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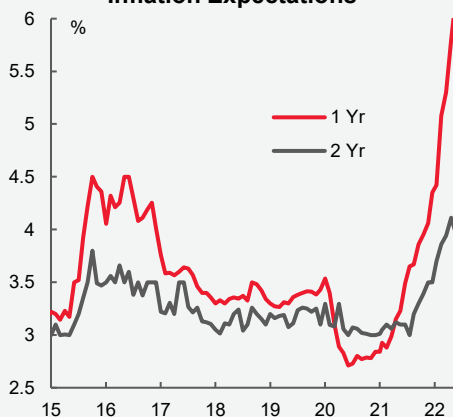
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Chart 1

Colombia: Average Headline Inflation Expectations



Sources: Scotiabank Economics, BanRep.

## Latam Daily: Rising Inflation Expectations in Colombia and Stronger Growth in Peru

- **Colombia:** Inflation expectations increased again and the terminal rate is expected at 10%
- **Peru:** Growth came back in June!

### COLOMBIA: INFLATION EXPECTATIONS INCREASED AGAIN AND THE TERMINAL RATE IS EXPECTED AT 10%

On Friday afternoon, August 12, the central bank, BanRep, released its monthly survey of economic expectations. Inflation expectations (IE) for the end of 2022 increased by 70 bps, as a result of the strong upside surprise in July inflation. In the same vein, by the end of 2023, the survey showed IE further deviating from the ceiling of the target range (5.70%), close to the expectation revealed by the central bank’s staff in the previous Monetary Policy Report. We expect July’s inflation aligned to the market consensus (0.54% m/m), closing the year at 10.41%.

The market consensus expects the hiking cycle to continue in 2022, with a 75 bps hike in September and 25 bps in October, to reach 10.0% as the terminal rate (+100 bps versus the previous survey). We expect a 50 bps hike in September, but we don’t discard a more aggressive move. The higher rate is expected to last around one year before starting to reverse.

- **Short-term inflation expectations.** For August consensus is 0.54% m/m, which places annual inflation at 10.31% year-on-year (from 10.21% in July). That said, the dispersion of the survey remains high with bottom expectation at 0.17% m/m and a maximum of +0.79% m/m. Scotiabank Economics expects monthly inflation for August to be +0.54% m/m and 10.31% y/y. In August we will have upside effects from Foodstuff prices, but we expect more moderate upside pressures from utilities and rent fees.
- **Medium-term inflation expectations.** Inflation expectations rose to 10.02% y/y for December 2022, 70 basis points above last month’s survey (table 1), showing the effect of the upside surprise in July’s results. High input prices and international bottlenecks remain the main risk for headline inflation. IE for 1-year ahead stood at 6.14% y/y (above last month’s reading of 5.86% y/y); while the 2-year forward decreased 4 bps to 4.22% y/y, showing that there is still high uncertainty regarding the achievement of the inflation target range in the medium term (chart 1).
- **Policy rate.** Consensus still expects a 75 bps rate hike in September’s meeting, to leave the rate at 9.75% (from the current 9.00%); we expect a 50 bps hike. That said, the monetary policy rate is expected to close at 10% in 2022, and at 8% in 2023 (above the 7% expected in the previous survey) (chart 2).

Table 1: Colombia—Headline Inflation Expectations

	Average	Change vs previous survey, bps
July-2022, m/m % change	0.54	...
Dec-2022, y/y % change	10.02	70
1-yr ahead, y/y % change	6.14	28
Dec-2023, y/y % change	5.70	36
2-yr ahead, y/y % change	4.22	-4

Sources: Scotiabank Economics, BanRep.

- FX.** The USDCOP projections for the end of 2022 were located at 4,176 pesos (below the previous survey 4,204 pesos). By December 2023, respondents think, on average, that the peso will end the year at USDCOP 4,042, and in 2024 at 3,965. We believe that the USDCOP would close in 2022 at around 3,950 pesos.

—Sergio Olarte, Maria (Tatiana) Mejía & Jackeline Piraján

**PERU: GROWTH CAME BACK IN JUNE!**

**GDP for June bounced back to 3.4% y/y in June, after having slowed to 2.3% y/y in May (charts 3 and 4).** Equally encouraging, growth was 0.7% m/m in June, and has now risen for three consecutive months, breaking more convincingly with the downtrend seen earlier in the year.

