

Contributors

Guillermo Arbe, Head Economist, Peru
+51.1.211.6052 (Peru)
guillermo.arbe@scotiabank.com.pe

Sergio Olarte, Head Economist, Colombia
+57.1.745.6300 Ext. 9166 (Colombia)
sergio.olarte@scotiabankcolpatria.com

Jorge Selaive, Head Economist, Chile
+56.2.2619.5435 (Chile)
jorge.selaive@scotiabank.cl

Eduardo Suárez, VP, Latin America Economics
+52.55.9179.5174 (Mexico)
esuarezm@scotiabank.com.mx

TODAY'S CONTRIBUTORS:

Jackeline Piraján, Economist
+57.1.745.6300 Ext. 9400 (Colombia)
jackeline.pirajan@scotiabankcolpatria.com

Latam Daily: Colombia's Recovery—Growth, Inflation, and Rising Imports

- **Colombia: Services sector powers growth, but recovery clouded by inflation and rising imports**

COLOMBIA: SERVICES SECTOR POWERS GROWTH, BUT RECOVERY CLOUDED BY INFLATION AND RISING IMPORTS

I. Services led growth, but high inflation having negative impacts

On Friday, March 18, the Colombian Statistical Agency (DANE) released the Economic Activity Indicator (ISE) for January 2022, with the key GDP proxy rising 7.8% y/y, well below the Bloomberg market consensus of 10.4% y/y. Indicators were mixed in January, as strong increases in the services sector were partially offset by negative contributions from agricultural and the financial sector.

On a seasonally-adjusted basis, Colombia's economic activity fell by 2.2% m/m (chart 1), the largest contraction since May 2021.

January's ISE results showed mixed signals (chart 2). A closer look is detailed below:

- **Primary activities** (13% of the economy) contracted 2.71% y/y, falling 5.24% m/m (seasonally-adjusted terms) in January. The agricultural sector declined 4.4% y/y, while coal production staged a recovery, rising 6% y/y. Crude oil production continues to lag the recovery with a contraction of 0.6% y/y. The agricultural and oil sectors warrant close monitoring, as agriculture could point to adverse effects from higher production costs, while lower oil production would partially offset the positive news in terms of high international prices.
- **Secondary sectors** (17% of the economy) were up 12.4% y/y and by 2.0% m/m. Manufacturing production remains strong in areas tied to the reopening and the relaxation of mobility restrictions. Meanwhile, construction is performing better, expanding 12.9% y/y in the building sector and 2.9% y/y in civil works.
- **Services-related activities** (70% of the economy) were up by 8.3% y/y but contracted by 3.8% m/m sa mainly due to a one-off effect in the financial sector which accounted for the payment from an insurance company for the case of Hidroituango (related to dam construction issues in Antioquia). However, other service sectors such as commerce, transport, and hotels, contracted by 0.3% m/m sa, pointing to the effect of the inflation in the consumption of these items.

Chart 1

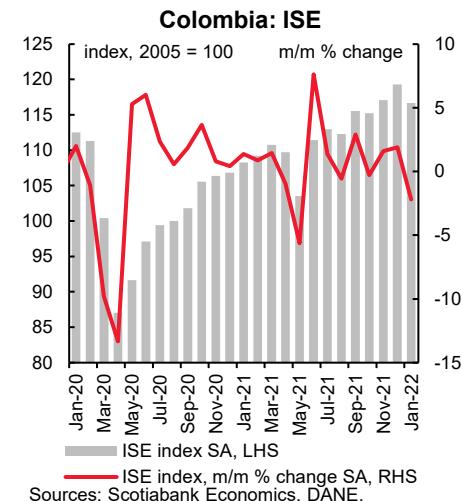
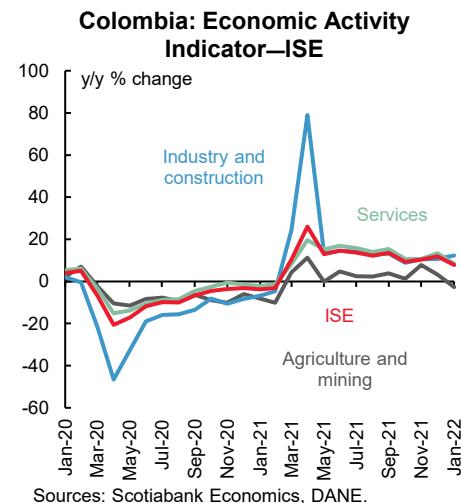


Chart 2



January's ISE results show a weaker than expected result, mainly on a one-off effect. However, there were also some mixed signals that suggest inflation is starting to weigh on some activities. On the positive side, we highlight the recovery in the construction sector, which continued to close the gap relative to pre-pandemic activity levels. These results support our projected 4.5% GDP growth in 2022 and our expectation of a 150 bps hike in the March 31 monetary policy meeting.

