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GLOBAL ECONOMICS

LATAM DAILY

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Contributors

Juan Manuel Herrera
Senior Economist/Strategist
Scotiabank GBM
+44.207.826.5654
juanmanuel.herrera@scotiabank.com

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:

María (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

Pablo Nano, Deputy Head Economist
+51.1.211.6000 Ext. 16556 (Peru)
pablo.nano@scotiabank.com.pe

Latam Daily: Colombian and Peruvian Year-End GDP

- **Colombia: Retail sales and manufacturing show weakness and cement a slowdown trend**
- **Peru: GDP growth in December impacted by social unrest**

Markets traded with a risk-off feel overnight as yesterday's US CPI data weighed on sentiment in rather uneventful Asia hours, with SPX futures off 0.3% at writing, but with the bulk of the decline coming in after-hours trading yesterday evening. The European session highlight was weaker than expected UK core inflation that is seeing the GBP underperform but with limited spillovers outside of the pound and gilts. The global highlight in the day ahead will be US retail sales data at 8.30ET, which may trigger more anxiety in markets on worries that the US consumer is unflagging.

The dollar is broadly stronger and high-beta FX is underperforming; MXN and CLP are down 0.6%, and AUD is main laggard, off 1.4%. WTI crude oil is 1.0% lower after the API reported a large build-up in US crude inventories ahead of official government data out at 10.30ET. Iron ore in Singapore is up on the day but remaining in its trading band through most of the month, correcting a steep decline on Monday. Copper is down about 1.5% in line with the risk-averse sentiment in markets but partly owing to reports that copper mining supplies (workers, inputs, and outputs) have improved with reduced roadblocks—this, according to the head of the SNMPE, Peru's national mining, energy, and oil society. On a related note, Peru's Congress has only three more days, today included, to settle on an early election date before recess, which would otherwise push the earliest feasible date to 2024.

The Latam day ahead brings a couple of key data releases in Colombian Q4 and Peru December GDP, as well as Peruvian unemployment rate. Our economists expect that the Colombian economy closed out the year with a 4% y/y expansion for the quarter (slightly above the 3.8% seen by economists) in data due at 11ET. However, industry-level data released yesterday (see below) for December points to downside risks to this projection with notable weakness in retail sales as Colombians struggle with elevated costs, high interest rates, and depressed confidence. Weakening data are increasing the odds that BanRep chooses to pause soon, while our latest forecast continues to see a 25bps, final, hike in March. Note that a Fitch analyst said yesterday that Petro's reforms push causes uncertainty for businesses and the IMF, in its Consultation article on Colombia, highlighted that the "balance of risks around the outlook remains tilted to the downside."

As for Peru's December GDP at 10ET, the team estimates that the economy expanded by 1.3% y/y (close to the median of 1.2%), showing a deceleration from November's 1.7% y/y rise due to the impact of protests on the economy, particularly on the services sector (see more below). We see an increase in the unemployment rate to 7.6% in January from 7.1% owing to general seasonal factors that see an uptick to start the year, but also reflecting the impact of social unrest on hiring—our projection is above the median estimate of 7.3%.

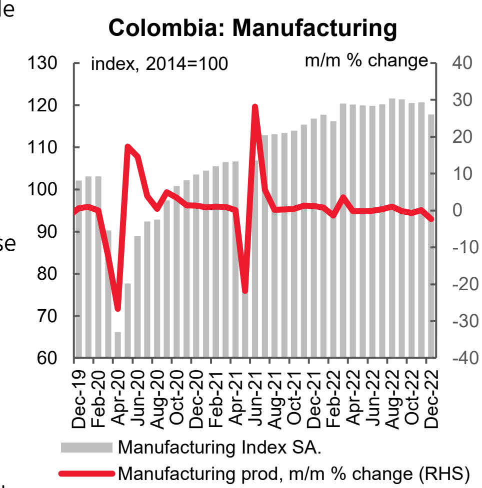
—Juan Manuel Herrera

COLOMBIA: RETAIL SALES AND MANUFACTURING SHOW WEAKNESS AND CEMENT A SLOWDOWN TREND

On Tuesday, the National Statistics Institute (DANE) published its monthly economic activity surveys for December. Manufacturing production and retail sales missed expectations by a wide margin. Meanwhile, services-related sectors continued to perform positively but lost some momentum.

Retail sales contracted year-on-year. High statistical base effects due to the VAT holiday contributed the weaker figure, especially in sales of durable goods. However beyond statistical effects, it is evident that household demand has moderated, and we expect private consumption to continue to moderate due to high inflation and higher interest rates. In the case of manufacturing, the slower expansion was associated with softening production due to a combination of higher costs, lower demand and weather effects on some products of the agricultural sector.

Chart 1



Sources: Scotiabank Economics, DANE.

