October 18, 2021

# Latam Daily: Colombia/Peru August Economic Indicators Outperform; Chile Election

- **Colombia: Robust August manufacturing and retail data; BanRep survey of economic expectations**
- **Peru: Economy keeps solid growth so far in Q3–2021; Fitch downgrade to "BBB" and S&P changes outlook to "negative"**
- **Chile: Statistical tie between presidential candidates Boric and Kast, two years after the social unrest**

## COLOMBIA: ROBUST AUGUST MANUFACTURING AND RETAIL DATA; BANREP SURVEY OF ECONOMIC EXPECTATIONS

### I. Robust August Manufacturing and Retail Data shows economy steadily making gains

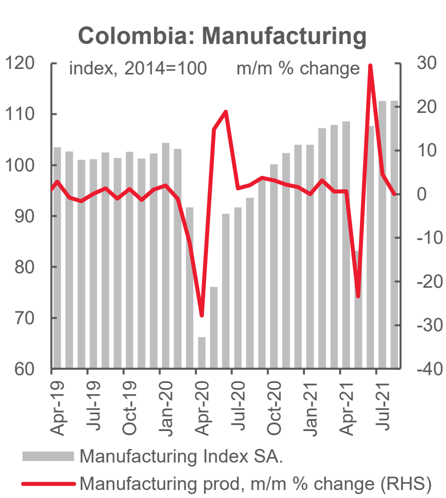
**August manufacturing production and retail sales data surprised yet again to the upside (see July's here), showing that Colombia's economy is still in a strong phase of expansions as normality in the country consolidates.** The data was released by Colombia's statistical agency (DANE) on Friday (October 15).

**In August, main cities continued reducing restrictions on services sectors as pandemic contagious continued their steady decline.** Manufacturing production expanded by 22.9% y/y above the expected 18.5% in Bloomberg's survey and closer to our 24% estimation; while for retail sales the rebound was even stronger with a 32% y/y (above the 26.4% expected in Bloomberg survey and our 27.5% estimate). On the other hand, although employment remains a concern, the August gap versus pre-pandemic (2019) continued narrowing.

**Manufacturing Production:**

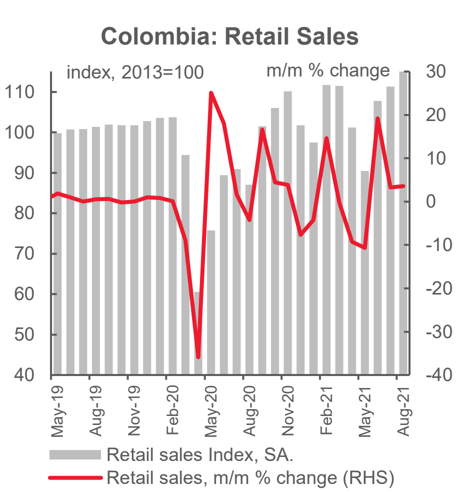
**Manufacturing production increased by a robust 22.9% y/y, while compared**

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

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**to the same pre-pandemic period (August 2019), the index grew by 10.4%.** On a monthly basis, manufacturing was broadly unchanged (+0.04% m/m), and remains in its best historical level (chart 1). Previous dynamics show that gains are marginally decreasing for sectors which started reopening earlier. On the employment side, manufacturing posted the strongest gain (+1.07% m/m sa) since January 2021, showing that now is the labour market's turn to see a real recovery.

**In the YTD, manufacturing grew by 17.5% y/y.** Compared to the same pre-pandemic period in 2019, manufacturing activity is 3.8% higher. Employment is 4.3% below its level at the start of the pandemic. For now, jobs gains continued mostly explained by temporary jobs, however permanent jobs improved moderately.

**Auto body manufacturing (-31%) is the most lagging activity compared to pre-pandemic, while the strongest gains came from beverages (+14.9%); chemical products (+40.2%) and cleaning-related products (+16.8%).** On the employment side, main lags are in the clothing sector with a 10.8% fall versus pre-pandemic, accounting for one third of total job losses.

