

## Peru's Macroeconomic Performance: Q4 2018 GDP and Current Monthly Indicators

**MUFG UNION BANK, N.A.**  
**ECONOMIC RESEARCH (NEW YORK)**  
KAREN MARTINEZ  
Latin America Economist  
+1(212)782-5708  
KMartinez@us.mufg.jp

26 FEBRUARY 2019

**MUFG Bank, Ltd.**  
A member of MUFG, a global financial group

Peru's GDP grew 4.8% YoY during Q4 2018, an acceleration from the the previous quarter (2.3% YoY in Q3 2018). Meanwhile, the overall 2018 growth rate accelerated to 4.0% YoY from 2.5% YoY in 2017. On the demand side, robust consumption and an improvement in investment supported Peru's economy during 2018.

Consumption increased by 3.5% YoY in Q4 2018. Household consumption grew 3.8% YoY in Q4 2018, equal to its overall annual growth in 2018. The strong performance of household consumption offset weak government consumption.

Gross Fixed Capital Formation (GFCF) grew 5.8% YoY during Q4 2018, an acceleration in comparison to the previous quarter (1.0% YoY in Q3 2018). This brought overall annual growth of GFCF in 2018 to 5.2% YoY.

The consumer price index in Lima (CPI Lima) in January 2019 increased 2.0% YoY, decelerating from 2.2% YoY in December 2018 and continued to remain within the target band range (1.0%-3.0%).

At its February meeting, the Central Bank kept the policy rate unchanged for the eleventh consecutive time at 2.75%.

For 2019, it is expected that GDP will continue to expand solidly. The economy will continue to be underpinned by robust domestic demand, mainly driven by an increase in private investment. Low interest rates are expected to fuel private investment. Additionally, a sturdy labor market and low inflation will buttress household consumption. A pronounced slowdown in China's growth and lingering trade tensions between the US and China could weigh on the Peruvian economy going forward.

## 1. GDP

Peru's GDP grew 4.8% YoY during Q4 2018, an acceleration from the the previous quarter (2.3% YoY in Q3 2018) (Figure 1). Meanwhile, the overall 2018 growth rate accelerated to 4.0% YoY from 2.5% YoY in 2017.

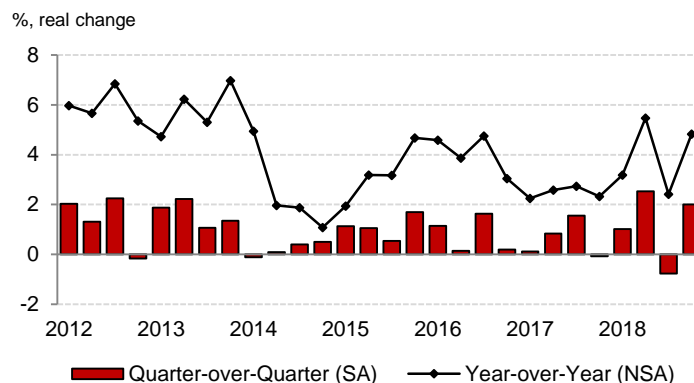
On the demand side, robust consumption and an improvement in investment supported Peru's economy during 2018 (Figure 2).

The low inflation rate and lower interest rate were two of the factors contributing to the economic acceleration.

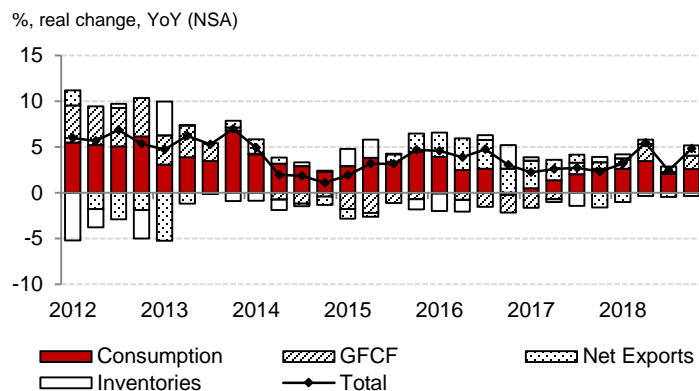
### Consumption

Consumption increased by 3.5% YoY in Q4 2018. Household consumption grew 3.8% YoY in Q4 2018, equal to its overall annual growth in 2018 (Figure 3). The strong performance of household consumption offset weak government consumption.

