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Latam Daily: Peru Unemployment Climbs; Quiet Latam Week Ahead

- **Colombia:** Sector-level activity shows mixed performance, but affirmed a moderation in domestic consumption
- **Peru:** Strong fiscal accounts while trade surplus narrows

The week has started with more developments out of the UK as newly-appointed Chancellor Hunt rolled back more of the late-September mini-budget—and signs continue to point to PM Truss being pushed out over the next few days. Equity markets in North America are following the positive mood in Europe with gains on track to reverse Friday's steep declines.

Latam currencies are following the dollar-negative mood while ignoring generally softer energy and metals prices. The CLP is again trading erratically today, and far from correcting Friday's 2.5% loss; the BRL is up ~0.8% and the PEN and MXN are up ~0.5% and 0.2%, respectively.

Colombian markets are closed today for a public holiday and the regional calendar is quiet over the rest of the day after Peruvian unemployment and Peruvian and Brazilian economic activity data published this morning.

Peru's economic activity accelerated to 1.7% y/y in August, beating a median forecast of 1.4% y/y. The country's expansion was driven by 2.6% and 5.6% y/y increases in retail sales and construction activity, respectively, against a steep decline in mining production of 5% y/y while manufacturing output fell 0.8%. **Against good news on the economic activity front, Lima unemployment climbed to 7.7% last month from 7.3% in August—** though the underemployment rate continues to improve.

Brazil reported a larger than expected decline in output in August of -1.13% (vs -0.70% expected), though coming off a +0.5ppts revision to July's gain and still managing year-on-year growth of 4.86% (vs 5.30% expected). Lula and Bolsonaro faced off in a televised debate yesterday that focused on personal attacks rather than policy ahead of the October 30 vote. Polls have consistently shown Lula will become president, but 'shy' Bolsonaro voters remain somewhat of a risk for the former's chances.

The regional highlights over the coming days include Colombian economic activity and international trade, and Mexican retail sales data. For more details, see our latest [Latam Weekly](#) that also discusses our most recent forecast changes—and our outlook for 2024.

—Juan Manuel Herrera

COLOMBIA: SECTOR-LEVEL ACTIVITY SHOWS MIXED PERFORMANCE, BUT AFFIRMED A MODERATION IN DOMESTIC CONSUMPTION

On Friday, October 14, the Colombian Statistics Agency (DANE) published its monthly surveys of economic activity in August. Manufacturing production and sales showed mixed performance and exceeded year-on-year expansion expectations. Even so, both indicators showed a slowdown amid a more moderate domestic activity but also due to lower contribution from statistical base effects.

Retail sales showed a new slowdown, although the year-on-year expansion remains significantly high. All sectors associated with mobility continue to contribute to seeing still robust retail sales, especially those related to the school season. However, other items

are showing a weaker performance, which is likely associated with lower household disposable income. We would expect weakness to continue in a context of high inflation and higher credit rates acting headwinds for domestic consumption.

Manufacturing production

Manufacturing output increased by 9.1% y/y (above the market consensus of 5.0% y/y) and showing an advance of 1.05% m/m sa better than the previous month (chart 1) that still reflects strong manufacturing activity. However, we expect to see a greater trend of moderation in coming months as input cost pressures remain, and business sentiment is weakening amid the possibility of higher taxes in 2023. In the YTD, manufacturing has grown by 14.5% y/y.

In y/y terms, the sectors with the best performance were vehicle manufacturing (+57.1% y/y), clothing (30.7% y/y), vehicle parts and accessories (+32.9% y/y), and printing activities (+32.1% y/y) which represented 2.2ppts of the year-on-year gain (24% of total expansion). The sectors that subtracted from activity were leather tanning (-22.2% year-on-year), coffee threshing (-13.8% y/y), sugar and panela processing (-11.4% y/y), vegetable and animal oil processing (-7.4% y/y) and chemicals manufacturing (-11.1% y/y), this may be explained by pressures in production costs and perhaps more moderate demand.

