

Latam Daily: Brazil Recovery Moderates; Colombia Consolidates Gains

- **Brazil:** V-Shaped recovery moderated in November
- **Colombia:** Expectations and activity consolidating gains

BRAZIL: V-SHAPED RECOVERY MODERATED IN NOVEMBER

Brazil's V-shaped recovery moderated its pace in November as sequential growth slowed from 0.75% m/m sa in October (revised from 0.86% m/m sa) to 0.59% m/m sa, a bit better than the Bloomberg consensus of 0.50% m/m sa. Without the seasonal adjustment, this represented a slight pullback in level terms from the previous month (chart 1). In annual terms, real activity closed its gap from 2019 further, moving from a shortfall of -2.84% y/y in October (revised from -2.61% y/y) to -0.83% y/y, above the -1.00% y/y consensus expectation. Much of the recent pick-up in activity was led by both goods and service sectors, with further gains set to be dampened by the end of fiscal support.

—Brett House

COLOMBIA: EXPECTATIONS AND ACTIVITY CONSOLIDATING GAINS

I. BanRep's January macroeconomic survey pointed to stronger economic growth and higher inflation in 2021

- **Inflation expectations.** According to BanRep's January [macroeconomic survey](#), released on Friday, January 15, analysts' consensus expects inflation at 2.69% y/y in December 2021, -4 bps lower than last month. Inflation expectations for longer tenors did not change much as the 1Y consensus stood at 2.80% y/y, slightly above last month's survey (2.73% y/y), and the 2Y view was at 3.09% y/y, pointing to anchored expectations over the monetary policy horizon (table 1 and chart 2). We expect (see our January 12 [Global Forecast Tables](#)) CPI inflation to close 2021 at 2.77% y/y, while in 2022, the year should end around 3.0% y/y.
- **On average, January's monthly inflation is expected to come in at 0.41% m/m, slightly below January 2020's rate (0.42% m/m), which would leave the consensus on annual inflation at 1.60% y/y to start 2021.** In January, Colombian inflation should reflect upside pressures from foodstuff prices, gasoline prices, and some utility fees. However, at Scotiabank Economics we anticipate only moderate indexing effects on prices such as rental fees, among others, which leads us to expect a lower-than-consensus rate of inflation at 0.34% m/m and 1.53% y/y for the first month of 2021.

Table 1

Colombia: Headline Inflation Expectations

	Average	Change vs previous survey, bps
Jan-2021, m/m % change	0.41	...
Dec-2021, y/y % change	2.69	-4
Jan-2022, y/y % change	2.80	
Dec-2022, y/y % change	3.09	3
Jan-2023, y/y % change	3.05	...

Sources: Scotiabank Economics, BanRep.

CONTACTS

Brett House, VP & Deputy Chief Economist
416.863.7463
Scotiabank Economics
brett.house@scotiabank.com

Guillermo Arbe
51.1.211.6052 (Peru)
Scotiabank Peru
guillermo.arbe@scotiabank.com.pe

Mario Correa
52.55.5123.2683 (Mexico)
Scotiabank Mexico
mcorrea@scotiabcb.com.mx

Sergio Olarte
57.1.745.6300 (Colombia)
Scotiabank Colombia
sergio.olarte@scotiabank.com.co

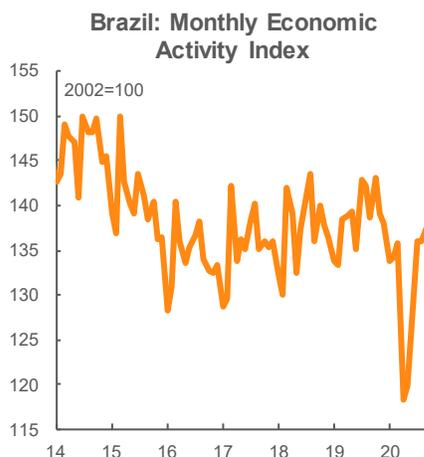
Jorge Selaive
56.2.2939.1092 (Chile)
Scotiabank Chile
jorge.selaive@scotiabank.cl

