

Peru's Macroeconomic Performance: Q3 2019 GDP and Current Monthly Indicators

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Overview

During Q3 2019, Peru's GDP increased by 3.0% YoY, an acceleration from the previous quarter (1.2% YoY). The quarter-over-quarter growth rate was 0.9%. Peru's economic upturn was spearheaded by an improvement in consumption.

Consumption increased by 3.7% YoY in Q3 2019. Household consumption grew 3.3% YoY in Q3 2019. While low inflation and low interest rates contributed to this positive performance, the improvement of the labor market also helped to drive the improvement in household consumption.

Regarding investment, gross fixed capital formation (GFCF) grew 5.7% YoY in Q3 2019, an acceleration from the previous quarter (5.5% YoY). This was driven by the increase in private investment.

The YoY inflation rate began to decelerate in June 2019. CPI grew by 1.9% YoY in December 2019, unchanged from the previous month. Food and transportation prices influenced the decrease of CPI.

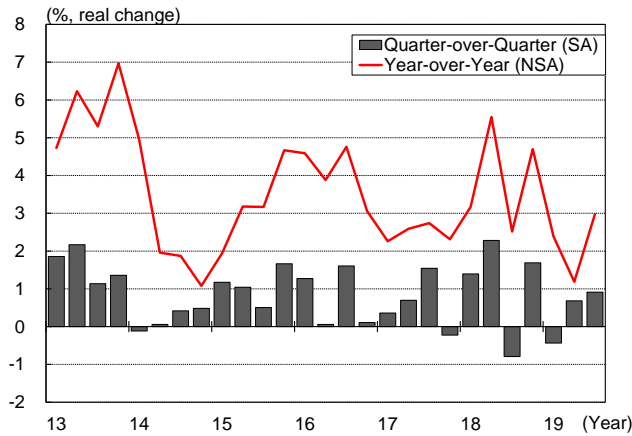
During its most recent meeting in January 2020, the Central Bank decided to keep the policy rate unchanged at 2.25%, the lowest level since July 2010.

Peru's GDP growth is expected to accelerate in 2020. Low inflation and an expansionary monetary policy are expected to support economic activity in 2020. In addition, investment is expected to pick up, partially as a result of infrastructure projects.

1. GDP

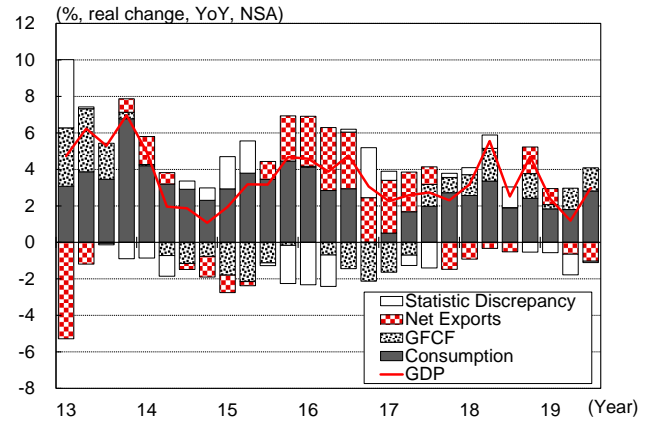
During Q3 2019, Peru's GDP increased by 3.0% YoY, an acceleration from the previous quarter (1.2% YoY) (Chart 1). The quarter-over-quarter growth rate was 0.9%. Peru's economic upturn was spearheaded by an improvement in consumption (Chart 2).

