Latam Daily: Colombia's Economic Activity and Imports

- **Colombia: Economic activity signals continued growth; imports off historical high**

Contributors

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Maria (Tatiana) Mejía, Economist
+57.1.745.6300 (Colombia)
Maria1.Mejia@scotiabankcolpatria.com

Jackeline Piraján, Senior Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

COLOMBIA: ECONOMIC ACTIVITY SIGNALS CONTINUED GROWTH; IMPORTS OFF HISTORICAL HIGH

I. Economic activity remains on expansion path with construction gaining momentum

On Friday, June 17, the Colombian Statistics Agency (DANE) released the Economic Activity Indicator for April 2022 (ISE), which expanded 12% y/y, above the Bloomberg market consensus of 9.6% y/y. ISE serves as the main proxy for GDP and in April most sectors of the economy were up, especially the secondary and service sectors, which were driven by higher demand for sectors such as commerce, transportation and hotels, and food services.

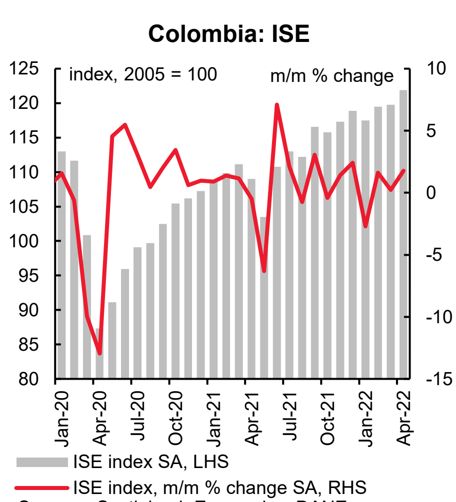
Economic activity expanded by 1.8% m/m in seasonally-adjusted terms (chart 1), surpassing the level of expansion in the last quarter of 2021. On a year-to-date basis, the economy expanded 9.2%. Despite the positive surprises, a gap remains in the recovery of employment. In fact, according to the index of employed personnel, there is still 2.19 ppts, to reach the levels of employment seen in February 2020 pre-pandemic period.

April's ISE results sent several positive signals (chart 2):

- **Primary activities** (13% of the economy) contracted by -2.0% y/y, a rate lower than in March (-5.5% y/y). Moreover, primary activities expanded 2.6% m/m (seasonally adjusted) in April. The agricultural sector contracted by -1.1% y/y, while mining and oil production showed a timid expansion of 1.4 y/y. Coal output was down. Agriculture presented mixed effects, with some crops subtracting from growth, such as coffee production, while flowers and bananas contributed positively. It is a sector to watch owing to high input prices and logistical problems that can affect costs, which would harm production in the near future.

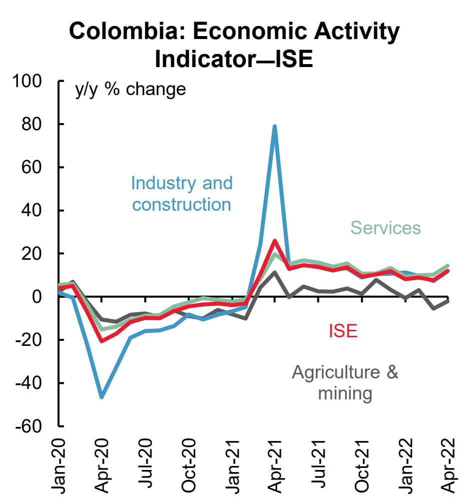
- **Secondary sectors** (17% of the economy) rose 11.9% y/y and expanded 2.9% m/m. Manufacturing production remains strong in lines related to reopening and mobility, increasing 12.4%y/y. Construction is finally providing positive impulse, expanding 10% y/y, which is explained by increased activity across the sector. In fact, civil works experienced a growth of 6.5% y/y, which provides a solid foundation for growth to the whole economy.

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

- **Activities related to services** (70% of the economy) increased by 14.4% y/y (0.8% m/m). This outcome is explained by commerce, transport and restaurants that expanded by 2.3% m/m, on the back of the Easter holiday. Despite the high prices, households increased their consumption, though some deceleration is likely in the coming months owing to the constant pressures on inflation.

