

Latam Daily: Mexico Q2 GDP and Updated Annual Forecast for 2021; Colombia Citi Survey

- **Colombia:** July's Citi survey shows analysts expect higher inflation by year-end, growth forecasts improved again
- **Mexico:** 8% y/y average GDP growth in H1-2021; updated 2021 GDP forecast; June's GDP proxy shows base effects dissipate

COLOMBIA: JULY'S CITI SURVEY SHOWS ANALYSTS EXPECT HIGHER INFLATION BY YEAR-END, GROWTH FORECASTS IMPROVED AGAIN

Colombia's central bank (BanRep) uses this survey as one of the expectations measures on inflation, monetary policy rate (MPR), GDP, and COP.

Key points from June's Citi survey released on August 26 include:

- **Growth forecasts improved again.** In 2021, the GDP recovery is expected to hit a pace of 7.50 % y/y, higher than the expectations in the previous survey of 6.7% y/y. This is the third upside revision in a row. It is worth noting that, despite the negative impact of the nationwide strike in H1-2021, the economy is now recovering faster, as seen in the recent growth report for Q2, which we discussed in our [Latam Daily](#) of August 18. In 2022 and 2023, economic growth is expected at 3.50% and 3.35% respectively.
- **Inflation expectations increased again for December 2021.** August's monthly inflation rate is, on average, expected to be 0.20% m/m and 4.18% y/y; while our own forecast is 0.21% m/m and 4.40% y/y as we anticipate positive inflation in foodstuff due to some long-lasting effects from the nationwide strike in relevant supply chains and price corrections in leases and public services. For December 2021, the survey's average annual projection is 4.27% y/y, well above the previous survey expectation (3.80% y/y). By December 2022, inflation is expected to hit 3.36% y/y, above the central bank's target but within the target range.
- **The market consensus points to a 25 bps increase at the September BanRep meeting.** By 2021, all 25 respondents expect rate changes (while the previous survey it was 3 out of 25). In 2022, the median policy rate expected is 4.0% (chart 1).
- **The USDCOP forecasts point to a slight appreciation in the currency through December 2021.** On average, respondents expect a level of USDCOP 3,719 by the end of 2021 (previous survey: 3,655) and USDCOP 3,630 in 2022.

—Sergio Olarte & Jackeline Piraján

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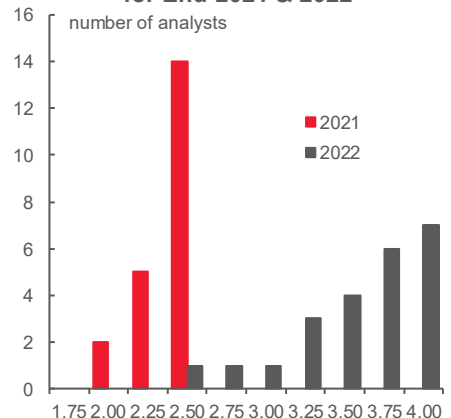
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Chart 1

Colombia: Repo Rate Expectations for End-2021 & 2022



Sources: Scotiabank Economics, Citi Survey.

MEXICO: 8% Y/Y AVERAGE GDP GROWTH IN H1-2021; UPDATED 2021 GDP FORECAST; JUNE'S GDP PROXY SHOWS BASE EFFECTS DISSIPATE

I. Q2-2021 GDP brings average growth in H1-2021 to 8.0% y/y; update to our annual GDP forecast to 6.2% y/y for 2021

According to the statistical agency's (INEGI) final [estimate](#) for Q2-2021 GDP published on Wednesday August 25, the Mexican economy registered a +19.6% real y/y expansion in Q2, slightly below the +19.7% y/y (chart 2) of the early estimate and recovering from the -3.6% y/y loss of the [previous quarter](#). This brings the Mexican economy's average performance over the first half of the year to 8.0% y/y. As is the case in other economic indicators, comparative base effects from 2020 explain most of Q2's advance, however, the quarterly reading was positive, growing +1.5% y/y, as was estimated a month ago.

