Latam Daily: Chile's Constitutional Reform; Colombia's Growth & Imports; Peru's Growth

- **Chile: Senator proposes a constitutional contingency plan**
- **Colombia: Growth beats expectations; imports soar in March**
- **Peru: March GDP growth—appearances can be deceiving**

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CHILE: SENATOR PROPOSES A CONSTITUTIONAL CONTINGENCY PLAN

On Friday, May 13, a senator proposed a constitutional back-up plan in the event that the new constitution currently being drafted by the constituent assembly is rejected in the referendum to be held on September 4. The text of the proposal calls for the President of the Republic to convene a session of Congress within thirty days of the plebiscite to request the preparation of a new constitution, the drafting of which must be completed in six months. This proposal reflects polls showing the rejection option leading over approval, and also because various parliamentarians have mentioned that almost 80% of the population is in favour of having a new Constitution. The proposal stipulates that the commission "be made up of outstanding academics." In addition, those who have served in the Constituent Conventions cannot be members of this Commission. If polls continue to point to a rejection of the proposed Constitution, it is likely that this bill (or another like it) will gain traction in Congress. At the same time, should an alternative path to constitutional reform be approved in Congress before September 4, it is very likely that undecided voters—close to 20% according to different polls—would be swayed to reject the constitutional proposal in the referendum.

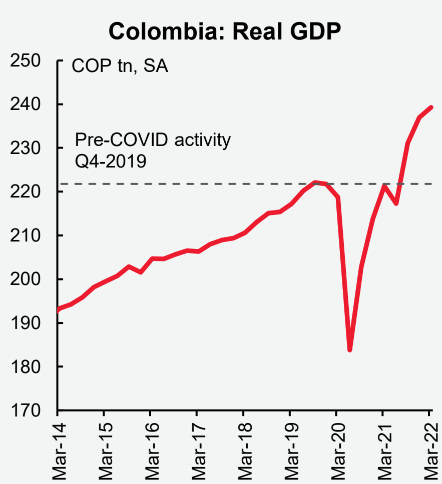
—Anibal Alarcón

COLOMBIA: GROWTH BEATS EXPECTATIONS; IMPORTS SOAR IN MARCH

I. Economic growth beats expectations, with services sectors leading the gains, while domestic demand remains robust

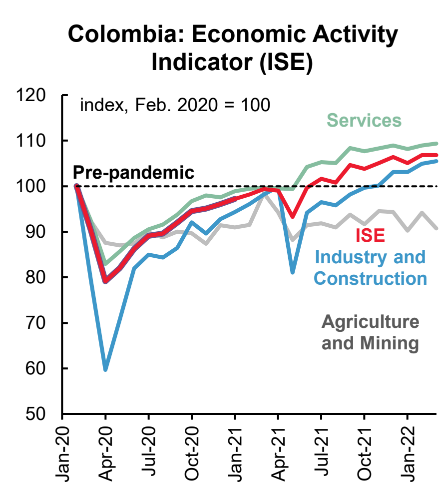
Data published on Monday, May 16 by Colombia's statistical agency, DANE, show that Colombia's real GDP grew by 8.5% y/y in Q1-2022, above the Bloomberg consensus (7.75%), BanRep's 7.2% estimate, as well as our forecast of 6.6% y/y. Growth was 1.0% in seasonally adjusted quarterly terms, with positive contributions from services-related sectors. By the end of Q1-2022 the economy was operating at 7.9% above the pre-pandemic level of 4Q-2019 (chart 1). However, employment in March was still 25% below pre-pandemic. Note that 2021 GDP growth was also revised upwards from 10.6% to 10.7%.

Chart 1



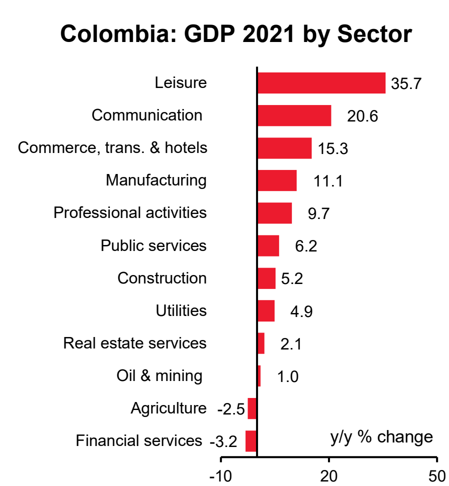
Sources: Scotiabank Economics, DANE.

