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Colombia: 4Q18 GDP Growth Confirms Economic Activity is Recovering

- **Public consumption boosted 2018 GDP. Investment remained stagnant.**

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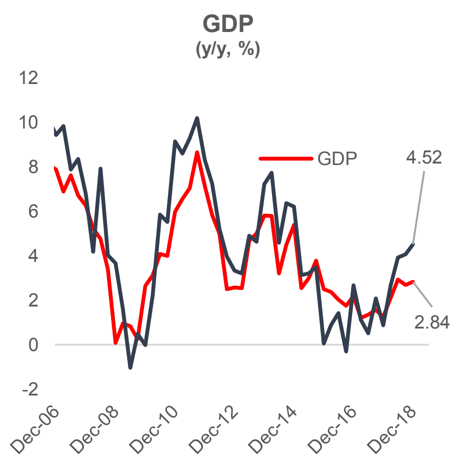
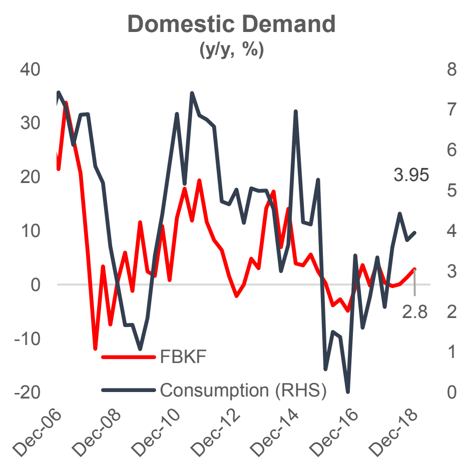
DANE released 18Q4 GDP growth. It came in at 2.8% y/y, while Consensus (according to Bloomberg) had 2.9% y/y. This resulted in growth of 2.7% for the year as a whole. DANE also revised 2017 GDP growth to 1.4% from 1.8% implying that the terms of trade shock that Colombia suffered due to the sharp oil prices drop was stronger than initially estimated. For the seasonal and calendar adjusted figure 18Q4 economic activity grew 0.6% q/q or 2.36% annualized. 2018 GDP results confirm that the worst, in terms of deceleration, is behind us and the Colombian economy is in gradual recovery. Our growth forecast of 3.4% in GDP for 2019 remains on track.

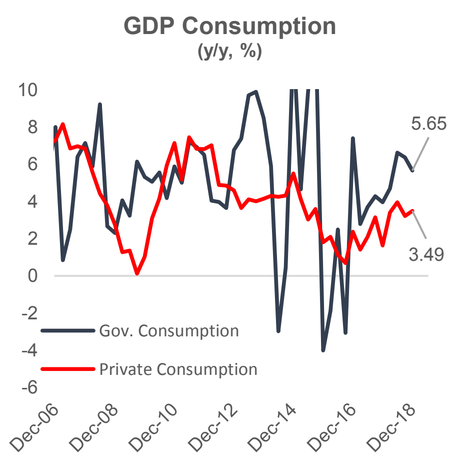


Sources: DANE, Scotiabank.



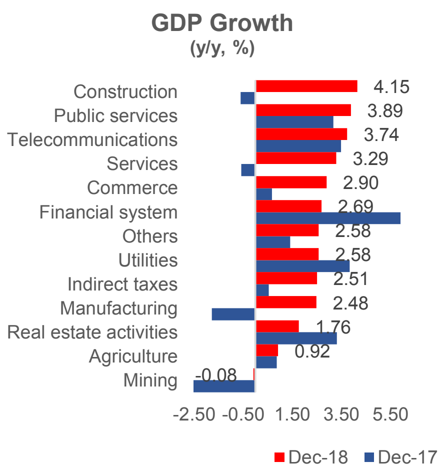
Sources: DANE, Scotiabank.

From the demand point of view the GDP accounts confirmed a recovery in domestic demand last year, boosted by government consumption. The recovery in private consumption continued last year, nearly doubling the growth recorded in 2017 (3.93 % in 2018 and 2.36% in 2017) owing to lower interest rates, a more stable exchange rate, lower inflation and higher oil prices. Investment remained stagnant as the 4G program did not add the expected value added to economic activity and building construction did not show signs of recovery last year. Having said that, the recent pick up in capital and raw materials imports suggest better investment prospects this year. In real terms, the trade balance deteriorated in 2018 due to lower exports growth (in quantities) and higher capital imports.



Sources: DANE, Scotiabank.

The supply side of the economy showed that services were the most important sectors in 2018. In fact, commerce added half of a percentage point to total GDP growth in 2018, private services (consulting and scientific services) added 0.35pp to the headline, public services 0.6pp and financial system services added 0.14pp to 2018 GDP growth. The only sector that fell in 2018 was mining (-0.78%). Although agriculture grew 2%, it decelerated from the 5.6% growth observed in 2017. Finally, construction remained flat, in line with stagnant construction investment on the demand side.



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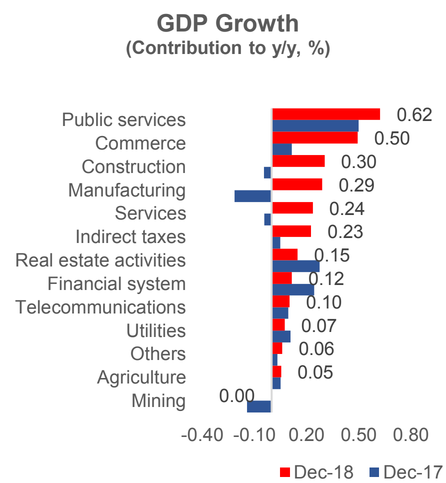

Sources: DANE, Scotiabank.

Bottom line, 2018 economic activity figures showed that economic activity is in a gradual recovery path and suggest that brighter skies are ahead. Recent coincident indicators in manufacturing, retail sales, and energy demand and capital imports, lead us to believe that the recovery will continue in 2019 and that investment will finally pick up.