Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombia Consensus Indicators; Mexico's Activity Index

- **Colombia: Citi survey points to higher inflation and rate increases**
- **Mexico: IGAE surprises on the upside, but downside risks remain**

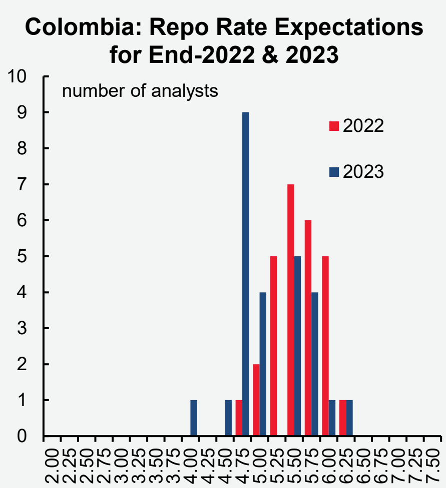
COLOMBIA: CITI SURVEY POINTS TO HIGHER INFLATION AND RATE INCREASES

January's Citi Survey, which BanRep uses to gauge expectations of inflation, the monetary policy rate, GDP, and the COP, came out on Tuesday, January 25. Key points included:

- **Growth forecasts stabilized in 2022 and 2023.** Consensus GDP growth for 2021 was again revised up, from 9.70 % to 9.84%, marking the ninth month in a row of positive revisions. For 2022, economic growth is expected to hit 4.24%, down from the previous forecast (4.84%). Expectations for 2023 are largely unchanged at 3.33% (previous: 3.35%).
- **Inflation expectations increased.** January's monthly inflation rate is expected to be 1.0% m/m and 6.20% y/y. Scotiabank Economics in Colombia expects 1.11% m/m and 6.36% y/y. We think analysts are incorporating indexation effects, such as the minimum wage increase of 10.07%, which are having a material impact on key services prices. The consensus expects inflation to close 2022 at 4.49% (above the ceiling of the target range between 2% and 4%).
- **Ahead of January's monetary policy meeting, three analysts expect a 50 bps hike, while 23 expect 75 bps and one analyst expects 100 bps hike for the monetary policy rate.** The monetary policy rate is expected to close 2022 at 5.50% (chart 1). However, the consensus has the monetary policy rate easing to 5.0% over the course of 2023. At Scotiabank Economics, we expect a 5% terminal rate in 2022, though this forecast is subject to a reduction in the inflation rate in Q2-2022.
- **The USDCOP forecasts point to a mild appreciation in the currency through December 2022**. On average, respondents expect a level of USDCOP 3,820 by the end of 2022 (previous survey: 3,754) and USDCOP 3,750 by 2023.

—Sergio Olarte & Jackeline Piraján

Chart 1



Sources: Scotiabank Economics, Citi Survey.

MEXICO: IGAE SURPRISES ON THE UPSIDE, BUT DOWNSIDE RISKS REMAIN

According to INEGI data released on January 25, November's IGAE index of economic activity rose 1.66% y/y, a positive surprise to the market's expected 1% y/y increase. On a monthly seasonally adjusted basis, the index rebounded 0.3% m/m in November, breaking a three-month negative trend (chart 2). Industry fell marginally -0.1% m/m, with construction registering its third consecutive decline at -0.6% m/m and manufacturing slowing from 1.8% m/m to 0.0% m/m.

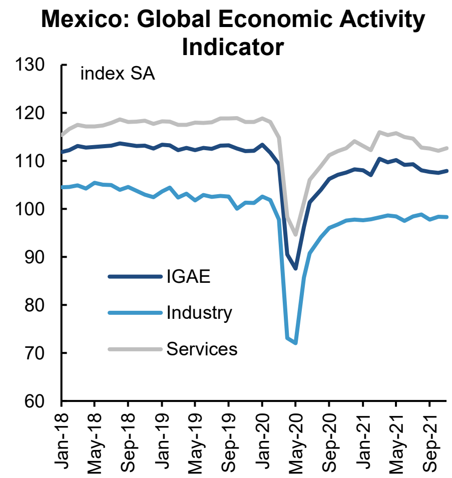
Disruptions to value chains have been especially detrimental in the manufacturing sector, while construction's negative trend, which started in 2018, doesn't show any sign of recovery in the short run. Looking at non-seasonally adjusted numbers, construction is 10.5% below its level in January 2020.

After receding for five months, services recorded a modest rebound of 0.5% m/m, boosted by an increase in professional services (5.0% m/m), which had been affected by the implementation of the outsourcing bill in the previous months, and in line with the re-opening of the economy. However, professional services remain well below (-39%) the January 2020 level.

Agriculture grew 7.2% m/m, following three months of declines. Even though this reading was positive, downside risks to the outlook remain. In the short term, the omicron variant will continue to affect value chains and social-intensive sectors. In the long run, stagnated investment represents one of the major challenges for growth.

—Luisa Valle & Miguel Saldaña

Chart 2



Sources: Scotiabank Economics, INEGI.