

LATAM Market Update

- **Colombia:** May's coincident indicators were positive, retail sales continue pointing north and manufacturing benefited from one additional business day
- **Peru:** GDP growth disappoints yet again

COLOMBIA: MAY'S COINCIDENT INDICATORS WERE POSITIVE, RETAIL SALES CONTINUE POINTING NORTH AND MANUFACTURING BENEFITED FROM ONE ADDITIONAL BUSINESS DAY

DANE released May 2019 manufacturing and retail sales (RS) data. RS came in at 8.2% y/y printing the strongest figure in 2019 and well above market expectations (5%). Manufacturing stood at 3.2% y/y, the data benefited from the number of business days in May. In fact, May-19 had one more business day than May-18. Having said that, even the series cleaned by this effect, also show a positive trend. In our opinion, May's coincident indicators were positive and are in line with a domestic demand recovery included in our baseline scenario.

Retail sales expansion dynamics were mainly on the back the back of foodstuff sales that grew 9.0% y/y and added 2.0pp to headline annual expansion. Vehicles sale added 2.0pp to total RS expansion. Worth to note, only one out of sixteen sub-sectors presented negative annual expansions in May (books -6.8% y/y). Thus, in Q2 domestic demand could post a better figure than in the first one, which is aligned with our view of gradual economic activity recovery.

On the manufacturing side, although y/y expansion came below market expectations (3.2%/y/y vs 4.2% expected), due to higher anticipation of an additional business day in May-19, that normally represents around 3pp more of annual expansion, once DANE cleaned up the series from seasonal and calendar effects manufacturing showed a growth of 1.12% m/m (14.31% annualized), which show, in our opinion, that manufacturing dynamic is positive. It is worth saying than 50% of the total activities presented positive results, beverages (+5.8%/y/y) and chemical products (+12.2% y/y) were the most dynamic sectors.

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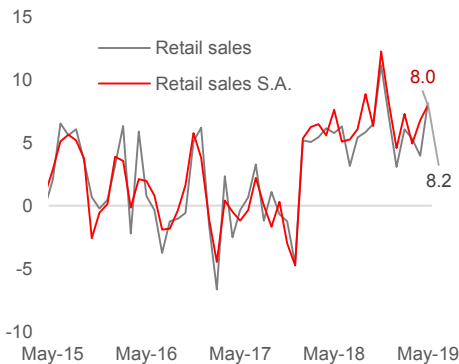
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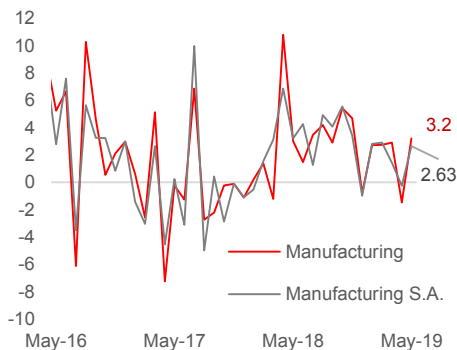
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Colombia: Retail Sales
(y/y, %)



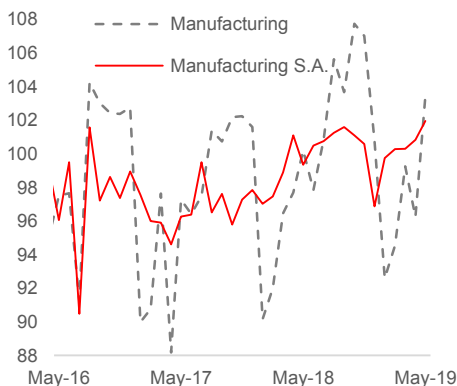
Sources: DANE, Scotiabank.

Colombia: Manufacturing
(y/y, %)



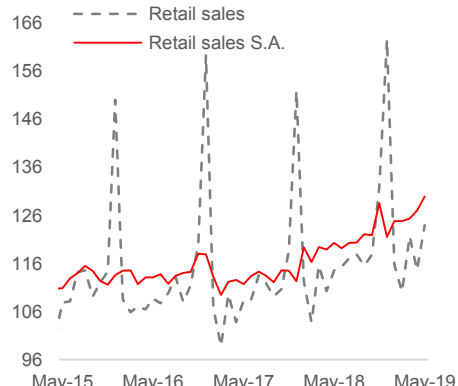
Sources: DANE, Scotiabank.

Colombia: Manufacturing
(Index, 2014=100)



Sources: DANE, Scotiabank.

Colombia: Retail Sales
(Index, 2013=100)



Sources: DANE, Scotiabank.

All in, May coincident indicators posted a strong figure, which is aligned with our economic activity forecast for all 2019 (3.2% y/y). We think that expansionary monetary policy rate (MPR), a relatively stable and depreciated exchange rate, and core inflation under control, contribute to the recovery in economic activity. In terms of monetary policy, we do not expect that these results will affect the base case scenario for BanRep, therefore we continue thinking that the Board, in a unanimous decision, will keep the MPR at 4.25% in the July meeting, waiting for more data to confirm that output gap is closing up.

PERU: GDP GROWTH DISAPPOINTS YET AGAIN

Peru's GDP rose a paltry 0.6%, y/y, in May. This is the second consecutive month of negligible growth, after 0.02% in April. This puts GDP trend growth for the year at 1.5%. We were expecting a soft number for May, but not quite this soft. Our forecast was 1.3% growth. We're not ready to change our view of 3.1% GDP growth for the full year, however. May will be the last month in which this year's dismal fishing season will drag growth down and June will be more normal in terms of resource sectors growth. As a result, we expect June growth to be stronger, as does the Ministry of Finance which announced a forecast of 3.5% growth for June, based on preliminary information. Fishing for fishmeal rose 20% in June, after falling 36% in May (and 90% in April). Cement demand rose 8.8% in June, based mainly on greater public sector investment. The factors that have beleaguered growth so far this year, namely, resource sectors and public sector investment (under new authorities), are volatile ones. Both shall improve. Fishing already is. The real question is whether private sector domestic demand (and, correspondingly, non-resource sectors) have also slowed, and can pick up. Business sentiment and business loans growth suggest that private investment is weak. Signals are more mixed on consumption, but there is a risk of a mild slow down. July-August growth should get a double boost, from the Lima Pan-American Games (July 26th to August 11th) on the one hand, and from a low comparison base on the other. We need to see a particularly strong third quarter, however, to compensate for a weaker than expected April-May.

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