April 16, 2021

Latam Daily: Colombia Rebound Gains Strength; Peru GDP Beat

- **Colombia: Manufacturing and retail surprised to the upside in February amid the second re-opening**
- **Peru: February GDP beat expectations; interest-rate ceilings sent to Constitutional Court**

COLOMBIA: MANUFACTURING AND RETAIL SURPRISED TO THE UPSIDE IN FEBRUARY AMID THE SECOND RE-OPENING

On Thursday, April 15, DANE published manufacturing production and retail sales data for February that were significantly better than expected.

Manufacturing. February manufacturing data showed an expansion on a year-on-year basis and posted a monthly gain too, pointing to a strong rebound (for the monthly sa series) following the January lockdowns (chart 1). Employment losses in the sector remained large (-4.4% y/y) and were concentrated in the clothing-related sub-sector. The annual expansion in manufacturing production was 0.6% y/y, better than expected by the Bloomberg consensus of -1.8% y/y; it was a substantial expansion considering that February 2021 had one less business day than February 2020 (a day usually accounts for 3 ppts of year-on-year growth).

In February, we saw a sequential 2.8% m/m sa expansion, a strong recovery from the interruption in January (-0.3% m/m sa). For March, we expect a strong year-on-year increase, partially reflecting a statistical base effect since the general lockdown started on March 25, 2020. Having said this, on a monthly basis, we also expect new gains. We remain constructive on the sector's prospects for 2021.

In February, output in 19 out of 39 sectors contracted in year-on-year terms; in January, the balance was 21/39, which was still a good result compared with the worst of the pandemic. Three industries accounted for the majority of the year-on-year expansion in manufacturing: chemical products (21.0% y/y), electrical appliances and equipment (15.9% y/y), and construction-related mining products (4.4% y/y), which jointly contributed 1.3 ppts to February's total 0.6 y/y gain in manufacturing production. Declines came from personal care products (-6.7% y/y), iron and steel products (-10.6% y/y), and oil refining (-3.7% y/y).

Bogota's manufacturing contraction was -4.5% y/y—despite the capital city lifting mobility restrictions early in February—which contributed -0.7 ppts to the headline figure. In comparison, Barranquilla (11.4% y/y) and Medellín (9.0% y/y) led the gains. However, northern cities will likely be hard hit by the strong lockdowns implemented by the end of March and in April.

Retail. Retail sales increased by 1.2% y/y in February, posting a strong positive surprise versus Bloomberg survey consensus expectations of -4.0% y/y. In seasonally adjusted terms, total retail sales, ex-vehicles, rose by a strong 14.8% m/m in February (chart 2); the second general re-opening and also the re-start of schools and education centres led to better than expected dynamics.

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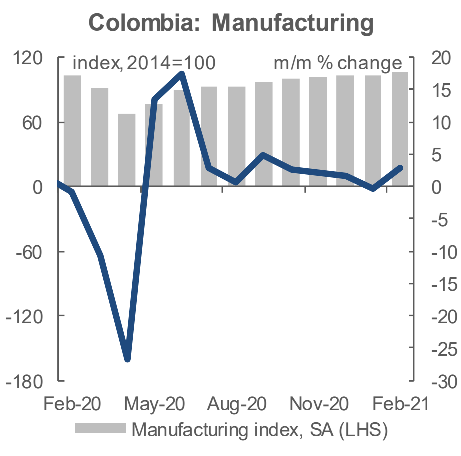
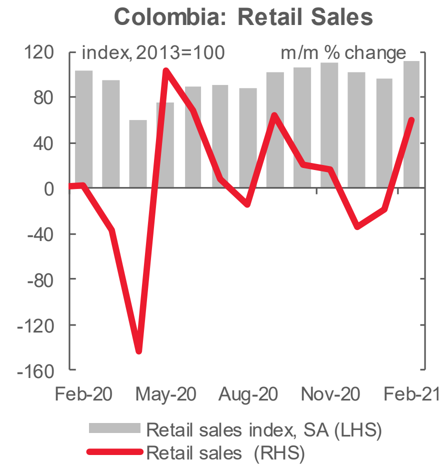
Chart 1



Sources: Scotiabank Economics, DANE.

In February, expansions were registered in sales of computer equipment (53.1% y/y), hardware items (16.8% y/y), and vehicles for household use (5.9% y/y). On the negative side, mild contractions occurred in gasoline (-3.0% y/y), foodstuffs (-3.6% y/y), and clothing (-10.8% y/y). By region, Bogota turned to the positive side after gains of 1.3% y/y, but Antioquia led the regional upturns (7.0% y/y), and Cundinamarca also posted a positive expansion (1.8 % y/y). Employment fell by -6.6% y/y, worse than the cumulative twelve-month figure (-5.1% y/y), but hiring should improve in the coming months since the second re-opening gained momentum in February.

