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# Latam Daily: Colombia Retail Sales and Manufacturing Exceed Expectations, BanRep Survey Results

- **Colombia: Retail sales and manufacturing production exceeded market expectations; BanRep's Survey: Inflation expectations are adjusted slightly upwards, while the easing cycle is expected to be gradual**

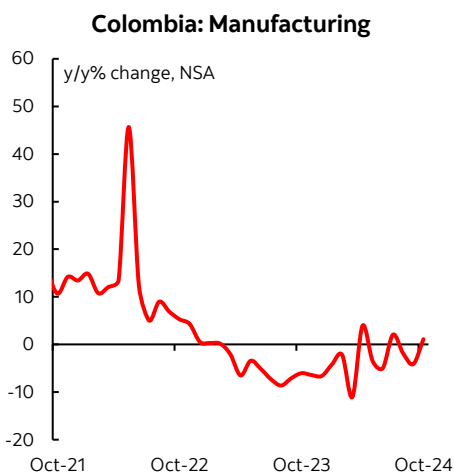
## COLOMBIA: RETAIL SALES AND MANUFACTURING PRODUCTION EXCEEDED MARKET EXPECTATIONS

On Monday, December 16<sup>th</sup>, the National Institute of Statistics (DANE) published the manufacturing production and retail sales data for October 2024. Manufacturing production increased 1.1% compared to October 2023, above the market expectation of -0.2%. Meanwhile, retail sales increased 9.0% y/y, higher than the 5.0% expected by the market. Both indicators pointed to positive prints. However, we attributed part of the overall performance to statistical base effects and a combination of better demand for durable goods in the case of retail sales. Having said that, it will be key to monitor how the demand recovery evolves after the FX depreciation. For now, today's data affirms our call for a 50bps rate cut at Friday's monetary policy meeting. Recent upside surprises are a relief to the Board, which has favoured cautious steps in the easing cycle, maintaining vigilance on fiscal risk.

Manufacturing output reversed its negative trend and recorded an expansion during the period. October results showed a positive performance in the manufacturing sector compared to the previous year (+1.1% y/y), following a 6% decline in the same period last year (chart 1). On a seasonally adjusted basis, activity appears to be expanding (chart 2). In this context, the sugar and panela production, the transport equipment industry, and the manufacturing of cleaning products all contributed positively to the results. However, the beverage industry, pharmaceutical sector, and mining products detracted from growth during this period.

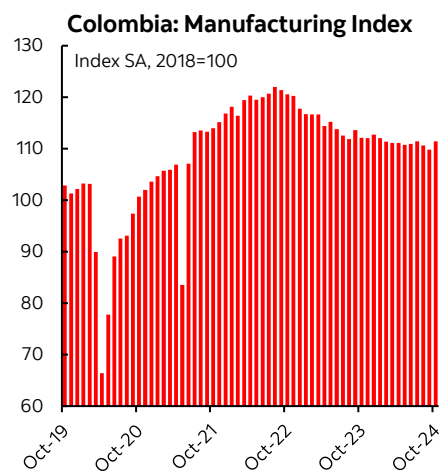
Retail sales remained in positive territory for the fifth consecutive month, showing an acceleration compared to the trend observed in the previous month. In October, retail sales recorded a 9.0% y/y growth, mainly due to higher vehicle sales (+14.8%) and telecommunication equipment sales (+33.2% y/y), which together accounted for 4.5 ppts of the total growth. This positive performance could be attributed to the price stability of tradable goods for many months; however, the impact of the FX volatility is something that we must monitor. On the negative side, sales in the textile sector, which fell by -6.3%

**Chart 1**



Sources: Scotiabank Economics, DANE.

**Chart 2**



Sources: Scotiabank Economics, DANE.

y/y, are particularly concerning, as they have declined for 21 consecutive months. In marginal terms, retail sales in October (excluding other vehicles) increased by 1.91% y/y explained by the recovery in the automotive sector (charts 3 and 4).