Marc Ercolao
416.866.6252
Scotiabank Economics
marc.ercolao@scotiabank.com

TODAY'S CONTRIBUTORS:

Jackeline Piraján
57.1.745.6300 (Colombia)
Scotiabank Colombia
jackeline.pirajan@scotiabank.com.co

Chart 1



- Growth.** GDP growth for 2020 is expected to close the year at **-7.03% y/y**, while in 2021 a **4.55% y/y rebound is anticipated by analysts**. Although recent lockdowns represent a downside risk, it is too early to change the overall recovery view. We continue to forecast 5% y/y growth in 2021.
- Peso.** USDCOP forecasts for end-2021 stood at **3,435**, an appreciation of **-45 pesos from the previous survey**. For December 2022, respondents think, on average, that the COP will end the year at USDCOP 3,388. We believe the COP, currently at about USDCOP 3,470, is slightly stronger than its fundamental level, which we estimate at 3,500 in the short run. Since uncertainty regarding the pandemic and fiscal risk remains high, we think the peso doesn't have much room for a strong appreciation; instead, it should converge to 3,450 by end-2021 with only marginal further appreciation to USDCOP 3,400 by end-2022.
- Policy rates.** BanRep's repo rate is expected to close 2021 at **2.00%**, according to the median of the respondents; additionally, it is worth noting that no analyst expects rate cuts in 2021. The first hike of 25 bps is expected by December-2021, later than when the previous survey estimated and our own [forecast](#) of a first hike in Q3-2021 (chart 3). Analysts, on average, expect the monetary-policy rate to hit 3.00% by end-2022; we are more hawkish with a 4.00% projection.

BanRep's survey showed that market consensus has converged around a common scenario: economic recovery in 2021 with increasing inflation that would lead to higher monetary policy rates by the end of the year. Our forecast is slightly distinct: we see lower inflation at the beginning of the year on the back of weaker indexation effects in some traditional items. However, later in 2021 we expect to see stronger convergence to the central bank's 3% y/y target, since in 2021 mitigating pressures on inflation will be replaced by the effects of rebounding economic activity and an unwinding of one-off influences from the response to the pandemic in 2020.

All in all, the balance of risks is tilted toward gradual economic recovery, with inflation returning to its traditional behaviour. We expect the BanRep to hold rates unchanged through the first half of 2021, with a first hike at the end of Q3-2021.

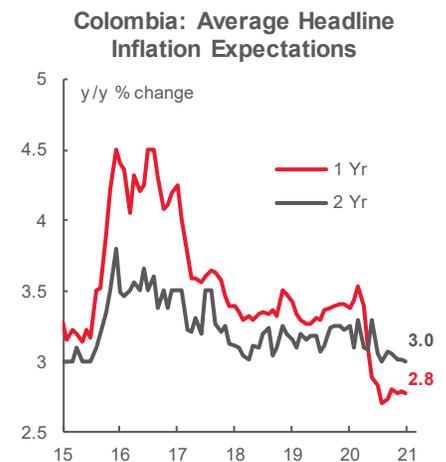
II. Retail and manufacturing sectors continued recovering in November as the "new normal" consolidated

On Monday, January 18, DANE released retail sales and manufacturing production data for November, and both sectors saw improvements that reflected a consolidation of the "new normal" re-opening process and positive effects from the VAT holiday. However, in both parts of the economy employment remained a concern. Retail sales grew 4.1% y/y, up from October's 3.0% y/y, but below the Bloomberg survey's 5.6% y/y consensus. Manufacturing also missed expectations, with a narrowing in its annual shortfall to -0.2% y/y from -2.7% y/y in October; consensus had expected a gain of 1.0% y/y. Employment contracted in both sectors by -6.5% y/y and -6.1% y/y, respectively, with the annual shortfalls concentrated mainly in clothing-related sub-sectors.