**From a regional perspective in a YTD basis, Antioquia (+27.5% y/y) and Cundinamarca (+25.8% y/y) led the rebound, additionally Cauca (+22.5% y/y) and Valle del Cauca (+17.5% y/y) are growing again after significant impact from the nationwide strike in H1–2021.** Regarding the labour market, Antioquia and Bogota (Capital city) account for half of job gains.

**Retail sales**

**Retail sales expanded by 32.0% y/y, compared to pre-pandemic levels (August 2019), retail sales are now 9.5% higher.** On a YTD basis, retail sales increased by 6.0% relative to pre-pandemic (Jan–August 2019). Retail sales has been led by two main dynamics, mobility and the return to in-person activities; we think retail sales still has more room to improve as some activities continued in an opening process during September and mobility to offices are still below pre-pandemic levels. Total retail sales, excluding vehicles, increased by 3.6% m/m seasonally adjusted in August (chart 2), monthly gains remain robust as a result of consolidation of mobility dynamics. In the same way as in manufacturing, employment gains in August were the best since January 2020 (+0.7% m/m sa), closing the gap versus pre-pandemic period (-5.6%).

**On a year-over-year basis, gasoline demand (+33.3% y/y), vehicles for household use (+74.7% y/y), (non-car) vehicles and motorcycles (+77.4% y/y), and clothing (26.5% y/y) led the gains contributing with 62% of total gains.** Results were positive since only one line posted a moderate y/y contraction, it was electronic devices (-0.3% m/m). If we compare current retail sales versus pre-pandemic levels, the lines with best performance are: vehicles for domestic use (+16%); gasoline (5.4%) and electronic devices (+58.4%). Additionally, DANE underscored that 2.5% of total retail sales excluding vehicles were through online channels, this ratio is below the 5.5% registered in August 2020, but still doubles the online transactions compared to the pre-pandemic period.

**Other relevant indicators:**

**DANE also published August services sector data underscoring that all the sub-sectors posted y/y gains, and in 15 out the 18 services sectors employment increased.** Sectors related with logistics are the main contributors of employment gains. Film and TV production is showing the major lag (-36% compared to pre-pandemic levels), while the best performers are postal services (+13.2%) and development of IT systems and data processing (+25.1%).

**In addition, DANE data show that hotel occupation stood at 45.3% in August a new gain versus previous month's 43.4%, very close to those observed in H1-2019, and reaching a new highest level since the pandemic began.** It is worth noting that 26.1 ppts out of the 45.3% were explained by leisure travelers, above pre-pandemic trends (25.5%), while hotel occupation for business travel continues to lag, contributing only 16.2 ppts (pre-pandemic contribution was 18 ppts). By regions, traditional touristic destinations are showing gains versus the pre-pandemic, however employment is still 25.9% below pre-pandemic. Bogota income is 44.4% below pre-pandemic levels as it is a business destination.

**All in all, August activity data again exceeded market expectations.** Consolidation of the reopening in the country are allowing services sectors to lead the recovery, while the manufacturing sector is increasing at a slower pace. On Tuesday, October 19, DANE will release the economic activity indicator (ISE), which would affirm that the economy could growth at a double-digit in 2021. We discussed July's ISE here.

## II. BanRep's monthly survey of economic expectations shows higher inflation expectations for 2021; core inflation expectations anchored to the 3% target

**Also on Friday (October 15) the central bank, BanRep, released its monthly survey of economic expectations.** Inflation is expected higher by the end of 2021 despite the VAT holiday effect. Indexation effects are probably reflected in higher expectations for 1Y ahead, however in the long term inflation expectations are still anchored. In fact, core inflation expectations fell, which would ease worries of the more hawkish members of BanRep's Board regarding a potential long-lasting effect from the current temporary shock. Regarding monetary policy, expectations for the October 29 meeting are split between a 25 bps and a 50 bps hike, we affirm our expectation of a 25 bps hike.