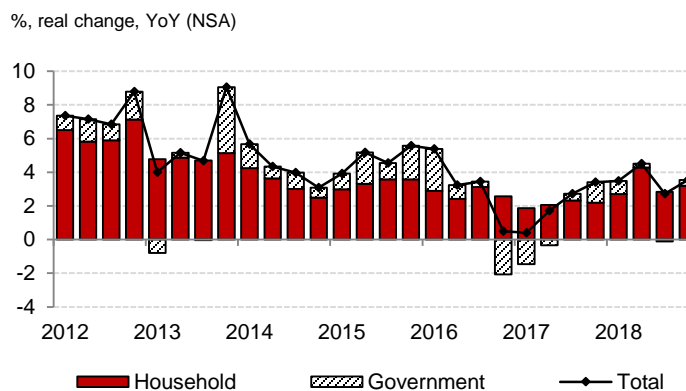
**Figure 1: GDP Growth**



**Figure 2: GDP by Demand Components**



**Figure 3: Consumption**



One of the possible factors that could explain the positive performance of household consumption is the continued improvement of household credit (11.6% YoY expansion during Q4 2018) (Figure 4). This is partially the result of low interest rates.

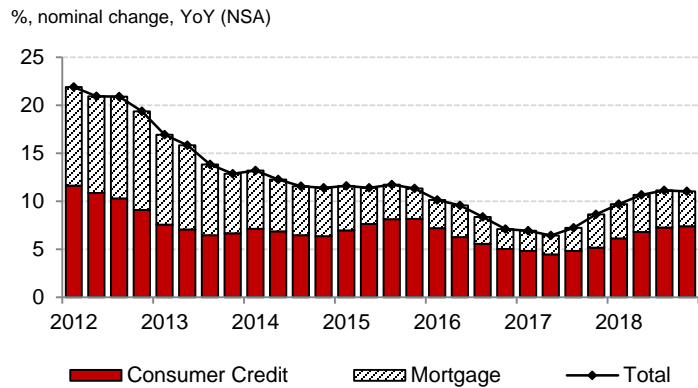
In addition, the labor market improved in 2018, with the unemployment rate falling to 6.6% in 2018, lower than its historical average of the last 15 years (7.8% from 2003-2017).

## Investment

Gross Fixed Capital Formation (GFCF) grew 5.8% YoY during Q4 2018, an acceleration in comparison to the previous quarter (1.0% YoY in Q3 2018) (Figure 5). This brought overall annual growth of GFCF in 2018 to 5.2% YoY. This was a significant improvement in GFCF after 3 consecutive years of investment falling between 2014-2016 and a minimal increase in 2017. Two factors could have affected investment growth in 2018. 1) Investment was spurred by the low year-over-year comparison<sup>1</sup>. 2) Increase in investment in mining in 2018 (25.9% YoY) (Figure 6).

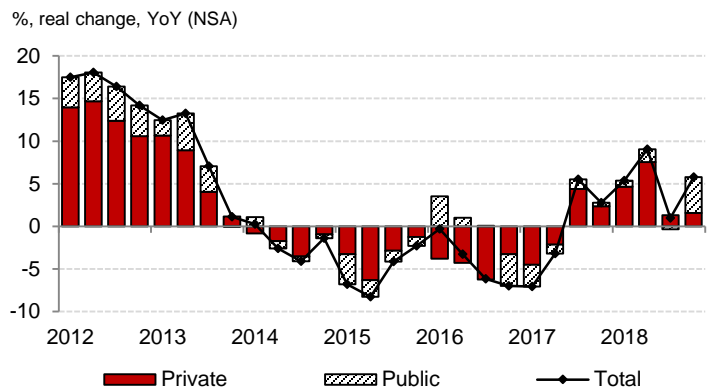
Public investment registered an increase of 17.0% YoY during Q4 2018. This is explained because both national and local governments increased the execution of infrastructure projects.

