Latam Daily: Chile Votes Down Impeachment; Colombia Q3-2021 GDP, Imports

- **Chile: Senate floor rejected impeachment bill against President Piñera, as expected**
- **Colombia: Q3 GDP shows economy operated 2.6% above pre-pandemic; with imports up, external deficit remains a concern**

CHILE: SENATE FLOOR REJECTED IMPEACHMENT BILL AGAINST PRESIDENT PIÑERA, AS EXPECTED

On Tuesday, November 16, the Senate floor rejected the impeachment accusation against President Piñera (see our *Latam Daily* from October 13), as expected. The bill was based on possible crimes of bribery and tax evasion in the sale of Minera Dominga and had two chapters, which needed a two-thirds majority to be approved. In the Senate floor, the first chapter was rejected with only 24 votes in favour (short of the 29 votes needed to impeach a head of state), 18 votes against and 1 abstention. Also, the second chapter of the impeachment was rejected with 22 votes in favour, 20 votes against and one abstention.

—Anibal Alarcón

COLOMBIA: Q3 GDP SHOWS ECONOMY OPERATED 2.6% ABOVE PRE-PANDEMIC; WITH IMPORTS UP, EXTERNAL DEFICIT REMAINS A CONCERN

I. In Q3-2021 the Colombian economy operated 2.6% above pre-pandemic production levels

Data released on Tuesday, November 16 by Colombia's statistical agency, DANE, showed Colombia's real GDP grew by 13.2% y/y in Q3-2021, above consensus (12.5% y/y according to Bloomberg) and above our own expectation of 11.1% y/y. Q3-2021 was a period in which Colombia consolidated a full reopening and lifted all mobility restrictions. On a sequential basis, the economy grew by a robust 5.7% q/q, showing a strong recovery after the volatile Q2-2021 in which economic activity had the impact of the third COVID-19 wave and a long-lasting nationwide strike. In the YTD, the economy grew by 10% y/y and, now economic activity is 2.6% above pre-pandemic levels (chart 1). These results put an upward bias to our annual 9.1% GDP growth forecast for 2021. However, uncertainty remains and, high international prices and new COVID-19 waves would still be a challenge for the recovery.

According to the monthly economic activity indicator (ISE), September's activity rebounded by 3.2% m/m sa, closing a robust quarter (chart 2) and operating at a solid 3.6% above pre-pandemic levels (February 2020). By sectors, the recovery was especially significant in services (+4.3% m/m; chart 2, again), such as financial sector (+14.9% m/m). On a yearly basis, the gain was 12.9% (above market consensus; 11.5% y/y).

Supply side GDP Q3-2021 (charts 3 and 4):

The most relevant increases were in commerce, transport, and hotels that grew by 33.8% y/y and added 5.7 ppts to the headline figure; industry

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

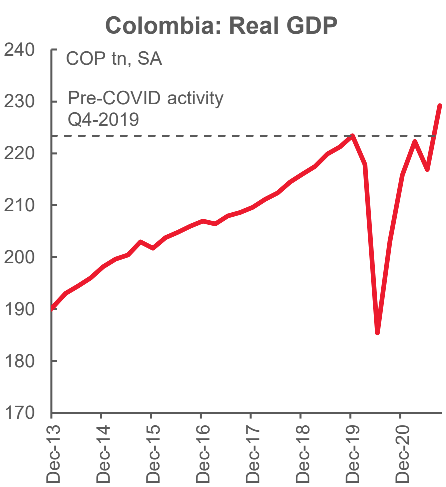
Eduardo Suárez
+52.55.9179.5174 (Mexico)
Scotiabank Mexico
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Anibal Alarcón
+56.2.2619.5435 (Chile)
Scotiabank Chile
anibal.alarcon@scotiabank.cl