Table 1

Colombia: Headline Inflation Expectations

| | Average | Change vs previous survey, bps |
|---|---|---|
| Sept-2021, m/m % change | 0.18 | … |
| Dec-2021, y/y % change | 4.88 | 17 |
| 1-Yr ahead, y/y % change | 3.63 | 12 |
| Dec-2022, y/y % change | 3.52 | 4 |
| 2-Yr ahead, y/y % change | 3.15 | -3 |

Sources: Scotiabank Economics, BanRep.

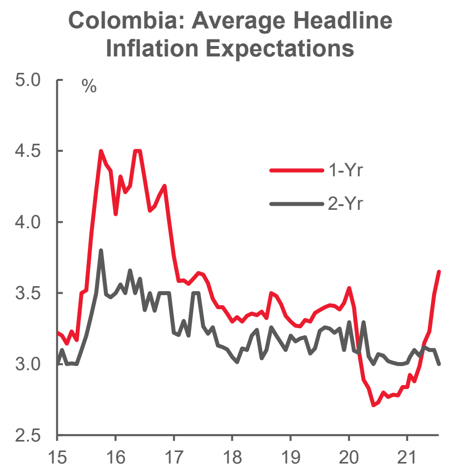
- **Short-term inflation.** Monthly inflation for October is expected to be 0.18% m/m, which places annual inflation to October at 4.76% year-on-year (from 4.51% in September). That said, the dispersion of the survey remained significantly high with a minimum expectation of -0.06% m/m and a maximum of + 0.40% m/m, which in our opinion, indicates a downward bias due to the possible effects on prices due to the VAT holiday. Scotiabank Economics expects monthly inflation for September to be + 0.20% m/m and 4.78% y/y, with a still high penalty from food prices, but also incorporating a negative contribution of 8 bps due to the VAT holiday, lower effect than observed one year ago due to higher domestic demand and two more VAT holiday days for the remainder of the year.

- **Medium-term inflation.** Inflation expectations rose to 4.88% y/y for December 2021, 17 bps more than last month's survey (table 1), however, it is assumed that inflationary pressures are temporary due to supply shocks, since expectations in the medium term continued in the target range: 1-year inflation stood at 3.63% y/y (above last month's reading of 3.50% y/y); and the 2-year forward was within the target range at 3.17% y/y (below previous survey), which underlines that expectations remained anchored in the monetary policy horizon (chart 3). Scotiabank Economics expects CPI inflation to close 2021 at 4.87% y/y and end 2022 at around 3.68% y/y. emphasizing that current inflationary pressures are higher than market expectations, but transitory.

  **Regarding core inflation, expectations fell.** One year ahead expectation is at 3.22% (below the previous survey expected 3.28%), while in two-year horizon the expectation fell by 6 bps to 3.21%, close to the central bank target. The previous result makes us affirm our base case scenario of a 25 bps rate hike at the October meeting.

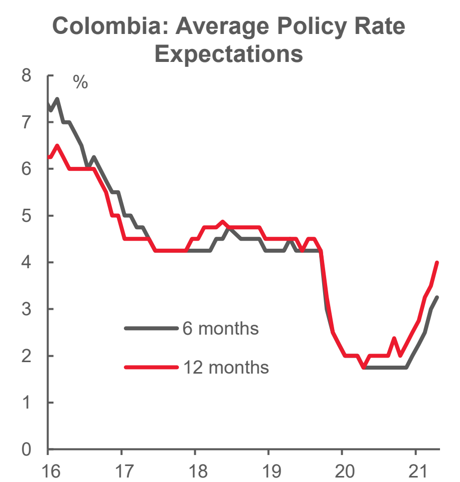
- **Policy rate.** On average, the consensus expects two increases of 25 bps this year in the policy rate, which would close at 2.50% in 2021 (from the current 2.0%); Scotiabank Economics' forecast is in line with the consensus. By 2022, the consensus expects a policy rate of 4.0% by the end of the year (chart 4), unchanged from the previous survey. Scotiabank Economics' forecast was revised last month to 4.50% for December 2022, assuming a trajectory of gains of 25 basis points at each decision-making meeting on the back of lower negative output gap. For the October 29 meeting, analysts' expectations are between a 25 bps and a 50 bps hike.