Overall, the April result showed further consolidation of the economic recovery. We highlight the increased activity in the construction sector, especially civil works, which should provide broader based growth to the economy. We expect this sub-sector to continue to gain momentum. The services sector should remain strong, with some moderation in the second semester of the year as continued upward pressures on inflation elicits a stronger monetary adjustment that could restrict consumer credit. Moreover, job creation showed improvement, and the gap between employment and the recovery in output seems to be closing. Given these results, we have raised our forecast of GDP growth for 2022 from 5.8% to 6.3%.

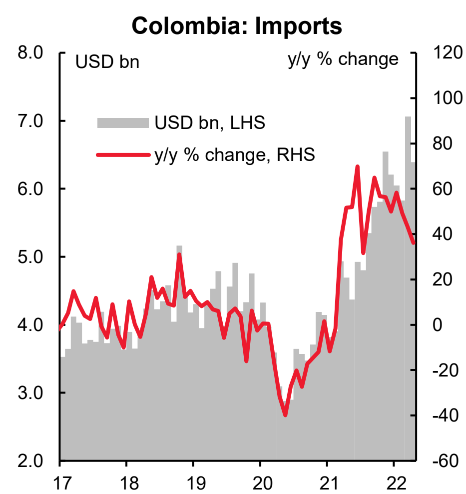
II. Imports off historical high level as trade deficit narrows

April's imports data, released by DANE on Friday, June 17, came in at USD 6.39 bn (CIF terms), up 36.1% y/y (chart 3), but down from the previous month's historical high. The monthly trade deficit stood at USD 485.4 mn, lower than the April 2021 figure of USD 1.43 bn. In the year to date, the trade deficit stands at USD 4.80 bn, 9.8% above from the same period of 2021. However, exports are now increasing at a higher rate than imports owing to the effect of high commodity prices and should contribute to a lower external deficit hoping forward.

April's imports decelerated from the previous month largely on lower purchases of raw materials by the industrial sector, which could point to future supply shortages that might affect domestic industries. Manufacturing imports grew by 28.9% y/y accounting for the largest contribution to import growth, while agriculture-related imports increased by 37.2% y/y and mining-related imports grew by 101.8% y/y.

From the perspective of imports by use, the three major segments showed strong increases compared with April 2021.

Chart 3



Sources: Scotiabank Economics, DANE.

- **Consumption-goods imports** increased by +25.2% y/y and stood at USD 1.26 bn. Both durable and non-durable goods imports slowed relative to previous months, growing by +25.8% y/y and +24.7% y/y respectively. In the case of non-durable goods, food purchases (+35.3% y/y) led the gains again. Durable goods imports were driven by vehicle purchases (+41.9% y/y).

- **Raw-materials imports** grew by 43.3% y/y to USD 3.4 bn and remained the main contributor to the overall increase in imports. Industry imports (+24.5% y/y) reflected higher purchases of chemical products (+17.8% y/y). Fuel products (+122.9% y/y) contributed significantly to higher imports and reached the highest level since 2014. Both items are subject to high international prices as well as resilient demand.

- **Capital-goods imports** were up by 31.6% y/y to USD 1.73 bn, easing from the previous month's figure of USD2.12 bn. Purchases of investment-related goods led the gains (+23.3% y/y), which is still a positive sign for investment, followed by transport equipment (+70.2% y/y). It is worth noting, however, that on a monthly bases capital goods purchases contracted, signalling possible shortages in the supply of some items.

All in all, imports in April remained high, pointing to robust domestic demand, and an ongoing recovery in investment. In monthly terms, imports moderated from the historical high in March, which could be pointing to difficulties in the supply of some raw materials and capital goods

We expect the current account deficit would stand at USD 17 bn equivalent to 5% of GDP in 2022 however, it would be due to a better denominator (GDP). In terms of financing, the prevalence of high capital goods imports points to better FDI. However, we highlight that the external deficit remains one of the main issues of concern in Colombia's macroeconomic metrics.

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