

Colombia's Macroeconomic Performance: Q3 2017 GDP and Current Monthly Indicators

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16 FEBRUARY 2018

The Bank of Tokyo-Mitsubishi UFJ, Ltd.
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Overview

Colombia's GDP growth accelerated during Q3 2017 to 2.0% YoY in comparison to the previous quarter (1.2% YoY). This was the highest growth rate since Q2 2016, but still below its long term average growth rate.

Although household consumption grew during Q3 (1.7% YoY), its performance remained lackluster in comparison to previous years. One of the possible factors behind the weak performance of household consumption is the limited improvement in the labor market.

Gross Fixed Capital Formation (GFCF) grew at 0.2% YoY during Q3 2017, a deceleration in comparison to the previous quarter. This deceleration was mainly driven by the contraction in construction (-15.8% YoY).

After reaching its lowest point in July 2017 (3.4% YoY), inflation plateaued and remained largely unchanged from August through December. After the impact of the El Niño phenomenon during 2016, weather patterns have returned to a more normal state, leading to a reduction in the rate of increase of food prices.

At its last meeting in January 2018, the Central Bank decided to reduce the policy rate by an additional 0.25 percentage points, to 4.50%.

For 2018, it is expected that Colombia's GDP growth will accelerate somewhat. Low inflation, lower interest rates, a continued positive outlook of the global economy and higher oil prices will be some of the factors that positively affect Colombia's economy. An upturn in investment is also expected.

1. GDP

Colombia's GDP growth accelerated during Q3 2017 to 2.0% YoY in comparison to the previous quarter (1.2% YoY) (Figure 1). This was the highest growth rate since Q2 2016, but still below its long term average growth rate.

GDP by Sector

On the production side, there is still a disparate performance among the different sectors.

The agriculture sector expanded faster than any other sector (7.1% YoY) during Q3 (Figure 2). The main factor behind this rapid growth was the improved weather conditions.

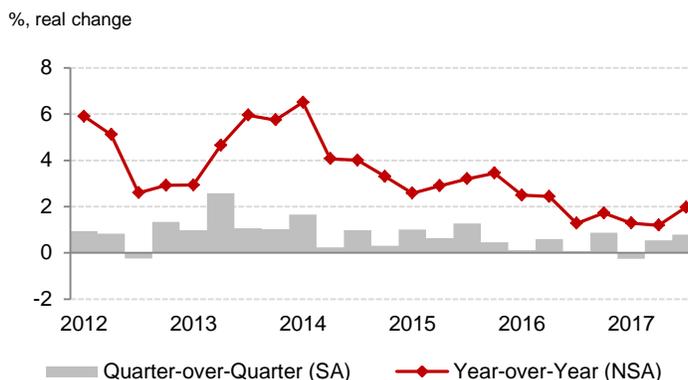
In contrast, the mining and construction sectors are the two sectors that contracted the most (both sectors contracted 2.1% YoY in Q3).

Consumption

Consumption increased by 2.1% YoY in Q3 2017, driven by an increase in both household and government consumption (1.7% YoY and 3.9% YoY, respectively) (Figure 3).

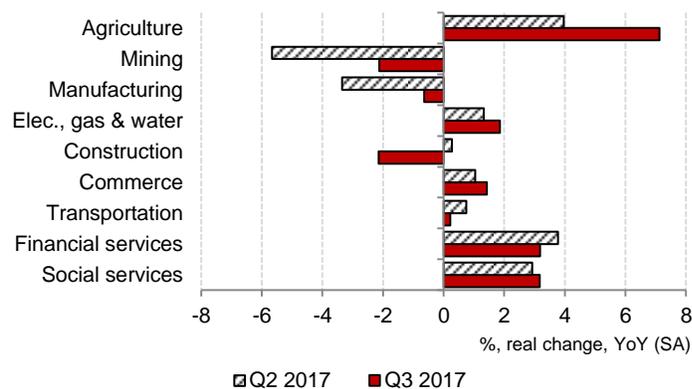
Although household consumption grew during Q3, its performance remained lackluster in comparison to previous years. Durable goods and services were the ones most affected by the slowdown in household consumption (3.6% YoY and 1.5% YoY in Q3, respectively). These rates are lower than the average growth rates between 2012-2016).