Chart 3




Sources: Scotiabank Economics, BanRep.

Chart 4




Sources: Scotiabank Economics, BanRep.

- **FX.** The USDCOP projections for the end of 2021 were located at 3,750 (10 pesos above the previous survey). By December 2022, respondents think, on average, that the peso will end the year at USDCOP 3,642 (+10 pesos above the previous survey). We believe that the USDCOP would appreciate by the end of the year to 3,525.

**—Sergio Olarte & Jackeline Piraján**

## PERU: ECONOMY KEEPS SOLID GROWTH SO FAR IN Q3–2021; FITCH DOWNGRADE TO "BBB" AND S&P CHANGES OUTLOOK TO "NEGATIVE"

**Peru accelerated its GDP growth rate in August (+11.8% y/y), according to figures released on October 15 by the National Institute of Statistics, INEI (table 2 and chart 5), above the market consensus (+10%) and our own forecast (9.3%).** This represented 1.6% growth versus pre-lockdown August 2019 levels, accelerating from the 0.4% posted in July (chart 6). Growth was led by sectors linked to domestic demand, such as transportation, restaurants and services, as mobility and capacity restrictions were eased. This performance had already been predicted by the BCRP, which anticipated that Peru's economy would reach the pre-pandemic level during Q4–2021 instead of in Q1–2022. This gives an upward bias to our full-year GDP growth forecast of 12.3%.

Table 2
**Peru: GDP Growth by Sectors**

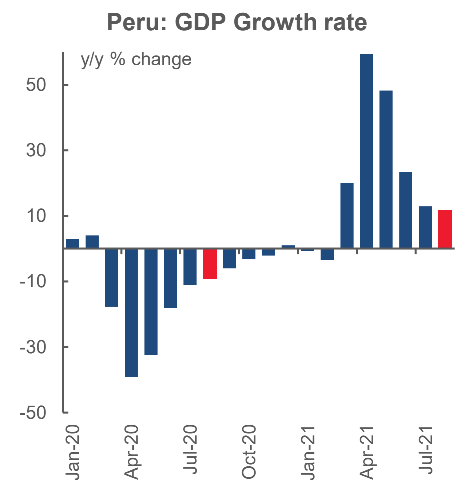
| | YoY August | YoY Jan-Aug | MoM August |
|---|---|---|---|
| Agriculture | 6.0 | 18.6 | 0.0 |
| Fishing | -29.9 | 12.3 | -0.7 |
| Mining | 3.1 | 12.0 | 1.9 |
| Manufacturing | 11.6 | 28.1 | 2.3 |
| Resource processing | 0.2 | 10.7 | na |
| Non-resources | 15.0 | 35.2 | na |
| Electricity and water | 5.9 | 11.2 | 0.9 |
| Construction | 25.5 | 75.4 | 0.6 |
| Commerce | 9.9 | 26.5 | 0.6 |
| Transportation | 32.8 | 20.3 | 2.1 |
| Hospitality | 96.5 | 36.6 | 22.8 |
| Telecom | 6.5 | 8.2 | -0.1 |
| Financial services | 2.8 | 12.0 | 0.1 |
| Business services | 13.5 | 21.2 | 6.7 |
| Government services | 3.0 | 4.6 | na |
| **GDP** | **11.8** | **18.6** | **1.5** |

Sources: Scotiabank Economics, INEI.

**Overall, there is little evidence that the political turbulence that took place after the June run-off Presidential elections had much of an impact on economic growth.** As much as financial indicators, such as the FX rate and capital flight, indicate that uncertainty affected financial markets and the business and households' behaviour, growth itself held up well.

**Looking ahead, September and October y/y growth figures will continue to benefit from a still low comparison base, given the partial lockdown months in 2020.** The impact will continue to decline over time but will only start to be negligible in late 2021.

