

Latam Daily: Colombia May Data Shows Impact of Strikes; Peru Declares President-Elect

- **Colombia:** May economic activity data confirms impact of nationwide strikes, erasing earlier recovery gains; imports rebound y/y
- **Peru:** Pedro Castillo declared president-elect; cement sales well above pre-pandemic levels reveal strong public sector investment

COLOMBIA: MAY ECONOMIC ACTIVITY DATA CONFIRMS IMPACT OF NATIONWIDE STRIKES, ERASING EARLIER RECOVERY GAINS; IMPORTS REBOUND Y/Y

I. Economic activity fell -5.8% m/m in May as nationwide strike erases earlier gains in pandemic recovery

On Monday, July 19, Colombia’s Statistical Agency (DANE) released [May’s Economic Activity Indicator \(ISE\)](#), the main GDP proxy), providing a more detailed account on the impact of the nationwide strike on overall economic activity. This follows [last week’s](#) data release on May’s manufacturing and retail sales.

On a seasonally adjusted basis, Colombia’s economic activity fell by -5.8% m/m in May (chart 1), heavily impacted by the strike. Compared with the same month in 2020, May’s activity expanded by 13.6% y/y, landing above the market consensus of 11% y/y according to Bloomberg; but modest given the low base of May 2020 (a time of severe pandemic lockdowns). Furthermore, when compared to February 2020, overall economic activity in May actually closed 6.1% below pre-pandemic levels, erasing significant gains given that the economy had nearly bounced back to pre-pandemic levels in April (0.4%). YTD’s economic activity grew by 8.2%.

The nationwide strike impacted all three main activity groups (charts 2 and 3). A closer look is detailed below:

Chart 1

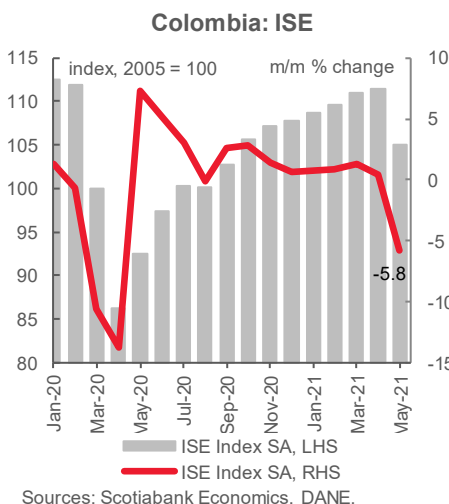


Chart 2

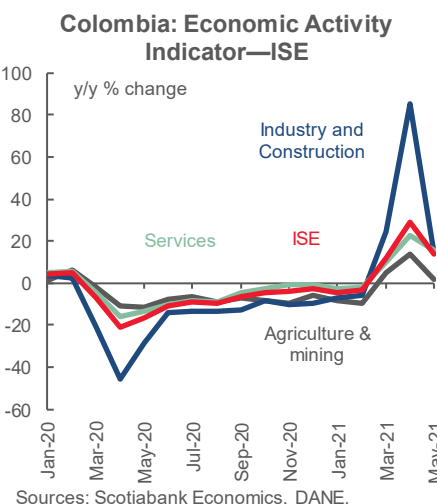
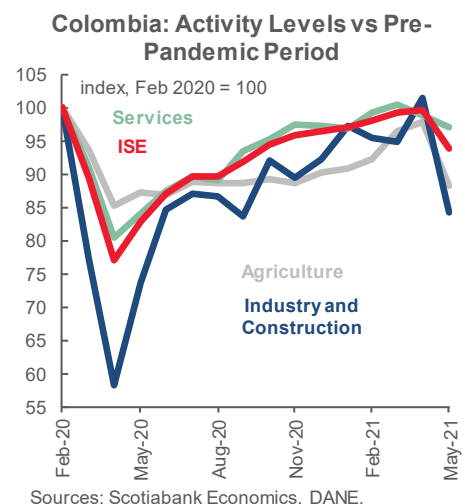


