Latam Daily: Resilient Growth in Colombia in Q2-2021 y/y Despite Lockdowns, Strike

- **Colombia: Real year-on-year GDP posted sustained growth in Q2-2021 despite mobility restrictions and nationwide strike**

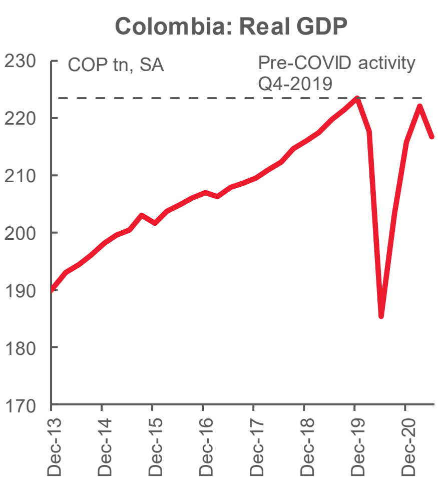
COLOMBIA: REAL YEAR-ON-YEAR GDP POSTED SUSTAINED GROWTH IN Q2-2021 DESPITE MOBILITY RESTRICTIONS AND NATIONWIDE STRIKE

Data released on Tuesday Aug 17 by Colombia's statistical agency, DANE, showed Colombia's real GDP grew by 17.6% y/y in Q2-2021, slightly below consensus (18.5% y/y according to Bloomberg) and above our own expectations of 16.9% y/y. On a sequential basis, the economy fell -2.4% q/q, an expected effect of the mobility restrictions implemented in April and May on the back of the COVID-19 third wave, social unrest and the nationwide strike. This led Q2-2021 to erase important gains made at the beginning of the year (chart 1), which we discussed in May. Despite the setbacks in early Q2, June showed significant economic resiliency, as the economy grew 14.5% y/y and 7.4% m/m in that month alone. Q2-2021 GDP data puts a upward bias to our annual 7.2% GDP growth forecast for 2021; however, we remain cautious as we do not discount the possibility of future COVID-19 waves that might require renewed mobility restrictions in Q4-2021.

According to the monthly economic activity indicator (ISE), the economy strongly rebounded in June; on a yearly basis, as stated above, the gain was 14.5% (in line with market consensus; 14.6% y/y), while in a monthly seasonally adjusted activity increased by 7.4% m/m. June's result was led by commerce-related activities (+37.4% y/y), industry (+ 23% y/y), and services related sectors (+12.9% y/y). It is worth noting that up to June, the overall economy was just 0.2% below pre-pandemic levels (chart 2). The services-related sectors are above pre-pandemic levels (Feb 2020).

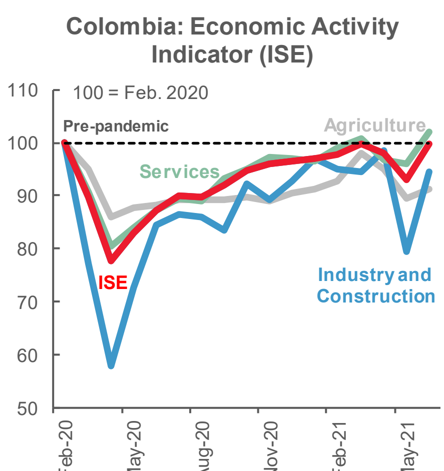
On the supply-side (charts 3 and 4), annually, all sectors benefitted from the low statistical base of an economy on lockdown in Q2-2020, as all twelve sectors showed positive annual expansions in Q2-2021. This also reflects the

Chart 1



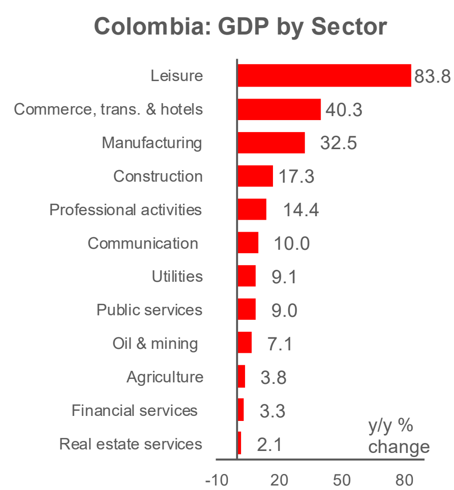
Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Chart 3



Sources: Scotiabank Economics, DANE.