Chart 5




Sources: Scotiabank Economics, INEI.

**However, Lima's labour market did not reflect this improvement, with a rise in Lima's unemployment rate from 9.5% in August to 10.0% in September.** The information from formal employment nationwide—which represents around 30% of the labour market, the remaining 70% is informal—suggests that the labour market is recovering faster in the interior of the country than in Lima.

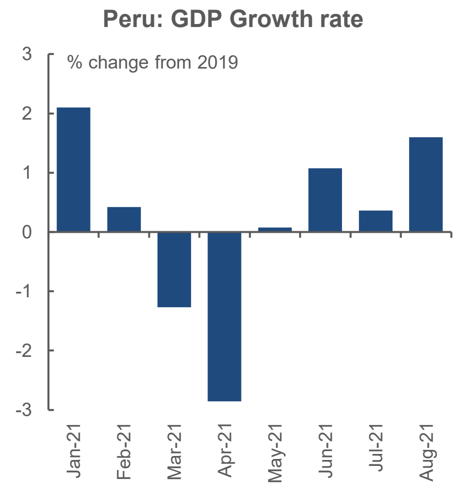
**The acceleration in the pace of economic growth has been granting greater fiscal space.** The annual trajectory of the fiscal deficit continued to decline, going from 5.0% GDP in August to 4.8% GDP in September, very close to the official target of 4.7% GDP and in line with our 4.4% GDP forecast for the year-end.

**However, this greater fiscal space was not enough to prevent Fitch rating from cutting the rating from "BBB+" to "BBB", due to the deterioration of the fiscal and macroeconomic credibility.** The outlook was changed from "negative" to "stable". Despite this downgrade, the country maintains the best rating after Chile, and compares with Russia, Portugal and the Philippines. S&P ratings kept the rating at "BBB+" but changed the outlook from "stable" to "negative" for similar reasons, and they complement the downgrade carried out by Moody's in early September. These decisions look reactive, and to a large extent they were already expected by the market. The Ministry of Finance (MoF) took advantage of the more favourable market sentiment and after five months it returned to the local capital market placing PEN170 million sovereign bonds with a 9x bid to ask ratio, reflecting the renewed appetite for risk by Peru's assets.

**The MoF emphasized that Peru's economy is in the process of recovery with positive prospects, close to reaching the pre-pandemic level, and highlighted that the fiscal accounts remain stable and robust.** However, the decisions by Fitch and S&P should serve as a warning to improve the public debt sustainability strategy for 2022. Finally, the BCRP updated the maximum interest rates for consumer and micro businesses loans, from 83.4% to 83.6% for the period between November 2021–April 2022, according to the mandate assigned by Congress to set cap interest rates.

**—Mario Guerrero**

Chart 6



Sources: Scotiabank Economics, INEI.

## CHILE: STATISTICAL TIE BETWEEN PRESIDENTIAL CANDIDATES BORIC AND KAST, TWO YEARS AFTER THE SOCIAL UNREST

**Today (Monday, October 18) marks two years of social unrest in Chile, a phenomenon that prompted the process of drafting a new constitution.** Against this backdrop, Chile will have presidential election on November 21, a race that—for now—has a statistical tie between the far-right candidate José Antonio Kast and the left-wing candidate Gabriel Boric, according to the latest Cadem poll. In our view, the survey reflects a reordering within the political forces of the left and right. On the one hand, Sebastian Sichel (centre-right) is losing support following complaints about the irregular funding of his political campaign in 2009, while Mr. Kast is gaining some of that support with a better performance in recent debates. On the other hand, albeit at a slower pace, Ms. Yasna Provoste would be capturing some of the votes lost by the centre-right candidate, although in our opinion she will likely have more support in the November election than is currently reflected in polls. For now, according to the Cadem poll, Mr. Boric remains the strongest candidate in a runoff against either Sichel, Provoste or Kast.

**—Anibal Alarcón**