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Latam Daily: Colombian Economic Activity Softens in July

- **Colombia: High inflation, a context of higher rates, and the end of statistical base effects are leading to moderation in economic performance**

COLOMBIA: HIGH INFLATION, A CONTEXT OF HIGHER RATES, AND THE END OF STATISTICAL BASE EFFECTS ARE LEADING TO MODERATION IN ECONOMIC PERFORMANCE

On Monday, September 19, the statistical agency (DANE) released the Economic Activity Indicator (ISE) for July 2022, the main proxy for GDP, which shows that economic activity expanded by 6.4% y/y (chart 1), broadly aligned with the Bloomberg consensus of 6.5% y/y. The sectors that contributed to the positive annual reading in July were the secondary sector and services, but there was also a significant recovery in the primary sector. In monthly terms, economic activity contracted by 0.3% (chart 2), mainly owing to weaker primary and services sectors. In the year to date, economic activity has grown by 9.8% y/y.

Key highlights include:

- **Primary activities** (13% of the economy) contracted -1.7% y/y, improving from the figure observed in June (-2.4% y/y), but posting a contraction of 0.3% m/m (seasonally adjusted). The agricultural and mining sector as a whole showed a monthly contraction of 0.3%, from the 2.5% decline in July. The agricultural sector may continue to be impacted by high input costs and supply delays. Despite favourable international prices, mining sector output has been dragged by lagging oil production somewhat offset by firmer coal extraction.
- **Secondary sectors** (17% of the economy) rose 7.1% y/y and contracted -0.7% m/m. Overall, manufacturing and construction remain strong although they showed weakness in monthly terms, contracting by 0.6%. The construction sector, especially the building sector, is the one that has added the most to the performance of the sector, however, there are factors such as pressures on construction costs and higher interest rates that impact housing demand. On the industry side, it is possible that such strong expansions are not observed due to the base effects since the industries associated with the mobility economy that are the ones that have contributed the most were already starting to operate a year ago, added to the fact that households may be consuming less as a result of inflation.
- **Services-related activities** (70% of the economy) increased by 7.6% y/y, though contracted 0.2% m/m after June's figure of +0.4 m/m. This behaviour may be

Chart 1

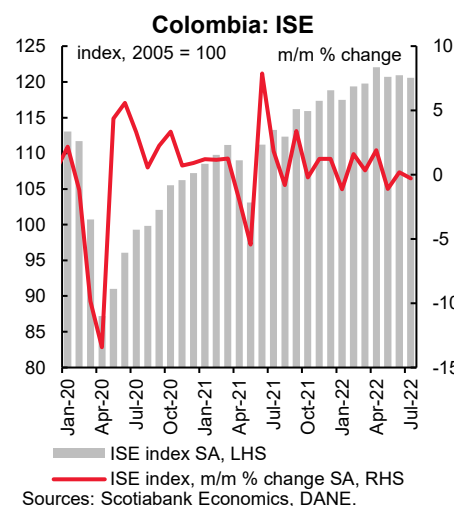
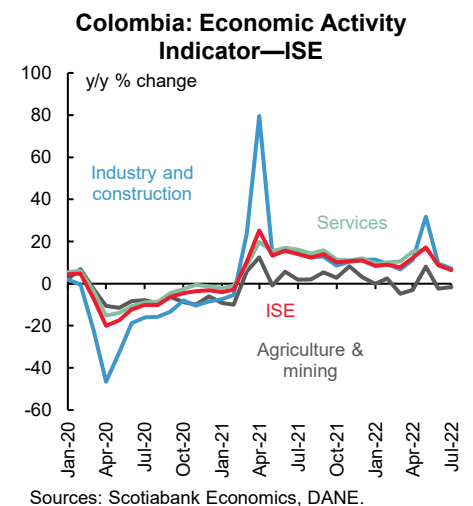


Chart 2



September 20, 2022

explained by less dynamism in commerce, transport, and catering as households may be reducing their consumption of entertainment services due to high prices and rising interest rates. This behaviour is likely to continue in the coming months given the persistence of price pressures. At the same time, base effects will begin to erode. Combined, leisure, entertainment, public administration, and defense contracted month by month -0.9 %m / m while commerce, lodging, food services, and repair of vehicles combined contracted -0.4%m/m. The monthly decline in economic activity is mostly explained by weakness in services given the sector's greater weight and the fact that these have contributed significantly to growth over the past months.

The July ISE reading suggests that economic growth continues, but is moderating, which is healthy for overall economic growth. The recovery of the construction sector, especially civil works, is important to gain momentum. The services sector remains strong, but to a lesser extent, and we expect the moderating trend to continue in the second half of the year as inflation pressures persist, the cost of consumer credit rises, and statistical (year-ago) base effects erode. **For now, we continue to project growth of 6.6% for 2022, but this is skewed to the upside. The previous view affirms our expectation of a 150bps hike on September 30 BanRep's meeting to 10.50% and a terminal rate of 11.50%.**

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

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