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Latam Daily: Colombia's Economic Activity Indicator for May

- Colombia: Economic activity moderates; base effects dominate year-over-year comparisons

COLOMBIA: ECONOMIC ACTIVITY MODERATES; BASE EFFECTS DOMINATE YEAR-OVER-YEAR COMPARISONS

On Monday, July 18, the statistical agency (DANE) released the Economic Activity Indicator (ISE) for May 2022, the main proxy for GDP, showing that economic activity expanded 16.5% y/y (chart 1), well below the Bloomberg market consensus of 17.2% y/y. While all sectors contributed to the positive reading in May, especially the secondary and service sectors, there was a significant recovery in the primary sector. High y/y growth rates reflect base effects resulting from the disruptions to production from the nation-wide strike a year ago. In this regard, on a month-over-month basis, economic activity contracted -0.8% m/m in s.a. terms (chart 2), largely attributable to weaker industrial production and retail sales performance. Nevertheless, we continue to see a healthy increase in activity, with a year-to-date expansion of 10.6%.

Key highlights include:

- Primary activities (13% of the economy) grew 7.8% y/y, improving on the figure observed in April (-2.1% y/y), but contracted -0.7% m/m (seasonally adjusted) in May.** The agricultural sector expanded 9.4% y/y, while mining and oil production increased 3.7% y/y, though coal production has dropped. The agricultural sector presented mixed results, as some crops, such as coffee, subtracted from growth. Agriculture is a sector to watch, as higher input prices and logistical issues that lead to higher costs could reduce production going forward. In particular, crops that require more fertilizer may be affected by the depreciation of the peso, which raises the cost of fertilizer imports.
- Secondary sectors (17% of the economy) rose 33.1% y/y and contracted -2.9% m/m.** Manufacturing remains strong, growing 40.6% y/y, partly reflecting the statistical effects of the disruptions a year ago. The construction sector, which includes civil works and buildings, grew at an annual rate of 14.5% y/y. However, monthly performance shows a marked slowdown in the sector that is largely explained by high costs. That said, housing sales remain at positive levels and the industry continues to grow, albeit at a more moderate pace, which can be read as healthy for total growth.

Chart 1

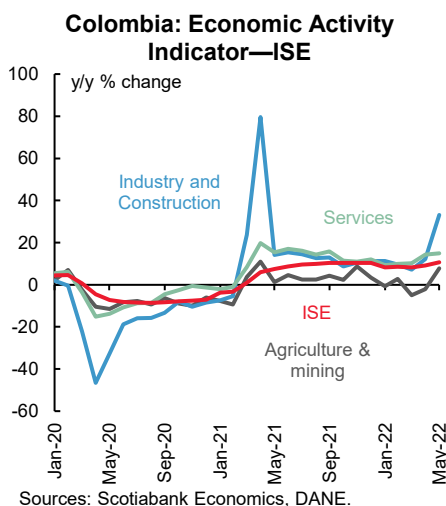
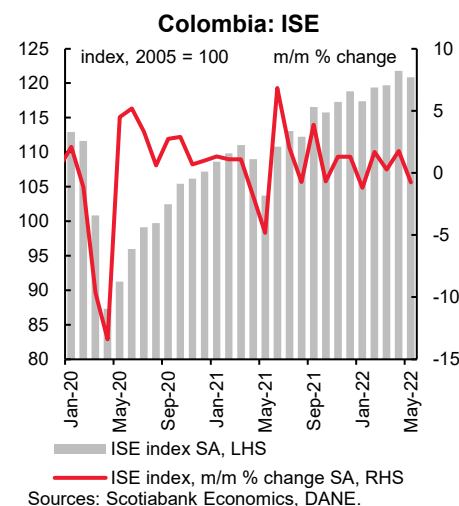


Chart 2



July 19, 2022

- **Services-related activities (70% of the economy) increased by 14.8% y/y and expanded by 0.6% m/m, somewhat lower than in April (1.4% m/m).** This behavior is explained by commerce, transport and restaurants, which contracted -0.5% m/m. Households may be reducing their consumption of entertainment services owing 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, reflecting the economic response to reopening in the second half of 2021.

The May ISE reading suggests that economic growth continues, but is moderating, which is healthy for the economy's overall growth. Recovery in the construction sector, especially in civil works, is noteworthy and we hope that this subsector continues to gain momentum. The services sector remains strong, but we expect a moderation in the second half of the year as pressures on inflation persist, the cost of consumer credit rises, and base level effects erode. In addition, job creation is likely to continue. **For now, we continue to project growth of 6.3% for 2022.**

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

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