Latam Daily: Colombia Mixed August Economic Indicators—GDP Proxy Slows; Imports Up

- **Colombia: Colombia mixed August economic indicators—GDP proxy slows; imports up boosted by prices & capital goods**

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COLOMBIA: COLOMBIA MIXED AUGUST ECONOMIC INDICATORS—GDP PROXY SLOWS; IMPORTS UP BOOSTED BY PRICES & CAPITAL GOODS

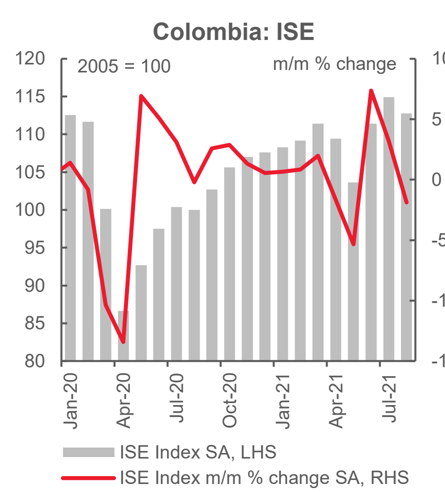
I. Economic activity slowed down in August amid weaker construction activity

On Tuesday, October 19, Colombia's Statistical Agency (DANE) released August's Economic Activity Indicator (ISE, the main GDP proxy). Compared with the same month in 2020, August's activity expanded by 13.3% y/y, below the market consensus of 15.5% y/y according to Bloomberg; and below the previous month's 14.3% y/y, defying any diminishing base effects. On a seasonally adjusted basis, Colombia's economic activity contracted by 1.9% m/m (chart 1), interrupting solid gains of previous months as the construction sector is weakening. August's result would configure a dovish signal for the central bank as the economic recovery still has some room to close the remaining activity gap (chart 2). This new data reaffirms our expectation of a 25 bps hike at the upcoming BanRep monetary policy meeting on October 29.

Economic recovery looks different across the three main activity groups (chart 3). A closer look is detailed below:

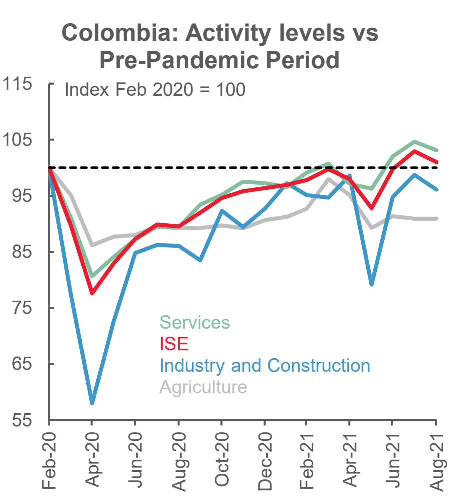
- **Primary activities** (13% of the economy) grew by 2.2% y/y but unchanged m/m seasonally adjusted in August. This means that the sector closed the month operating ~9% below pre-pandemic levels (chart 2 again), agricultural activity is growing at a slower pace, while mining continued on the negative side as oil and coal production are improving at a slow pace, while gold prices reduction also is weighing against mining sector.

Chart 1



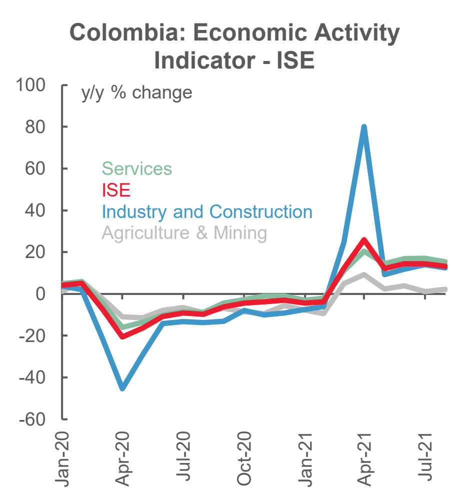
Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

- **Secondary sectors** (19% of the economy) were up by 12.5% y/y. However, it contracted by 2.7% m/m sa, showing that the economic recovery still faces challenges ahead. As shown in Friday's release, manufacturing production is still robust in lines related to reopening and mobility. Construction activities, meanwhile, remained weak due to a contraction in non-residential buildings and civil works. International prices on key raw materials for the construction would continue to impose challenges ahead to the sector, which is a thing to keep an eye on since construction is a strategic sector for economic recovery especially in term of non-qualified labour dynamics. For now, the secondary sector operates ~4% below pre-pandemic levels.

- **Services-related activities** (68% of the economy) were up by 15.4% y/y and contracted by 1.5% m/m. Commerce, transport, and hotel sectors were broadly unchanged vs the previous month. On the other side, the main contraction came from the insurance sector (-7.5%y/y according to the DANE's press conference). Payments of life insurance have increased due to the pandemic. That said, services-related activities are now operating above pre-pandemic levels (+3.13% y/y).

Overall, economic activity results showed that the economic recovery is not at cruising speed yet and, some key sectors such as construction would continue to moderate future gains. However, the services sector remains robust and, we think that as normality consolidates they could continue positively in the forthcoming months. Either way, if the Colombian economy maintains current activity levels, and GDP growth in 2021 reaches above-consensus expansion, it would skew our current 8.2% forecast to the upside. However, as uncertainty remains, we read today's data as a dovish signal ahead of the central bank meeting, affirming our expectation of a gradual normalizing process in the monetary policy rate with a 25 bps hike in October.