Figure 1: GDP growth



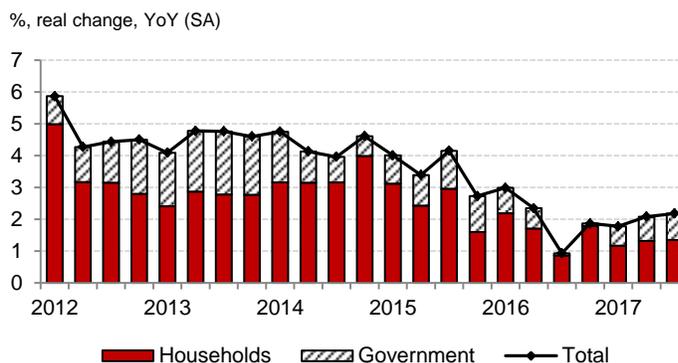
Source: DANE (National Administrative Department of Statistics), MUFG

Figure 2: GDP by Sector



Source: DANE, MUFG

Figure 3: Consumption



Source: DANE, MUFG

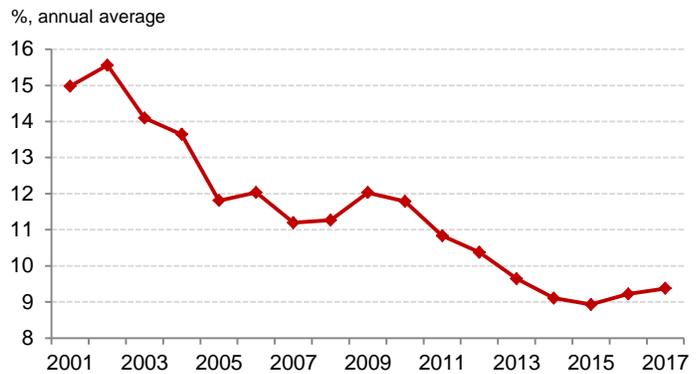
One of the possible factors behind the weak performance of household consumption is the limited improvement in the labor market. Over the last two years the unemployment rate (annual average) increased from 8.9% in 2015 to 9.4% in 2017 (Figure 4).

Investment

Gross Fixed Capital Formation (GFCF) grew at 0.2% YoY during Q3 2017, a deceleration in comparison to the previous quarter (Figure 5). This deceleration was mainly driven by the contraction in construction (-15.8% YoY).

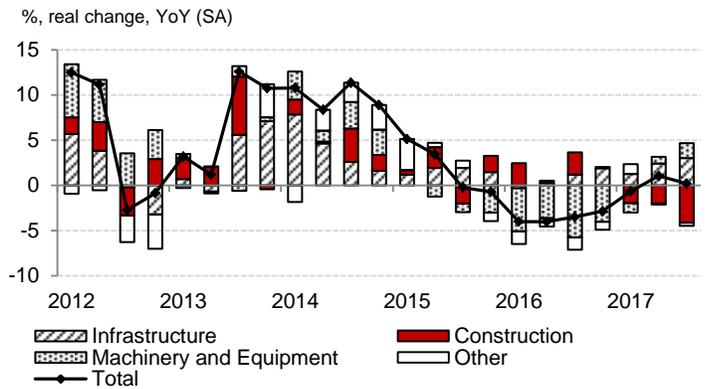
The factors behind the weakness in construction appeared to be coming from weak housing demand (reflected in the continued high housing construction costs) (Figure 6).

Figure 4: Unemployment Rate



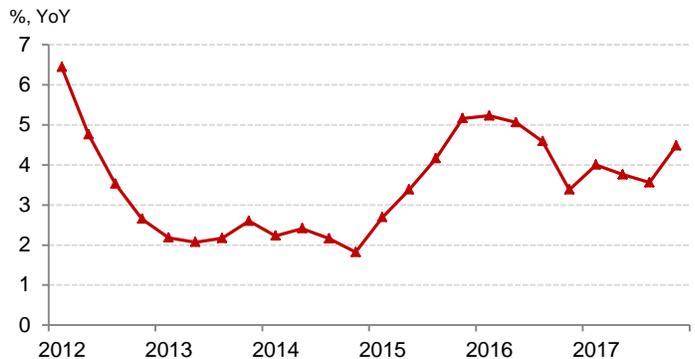
Source: DANE, MUFG

Figure 5: Gross Fixed Capital Formation



Source: DANE, MUFG

Figure 6: Housing Construction Costs



Note: Housing Construction Costs is an index that includes 3 major groups of costs: materials, labor force, and machinery and equipment.

Source: DANE, MUFG

Exports and Imports

Exports of goods grew by 18.6% YoY in Q3 2017. This increase was driven by an upturn in fuel and mining (23.1% YoY) (Figure 7). This expansion is the result of the continued improvement in the global economy and commodity prices.

Imports of goods grew more slowly during Q3 2017, increasing only 1.1% YoY (Figure 8). The deceleration in imports of capital goods (4.9% YoY) in comparison to previous quarter and the contraction of intermediate goods (-0.8% YoY) were the main drivers of the overall slower growth rate during Q3. The lackluster performance of imports during this period is a reflection of the continued weakness of investment.

2. Inflation and Monetary Policy

After reaching its lowest point in July 2017 (3.4% YoY), inflation plateaued and remained largely unchanged from August through December (Figure 9). The YoY inflation rate in December 2017 was 4.1%, slightly above the upper band of the inflation target of 4.0%.

One of the principal causes of the fall in inflation during the first half of 2017 was a reduction in food price inflation. After the impact of the El Niño phenomenon during 2016, weather patterns have returned to a more normal state, leading to a reduction in the rate of increase of food prices.