By components,

- The industrial sector soared +28.2% y/y in Q2 from the -2.6% y/y registered in Q1, boosted by exports and the recent rebound in construction and mining. Q2's numbers imply that the industrial sector expanded at a +0.3% q/q sa pace, slightly moderating from the +0.5% q/q sa in Q1.
- As was expected, the services sector also had a strong recovery, jumping +17.0% y/y in Q2 compared to -4.0% y/y in Q1. Services expanded at a 2.0% q/q sa pace from the previous 1.4% q/q sa, after being the hardest hit by the 2020 and early 2021 shutdowns.
- Agriculture grew +6.8% y/y, a more moderate pace compared to the rest of the economy, but nonetheless better than the +2.4% y/y pace registered in Q1. In the second quarter of 2021, the agricultural component kept expanding and registered an expansion of +0.8% q/q sa from the +1.1% q/q in the 1Q2021. The deceleration is mainly explained by weather disruptions such as droughts.

Mexico's economic growth during the first and second quarters of the year exceeded our expectations, as our forecasts had anticipated a contraction of -3.8% y/y in Q1-2021 (versus an actual -3.6% y/y); and growth of +16.1 y/y in Q2-2021 (versus an actual +19.6% y/y). Given that the Mexican economy has shown a much more dynamic and balanced behaviour between the internal and external sectors, we are modifying our forecast for average growth in 2021 from 5.3% y/y to 6.2% y/y.

II. Monthly GDP proxy for June suggests that engines driving the economic recovery are losing momentum

Also on Wednesday, August 25, INEGI released in a separate [report](#) the monthly GDP proxy (IGAE) for the month of June, revealing that the recovery has lost some momentum. The monthly GDP fell by -0.9% m/m after three consecutive months of gains, landing below the +0.5% m/m expansion in May and lower than the -0.3% m/m estimated by the consensus. The performance was affected by widespread declines in its three major components:

- The industrial sector added three months of declines, this time from -0.02% m/m to -0.5% m/m, affected by the shortage of inputs in manufacturing (-0.1% m/m), as well as a -2.0% m/m decline in construction.
- Services fell for the first time in the last three months, from +0.7% m/m to -0.7% m/m, with a sharp decline in retail trade (-4.2% m/m), and professional services (-6.9% m/m) offsetting gains in wholesale trade (+3.0% m/m) and leisure services (+6.2% m/m).

Chart 2

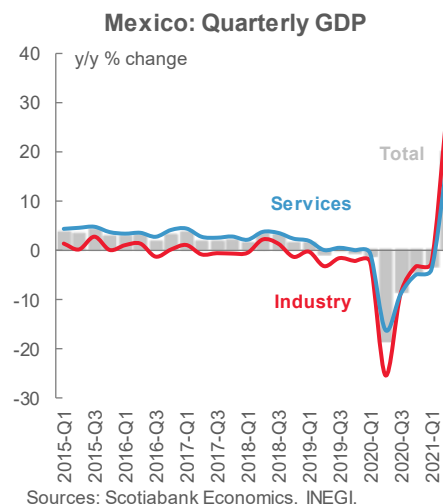
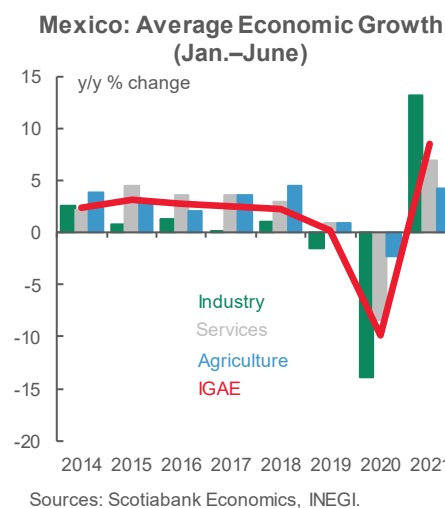


Chart 3



- The agricultural component fell by -4.4% m/m from the previous +7.9% m/m, possibly affected by the droughts observed during that period and previous months.

In its annual comparison, economic activity in June moderated from +25.1% y/y to +13.3% y/y as distortions due to comparison base effects dissipate (chart 3). Within it, industry moderated from +36.4% y/y to +13.5% y/y, services from +21.5% y/y to +13.6% y/y and primary activities from +10.2% y/y to +7.4% y/y.

—Paulina Villanueva

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