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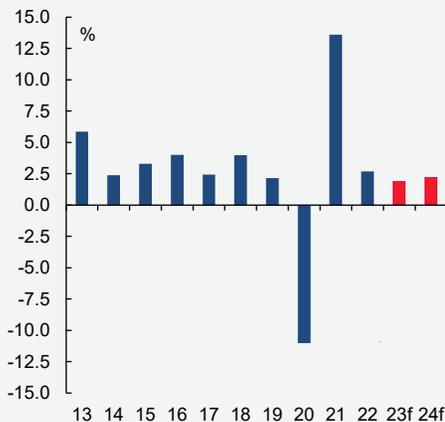
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Chart 1

Peru: GDP Growth



Sources: Scotiabank Economics, BCRP.

Latam Daily: In Peru, El Niño Looms Large in 2024

- Peru: El Niño looms large in 2024

PERU: EL NIÑO LOOMS LARGE IN 2024

What nice Autumn weather we’re enjoying here in Lima! Therefore, beware! Offseason warmth and sunshine in Lima typically precede an El Niño event. Protests in 2023 and the likelihood of El Niño in 2024 have led us to revise our growth forecasts for both years. We are reducing our GDP growth forecasts for 2023 from 2.1% to 1.9%, and for 2024 from 2.4% to 2.2% (chart 1 and table 1).

Our forecast revision for 2019 reflects the impact of the protests on first quarter growth. GDP fell 1.2% y/y in January, which would not have happened if not for the protests. We expect a mildly less significant impact from protests in February. In March, meanwhile, rain and floods, rather than protests, will have an impact, albeit minor, on growth. Authorities at the BCRP and Ministry of Finance have suggested that Q1 2023 GDP growth will be in the vicinity of nil to 0.5%. We are inclined to agree with the BCRP’s forecast of nought growth in Q1. We had already contemplated the effect of protests when we lowered our forecast in December from 2.4% to 2.1%. However, the impact has proven to be greater than we had expected, so we are ratcheting down our forecast a bit more to 1.9% .

El Niño

Local authorities have warned that a weak El Niño is currently underway in 2023, and should last until July. This explains the heavy rains recently. At the same time, however, since we are now leaving the crucial summer months, the impact going forward this year should not be dire (except, perhaps, at a very regional level).

More importantly, the US National Oceanic and Atmospheric Administration, NOAA, gives a 60% likelihood that El Niño will take place starting in December 2023. Timing is important for Peru. An El Niño that takes place in the Southern Hemisphere winter months, as expected in 2023, does not cause the severe weather events that occur when El Niño appears in summer, which starts in December. El Niño was originally named as such because the phenomenon appeared in force around Christmas (El Niño = The Child).

In addition to the NOAA probability statistic, Peru’s offshore sea temperature patterns are tracking similar patterns in the past that were a prelude to moderate to intense El Niño years. As a result, the likelihood that El Niño will have a material impact on growth in 2024 is starting to look uncomfortably high. We are lowering our GDP growth forecast for 2024 from 2.4% to 2.2% in consideration of the likelihood of a moderate Niño. On the face of it, this might not seem like that large of a change. However, our lower forecast for 2023 produces a base effect that would normally lead us to raise our forecast for the following year. Our new forecast for 2024 carries the message that the impact of El Niño overcomes this base effect, and then some.

Table 1: Peru—GDP Growth by Demand Components (%)

	2022	2023f	2024f
GDP	2.7	1.9	2.2
Imports	4.0	2.0	2.8
Domestic Demand	2.3	1.0	2.2
Private Consumption	3.6	2.3	2.2
Govt Current Spending	-3.4	1.1	2.3
Private Investment	-0.5	-2.3	1.2
Public Investment	7.1	-1.1	5.0
Exports	5.4	5.6	2.7

Sources: Scotiabank Economics, Estudios Económicos.

March 31, 2023

As a side note, in the [Latam Weekly](#) published on March 24 we had raised our inflation forecast for 2024 from 2.5% to 3.5%, on expectations of El Niño.

Our forecast of 2.2% growth for 2024 is moving a bit away from consensus, which is closer to 2.7%. As we move closer to 2024, and if the risk of El Niño persists, consensus is likely to begin to decline.

There is one final thing to consider, and that is that El Niño is, of course, a weather event. It is unpredictable in terms of intensity (or appearance at all), duration, and geographical incidence. No El Niño is like another. This means that uncertainty surrounding 2024 forecasts are high.

—Guillermo Arbe

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