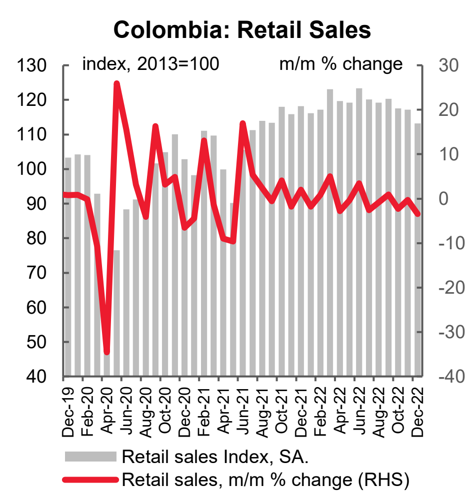
Manufacturing production

Manufacturing production increased by 0.5% y/y (below the market consensus of a 3.0% y/y expansion), showing a monthly contraction of -2.34% m/m (chart 1), representing the strongest m/m slowdown since February 2022. December's results show the strong decelerating trend of the economy that had been present in the last months of the year. Weakness in the sector also owes to effects that have been persistent such as high input costs, lower demand, and lower business confidence, given domestic uncertainty and the performance of the global economy. That said, we expect this moderating trend to continue into the beginning of 2023.

On a y/y basis, the best performing sectors were vehicle manufacturing (+85.4% y/y), vehicle parts and accessories (+37.4% y/y), textiles (5.4% y/y) and glass manufacturing (18.9% y/y). On the negative side, sectors that reduced activity were the chemicals industry (-22.6% y/y), coffee threshing (-10.1% y/y), precious metals industry (-33.7% y/y), sugar and sugar cane processing (-12.5% y/y) footwear (-7. 9% y/y) and machinery and equipment manufacturing (-11.5% y/y), this is explained by the moderation in demand in some of these industries, added to the fact that some, such as coffee, sugar and sugar cane, were affected by the winter season.

Employment growth stood at 2.3% y/y. On a m/m basis, employment slowed and registered a contraction of 0.28%. This may be a sign of deterioration in the formal sector.

Chart 2



Sources: Scotiabank Economics, DANE.

Retail

Retail sales showed a negative balance (1.8% y/y contraction) in December, below the Bloomberg survey (+1.0% y/y) (chart 2), while employment presented a better performance at 4.2% y/y versus 4.0% in the previous month. On a seasonally adjusted basis, retail sales (excluding other vehicles) showed a deeper contraction of -3.45% y/y, for the sharpest drop of the year. That said, it is clear that households are feeling inflationary pressures with incomes increasingly constrained.

On an annual basis, the contraction in retail sales is explained by contractions in appliances and home furnishings (-24.2% y/y), audio and video equipment (-14.8% y/y), vehicles (-7.6% y/y), clothing (-0.3%y/y) and food (-0.4%y/y). Despite the Christmas holiday season, households are less willing to buy durable goods due to persistent price pressures and even reduced consumption of essential goods such as food. While the items that presented favourable variations were books and stationery (+14.3%y/y), non-alcoholic beverages (+5.7% y/y), alcoholic beverages (+8.7% y/y), and personal care products, perfumes (+8.7% y/y). Even so, a strong moderation in household demand is evident and is likely to continue to materialize at the beginning of 2023, causing the slowdown in private consumption to continue, which will significantly explain lower growth in 2023.

Services & hotels

In December 2022, most services-related activities showed a still positive but moderate expansion, with the most robust growth in call center activities (23.4% y/y). In terms of employment, information systems activities recorded the largest change (+14.7% y/y), followed by telecommunications (14% y/y) and warehousing and transportation activities (+11.3% y/y).

In the hotel sector, revenues showed an expansion of 8.6% y/y, lower than that observed in the previous month (9.6% y/y), returning to more moderate growth rates due to base effects of moderations in demand. And employment growth stood at 18.9% from 21.4% in the previous month. Hotel occupancy was lower at 56.4% versus 60.3% compared to the previous month. Business travel continued to show a lower trajectory than the previous month, accounting for 17% of total occupancy. Leisure travel continued with momentum, accounting for 35.2%, somewhat higher than the previous month, given the vacation season.

In fact, for the last quarter of the year, activity data shows harder moderation than expected in December. The previous result tilt moderately to the downside our 8.1% GDP growth projection for 2022. Looking ahead to 2023, we expect this moderating trend to be maintained by more subdued private consumption as inflation continues to surprise the upside. Price deceleration is likely to be slower than expected, so we expect the economy to grow by 1.5% in 2023. Under this scenario, we continue to believe that at its March 31 meeting, BanRep will raise the rate by 25 bps to 13%.

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

PERU: GDP GROWTH IN DECEMBER IMPACTED BY SOCIAL UNREST

On February 15, INEI will publish growth figures for December and the official GDP figure for the year 2022. The December figures should show somewhat of a decrease compared to the average growth of 1.7% shown between July and November 2022. We estimate that GDP growth in December stood around 1.3% due to lower growth in the commerce and services sectors affected by the social unrest after the destitution of President Castillo. It should be noted that, although roadblocks associated to social protests made exports difficult in the southern mining corridor, mining production was not affected in December. On the contrary, the start of the Quellaveco copper mining mega-project boosted mining production in December (+11.0% y/y). Our December estimate doesn’t change our figure of GDP growth of 2.6% for the 2022 full year.

—Pablo Nano