Scotiabank

GLOBAL ECONOMICS

LATAM DAILY

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Latam Daily: Colombian Economic Activity

- **Colombia: Economic activity remains strong but is moderating**

COLOMBIA: ECONOMIC ACTIVITY REMAINS STRONG BUT IS MODERATING

On Friday, August 12, the Colombian Statistical Agency (DANE) released its monthly indicators of economic activity for June that show manufacturing production and sales expanding at double digits, but with signs of a slowing and the moderation on statistical base effects. (The latter reflect the fact that Colombia returned to normal in June 2021 following the nationwide strike in May.) DANE also released confidence figures showing companies were less positive about their activity as supply chain problems; persist and input costs remain high, especially in the construction and manufacturing sectors.

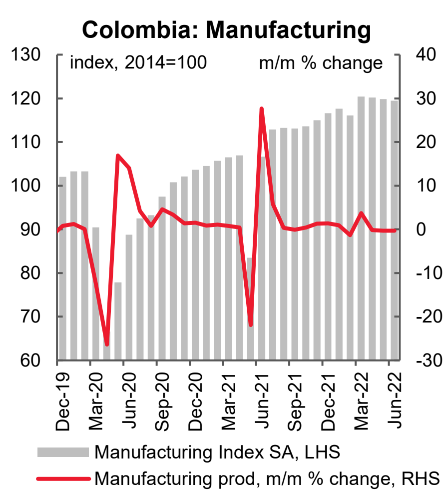
Strong retail sales in June are explained by the second VAT holiday, which encourages greater demand for goods and services. Even so, the performance does show some slowdown, probably associated with the impact of high inflation on consumer sentiment. We expect this moderating dynamic to continue as growth in consumer credit has fallen amid also higher credit costs. That said, Q2 started stronger than expected, and the June results are broadly aligned with an expectation of 11.7% GDP growth (to be published on Tuesday). For 2022, we expect a 6.6% expansion, though our forecast includes a decline in private consumption for the second half of the year.

Manufacturing production

Manufacturing production increased by 12.3% y/y (below market consensus 13.7% y/y) with a contraction of -0.3% m/m sa similar to that of the previous month (chart 1). Manufacturing activity was negatively affected by supply disruptions in some subsectors and high input costs, resulting in a moderation in growth. In the current year, production has grown by 17.3% y/y.

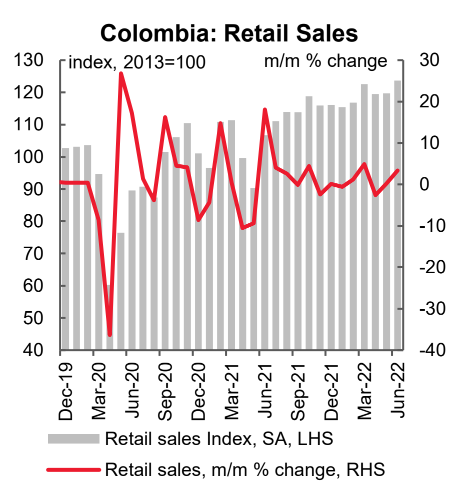
On y/y terms, the sectors with the best performance were beverages (+9.9% y/y), clothing (32.3% y/y), the manufacture of soaps, cleaning products, and perfumes (+21 y/y), and printing activities (+42.7% y/y) which accounted for 4.0 ppts (32.5% of the total expansion). The sectors that subtracted from the activity were sugar and panela production (-25% year-on-year), the iron and steel industry (-1.4), and the production of milling products and starches (-8.3%) explained by the high international costs of wheat and other raw materials that are necessary for this industry. Sectors that benefit from the return to mobility continue to lead.

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

Employment showed an improvement of 6.2% y/y. In month-over-month terms, employment increased by 0.9%. This is a positive sign for the recovery of the labour market, and we highlight that manufacturing employment already exceeds pre-pandemic levels. Clothing manufacturing lead the gains in employment.

Retail

Retail sales increased 17.2% y/y in June **(chart 2), below the Bloomberg survey (+17.5% y/y), while employment performed better and rose by 4.6% y/y**. On a seasonally-adjusted basis, retail sales (excluding other vehicles) showed a 3.3% m/m expansion. The y/y increase in retail sales has a smaller base effect and its behaviour can be attributed to the VAT holiday that continued or encouraged demand in some goods, albeit to a lesser extent compared to other VAT holidays. That said, demand growth eased.

Compared to June 2022, the expansion in retail sales was explained by sales of sound and video equipment (+108.2% y/y), computer equipment (+73.1% y/y), and electrometric equipment (+54.2% y/y) which combined contributed around 18.2 ppts to the total expansion.

For the second half of the year, we continue to expect some slowdown in private consumption to more sustainable expansion rates. Inflation will continue to have a negative impact as will more expensive consumer credit. In fact, some figures show that consumer credit growth has moderated.

Services & Hotels

In June, all service-related activities expanded, with the most robust growth being that of professional, scientific, and technical activities (+ 59.9% y/y), which can be attributed to the presidential elections. In terms of employment, publishing activity continues to lag (-2.3% y/y), while employment growth was concentrated especially on IT activities and storage and transport.

In the hotel sector, revenues increased 57.5% y/y in June, and employment stood at 33% from 35.4% in the previous month. Hotel occupancy was 54.4%, up from May. Business travel continued on a path of recovery, accounting for 35.1% of total occupancy, and leisure travel accounted for 56.5% explaining the holiday season.

All in all, while the activity indicators showed a positive surprise in June, confidence surveys revealed that companies are less positive about the future owing to the impact of inflation on their margins and the effects on the supply of inputs from international shocks, which could explain the m/m slowdown that industry is having.

Our baseline scenario remains that the economy will continue to show robust performance so we expect a GDP growth of 6.6% in 2022. In the second half of 2022, however, we expect consumption to moderate as a result of tighter monetary policy. Consistent with that scenario, we now expect BanRep to raise the policy rate by 50 bps at the September 30 meeting to reach a rate of 9.5% and it is possible to see a further increase if inflation continues increasing.

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