Employment growth stood at 4.3% y/y. In monthly terms, employment presented a slowdown posting a 0.2% m/m compared to the 0.3% expansion of the previous month. Employment in the manufacturing sector is now 2.8% higher than in the pre-pandemic period.

Retail

Retail sales showed a y/y gain of 8.1% in August, above the Bloomberg survey (+6.9% y/y, chart 2) while employment in the sector increased but at a slower pace, 3.6% y/y. On a seasonally adjusted basis, retail sales (excluding other vehicles) showed a contraction of 0.59% m/m less strong than that observed in the previous month but complying with the moderation trend. In annual terms, the increase in retail sales has a minor base effect but shows signs that consumption levels have moderated, explained by inflationary pressures as higher prices have begun to affect household disposable income.

In annual terms, the expansion of retail sales was explained by sales of books, stationery, and school supplies (+263% y/y), vehicles (+18.9% y/y), footwear (18.1% y/y), alcoholic beverages (+18.3% y/y) and clothing (13.6 y and/y) which contributed around 2.6%ppts to total expansion. August is a school season so a higher share of sales related to school supplies was observed, it explains the good performance of the book and stationery industry. For the rest of the year, we continue to expect private consumption to slowdown towards healthier expansion rates.

Services & Hotels

In August 2022, most services-related activities exhibited positive rates of growth, with more robust growth in storage and complementary transport activities (+33.9% y/y). In terms of employment, computer systems activity recorded the greatest variation (+15% y/y), followed by storage and transport activities.

In the hospitality sector, revenues showed a variation of 36.2% year-on-year, lower than that observed in the previous month (46.1% y/y), and employment growth stood at 28.5% from 29.5% in the previous month. Hotel occupancy was 58.5%. Business trips continued to show a positive path but lower than the previous month, representing 21.7% of total occupancy, and leisure trips represented 31.5% explaining for a month that is not considered holiday season.

Chart 1

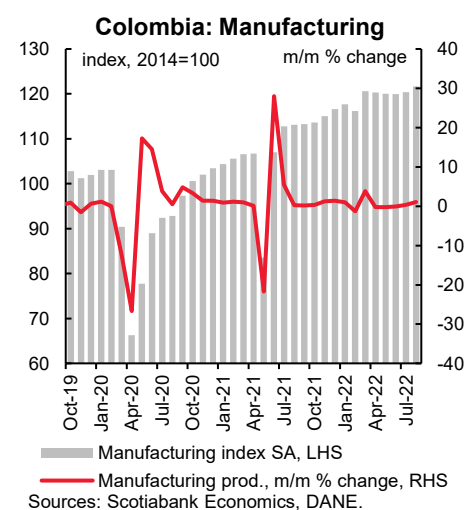
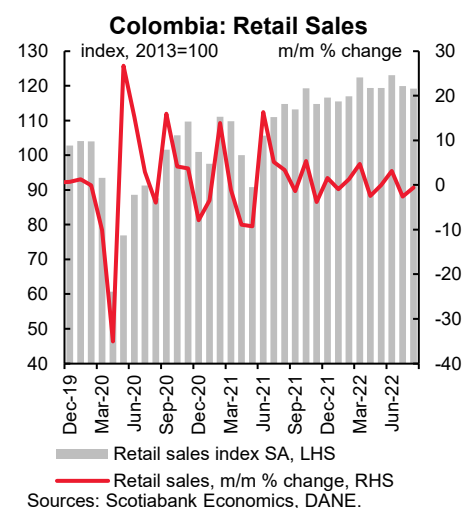


Chart 2



In short, although activity indicators showed a positive surprise in August, they nevertheless showed some monthly moderation. There are still mixed signals since confidence surveys show that companies are more negative about the future of the economic situation amid the impacts of inflation and the supply of inputs (globally), further to expectations of greater tax burdens.