Chart 1: GDP Growth



Source: Central Reserve Bank of Peru, MUFG Economic Research Office

Chart 2: GDP by Demand Components



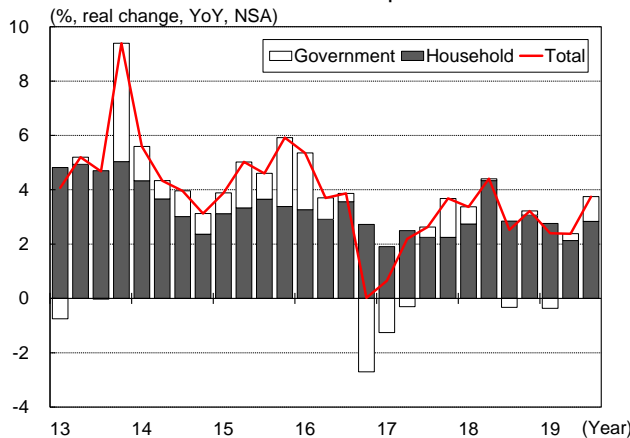
Note: GFCF stands for Gross Fixed Capital Formation.

Source: Central Reserve Bank of Peru, MUFG Economic Research Office

Consumption and Investment

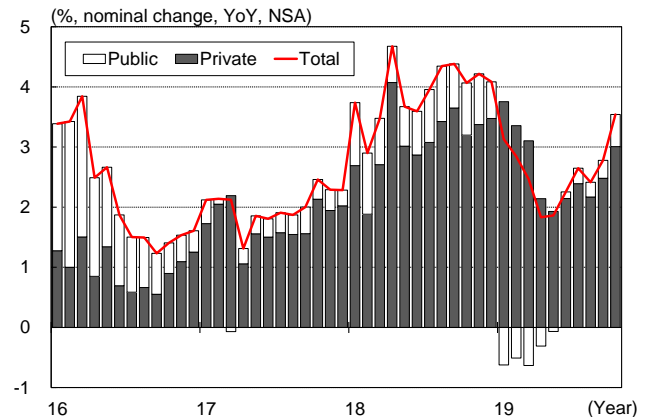
Consumption increased by 3.7% YoY in Q3 2019 (Chart 3). Household consumption grew 3.3% YoY in Q3 2019. While low inflation and low interest rates contributed to this positive performance, the improvement of the labor market also helped to drive the improvement in household consumption. The number of jobs increased 3.5% YoY in October as a result of an increase in the number of private jobs (4.2% YoY) due to an expansion of the number of jobs in the construction and service sectors (Chart 4).

Chart 3: Consumption



Source: Central Reserve Bank of Peru, MUFG Economic Research Office

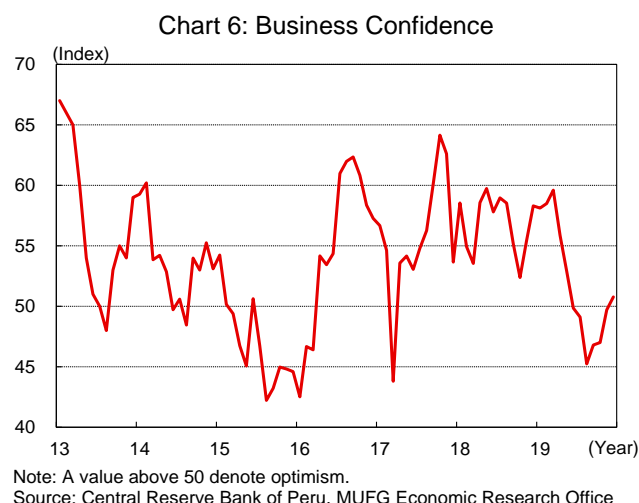
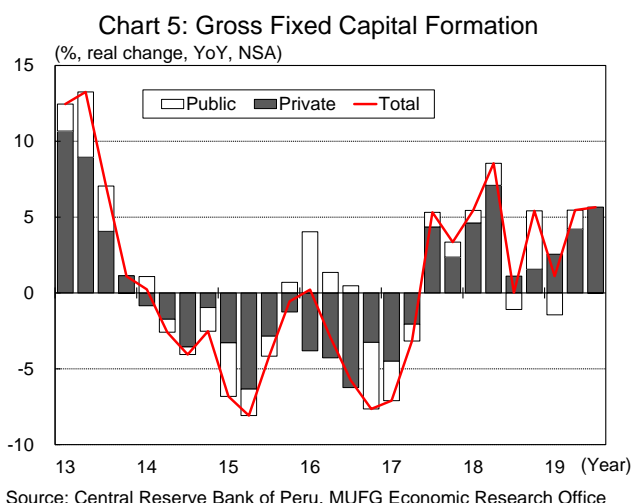
Chart 4: Number of Jobs



Note: Employment data is only available from January 2015.