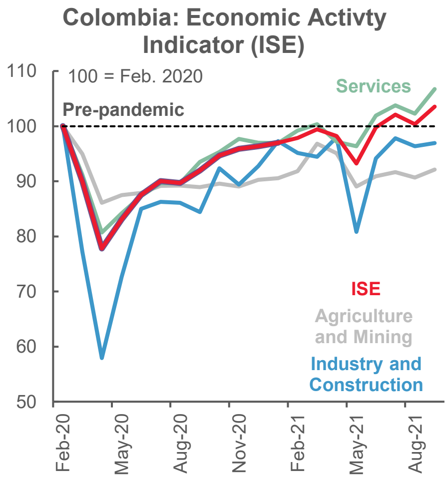
Jackeline Piraján
+57.1.745.6300 Ext. 9400 (Colombia)
Scotiabank Colombia
jackeline.pirajan@scotiabankcolpatria.com

Chart 1



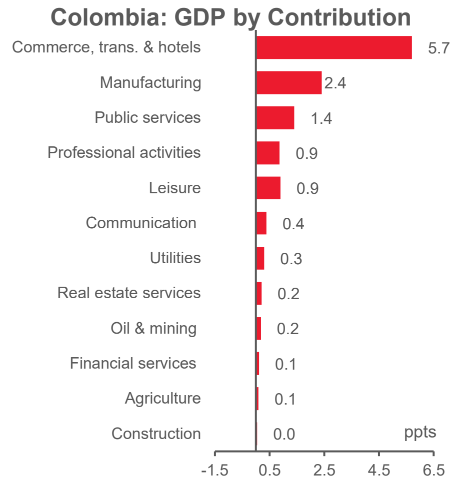
Sources: Scotiabank Economics, DANE.

Chart 2



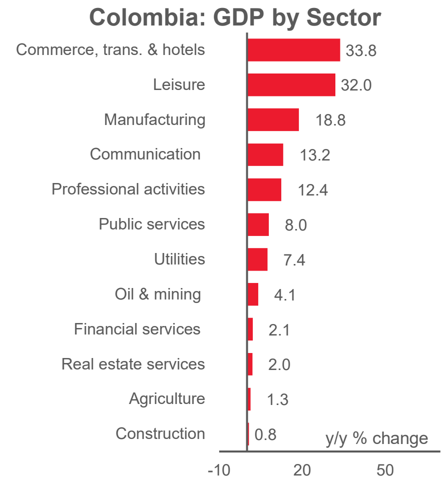
Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

expanded by 18.8% y/y and added 2.4 ppts to the total GDP expansion; and the public administration, defense, education, and social security services expanded by 8.0% (+1.4 ppts to the Q3-2021 GDP growth).

It is worth noting that compared with the pre-pandemic, the main lags are still concentrated in the mining and construction sector, which in the third quarter operated 18.9% and 28.9% below pre-pandemic, respectively. However, in Q3, construction significantly rebounded amid better dynamics in the building sector, especially those related to middle-income houses constructions and warehouses. On the mining side, we saw a mixed effect with a recovery in coal production and mining products related to construction, while oil production slightly fell versus Q3-2020. Meanwhile, the agricultural sector is losing momentum, deserving attention going forward.

Expenditure side GDP Q3-2021:

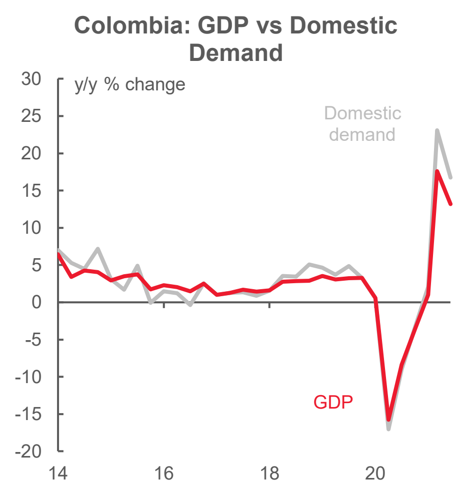
Domestic demand increased by 16.8% y/y in Q3-2021 (chart 5), well above the GDP growth and pointing to a widen real external deficit. On a sequential basis, domestic demand expanded by 5.9% q/q sa.

