

LATAM Market Update

- **Colombia: 1Q19 GDP growth—Below government expectations due to construction**
- **Peru: Weak 2.3% GDP growth in 1Q19 makes reaching 4.0% growth in 2019 extremely challenging**

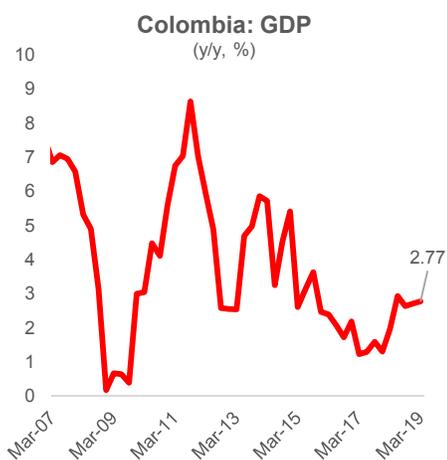
COLOMBIA: 1Q19 GDP GROWTH—BELOW GOVERNMENT EXPECTATIONS DUE TO CONSTRUCTION

DANE released 18Q4 GDP growth. It came in at 2.8% y/y, while Consensus (according to Bloomberg) had 3% y/y and BanRep projections were 3.2% y/y (we had 2.7% y/y). DANE also revised 2018 GDP growth to 2.6% from 2.7%, which although a mild revision it should help 2019 growth due to a lower statistical base. 1Q19 GDP data shows that economic activity continues running below potential and that economic activity recovery continue very gradual. Additionally, it is worth to note that despite lower growth than expected by the

government and BanRep, tax collection during 1Q19 grew 8.8% y/y which is a bit higher than official expectations. We continue to think that economic activity recovery will consolidate in 2H19, especially when construction rebound will be significant. Therefore we stick with our growth forecast of 3.4% in GDP for 2019.

DANE only released supply side of the 1Q19 economic activity, demand side will be released on May 22nd. The supply side of the economy showed that services were the most important sectors in 1Q19. In fact, commerce added 0.7pp to total GDP growth, and public services (as defense and social security) added 0.4pp. Worth to note, manufacturing contributed with 0.36pp to headline expansion, which bode well for the industrial recovery. The only sector that fell in 1Q19 was construction (-5.57%) due to a fall of 8.8% y/y of building construction that continued being affected by a very high stock in big cities. Finally civil works grew 8.5% (as expected) on the back of better behaviour of mining and infrastructure sub sectors.

Bottom line, 1Q19 economic activity figures showed that economic activity acceleration is going at a slower pace than BanRep and the Government anticipated, which should reinforce a monetary policy rate constant for the time being. Having said that, the improvement in manufacturing, commerce, and mining let us to think that economic activity recovery will continue in the second half of the year and growth rates will increase significantly, especially once building construction stop subtracting to GDP growth.



Sources: DANE, Scotiabank.

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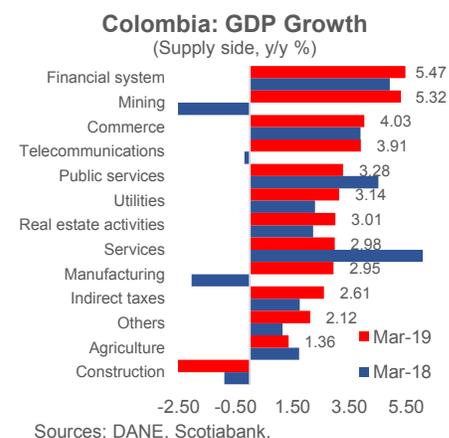
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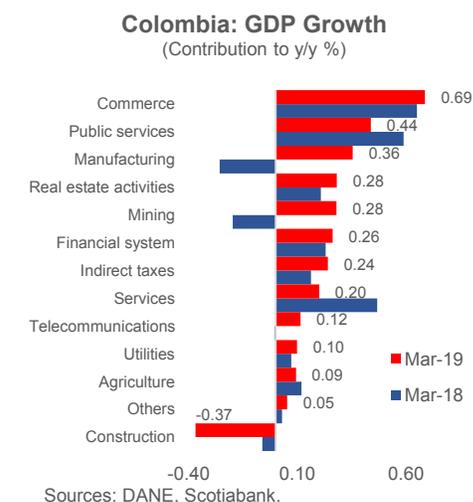
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Sources: DANE, Scotiabank.



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PERU: WEAK 2.3% GDP GROWTH IN 1Q19 MAKES REACHING 4.0% GROWTH IN 2019 EXTREMELY CHALLENGING

GDP rose 3.2%, y/y, in March, mildly below our forecast, and market consensus, of 3.5%. While on the face of it, March's 3.2% growth was not bad compared to January (1.6%) and February (2.1%), it was really weaker than it seems, considering that this year the month of March had two more working days compared to March 2018. Significantly, 1Q19 growth was a weak 2.3%.

We have been waiting for the 1Q19 GDP growth figure to come out before we revise our full-year forecast, which we have now put in review. The second quarter will begin slow, due to statistical weakness in April (two fewer working days than in 2018). May will be the first really normal month of the year, and will be telling in terms of the economy's underlying trend. It is true that much of the slowdown in January to April is temporary, with resource sectors particularly weak, growing 1.6% in March, and declining 1.2% in 1Q, while the key non-resource segment of the economy has been growing better, at 3.6% in March, and 3.3% in 1Q19. However, even non-resource sector growth, while more resilient, has been also mildly subpar. Although we do expect growth to pick up later in the year, the math just doesn't work any longer for 4.0% GDP growth for the full year. Even those areas in which we are seeing increasing momentum, such as public sector spending and large infrastructure projects, most of the impact will be in 2020, onwards.

GDP Growth	March	1Q2019
GDP	3.2	2.3
Agriculture	5.3	4.9
Fishing	-7.4	-20.5
Mining and Oil & Gas	0.2	-0.6
Manufacturing	3.7	-0.9
Non-Resource Industry		
Construction	5.8	1.8
Retail	3.0	2.4
Transportation	2.1	2.4
Government Services	4.9	5

Source: Instituto Nacional de Estadística e Informática
 Prepared by: Estudios Económicos, Scotiabank Peru

Cement consumption rose 3.4%, y/y, in April. This is a moderately healthy figure, considering April this year had two less working days.

The former Mayor of Lima (2011-2014), Susana Villarán, was led to prison for 18-months while her process takes place. Villarán admitted to having received funds from Odebrecht for her political campaign, and is being accused by prosecutors of having returned the favour by awarding Odebrecht contracts on project tenders. Villarán is yet another prominent political figure to succumb to the Odebrecht corruption debacle, even though, as with other prominent political figures who have seen jail time, including Keiko Fujimori, Pedro Pablo Kuczynski and Ollanta Humala, she has not been actually sentenced yet.

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