On Wednesday, December 18<sup>th</sup>, a broader picture of economic activity will be released with the publication of the ISE Economic Activity Index for October 2024, in which we could see the recent figures for retail and manufacturing. However, it will be relevant to monitor whether the sectors that had a positive dynamic during the first half of the year continue this month in the same way or whether it will be time to see if the transitory effects in agriculture and public administration will weigh against growth. All in all, the economic performance so far this year is a reason for the Central Bank to continue the easing cycle, however, it won't motivate an acceleration of this process. At Scotiabank Colpatría, the expectation is a 50bps rate cut at the monetary policy meeting on December 20<sup>th</sup>.

**Key Highlights:**

- Manufacturing production increased 1.1% y/y. 25 of the 39 activities showed an annual increase. On the positive side, notable contributors included the sugar and panela production sector (+31.7% y/y), the transport equipment industry (+45.4% y/y) and the manufacturing of cleaning products (+5.2% y/y), together contributing +1.2 ppts to the result. In contrast, the beverage industry (-4.7% y/y), pharmaceutical industry (-10.5% y/y), mining products (-6.3% y/y) and the fuel and oil industry (-1.6% y/y) were the main sectors driving the negative outcome for the month, collectively contributing -1.7 ppts.
- Retail sales grew 9.0% y/y. 18 of the 19 activities registered positive variations. Vehicle sales (+33.2% y/y), other vehicle sales (+32.1% y/y), telecommunication equipment sales (+28.6% y/y) and household appliance sales (+12.6% y/y) were the ones that contributed the most to retail sales growth. Meanwhile, on the negative side, textile sector sales (-6.3% y/y) was the one that subtracted the most from the total.
- So far this year, from January to October, the sale of textile products has registered the greatest deterioration with a drop of -12.2% compared to the same period in 2023, while the sales of vehicles and telecommunication equipment are the ones that have had the best performance.

Chart 3

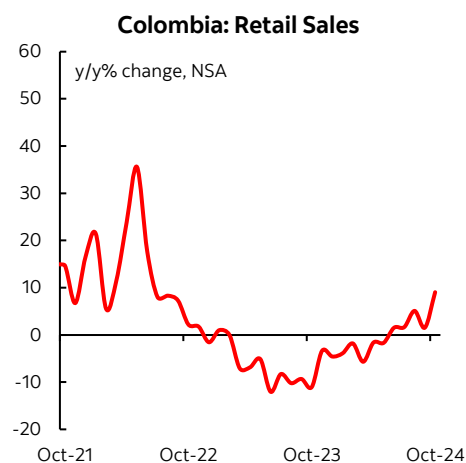
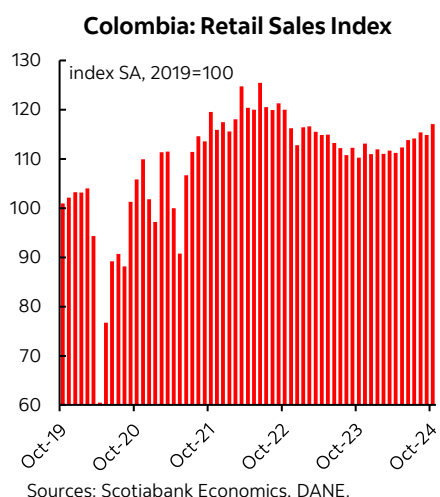


Chart 4



—Jackeline Piraján & Valentina Guio

**BANREP’S SURVEY: INFLATION EXPECTATIONS ARE ADJUSTED SLIGHTLY UPWARDS, WHILE THE EASING CYCLE IS EXPECTED TO BE GRADUAL**

The Central Bank (BanRep) released a survey of economists’ expectations for December. Inflation expectations were adjusted slightly upwards, given the negative surprise in November. Inflation expectations were revised this year, going from 5.12% y/y in the November survey to 5.14% y/y. For the 1-year horizon, the expectation was 3.91%, showing a decrease of 9bps compared to the previous survey, while the 2-year expectation increased from 3.41% to 3.45% (chart 5). In the short-term, the inflation expectation for December stands at 0.41% m/m, which could lead to annual inflation falling from 5.20% to 5.14%. Scotiabank Colpatría’s projection is 0.40% m/m and 5.15% y/y.

Regarding monetary policy, expectations for the end of 2024 remain stable. The acceleration in the easing cycle is far from materializing and expectations show the continuation of a cautious stance with a gradual cut. The consensus estimates a cut of 50 basis points at the meeting on December 20<sup>th</sup>, which would lead to a final rate of 9.25%. Meanwhile, for 2025 the expectation was adjusted upwards, going from 6.25% in the November survey to 6.50% in December (chart 6). Scotiabank Colpatría expects the rate to close at 9.25% in 2024 and at 6.75% in 2025.

