Latam Daily: Colombia Survey Expects Higher CPI, Rate; Peru's Strong Rebound in June

- **Colombia: BanRep's economic survey expects anchored inflation in the long run and higher repo rate down the road**
- **Peru: Overall economic rebound evidenced in June's strong GDP, better-than-expected employment and sharp improvement in fiscal accounts**

CONTACTS

Adriana Vega
613.564.5204
Scotiabank Economics
adriana.vega@scotiabank.com

Guillermo Arbe
+51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Sergio Olarte
+57.1.745.6300 Ext. 9166 (Colombia)
Scotiabank Colombia
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive
+56.2.2619.5435 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Eduardo Suárez
+52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Jackeline Piraján
+57.1.745.6300 Ext. 9400 (Colombia)
Scotiabank Colombia
jackeline.pirajan@scotiabankcolpatria.com

COLOMBIA: BANREP'S ECONOMIC SURVEY EXPECTS ANCHORED INFLATION IN THE LONG RUN AND HIGHER REPO RATE DOWN THE ROAD

On Friday August 13, Colombia's central bank, BanRep, released its monthly economic expectations survey. A top takeaway is that, while expectations remain anchored over the long run, inflation will now close 2021 above the 4% y/y target, noting that only two months ago, the target sat at 3% y/y. Analysts' consensus, meanwhile, is that the initial rate hike will happen in September 2021—a view that we share—to close the year at 2.5%, again consistent with our forecast. The terminal rate for 2022 is now also expected to be higher than in the previous survey, to reach 3.75%. The USDCOP is also expected to appreciate by the end of the year.

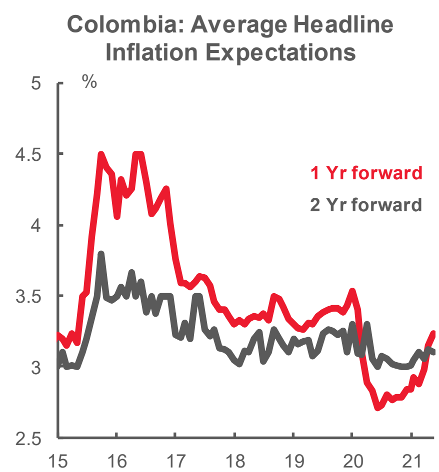
- **Near-term inflation.** August's monthly inflation is expected to come in at 0.19% m/m, putting annual inflation to July at 4.17% y/y (from the 3.97% in July). However, survey dispersion remained high with a minimum expectation of -0.16% m/m and a maximum of +0.38% m/m, signaling still high uncertainty amid recent developments and their impact on prices. On the other side, Scotiabank Economics expects August's monthly inflation at +0.21% m/m and 4.19% 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.
- **Medium-term inflation.** Inflation expectations rose to 4.22% y/y by December 2021, 49 bps higher than in last month's survey (table 1), which shows that recent inflation surprises are expected to last a bit longer than

Table 1
Colombia: Headline Inflation Expectations

	Average	Change vs previous survey, bps
Aug-2021, m/m % change	0.19	…
Dec-2021, y/y % change	4.22	49
1 Yr ahead, y/y % change	3.28	10
Dec-2022, y/y % change	3.30	3
2 Yr ahead, y/y % change	3.18	4

Sources: Scotiabank Economics, BanRep.

Chart 1



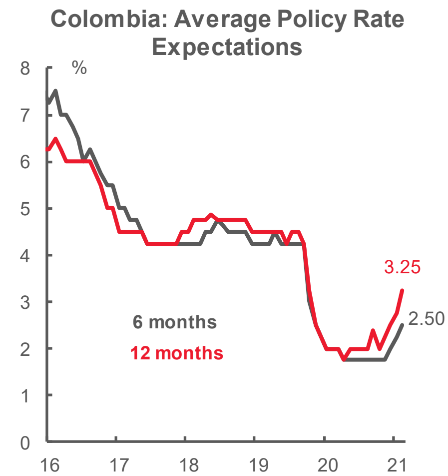
Sources: Scotiabank Economics, BanRep.

before. Expectations over the medium term continue to hover around 3% y/y: 1Y forward inflation stood at 3.28% y/y (above last month's reading at 3.18% y/y); and 2Y forward stood at 3.18% y/y, underscoring that expectations remained anchored over the monetary policy horizon (chart 1) despite the recent increase. Scotiabank Economics expects CPI inflation to close 2021 at 3.9% y/y and end-2022 at around 3% y/y, with an upside bias, noting that current inflation pressures are higher than the market's expectation, although transitory.

- **Policy rate.** Consensus also increased it expectations on the hiking cycle, as analysts think that first hike will happen in September's meeting and the policy rate will end 2021 at 2.5% in 2021 (chart 2) and at 3.75% in 2022.
- **FX.** USDCOP forecasts for end-2021 stood at 3,744 (89 pesos above from the previous survey). For December 2022, respondents think, on average, that the peso will end the year at USDCOP 3,669 (+100 pesos above the previous survey). We believe that USDCOP would appreciate by the end of the year to 3,525.

—Sergio Olarte & Jackeline Piraján

Chart 2



Sources: Scotiabank Economics, BanRep.

PERU: OVERALL ECONOMIC REBOUND EVIDENCED IN JUNE'S STRONG GDP, BETTER-THAN-EXPECTED EMPLOYMENT AND SHARP IMPROVEMENT IN FISCAL ACCOUNTS

I. Solid economic recovery evidenced in June's GDP growth as most sectors surpass pre-pandemic levels

GDP growth was 23.5% y/y in June, according to Peru's statistical agency, INEI. This brought GDP growth for the first half of 2021 to 20.9% y/y. The strong growth benefitted from significant base effects compared to June 2020, a month when lockdowns had only partially lifted. Unlike in previous data releases, the INEI did not provide data on growth compared to the same period in 2019, however, we estimate that June's GDP this year was about 1.1% higher versus June 2019 (pre-COVID-19).