Chart 3



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- Primary activities (13% of the economy) grew by 1.8% y/y but fell by -9.9% m/m seasonally adjusted in May.** This means that the sector closed the month operating at a similar level to that observed 10 months ago (chart 3 again), showing a huge impact from the strike, especially in agriculture-related activities, such as, coffee. On the mining side, coal production was the most impacted due to mobility restriction.
- Secondary sectors (19% of the economy) were up by 14.7% y/y, although fell by -16.9% m/m sa, one of the most negative monthly results since the pandemic began.** Per [Friday's data release](#), manufacturing production was hard-hit by nationwide strike demonstrations, mainly in the Valle del Cauca region. Construction activities, meanwhile, continued gaining momentum. That said, the group of secondary activities closed the month operating at similar levels to those observed in September 2020, below 15.8% compared to pre-pandemic levels (Feb 2020) (chart 3 again).
- Services-related activities (68% of the economy) were up by 15.5% y/y but contracted by -1.9% m/m, again showing impacts from the nationwide strike as well as restrictions imposed by some regions amid the third wave of COVID-19.** In May, financial and insurance activities were the most affected (-4.5% m/m), although it resulted from higher payments from life insurance companies due to COVID-19 mortality. Other activities such as commerce, transport and hotels also contributed negatively, directly impacted by road blockages resulting from the strike.

Overall, as had been expected, the nationwide strike significantly impacted Colombia's economic activity in May. Despite that, we reaffirm our positive bias on our GDP growth forecast for 2021 (6% y/y), given that in June, the country's main cities consolidated a broad reopening that for now looks to be sustained. We do expect some negative impacts from the nationwide strike to reflect in June's data (especially in the industrial sector), although services sectors should strongly rebound due to the reopening. It is worth noting that May's data would prevent the central bank, BanRep, from starting its hiking cycle in July. However, we affirm our expectation of a normalizing process in the monetary policy rate beginning September 2021.

II. May's imports grew by 52% y/y on the back of investment-related imports, base effects and higher international prices

May's imports data, released by DANE on Monday, July 19, came in at USD 4.37 bn (CIF terms), expanding 52% y/y (chart 4), benefitting from the low 2020 base while also reflecting higher international prices. Contrary to May's contraction in economic activity, imports remained close to pre-pandemic levels: manufacturing imports grew by 59.4% y/y, accounting for the strongest positive contribution to annual imports growth; agriculture-related imports increased by 14.2% y/y; and mining-related imports grew by 84.1% y/y. The monthly trade deficit widened by 105.9% y/y to USD 1.01 bn FOB (chart 5) as imports rebounded stronger than exports, reflecting momentum in economic recovery. Colombia's YTD trade deficit stood at USD 5.40 bn for January–May.

From a perspective of imports by use, the three major segments showed positive signals compared with May 2020 (chart 6).

- Consumption-goods imports** increased by +52.3% y/y, owing mainly to better durable-goods imports (183.7% y/y), especially in vehicles with an expansion of

Chart 4

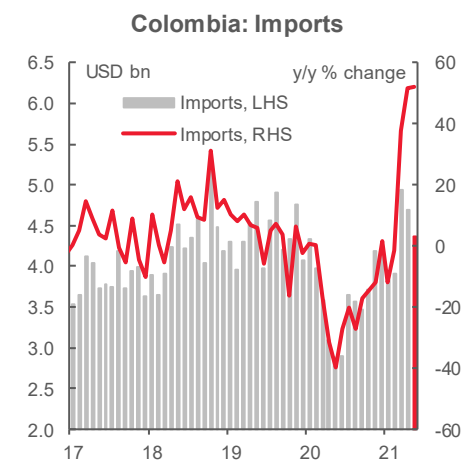


Chart 5

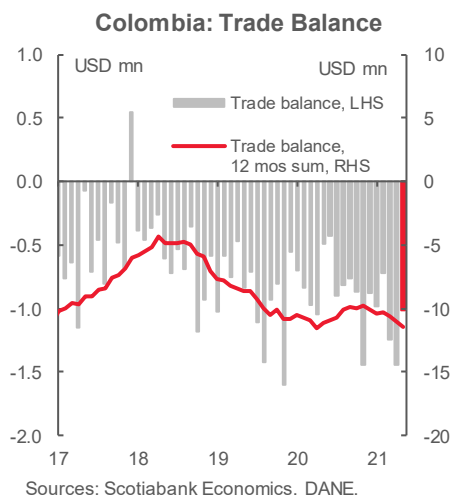
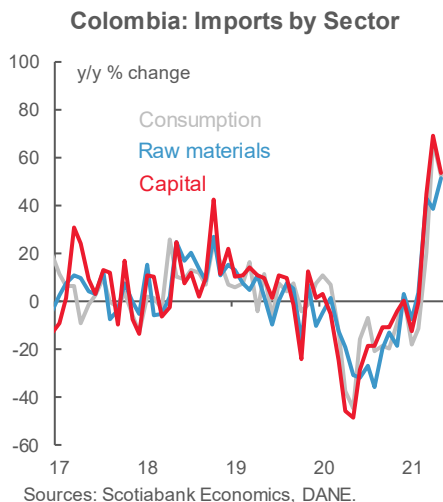