The outlook does not provide enough confidence to accelerate the easing cycle. The fiscal outlook would continue to be pressured by lower income, while the discussion of the minimum wage for 2025 has not been resolved. Additionally, inflation expectations appear to be

anchored to the upper limit of BanRep’s target range (2%–4%), which means that the rate adjustment will continue to be gradual to avoid interruptions in the easing cycle, considering that international risks could also persist for some time.

Regarding the exchange rate, the consensus of analysts adjusted its outlook upwards. For December 2024, analysts estimate a rate of 4,349.54 pesos, higher than the 4,324.24 pesos projected in the November survey. For 2025, the expectation was revised from 4,263.17 pesos to 4,315.85 (+52.8 pesos). Scotiabank Colpatría’s projection for 2024 is 4,338 pesos and for 2025, 4,367 pesos.

Chart 5

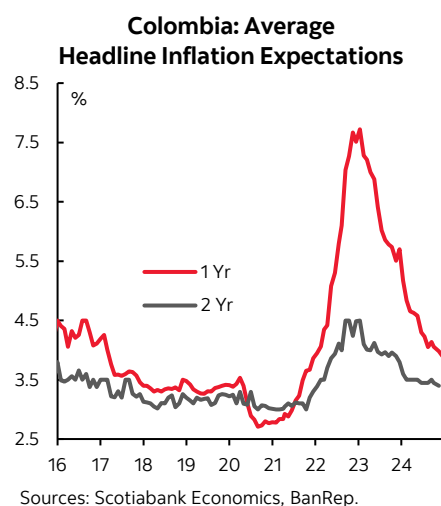
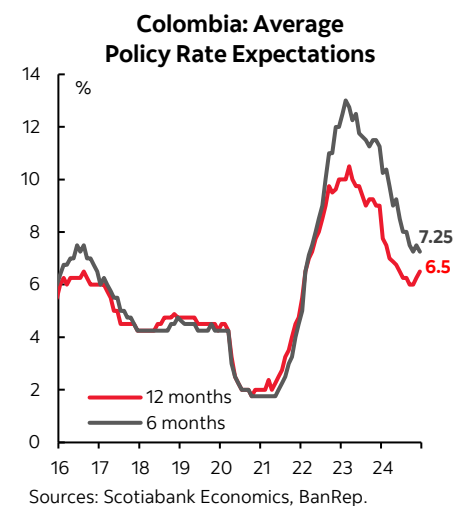


Chart 6



**Key points from the survey:**

- Short-term inflation expectations.** For December, the consensus is 0.41% m/m, which would imply an annual inflation of 5.14% y/y, lower than the current 5.20%. The maximum expectation is 0.62% and the minimum is 0.25%. Scotiabank Colpatría Economics’ projection is 0.40% m/m and 5.15% y/y. Core inflation, excluding food, projected by analysts is 0.39% m/m.
- Medium-term inflation expectations increased moderately.** Inflation expectations for December 2024 rose 2 basis points to 5.14% (table 1). However, the expectation for a 1-year horizon was reduced by 9bps to 3.91%, and expectations for 2 years rose 4bps to 3.45%.
- Monetary policy rate.** The median of expectations is for a 50 basis point cut at the December 20<sup>th</sup> meeting, which would leave the 2024 closing rate at 9.25%. By 2025, the rate is estimated to drop to 6.50%.
- FX.** Projections for the US dollar exchange rate for the end of 2024 averaged 4,349 pesos (25 pesos more than the previous survey). By December 2025, respondents, on average, expect an exchange rate of 4,315 pesos.

Table 1: Colombia—Headline Inflation Expectations		
	Average	Change vs previous survey, bps
Dec-2024, m/m % change	0.41	...
Dec-2024, y/y % change	5.14	2
1Y ahead, y/y % change	3.91	-9
Dec-2025, y/y % change	3.91	4
2Y ahead, y/y % change	3.45	4

Sources: Scotiabank Economics, BanRep.

—Jackeline Piraján & Daniela Silva

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