forecast of 9.9%, given the trend so far.

The data by sectors for May is highly distorted due to the unequal impact by sector of the lockdown. For instance, hospitality (hotels and restaurants) rose by a whopping 480% y/y in May, but mainly because the sector was nearly entirely shut in 2020 and still has a ways to go to return to normal, as it remained 45% below 2019 levels. Construction is the sector that stands out the most. Construction GDP was not only 257% higher than in 2020, but a hefty 20% higher than in 2019. Mining and oil & gas, meanwhile, continue to disappoint as they are down nearly 10% from 2019 levels. Sectors closely linked to domestic demand and particularly consumption are also notable as all surpassed 2019 levels. Manufacturing was up 2.5%; and commerce rose 2.9%.

Table 2
Peru: May GDP Growth

	y/y % change	vs. 2019
GDP aggregate	47.8	-0.4
Agriculture	-4.0	0.8
Fishing	102.4	8.7
Mining & Oil	66.9	-9.5
Manufacturing	84.0	2.5
Electricity & Water	28.2	0.4
Construction	257.0	20.5
Commerce	104.1	2.9
Transportation	90.5	-14.9
Hospitality	480.5	-45.3
Telecom	8.0	13.3
Financial Services	12.7	23.2
Business Services	64.1	-2.9
Government Services	5.3	9.1

Sources: Scotiabank Economics, INEI.

POSITIVE JOBS RELEASE

The INEI also released employment figures for Q2-2021. The figures were indeed quite positive. Unemployment in Lima fell to 10.3%, and formal jobs rose to 4.6 mn in Q1. Employment increased especially in construction, matching the strong growth in construction GDP. However, the quality of new jobs appears to be somewhat below previous jobs, as household incomes are nearly 8% below 2019 levels.

—Guillermo Arbe

CHILE: WEEKEND'S COALITION PARTY PRIMARIES TO DELIVER KEY PRESIDENTIAL CANDIDATES

Chile's busy 2021 electoral calendar will reach another milestone this weekend, as the main party coalitions on both the left and the right will hold their presidential primaries election on Sunday, July 18. A total of six candidates (four from the right's Chile Vamos ruling coalition and two representing left parties) will compete for their coalition's nomination. These primaries are the first step in a long presidential race that will include a first-round election on November 21, and—if no candidate wins a majority outright—a runoff vote on December 19. The weekend's primaries are significant as contenders include high profile candidates who have polled high in recent weeks and are sure to set the tone of the presidential campaign. They include two (a former and a current) mayors of Santiago municipalities: Daniel Jadue, running with the Communist Party; and Joaquin Lavin on the centre-right, who also served in cabinet under President Piñera's first presidential term. It is still early days in Chile's presidential election and surprise candidates could yet emerge either as a result of the primaries, or further along as political parties make direct nominations.

—Adriana Vega