Chart 2



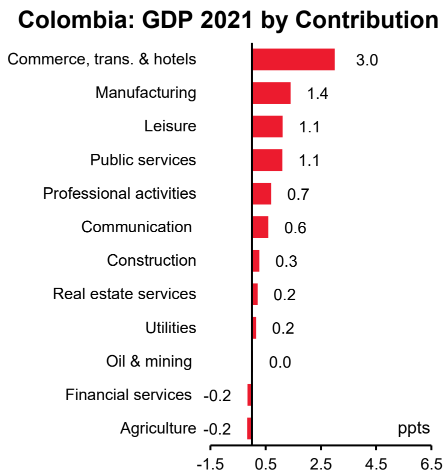
Sources: Scotiabank Economics, DANE.

Chart 3



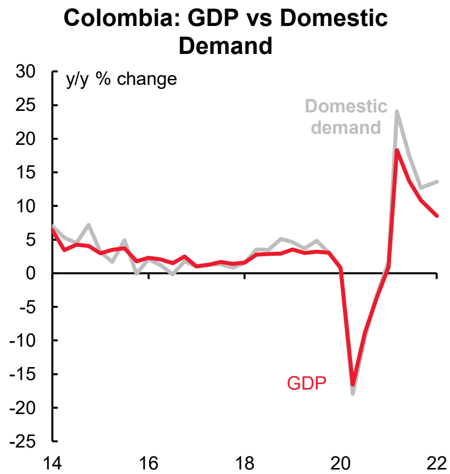
Sources: Scotiabank Economics, DANE.

Chart 4



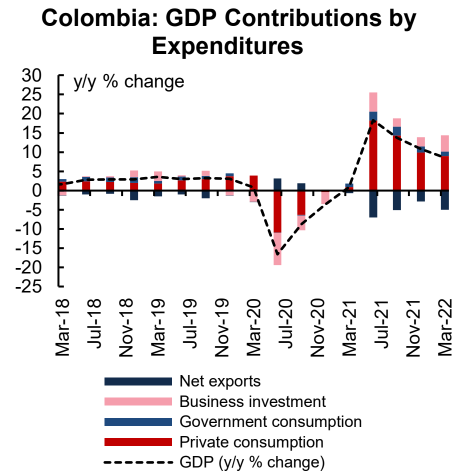
Sources: Scotiabank Economics, DANE.

Chart 5



Sources: Scotiabank Economics, DANE.

Chart 6



Sources: Scotiabank Economics, DANE.

The solid growth results reflect the positive response of the economy to the total relaxation of mobility restrictions and the return to in-person activities, especially education. On the demand side, private consumption remained strong, while investment picked up but remains below pre-pandemic levels. That said, despite the high inflation environment, economic activity remained solid. Looking ahead, we expect a moderate slowdown in consumption to more sustainable levels in the second half of 2022, while investment is expected to be stronger due to better construction activity. For now, our GDP growth forecast is 5.8% for 2022 skewed to the upside.

According to the monthly indicator (ISE), economic activity rebounded by 7.6% y/y in March (+0.0% m/m sa), closing a robust quarter operating 8.3% above the pre-pandemic level of February 2020 (chart 2). In March, the largest gains compared with one year ago came from commerce, transport, and hotels (12.1% y/y), manufacturing (10.3 % y/y), and leisure activities (30% y/y). In seasonally adjusted monthly terms, commerce and transport and hotels accelerated, growing +2.3% m/m (chart 3). On negative side, agriculture (-1.2% m/m), mining (-0.1% m/m) and construction (-8.0% m/m sa), posted the largest contractions.