All economic sectors were up, except fishing (-37.8% y/y) which was unaffected by COVID-19 in 2020 and reflects seasonal issues. Construction, up 90.7% y/y and an estimated 8.8% versus June 2019, continues to be the strongest growth sector of the economy, outside of key service industries which never ceased to operate (telecom, financial services, government services). Hospitality, a sector that was still on lockdown in June 2020, rose the most in y/y terms, nearly 226%. Compared to 2019 (pre-COVID-19), however, hospitality continued to be severely lagging (-75.8% is our estimate). Other double-digit growth rate figures belonged to sectors still very much locked down in 2020, whereas single-digit growth rates belonged to sectors that had remained opened (table 2). All in all, June was a robust month, with most sectors surpassing 2019 levels.

Table 2

Peru: GDP Growth June

	y/y	versus 2019
GDP Aggregate	23.5%	1.1%
Agriculture	8.9%	7.6%
Fishing	-37.7%	-8.9%
Mining & oil	7.8%	-8.0%
Manufacturing	19.9%	4.2%
Electricity & water	15.2%	2.9%
Construction	90.7%	8.8%
Commerce	38.1%	-0.4%
Transportation	62.5%	-9.7%
Hospitality	225.9%	-75.8%
Telecom	6.0%	14.9%
Financial services	6.2%	22.6%
Business services	48.4%	-6.7%
Government services	5.4%	9.3%

Sources: Scotiabank Economics, INEI.

Beginning in July, monthly GDP growth figures should diminish significantly, as the base effects of the 2020 lockdowns begin to fade given the more robust reopening that took place after June. Thus, GDP growth in the second half of 2021 should be in the lower to middle single digits. However, the GDP growth trend of 20.9% (INEI figure) for the first half of 2021 has been so strong, that we see upside to our forecast of 9.9% GDP growth for full-year 2021 despite the slowdown going forward.

II. Employment improved in July, undaunted by domestic uncertainty, but still below pre-pandemic

The INEI also published information on employment in Lima for the three-month period ending in July. Jobs rose mildly, from 4.6 million to 4.7 million since June (chart 3). Employment in Lima is now 7.4% below pre-COVID-19 levels from January 2020. As a result, the unemployment rate has fallen to 9.4%, much better than our expectation of 10.3%. Unemployment still has a way to go before it returns to pre-COVID-19 levels that were closer to 7%. The job market results are reassuring. July was a month of significant uncertainty over the election results and profile of the new government, and yet there is no sign, so far, that this impacted the job market during the month.

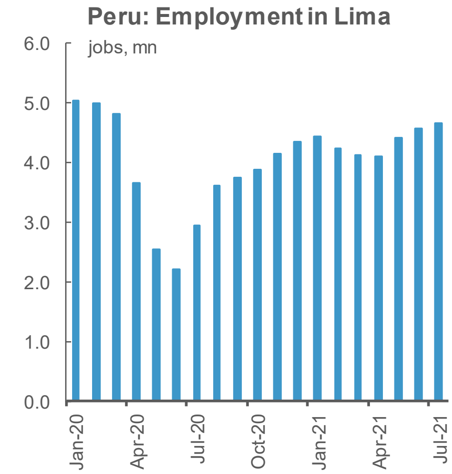
III. To round out the good results for the economy: fiscal accounts improved sharply in July

Fiscal accounts continued to improve in July. According to figures by the central bank (BCRP), the fiscal deficit fell to 6.0% of GDP, the sixth consecutive monthly improvement, after peaking at 8.9% of GDP in January-February (chart 4). July was especially positive for the economy, as the lower deficit is more the result of a strongly increasing tax revenue, rather than of slower spending. Tax revenue rose 41% y/y in the January–July period, whereas fiscal spending was up a still hefty, but lower, 23%. Since the 2020 comparison base is again distorted by last year's lockdown, it is particularly interesting that both fiscal revenue and spending were also sharply up versus 2019, pre-COVID-19. Higher metal prices were, no doubt, behind the 35.7% y/y increase in income tax (17.5% versus 2019), but the 38.3% increase in domestic sales tax (8.8% versus 2019) is due to domestic factors, both the recovery in domestic demand, and the greater formalization of sales brought about by increased digitalization.

The fiscal balance is well on the way to falling through the 5.4% official forecast, in line with expectations expressed by Finance Minister Pedro Francke, and is increasingly aligned with our forecast of 4.5% deficit at year end 2021. Recently, Minister Francke stated that the Ministry of Finance is drawing up a 2022 budget which targets lowering the fiscal deficit to 3.7% of GDP.

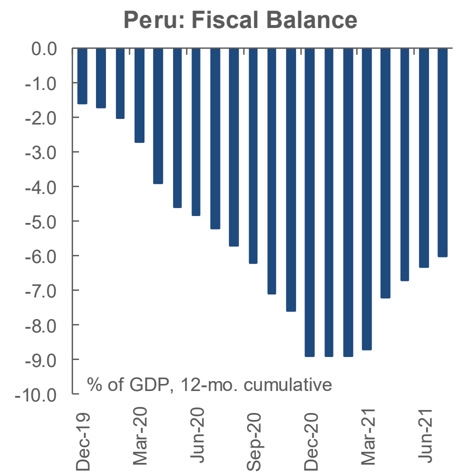
—Guillermo Arbe

Chart 3



Sources: Scotiabank Economics, INEI.

Chart 4



Soures: Scotiabank Economics, BCRP.