

LATAM Market Update

- **Peru: Q3-2019 figures released—Moderate growth, robust domestic demand, healthy macro background**

The Central Bank released third quarter growth, fiscal and external balance figures on Friday. The overall message is that GDP growth, 3.0% in Q3-2019, turned up compared to previous quarters (1.2% in Q2 and 2.4% in Q1), but broadly in line with expectations.

However, what was much better than expected was domestic demand growth of 4.1%, a strong improvement over Q2: 1.9%, and Q1: 1.5%. Although private consumption growth, 3.3%, was mildly better than expected, the real upbeat numbers came from private investment growth, 7.1%, and government spending (non-investment), up 6.6%. Perhaps, given its difficulties to invest, the government is finding other ways to spend.

A glass-half-full view would say that 3% growth was not bad, considering the local political turmoil, regional social protests, and global trade uncertainty. However, growth is limited by these events, and the third quarter was in line with our forecasts that take these events into account. Macro balances, are significantly more immune. The fiscal deficit ended the quarter at 1.7% of GDP, despite a, seasonally typical, quarterly deficit of 3.8% of GDP. The seasonal deficit should intensify in the fourth quarter, but still end the year at under 2% of GDP. The BoP current account deficit for the quarter was 2% of GDP, up from 1.5% in Q2, but still not a worrisome number. The trade balance was a positive US\$1.2bn, and reserves actually increased in the quarter by US\$1.3bn, to US\$67.9bn. All in all, the third quarter story was of moderate growth, with mixed underlying signals, amidst an overall healthy macroeconomic background.

The following is a summary of Q3-2019 GDP Growth

GDP	3.0%	Unsurprising and in line with 2.3% for full-year 2019.
Domestic Demand	4.1%	Healthy and above trend.
Private Consumption	3.3%	Mildly better than expected.
Private Investment	7.1%	Yes! Much better than expected, and than trend.
Mining Investment	.7%	Expected.
Non-Mining Investment	5.3%	This was the big surprise. Only, outside of construction and agro-industry, it is not easy to identify where the investment is taking place.
Govt Current Spending	6.6%	Short-term stimulating, but difficult to sustain in the long term.
Govt Investment	0.0%	Mainly due to persistent negative local government investment growth. This really needs to improve.

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