**Figure 4: Outstanding Household Credit**



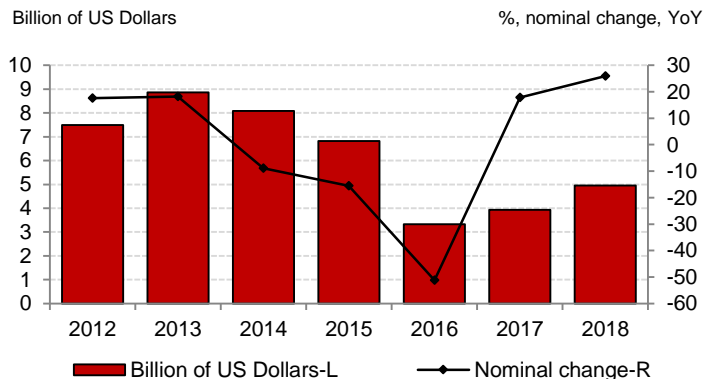
Source: Central Reserve Bank of Peru, MUFG

**Figure 5: Gross Fixed Capital Formation**



Source: Central Reserve Bank of Peru, MUFG

**Figure 6: Investment in Mining**



Source: Ministry of Energy and Mining, MUFG

<sup>1</sup> Investment decreased during Q1 and Q2 in 2017 as a result of the completion of two large projects in the mining sector: at Las Bambas and Cerro Verde and delays in other non-mining projects, such as the International Airport of Chinchero, the Metro line in Lima, and an oil pipeline in southern Peru as a result of corruption scandals.

## Exports and Imports of Goods

Exports of goods decreased by 2.8% YoY in Q4 2018 (Figure 7). This represents the worst result since Q1 2016 and was the result of a decrease in exports of mining, principally copper (-6.3% YoY) and gold (-2.1% YoY). This contraction is possibly the result of a drop in copper prices and lower gold output.

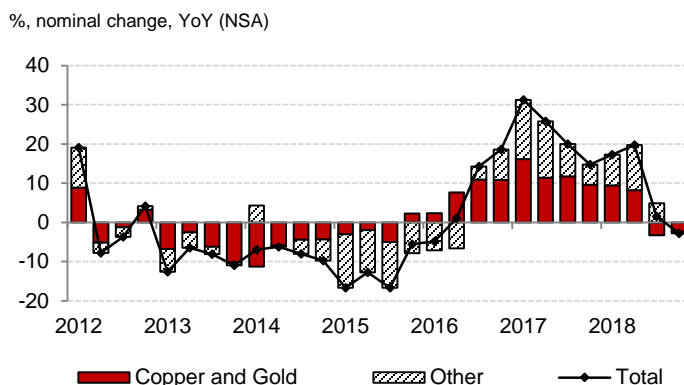
Imports of goods grew at a slower pace during Q4 2018, increasing 1.1% YoY (Figure 8), the lowest increase since Q4 2016. Consumption goods decreased as a result of a decrease in durable goods (-8.0% YoY in Q4 2018). Capital goods decreased principally as a result of a decrease in imports of agricultural equipment (-15.2% YoY) and transportation equipment (-10.9% YoY).

## 2. Inflation and Monetary Policy

The consumer price index in Lima<sup>2</sup> (CPI Lima) in January 2019 increased 2.0% YoY, decelerating from 2.2% YoY in December 2018 (Figure 9) and continued to remain within the target band range (1.0%-3.0%).

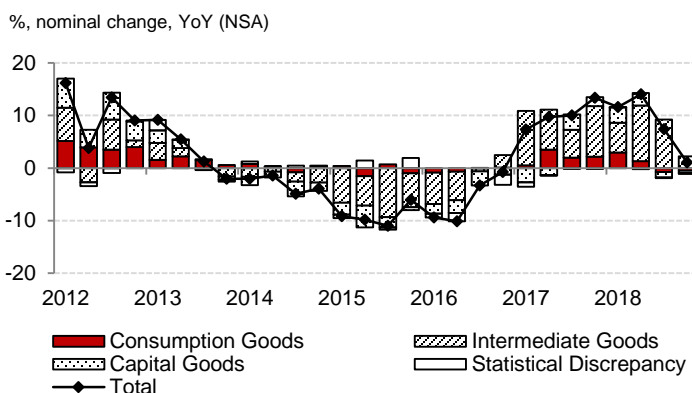
The slower growth in food and beverages prices (1.5% YoY in January 2019 in comparison to 1.9% YoY in December 2018), contributed to the slower growth of CPI in January.