Consumption spending expanded by 20.0% y/y amid robust expansion in both, private (+20.2% y/y) and public spending (+19.1% y/y). Private consumption showed a robust rebound in services demand, especially those related with transport (+56.1% y/y), restaurants & hotels (+81.4% y/y).

Investment expanded by 4.5% y/y and +7.4% q/q sa, showing a positive rebound after the negative impact of the nationwide strike. Investment in housing activities (+14.5% y/y) and machinery and equipment (+17.8% y/y) led the gains.

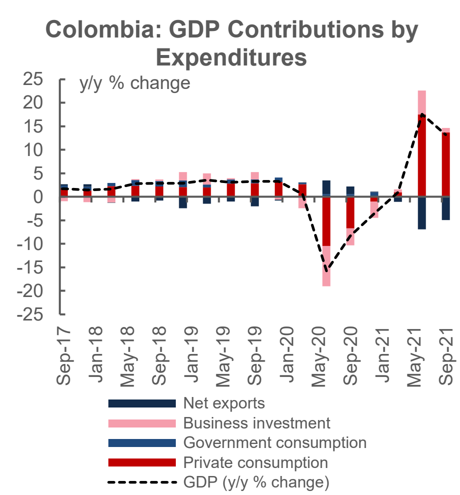
Net exports contributed negatively to Q3-2021 growth (-4.9 ppts, chart 6) on the back of a very strong performance of imports, which expanded 40% y/y, against exports growth of 24.4% y/y. Two forces were at play here: the strong recovery in demand boosted imports, notably raw materials and capital goods; while some mining-related exports are still lagging the recovery despite the rebound in commodities prices.

Chart 5



Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.

All in all, Colombia's Q3 GDP showed a better-than-expected performance in September which offset previous moderated monthly results. That said, the economy already surpassed pre-pandemic levels and in the YTD is growing at 10% (above consensus). Ahead of Q4, services sectors would continue gaining ground as restrictions were eliminated and now occupation in massive events is allowed at 100% in Bogota, if attendees are vaccinated. Going forward, GDP results affirm our expectation of a 50 bps hike in December's monetary policy meeting, while recent results would skew our current 9.1% growth projection to the upside. The external deficit remains a concern since the current account deficit would widen more than expected.

II. September imports rose 64.9% and monthly trade deficit widened to the highest level since mid-2015

September's imports data, released by DANE on Tuesday, November 16, came in at USD 5.35 bn (CIF terms), expanding 64.9% y/y (chart 7), reaching their highest level since October 2014. Compared with September 2019, imports increased by 36.5%, showing the effect of a robust economic recovery as well as that of higher international prices.

Raw material imports are close to the historical high, while capital goods imports are close to their 2015 average. Manufacturing imports grew by 66.5% y/y (+41.4% versus September-2019) accounting for the strongest positive contribution to annual imports growth, while agriculture-related imports increased by 39.5% y/y and mining-related imports grew by 105.9% y/y. As a result, the monthly trade deficit widened to USD 1.71 bn (FOB), the highest since January 2015 (chart 8). Colombia's YTD trade deficit stood at USD 11.16 bn for January–September affirming our expectation of a current account deficit of 5.2% of GDP in 2021, financed mainly by FDI.