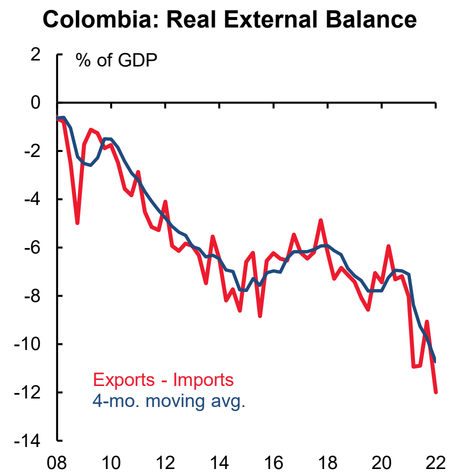
Regarding Q1-2022 performance from the supply side we highlight:

- The sectors that contributed the most to growth in the first quarter were commerce, transport and hotels (+3 ppts), manufacturing (1.4 ppts), and leisure (1.1 ppts), accounting for 65% of total growth (chart 4).
- All sectors expanded in the first quarter of 2022, with the largest expansions coming from the leisure (35.7% y/y) commerce, transport, and hotels (+15.3% y/y), and manufacturing (+11.1% y/y). The weakest performance came from agriculture (-2.5% y/y) and financial services (-3.2%), explained by the last insurance payment for the failure of the Hidroituango project.
- The consolidation of the recovery and the return to in-person activities are reflected in robust growth of services-related sectors. In quarterly seasonally adjusted growth, professional activities showed a strong rebound (+11.9% q/q sa). However, on the negative side, the agricultural sector is showing signs of weakness owing to higher input costs, increasing the risk for inflation in the future.
- The construction sector is also showing a better dynamic, with building construction up +10.3% y/y reflecting the positive effects of historically high sales of houses in 2021. Meanwhile, despite civil works (-4.9% y/y) remaining on the negative side, the sector showed some improvement on a quarterly basis (+2.0% q/q, sa). That said, it is expected that construction will continue to show favourable levels and support growth this year.

Expenditure side GDP Q1-2022:

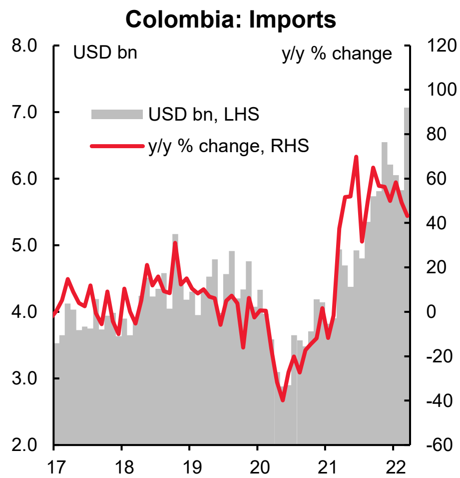
- Domestic demand increased by 13.6% y/y in Q1-2022 (chart 5), well above the expansion of GDP (8.5% y/y) pointing to a widening of the real external deficit. Sequentially, domestic demand expanded by 3.9% q/q sa. In Q1-2022, private consumption remained robust, and was reflected in higher imports.
- Private consumption (+12.2% y/y) contributed the most to growth (+9.0 bps) in Q1 2022 (chart 6). In seasonally adjusted quarterly terms, it recorded the largest increase, which is partly explained by the VAT holiday in March. Public consumption increased by +8.6%y/y (4.6 q/q),

Chart 7



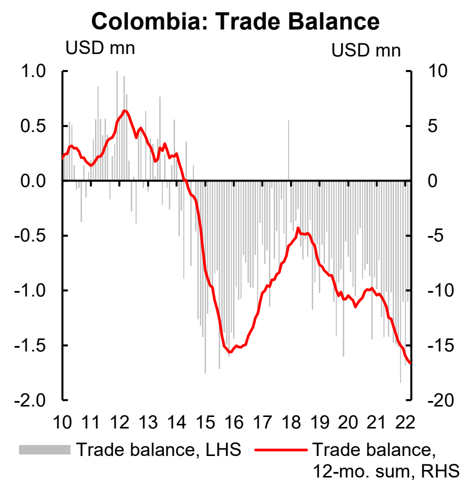
Sources: Scotiabank Economics, DANE.

Chart 8



Sources: Scotiabank Economics, DANE.

Chart 9



Sources: Scotiabank Economics, DANE.

showing the effect of the electoral season. Private consumption growth should moderate to more sustainable rates in H2-2022, with public spending likely to decline somewhat after the presidential elections.