**Figure 7: Exports of Goods**



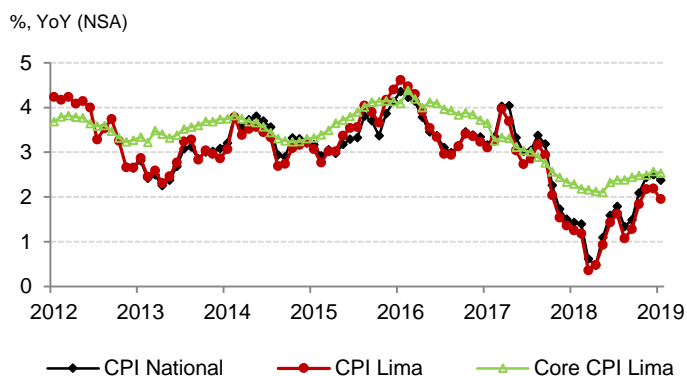
Source: Central Reserve Bank of Peru, MUFG

**Figure 8: Imports of Goods**



Source: Central Reserve Bank of Peru, MUFG

**Figure 9: Inflation**



Note: CPI National is only available from December 2012. There is not Core CPI National calculated by an official authority in Peru and disaggregation of information is limited.

Source: National Institute of Statistics and Informatics (INEI), MUFG

<sup>2</sup> For the case of Peru, CPI Lima is widely used as a proxy for CPI because of the detailed breakdown of data it provides, which is not the case for CPI National.

Core CPI Lima, at 2.5% YoY in January 2019 slightly decreased from the previous month (2.6% YoY in December 2018). Core CPI Lima remained within the target band range but has been showing an upward trend for the last 8 months. Although core inflation is showing an upward trajectory, its levels are still below the average of the last 10 years (3.5% YoY).

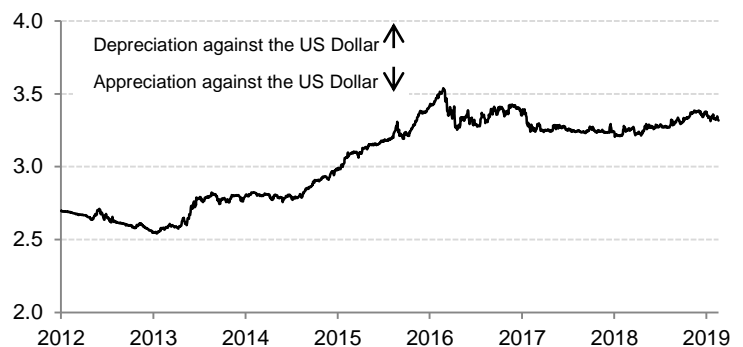
At its February meeting, the Central Bank kept the policy rate unchanged for the eleventh consecutive time at 2.75%. The Central Bank stated that the reasons behind its decision were that inflation continued to be moderate, inflation expectations remained well anchored and economic activity remains below potential.

### 3. Exchange Rate

The Peruvian Sol appreciated 1.5% so far this year (up to February 15) (Figure 10). The US Federal Reserve decision to be more cautious about the normalization of its monetary policy could be one of the factors causing the recent appreciation of the Peruvian Sol.

**Figure 10: Exchange Rate**

Peruvian Sol to US Dollar



Source: DataStream, MUFG

### 4. Outlook

For 2019, it is expected that GDP will continue to expand solidly. The economy will continue to be underpinned by robust domestic demand, mainly driven by an increase in private investment. Low interest rates are expected to fuel private investment. Additionally, a sturdy labor market and low inflation will buttress household consumption. A pronounced slowdown in China's growth and lingering trade tensions between the US and China could weigh on the Peruvian economy going forward.

---

For reference to our previous reports, see our website at: <https://mufgamericas.com/economic-research>

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by MUFG Bank, Ltd. (collectively with its various offices and affiliates, "MUFG Bank") is or should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFG Bank believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, MUFG Bank makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention. MUFG Bank, Ltd. retains copyright to this report and no part of this report may be reproduced or re-distributed without the written permission of MUFG Bank, Ltd. MUFG Bank, Ltd. expressly prohibits the re-distribution of this report to Retail Customers, via the internet or otherwise and MUFG Bank, Ltd., its subsidiaries or affiliates accept no liability whatsoever to any third parties resulting from such re-distribution.