Figure 7: Exports of Goods

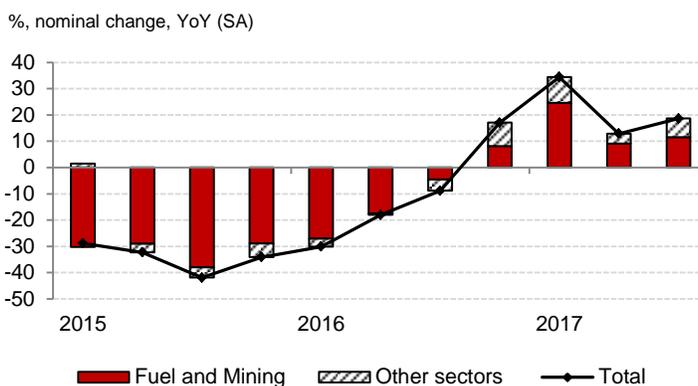


Figure 8: Imports of Goods

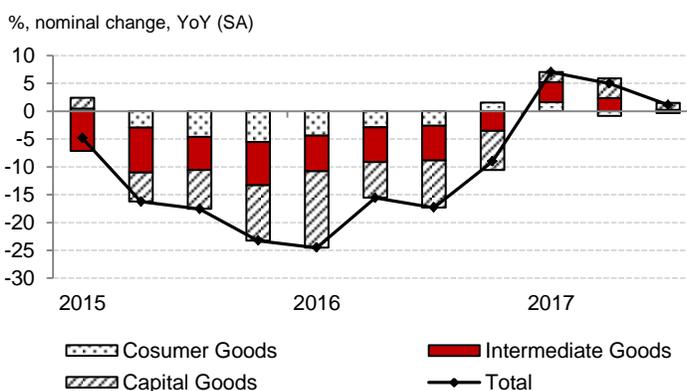
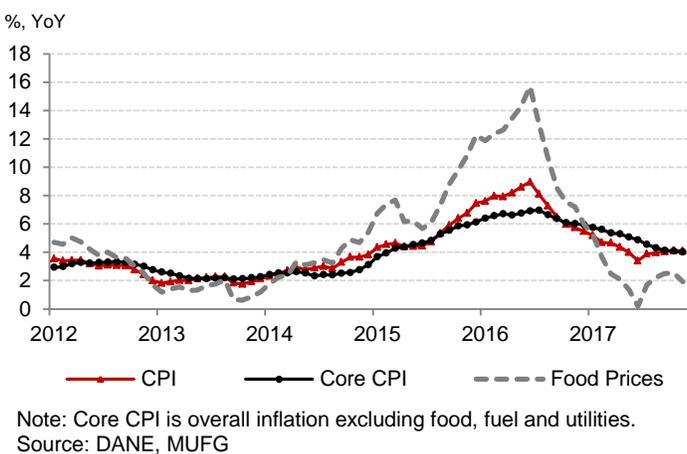


Figure 9: Inflation

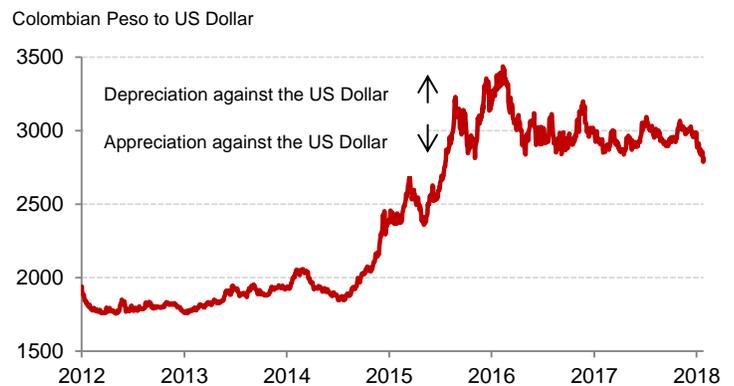


Throughout 2017, the Central Bank cut its policy rate 9 times (2.75 percentage points). At its last meeting in January 2018, the Central Bank decided to reduce the policy rate by an additional 0.25 percentage points, to 4.50%. Policy makers are seeking to boost growth, and with inflation expectations continuing to be reduced, further rate cuts could occur.

3. Exchange Rate

The sharp decline in oil prices during 2015 hit the Colombian Peso hard (Figure 10). From its low point at the beginning of 2016, the Colombian peso has gradually begun to regain value, closely following the slow improvement in oil prices. Despite the gradual improvement over the past two years, the Colombian peso is still highly undervalued, as it is 27.0%¹ below its historic 10 year average (2008-2017).

Figure 10: Exchange Rate



Source: DataStream, MUFG

4. Outlook

For 2018, it is expected that Colombia's GDP growth will accelerate somewhat. Low inflation, lower interest rates, a continued positive outlook of the global economy and higher oil prices will be some of the factors that positively affect Colombia's economy. An upturn in investment is also expected.

¹ As of January 31, 2018

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