II. Imports remain close to historical high amid raw-materials and capital goods purchases

January import data, released by DANE on Friday, March 18, came in at USD 6.05 bn (CIF terms), expanding by 58.3% y/y (chart 3), close to the historical high reached in November (USD 6.55 bn). The monthly trade deficit stood at USD 1.7 bn, one of the largest monthly deficits since 2015, showing that the external deficit remains a challenge in 2022.

January's imports slightly decreased from December, mainly on consumption goods purchases, and offsetting the increase in durable goods and raw material imports.

Manufacturing imports grew by 59.5% y/y accounting for the biggest positive contribution to annual imports growth, while agriculture-related imports increased by 27.4% y/y and mining-related imports grew by 110.3% y/y.

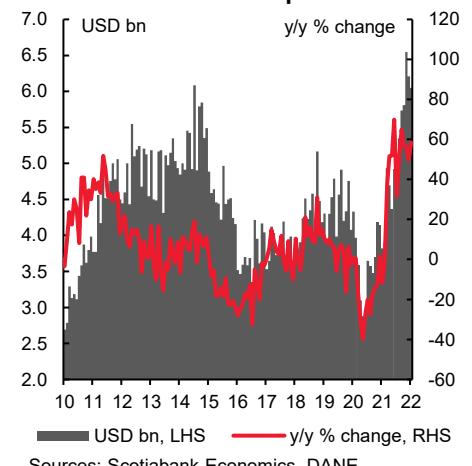
From the perspective of imports by use, three major components showed strong increases compared with January 2022:

- **Consumption-goods imports** increased by +7.7% y/y, and stood at USD 1.18 bn. Both durable and non-durable goods imports, which moderated relative to previous months, expanded by +31.1% y/y and +41.8% y/y on an annual basis. In the case of non-durable goods, pharma products led the increase (+39.3% y/y) reflecting vaccines purchases by the government. In the case of durable goods, the positive performance was driven by vehicles purchases, as well as higher international prices.
- **Raw-materials imports** grew by 76.4% y/y to USD 3.22 bn, and remained as the main contributor to the overall increase in imports. Imports for industry (+65.4% y/y) led the gains, followed by fuel imports (+124.3% y/y) as world energy prices increased significantly compared with one year ago.
- **Capital-goods imports** were up by 46.3% y/y to USD 1.72 bn. Purchases of investment-related goods in industry led the gains (+26.4% y/y), followed by transport equipment (+116.3% y/y). The performance of this group is compatible with the ongoing economic recovery and we expect this to continue in 2022 as economic growth would be led more by investment.

All in all, imports in January point to positive effects from the economic recovery, but also the effect of higher international prices. The trade deficit is likely to remain wide in 2022, with growth having asymmetrical impacts on imports and exports. On the positive side, as capital goods imports remain high, the financing side should be better supported by FDI. However, the external deficit remains one of the main issues of concern with respect to Colombia's macroeconomic performance (chart 4).

Chart 3

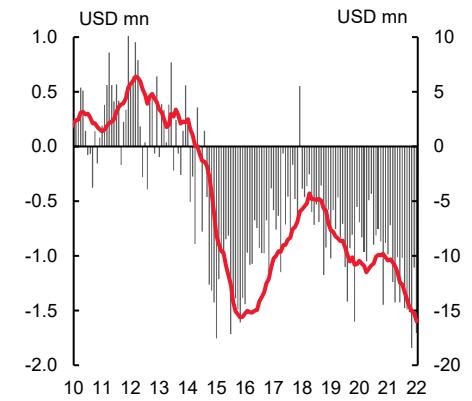
Colombia: Imports



Sources: Scotiabank Economics, DANE.

Chart 4

Colombia: Trade Balance



Sources: Scotiabank Economics, DANE.

—Sergio Olarte & Jackeline Piraján

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