**Sector results were a bit mixed, however, especially in m/m terms (table 2).** Sectors that lagged in their post-COVID-19 recovery continued to lead in growth, namely hotels & restaurants (25% y/y) and transportation (10.9%), but, then, gave a much more confusing message in m/m terms. It's especially difficult to understand the 13% m/m decline in hotels & restaurants in June.

**Meanwhile, oil & gas is the sector that has become the new leader in growth, up 14% y/y.** Oil & gas growth was in line with a strong increase in gas exports, as the gas industry (with output up 37% y/y!) responds to greater demand both domestically and globally.

**Most sectors linked to domestic demand rose comfortably.** It was especially encouraging, and mildly surprising, to see construction up 6.0% y/y and 3.0% m/m. Given the increase in mortgage interest rates and residential construction costs, the improvement is mostly linked to public sector investment in infrastructure construction, which was up 25% y/y.

**Of the sectors that declined, agriculture was the most worrisome.** Not only did agriculture GDP decline 1.6% y/y, but growth was nil in m/m terms. The reason for concern is because June is the height of the main harvest season for a number of staples, and this is obviously not good in a country already beset by inflation.

**The 7.8% y/y decline in financial services was most likely linked to the withdrawal of the Reactiva loans that were awarded during the COVID-19 pandemic.** Telecom, falling in both y/y and m/m terms, is more intriguing. Since most of the decline was in phones (both land-line and cell), as opposed to internet or cable, one wonders if this isn't part of a backlash due to hacking.

Chart 2

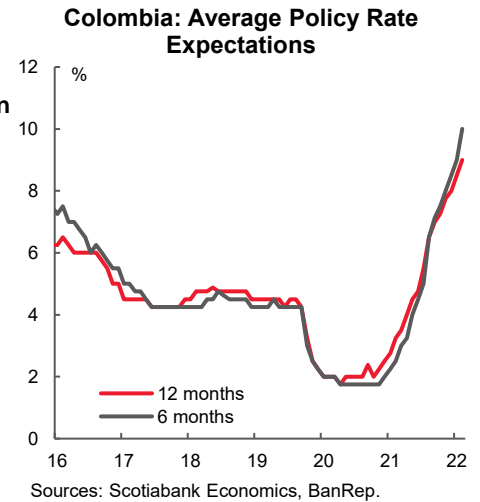


Chart 3

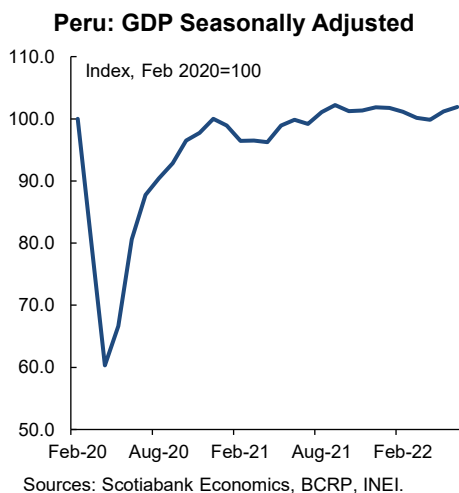


Chart 4



The one data point in m/m terms that caught our eye is the 1.9% decline in commerce. Why would June be a worse month for commerce than May? This could possibly be linked to the decline in hospitality sectors.

All in all, however, June GDP belies the narrative that growth is softening in the country. Apparently, not yet. June is too early for this year's access to pension fund withdrawals to have had an impact, but, then, a robust June is all the more reason for pension fund withdrawals to impact growth once the spending kicks in July.

—Guillermo Arbe

Table 2: Peru—GDP Growth by Sectors—June 2022

%	y/y	m/m	Jan-Jun (y/y)
<b>Aggregate GDP</b>	<b>3.4</b>	<b>0.7</b>	<b>3.5</b>
Agriculture	-1.6	0.0	4.4
Fishing	15.1	3.5	-21.5
Mining & oil	3.0	4.9	-0.1
Metals mining	1.1	N/A	-2.6
Oil & gas	14.2	N/A	15.7
Manufacturing	4.1	N/A	6.5
Electricity	3.1	1.8	3.0
Construction	6.0	3.0	4.0
Commerce	2.5	-1.9	4.2
Telecom	-2.8	-3.9	2.4
Transportation	10.9	1.2	12.9
Business services	1.3	-0.3	2.4
Hotels & restaurants	25.1	-13.3	44.2
Public administration	3.0	N/A	3.5
Financial services	-7.8	-1.2	-6.3
Other services	6.0	N/A	5.3

Sources: Scotiabank Economics, INEI.

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