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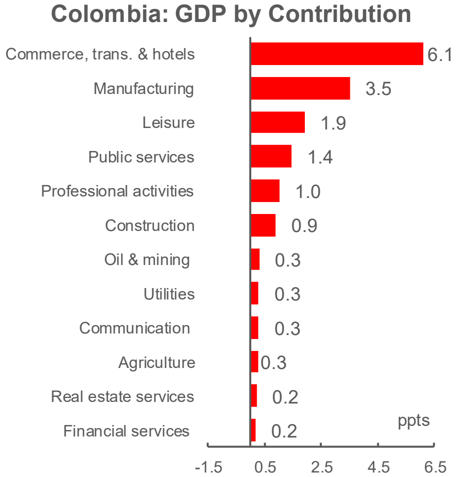
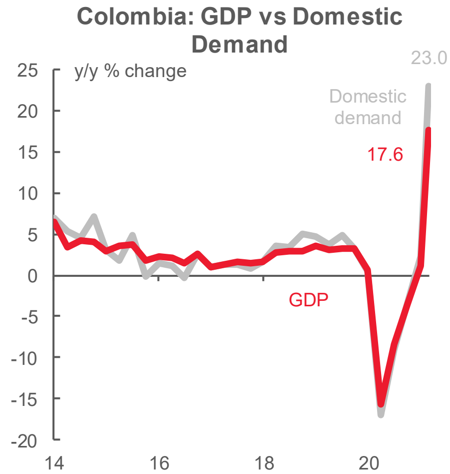
Chart 4



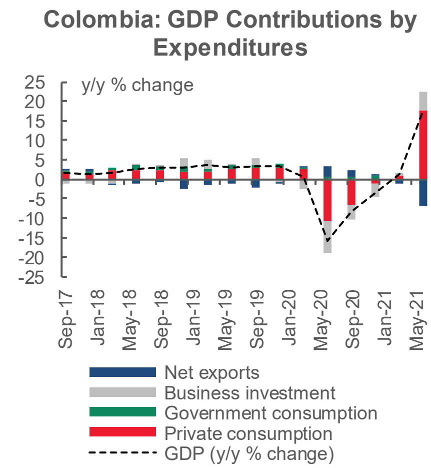
Sources: Scotiabank Economics, DANE.

Chart 5



Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.

much stronger resilience of the economy in June. The most relevant increments were in commerce, transport, and hotels that increased by 40.3% y/y and added 6.1 ppts to the headline figure; industry expanded by 32.5% y/y and added 3.5 ppts to the total GDP expansion; and the arts-related sector expanded by 83.8% y/y (+1.9 ppts to the Q2-2021 GDP growth). It is worth noting, that construction and mining also showed a significant recovery and expanded by 17.3% and 7.1% y/y respectively but remain well below pre-pandemic levels. Financial services grew 3.3% y/y and agriculture +3.8% y/y.

From the expenditure side, domestic demand increased by 23% y/y in Q2-2021 (chart 5) on the back of a 0.6% q/q sa sequential gain. Private spending expanded by 25% y/y, and grew by 2.2% q/q sa on better services consumption growth (up 3.8% q/q sa and 27.3% y/y); non-durables consumption fell -1.3% q/q due to the mobility restriction and bottle necks produced by the nationwide strike in May. **Government spending, meanwhile, was up 9.7% y/y in Q2-2021,** a robust expansion, while in sequential terms it grew by 5.5%. **Investment expanded by 32% y/y, but fell -15.5% q/q sa, again affected by the nationwide strike.**

Net exports contributed negatively to Q2-2021 growth (-6.8 ppts, chart 6) on the back of a very strong performance of imports, which expanded 45.8% y/y, against exports growth of 15.4% y/y. Two forces were at play here: the strong recovery in demand boosted imports, notably raw materials and capital goods; while commodity prices galvanized a faster recovery in oil production and higher external demand has also helped non-traditional exports.

All in all, Colombia's economic activity continued showing a faster recovery despite the temporary negative shock of the nationwide strike in May. Additionally, the Colombian economy is learning to live with the pandemic at the same time as the vaccination process has speeded up, thus accelerating the re-opening of more sectors of the economy. This was particularly evident in the arts and recreational services which showed a strong rebound in Q2-2021. Going forward, we continue to see a recovery consolidation of the economy and ratify our forecast of 7.2% GDP growth, although with upside bias.

—Sergio Olarte & Jackeline Piraján