November retail sales growth led by the VAT holiday

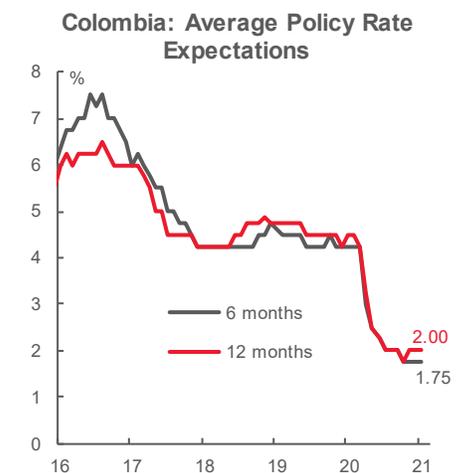
Retail sales were up 4.1% y/y in November, as the VAT holiday incited household consumption ahead of year-end celebrations. In seasonally-adjusted terms, total retail sales, ex-other vehicles, rose by 4.4% m/m in November, a decent gain on

Chart 2



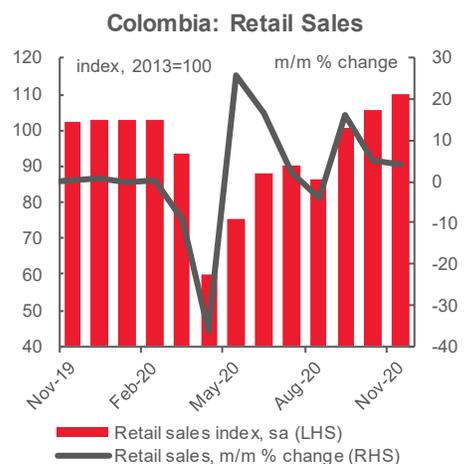
Sources: Scotiabank Economics, BanRep.

Chart 3



Sources: Scotiabank Economics, BanRep.

Chart 4



Sources: Scotiabank Economics, DANE.

October's levels (chart 4). By sector, computer equipment (up 44.9% y/y), home appliances (up 43.4% y/y), and sound equipment (up 55.5% y/y) were the best performing segments, while annual sales growth in retail sales of gasoline (down -5.7% y/y), other vehicles (off -11.7% y/y), and vehicles for household use (down -6.3% y/y) remained in negative territory. In Bogota, retail sales, ex-fuel, grew by 37.8% y/y. For the first 11 months of 2020, retail sales contracted by -8.4% y/y, while employment fell by -6.5%, especially in the clothing segment. By region, Cundinamarca and Bogota accounted for two-thirds of 2020's contraction through November.

November manufacturing was almost flat in year-on-year terms, but employment remained below pre-pandemic levels.

Annual growth in real manufacturing production improved from -2.7% y/y in October to -0.2% y/y in November, but was still well off the Bloomberg consensus of 1.0% y/y. Either way, manufacturing activity keeps improving, but with a slowdown in growth from 3.30% m/m sa in October to 1.4% m/m sa (chart 5).

In November, output in 22 out of 39 segments contracted in year-on-year terms, which is the best balance since the pandemic started. For perspective, prior to the arrival of the "new normal" re-opening process that began in September, August saw 28 out of 39 segments below their production levels from 12 months earlier, while in October, it was 26 out of 39. The three sectors that were down the most in real terms in November were oil refining (-8.6% y/y), clothing (-8.1% y/y), and iron and steel industries (-12.6% y/y). On the positive side, some new industries saw year-on-year gains as the re-opening advanced: construction-related mining products (up 7.6% y/y), pharma (up 8.5% y/y), and electrical equipment (up 18.3% y/y) led the gainers. YTD through November 2020, manufacturing contracted by -8.9% y/y, while job destruction stood at -5.9% y/y; by region, Bogota and Antioquia accounted for almost half of the annual contraction in manufacturing output. By sector, the contraction in employment was concentrated in clothing-related manufacturing.

To sum up, November's coincident retail and manufacturing indicators posted the best activity levels since the pandemic began as Colombia consolidated the "new normal" re-opening scheme. It is worth noting that monthly gains are moderating, while employment creation looks stagnant. In December, we expect better activity numbers in retail sales amidst the holiday season, while manufacturing will likely move sideways. We maintain our -7.5% y/y estimate for real GDP growth in 2020, while for 2021, we expect 5% y/y growth despite recent lockdowns (again, see our January 12 [Global Forecast Tables](#)).