- Investment expanded by 11.0% y/y and contributed 2.1 bps to total growth, showing positive performance in machinery and equipment purchases. While construction-related activities showed a weak result (housing and other construction falling by 2% y/y) in year-on-year seasonally adjusted terms, there are some green shoots and we expect a better performance after the presidential elections despite headwinds from higher input prices.
- The real external deficit widened in Q1-2022 to 12% of GDP (chart 7). Exports (+16.8% y/y) expanded at a lower rate than imports (+38.9% y/y), showing the impact of weaker mining activity, while imports are still robust due to the better economic activity.

All in all, Q1-2022 GDP recorded better-than-expected results, with a still solid performance from domestic demand. From a sectoral perspective, services led the gains, with the strong performance supported by manufacturing. On the demand side, the main gains came from private consumption, while investment is showing a better performance in machinery and equipment purchases despite the international context, and domestic political uncertainty. **Strong economic activity and inflation expectations diverging from the central bank's target support the expectation of a rise of at least 100 bps in the next two BanRep's meetings. However, the possibility of a more hawkish move by the central bank is increasing. For now, we at Scotiabank Economics anticipate a terminal rate of 8% in the current cycle, but we stress that considerable uncertainty remains.**

II. Imports at historical high in March as trade deficit widens again

March imports data, released by DANE on Monday, May 16, came in at USD 7.06 bn (CIF terms), expanding by 43.1% y/y (chart 8), reaching a new historical high. The monthly trade deficit stood at USD 1.52 bn (chart 9), and the YTD trade deficit was USD 4.31 bn, 46.1% above the same period in 2021. However, imports and exports are now increasing at the same rate, which points to a stabilization in the trade deficit in the future.

March's imports accelerated from the previous month, especially on higher purchases of raw materials and capital goods for the industrial sector, signalling that higher international prices continue to push imports higher. It also shows the effect of still resilient economic growth. Manufacturing imports grew by 35.5% y/y, accounting for the biggest positive contribution to annual imports growth, while agriculture-related imports increased by 45.1% y/y and mining-related imports grew by 130.5% y/y.

From the perspective of imports by use, three major segments showed strong increases compared with March 2021:

- Consumption-goods imports increased by +24.9% y/y and stood at USD 1.38 bn. Both durable and non-durable goods imports increased over previous months. In y/y terms, the two components expanded by +22% y/y and +28.7% y/y, respectively. In the case of non-durable goods, food purchases (+35.3% y/y) led the gains. In the case of durable goods, the positive performance of vehicle purchases (+24.9% y/y) and machines and home appliances (+40.6% y/y) reflected the effects of high international prices.

- Raw-materials imports grew by 51.4% y/y to USD 3.57 bn and remained the main contributor to the overall imports increase. Imports for the industry sector (+42.3% y/y) lead the gains amid higher purchases of chemical products (+43.4% y/y). In the same vein, fuel imports (+189.4% y/y) contributed significantly to the expansion, both reflecting the effect of high international prices, but also resilient demand.
- Capital-goods imports were up by 43.6% y/y to USD 2.12 bn. Purchases of investment-related goods in the industry lead the gains (+37% y/y), followed by transport equipment (+59.9% y/y). In the case of industry, purchases of machinery (+46.7% y/y) were robust and are a positive sign of investment.

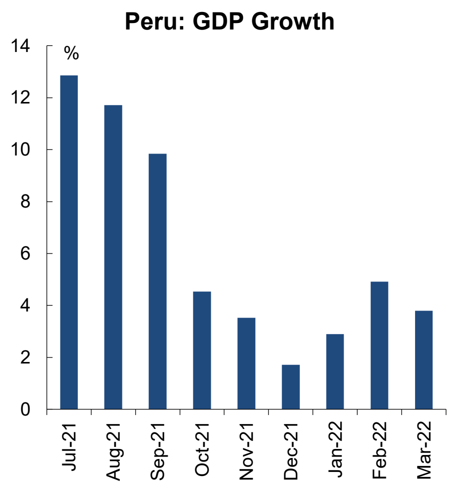
Imports posted a new monthly historical high in March reflecting higher international prices and the ongoing domestic economic recovery. The trade deficit widened again, but with exports and imports growing at a similar pace, some stabilization of the deficit could be forthcoming in the months ahead. We expect the current account deficit will stand at USD 17 bn in 2022. This would be equivalent to 5% of GDP, as continued economic growth increases the denominator (GDP). In terms of financing, the prevalence of high capital goods imports points to higher FDI. Nevertheless, we highlight that the external deficit remains an issue of concern.

