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Latam Daily: Peru's Growth Slows

- Peru: May GDP registers lowest growth this year

PERU: MAY GDP REGISTERS LOWEST GROWTH THIS YEAR

GDP increased 2.3% y/y in May, the slowest rate of growth so far this year (chart 1) and below our estimate of 2.8% y/y. This result is mainly explained by a pronounced fall in the primary sectors and a moderation in the expansion of the non-primary sectors linked to domestic demand. In seasonally adjusted terms, GDP for May grew compared to April after three consecutive months of decline, and remains close to pre-pandemic levels.

For June, we estimate slightly higher year-on-year GDP growth than in May, with a second quarter expansion of around 2.8% y/y. This forecast is based on an improvement in the primary sector, as mining production is likely to show a smaller drop (reflecting the resumption of operations at the Las Bambas copper mine in mid-June) while fishing output is expected to recover as anchovy landings exceeded those of June 2021. However, growth in non-primary sectors, such as Services and Commerce, could continue to moderate since positive base effects from lower activity in 2021 are diminishing.

Services (+4.9% y/y) contributed the most to GDP growth in May, led by the Hotel and Restaurants (+42.4% y/y) and Transportation (+12.6% y/y) categories, activities that have benefited from higher demand following the removal of public health restrictions and the increased movement of people and expanded capacity in commercial establishments. However, these two items, together with Business Services, have not yet managed to recover their pre-pandemic levels (chart 2).

Non-Primary Manufacturing (+9.1% y/y) was among the most dynamic sectors owing to higher domestic and foreign demand. Domestic demand supported higher levels of activity in industries linked to construction, such as steel and cement, as well as the food and beverage industry, in line with the evolution of private consumption. Strong foreign demand, meanwhile, accounts for the higher levels of exports of textiles and clothing due to the greater demand coming largely from the US.

The Mining and Hydrocarbons sector (-6.6% y/y) showed a differentiated evolution. On the one hand, the Mining subsector (-10.7%) showed its biggest drop since September 2020, mainly due to lower copper production (-12.6%) resulting from social protests that led to the stoppage of operations at Las Bambas, the fourth most important mine, contributing 13% of local copper production. On the other hand, the Hydrocarbons subsector (+20.3%) benefited from the recovery of oil production in the northern jungle and the higher demand for gas.

Chart 1

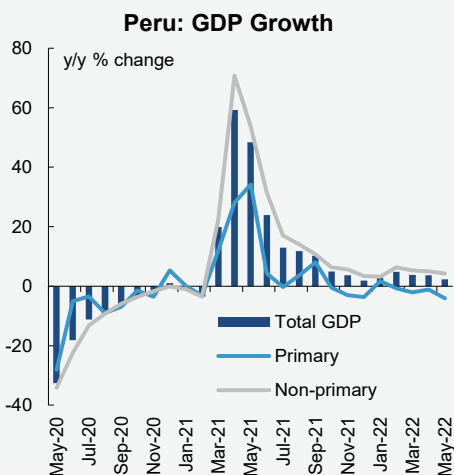


Chart 2

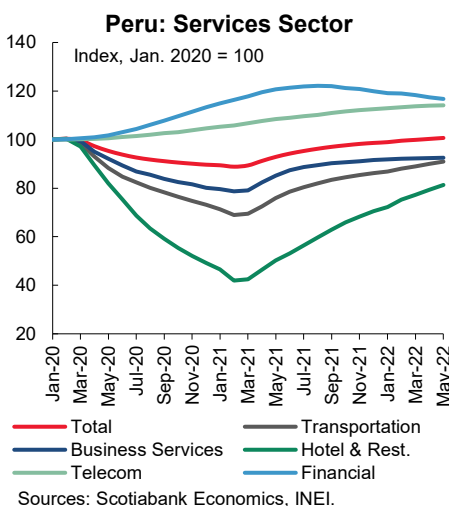
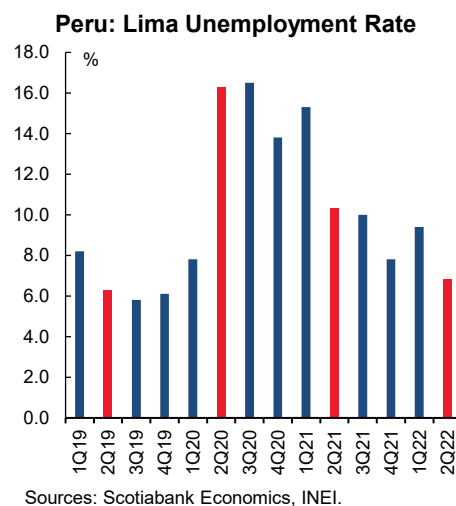


Chart 3



July 21, 2022

The unemployment rate in Metropolitan Lima was 6.8% in 2Q22, lower than the 10.3% level of 2Q2, but still above the pre-pandemic level of 6.3% in 2Q19 (chart 3). Likewise, the average monthly income in Lima reached S/ 1,667 during 2Q22, higher than S/ 1,568 in 2Q21 but lower than S/ 1,702 in 2Q19. While both indicators suggest a gradual improvement in the labour market, especially in the Services sector, further improvement may be limited by the stagnation of private investment due to the persistence of political uncertainty.

—Pablo Nano

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