Chart 6



356.8% and home appliances (+135.8% y/y); meanwhile, non-durable goods imports grew by 10% y/y, mainly on higher pharma products (+13.2%/y/y) and other non-durable goods (+42.7% y/y). Consumption-related imports remained below pre-pandemic monthly averages (2019: USD 1.05 bn vs. 2020 YTD: USD 940 mn).

- **Raw-materials imports** grew by 51.1% y/y, mainly due to larger purchases of foreign goods for the industrial (52.1 % y/y) and construction (53% y/y) sectors. Raw materials imports got close to their historical high and would reflect the effect of higher prices and of economic recovery.
- **Capital-goods imports** were up by 53.3% y/y, as investment-related imports in the industry (37.9% y/y) and transport equipment purchases (75.5% y/y) strongly rebounded. That said, capital-goods imports are closer to the pre-pandemic averages (2019: USD 1.37 bn vs YTD-2020: USD 1.27 bn)

May's imports remained strong as international purchases were led by improved investment activities in the industrial, agriculture, and construction sectors in the period that preceded the nationwide strike and backed by improved economic recovery. It is worth noting that the rebound in imports also reflects higher international prices in raw materials. Consumption-related imports, meanwhile, still have room to improve, especially for durable goods. As a result, we expect further deterioration in Colombia's external balance over the coming months as imports continue to rebound. We project a current account deficit of -4.0% of GDP in 2021 or potentially higher.

—Sergio Olarte & Jackeline Piraján

PERU: PEDRO CASTILLO DECLARED PRESIDENT-ELECT; CEMENT SALES WELL ABOVE PRE-PANDEMIC LEVELS REVEAL STRONG PUBLIC SECTOR INVESTMENT

I. Peru declares Pedro Castillo as President-Elect, ending the long wait since the June 6 election

Pedro Castillo (51) was officially declared President-elect for the 2021-2026 term by the Elections Board (Jurado Nacional de Elections) on Monday night (July 19). Castillo now has only 8 days before his inauguration on July 28 to put together a cabinet, coordinate the transfer of power and responsibilities, and prepare for his inauguration speech. The cabinet designation and inauguration speech will define the profile of the Castillo government and provide greater clarity on intentions, policies, priorities, and governance. Mr Castillo's party, Free Peru, will hold 37/130 seats (28%) in the legislature against Keiko Fujimori's Popular Force's 24/130 (18%). Runner-up Keiko Fujimori recognized the result, saying she respected.

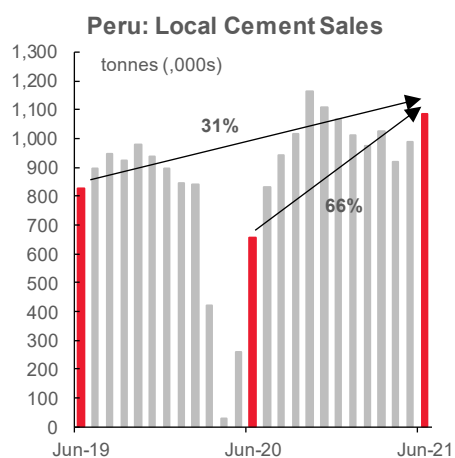
II. Cement demand continues soaring well above pre-COVID levels; reveal strong public sector investment

Cement sales scored another strong month in June, up 66%, y/y (chart 7). This was according to the cement producer's association, Asocem, which does not provide the official government figure but is typically close enough to use as an indicator of what to expect.

The strong growth figure was partly due to the low comparison base against last year's lockdown, but cement sales were a solid 31% above pre-COVID-19 2019 levels. Cement sales have been consistently above pre-COVID-19 levels since August of 2020, even before the lockdown measures were lifted. The main driver for this has been ramped up public sector investment by both the national and local governments. Private investment in tendered infrastructure projects, and, to a lesser extent in real estate, have also helped. In line with this, employment in construction was up 11.4% in Q2-2021, versus the same quarter in 2019.

—Guillermo Arbe

Chart 7



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