Our baseline scenario remains that the economy will continue to show robust but moderate growth for the remainder the year. We updated our forecast and now we expect GDP growth of 7.6% in 2022. This includes a gradual slowdown in the second half of 2022, due in particular to softer private consumption as a result of tighter monetary policy. That said, and **taking into account the recent stance of heightened concern about economic growth shown by the BanRep Board, we expect it to raise the policy rate by 50bps at the October 28 meeting** to reach a rate of 10.5% and remain at that level for about a year, as inflation begins to show a more strong reduction.

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

PERU: STRONG FISCAL ACCOUNTS WHILE TRADE SURPLUS NARROWS

I. Fiscal accounts come in unexpectedly strong in September

The BCRP released the fiscal deficit figure for September. The results were intriguingly robust. The 12-month cumulative fiscal deficit declined in September to 1.1% of GDP, from 1.6% in August (chart 3). The numbers included a one-off factor where, in September 2021, the government had disbursed a large transfer to households, representing just under two percentage points of GDP. Excluding this, the fiscal deficit would have still declined, although perhaps closer to around 1.3% of GDP.

Tax revenue rose a solid 13.7% y/y in September, although the figure conceals a slowdown in growth when compared to 18.5% growth in the year-to-August.

September's results give the government plenty of fiscal oxygen for the next few months, if it is capable of using it (a very big if). Moreover, it enhances the argument that, even as political turmoil continues to take centre stage, behind the scenes fiscal management remains prudent.

II. The decline in the trade surplus accelerated in August

Lower metal prices are having a greater than previously expected impact on Peru's trade surplus. The BCRP reported a paltry trade surplus of USD325m for the month of August. This brought the 12-month aggregate figure to USD13.5bn (chart 4), off its all-time peak of USD16bn in March, and the lowest figure this year.

Metal prices were mostly to blame, as mining exports fell nearly 20% y/y in August (nil growth in the YTD). This was not quite compensated by increasing exports from non-mining industries (agro-industry, in particular, rose 24% y/y in August), such that total exports growth was 0.2% y/y in August (+12.6% YTD). At the same time, imports rose nearly 26% y/y in August (20% YTD).

The upshot is that metal prices and terms of trade continue wreaking havoc on our trade forecasts. We now view it as likely that the trade surplus for 2022 will come in below our forecast of a USD11bn. Having said that, 2022 on the whole will still likely show the country's second highest trade surplus in history, after the USD14.8bn registered in 2021.

—Guillermo Arbe

Chart 3

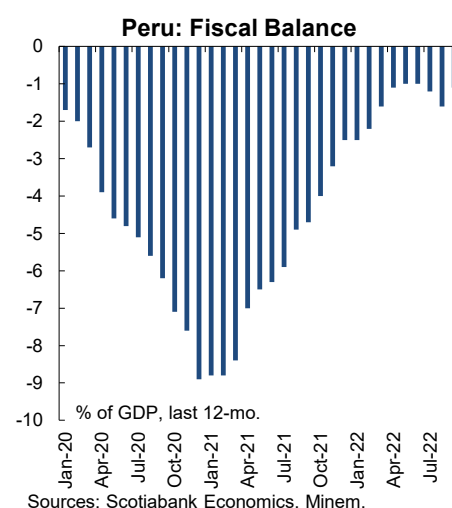
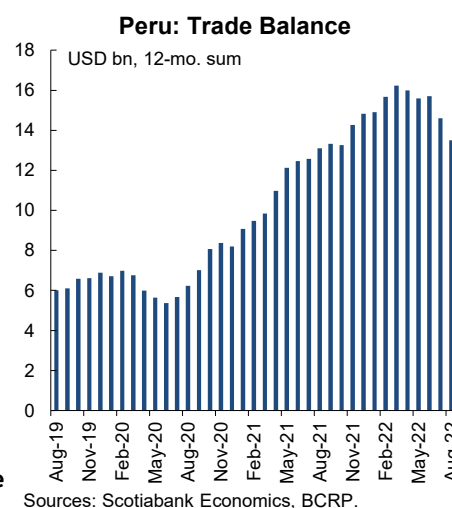


Chart 4



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