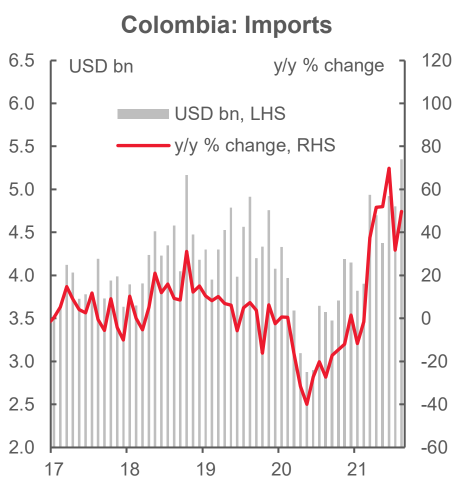
II. August imports reached highest level since 2014; boosted by high international prices, capital goods imports

August imports data, released by DANE on Tuesday, October 19, came in at USD 5.35 bn (CIF terms), expanding 49.8% y/y (chart 4), reaching their highest level since December 2014. Compared with August 2019, imports increased by 8.9%, showing two effects: i) a better-than-expected economic recovery, and ii) the impact of higher international commodities prices. Raw material imports are close to the historical high, while capital goods imports are in the best levels since the pandemic began and, consistent with the previous month (yet again), investment-related imports are boding well for medium-term FDI.

Manufacturing imports grew by 45.1% y/y (+12.8% versus August-2019) accounting for the strongest positive contribution to annual imports growth, while agriculture-related imports increased by 45.2% y/y and mining-related imports grew by 129.9% y/y. As a result, the monthly trade deficit widened to USD 1.62 bn (FOB) (chart 5), Colombia's YTD trade deficit stood at USD 9.5 bn for January–August affirming our expectation of a current account deficit of 5.2% of GDP in 2021.

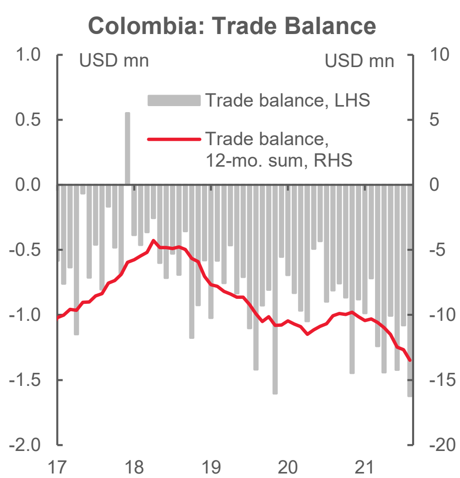
From the perspective of imports by use, the three major segments showed positive signals compared with August 2020 (chart 6):

Chart 4



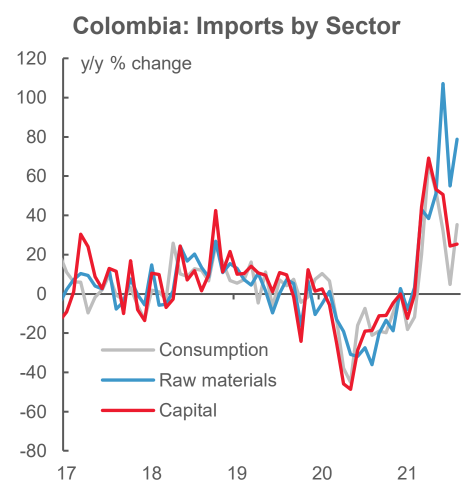
Sources: Scotiabank Economics, DANE.

Chart 5



Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.

- **Consumption-goods imports** increased by +35.34% y/y and stood at USD 1.21 bn, owing mainly to higher durable-goods imports (+59.2% y/y), especially in vehicles with an expansion of 82.6% and jewelry (+57.5% y/y); meanwhile, non-durable goods imports increased by 20.5% y/y, mainly foodstuff (+25.1%y/y) and pharma products (+23.5% y/y). Consumption-related imports continued getting closer to pre-pandemic monthly averages (2019: USD 1.05 bn and 2020 YTD: USD 996 mn).

- **Raw-materials imports** grew by 78.9% y/y, due to larger purchases of foreign goods for the industrial sector (+72.2% y/y), especially those related with chemical products (+65.4%y/y) and mining products (+101.8% y/y). Raw materials imports, in dollar terms, are close to their historical high, and it continued showing the effect of higher prices as well as the ongoing economic recovery.

- **Capital-goods imports** were up by 25.3% y/y (USD 1.52 bn), led by higher purchases of investment-related goods in the industry (13.8% y/y) and in the construction (+151.2% y/y). Capital-goods imports surpassed pre-pandemic averages (2019: USD 1.37 bn and YTD-2020: USD 1.30 mn), which let us to affirm our expectation of better FDI in coming months.

All in all, despite August's strong imports evidencing economic recovery, they are also showing an impact from higher international prices, specially in raw materials. We have to keep an eye on the impact for the trade balance, since the deficit would continue deteriorating as exports are lagging the recovery due to production in some mining products, while imports keep increasing impacted by higher international prices. For now, we affirm our expectation of a 5.2% current account deficit in 2021.

—Sergio Olarte & Jackeline Piraján