III. November's economic activity reached its highest level since the pandemic started

On Monday, January 18, DANE released November's Economic Activity Indicator (i.e., ISE, the main GDP proxy), which showed a new improvement from October's levels mainly owing to the consolidation in the re-opening process (chart 6). November's annual contraction of -3.4% y/y was the best performance since April's low (-20.5% y/y), when Colombia went through the worst phase of the lockdown. On a seasonally-adjusted basis, the economy expanded 1.2% m/m, which pointed to a moderation in the recovery after October's 3.9% m/m sa gains (chart 7). In the details:

- **Primary activities were down -10.2% y/y after a fall of -1.3% m/m sa in November.** The annual downturn was driven by low-production mining products, mainly coal;

Chart 5

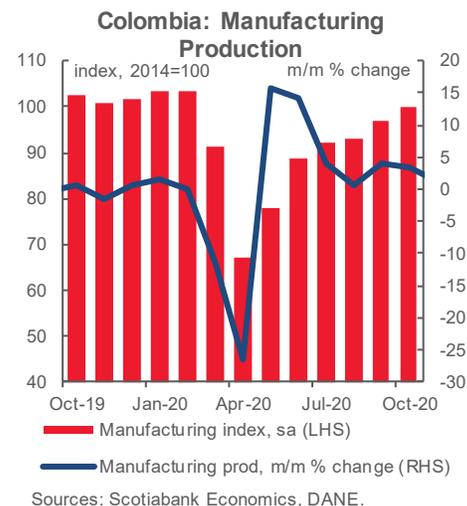


Chart 6

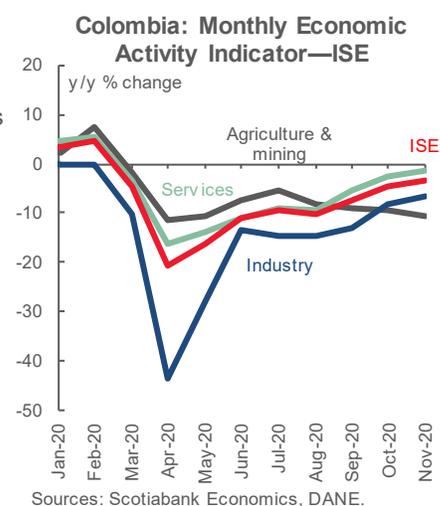
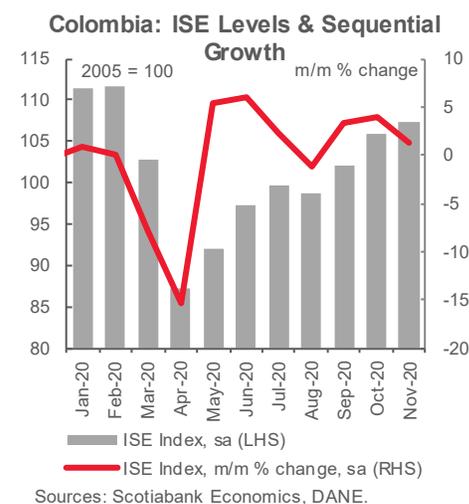


Chart 7



- **Secondary sectors were down by -6.8% y/y, although they expanded by 0.6% m/m sa, led by the construction sector's recovery and industrial production normalization;** and
- **Services-related activities were also down -3.4% y/y,** their best performance since the pandemic started after an expansion of 1.70% m/m sa in the month. Transportation services and retail sales activities led the advances. Financial and real-estate services also were up in year-on-year terms.

All in all, November's economic activity numbers showed that the "new normal" re-opening scheme has led to better macroeconomic results. YTD to November 2020, the economy contracted by -7.3% y/y. In December, we expect another monthly expansion, especially owing to the usual positive effects of the holiday season in the retail sector. That said, we again reiterate our GDP growth projection of -7.5% y/y for 2020 followed by an advance of 5% y/y in 2021.

—Sergio Olarte & Jackeline Piraján

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