From the perspective of imports by use, the three major segments showed positive signals compared with September 2020 (chart 9):

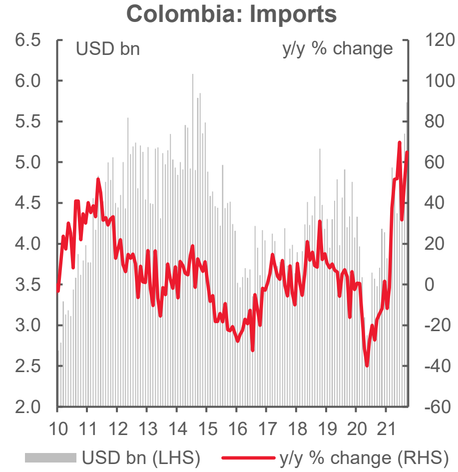
- **Consumption-goods imports** increased by +49.8% y/y and stood at USD 1.3 bn, close to their record high. Durable-goods imports (+58.7% y/y) and non-durable goods imports (+43.2% y/y) are equally contributing to the rise in consumption imports. Vehicles imports (+72.6% y/y), pharma products (+46.8% y/y) and foodstuff (+45.7% y/y) are leading the gains. Non-durable goods are at a historical high, while durable goods imports are close to their 2014 average.

- **Raw-materials imports** grew by 78.2% y/y, due to larger purchases of foreign goods for the industrial sector (+75.3% y/y), especially those related to chemical products (+64.9%y/y) and mining products (+115.7% y/y). Raw materials imports, in dollar terms, are now in the historical high, and it continued showing the effect of higher prices as well as the ongoing economic recovery.

- **Capital-goods imports** were up by 58.6% y/y (USD 1.69 bn), led by higher purchases of investment-related goods in the industry (43.6% y/y) and transport equipment (+81.6% y/y). Capital-goods imports already surpassed pre-pandemic averages (2019: USD 1.37 bn) and are closer to 2014 averages (USD 1.81 bn), which let us affirm our expectation of better FDI in the coming months.

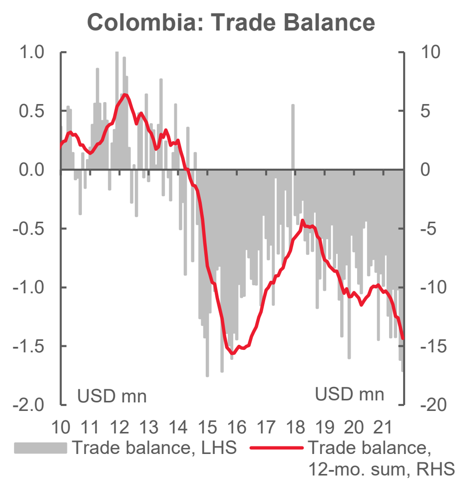
All in all, September's strong imports are affirming the thesis of a robust economic recovery, but also the impact of international prices since raw materials imports are at historical highs. We continue vigilant of the trade balance

Chart 7



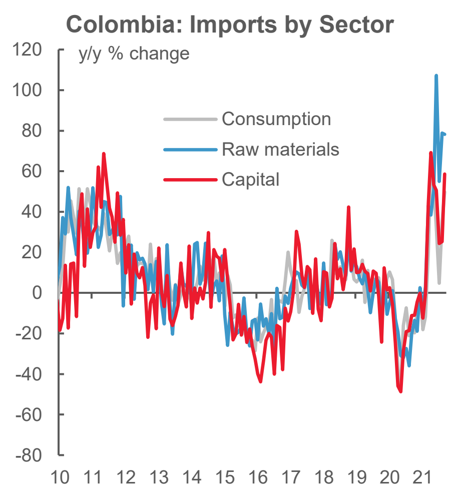
Sources: Scotiabank Economics, DANE.

Chart 8



Sources: Scotiabank Economics, DANE.

Chart 9



Sources: Scotiabank Economics, DANE.

since the deficit is escalating to its worst level since 2015 and it would point to structural pressure on the FX. Additionally, Current Account Balance (BoP) results to be released early in December will be key as they would confirm whether financing is coming from FDI rather than from government indebtedness. For now, we maintain our expectation of a 5.2% of GDP in the current account deficit in 2021.

—Sergio Olarte & Jackeline Piraján