—Sergio Olarte, Maria (Tatiana) Mejía & Jackeline Piraján

PERU: MARCH GDP GROWTH—APPEARANCES CAN BE DECEIVING

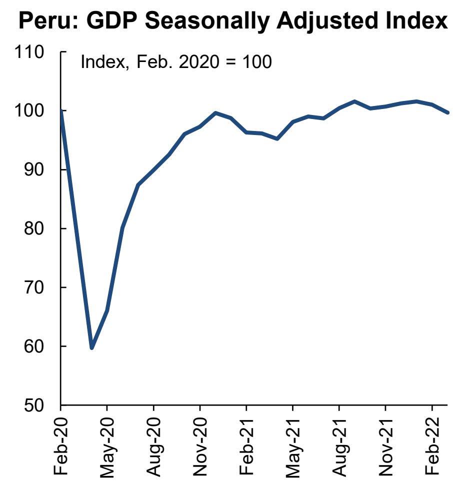
GDP growth came in at 3.8% y/y both for March and for Q1 (chart 10). This seems not to have been half bad. It was a good month to end a good quarter. Sort of. The figures hide the fact that growth has actually stalled in month-on-month terms. GDP, which had stabilized at just over pre-COVID-19 levels since August 2021, actually declined 1.3% m/m in March to just below the pre-COVID-19 February 2020 level (chart 11). Electricity growth was also telling in this regard. Although it showed 2.7% growth in March in y/y terms, electricity GDP fell 0.6% in m/m terms.

Chart 10



Sources: Scotiabank Economics, BCRP.

Chart 11



Sources: Scotiabank Economics, BCRP, INEI.

To add cold water to this already lukewarm scenario, growth in Q1 was heavily weighted to those sectors that were emerging from last year's lockdown (table 1). The three sectors showing the greatest growth in Q1 were those still benefiting from a low base: hotels & restaurants (49% y/y), transportation (12.4% y/y), and commerce (5.9% y/y). These sectors accounted for roughly half of growth, which suggests that if it had not been for the comparison with last year's lockdown, GDP growth would have struggled to reach 2%. In fact, roughly 2% growth is what we are expecting henceforth in 2022, and is in line with our forecast of 2.6% for the full year.

Table 1: Peru—March GDP Growth by Sector

%	y/y	m/m	Q1/Q1
Aggregate GDP	**3.8**	**-1.3**	**3.8**
Agriculture	2.9	-0.8	3.7
Fishing	-25.1	-7.4	-26.2
Mining & oil	-1.2	-2.4	1.1
Metals mining	-3.2	N/A	N/A
Oil & gas	12.3	N/A	N/A
Manufacturing	4.7	0.8	2.0
Electricity	2.7	-0.6	3.4
Construction	1.4	4.6	-0.5
Commerce	8.1	-12.9	5.9
Telecom	3.1	0.3	4.1
Transportation	12.2	0.7	12.4
Business services	2.7	1.0	3.2
Hotels & restaurants	42.1	5.8	49.4
Public administration	3.8	N/A	3.8
Financial services	-6.4	-1.6	-5.3
Other services	4.0	N/A	4.4

Sources: Scotiabank Economics, INEI.

A few things of note in sector terms. On the positive side, manufacturing is doing well. Better yet, the non-resources processing component of manufacturing rose 10.0%, y/y in March. This may partially reflect comparison with last year's lockdown (two weeks in March), but not entirely. Manufacturing is also doing well in m/m terms. This seems to suggest that consumption is still holding up. Another factor is textiles production growth. Textile exports volume rose 13.3% y/y in Q1 and 20.5% y/y in March, as local producers have moved to fill the gap left by restrictions on China in the US market.

Construction is also beginning to show signs of recovery in March. This was probably linked to greater public sector investment, which rose 7% y/y in March, after having declined during each of the previous six months.

On the downside, the 3.2% y/y decline in metals mining in March was clearly linked to halted production at the Las Bambas (Chinalco) and Cuajone (Southern Peru) copper mines due to social protests. Disruptions to mining operations are normally only temporary, but have become a recurring feature of mining in Peru. Finally, note that the decline in financial services is linked to the Reactiva liquidity program, which stirred extraordinary loans growth in 2020–2021.

—Guillermo Arbe