Chart 2



Sources: Scotiabank Economics, DANE.

To sum up, February's coincident manufacturing and retail indicators were significantly better than expected, suggesting that the economic recovery is resilient and is adapting evermore quickly to new re-opening phases. The labour market remains a concern, however, especially in clothing-related sectors. Either way, as the economy re-opens and growth accelerates, we maintain our view that BanRep will keep the monetary policy rate at 1.75% at its April 30 meeting and will begin discussing rate hikes in the course of H2-2021 as GDP growth hovers around 5% y/y this year.

—Sergio Olarte & Jackeline Piraján

PERU: FEBRUARY GDP BEAT EXPECTATIONS; INTEREST-RATE CEILINGS SENT TO CONSTITUTIONAL COURT

I. February's -4.2% y/y real GDP contraction was probably the last month of annual decline until at least year-end

Peruvian GDP contracted by -4.2% y/y in February according to data released on Thursday, April 15, by the National Statistics Institute (chart 3). We were expecting a -5% y/y decline while the Bloomberg consensus envisaged a -6.0% y/y pullback. February's numbers could have been even worse considering that the government imposed mobility restrictions during the month in its attempt to control the spread of COVID-19; additionally, the month contained one less day than in 2020's leap year. Typically, one day less in the month can subtract as much as three percentage points from year-on-year growth comparisons. Thus, excluding the usual leap-year effect, the actual annual decline in February would have been in the vicinity of -1.2% y/y to -1.5% y/y.

February's isolation measures mainly affected commerce (-5.7% y/y) and certain services, such as hospitality (-56.2% y/y), electricity (-4.6%), and transportation (-25.1% y/y). Mining also declined (-5.3% y/y), although this was independent of the lockdown measures and linked more to gold-mine depletion and lower copper ore grades.

On the more positive side, industrial manufacturing declined a modest -0.8% y/y, and would have been positive if not for the leap-year comparison. Construction led in growth, up a strong 14.3% y/y, in line with rising government investment and robust real-estate. Government spending continues stimulating the economy, up 4.9% y/y. Other sectors that grew—including agriculture (0.8% y/y), financial services (17.1% y/y), and telecoms (5.8% y/y)—were sectors typically not affected by COVID-19 restrictions.

Chart 3

Sources: Scotiabank Economics, INEI.

The isolation measures stand out more in the month-on-month GDP comparisons. GDP growth fell -2.1% m/m, with all domestic-demand-related sectors declining (see table 1). The most notorious decline was in hospitality services (hotels and restaurants), which were down -39% m/m. The renewed restrictions had a sharp negative impact on a sector that was just starting to improve. At the same time, however, February 2021 GDP was down only -0.6% versus February 2019, which is not bad at all considering this year's curtailed mobility.

January–February GDP contracted -2.6% y/y, but this will be countered by a very strong March—we estimate over 14% y/y growth—which is the month in which the lockdown began in 2020. GDP growth has begun 2021 better than we were expecting, but not by enough to change our full-year forecast of 8.7% y/y growth, especially considering the uncertainty surrounding the profile of the new government to be elected on June 6. Furthermore, the government intensified mobility restrictions in parts of the country for the April 19 to May 9 period since COVID-19 contagion continues unabated. The restrictions are partial, but their impact will be hard to discern given the magnitude of the low 2020 base for comparison.

Table 1

Peru: GDP Growth, February 2021

	y/y % change	m/m % change
GDP	**-4.2**	**-2.1**
Agriculture	0.8	0.2
Fishing	8.1	-1.6
Mining	-5.3	2.3
Manufacturing	-0.8	na
Resource processing	-2.7	na
Electricity	-4.6	-0.4
Construction	14.3	-0.4
Commerce	-5.7	-4.7
Transportation	-25.1	-7.3
Hospitality	-56.2	-39.4
Government services	4.9	na
Telecom	5.8	-0.3
Financial services	17.1	-3.4

Sources: Scotiabank Economics, INEI.

II. Interest-rate ceilings sent to Constitutional Court

Finance Minister Waldo Mendoza announced on Wednesday, April 14, that the government would submit the Congressional decision promoting interest-rate ceilings to the Constitutional Court. The law was passed recently by Congress, overriding a government veto. Since the new law places any decision to determine interest caps in the hands of the BCRP, it was not clear whether the government was intending to involve the Constitutional Court in the issue; one wonders if the new political situation might have influenced the decision, given uncertainty regarding what the Board of the BCRP will look like once it is replaced by the new government in August. Min. Mendoza also stated that the government would veto the laws passed by Congress allowing withdrawals from pension funds and worker compensation funds. Given precedent, one would expect Congress to override these vetoes as well; the government will also need to decide whether to take these issues to the Constitutional Court, something which was not done in previous withdrawal initiatives.

—Guillermo Arbe