Source: Central Reserve Bank of Peru, MUFG Economic Research Office

Regarding investment, gross fixed capital formation (GFCF) grew 5.7% YoY in Q3 2019, an acceleration from the previous quarter (5.5% YoY) (Chart 5). This was driven by the increase in private investment. Private investment has begun to accelerate since Q3 2018 as a result of: 1) increased investment in mining and construction as a result of new mining projects and the continuation of some infrastructure projects like the Lima subway and the airport terminal expansion¹; and 2) low interest rates. In addition, business confidence has started to show some signs of bottoming out (Chart 6) as a result of a decreased political tensions in the country².



Exports and Imports³

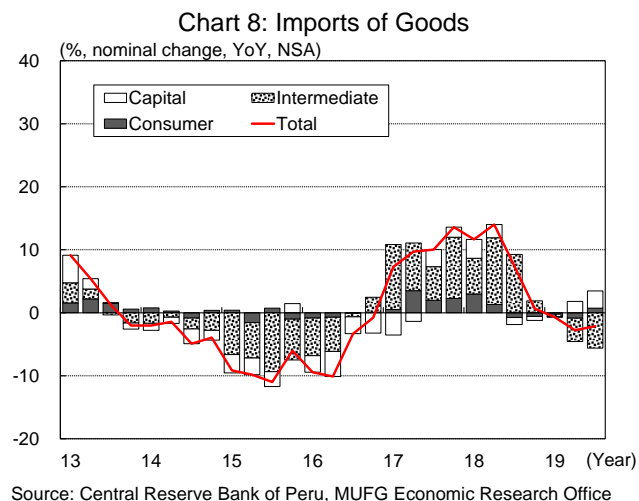
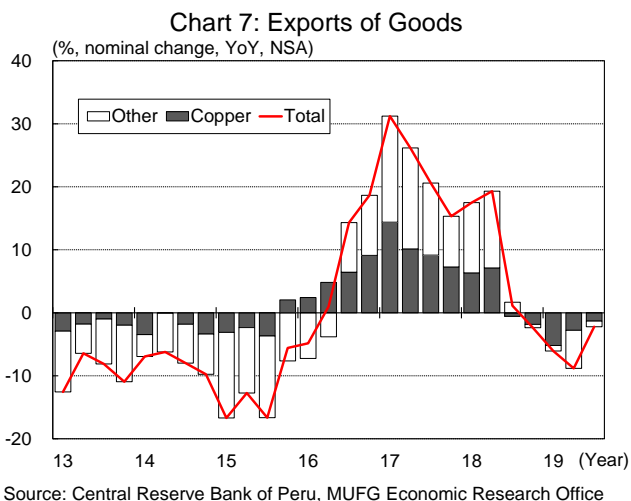
Exports of goods decreased 2.2% YoY in Q3 2019, the fourth consecutive quarter exports of goods decreased (Chart 7). This was the result of a decrease in exports of mining, principally copper (-4.6% YoY). This contraction is the result of both a drop in copper prices and low output.

Imports of goods decreased 2.1% YoY in Q3 2019 (Chart 8). The value of imports of intermediate goods decreased (-11.2% YoY), partially as a result of a decrease in fuel imports (-26.4% YoY) due to lower oil prices.

¹ The government gave concessions to private companies to build and operate these projects.

² At the end of September 2019, President Vizcarra dissolved Congress amid a protracted showdown with lawmakers over anti-corruption reforms. The move won him support among the armed forces, police and voters. Legislative elections are scheduled for January 26.

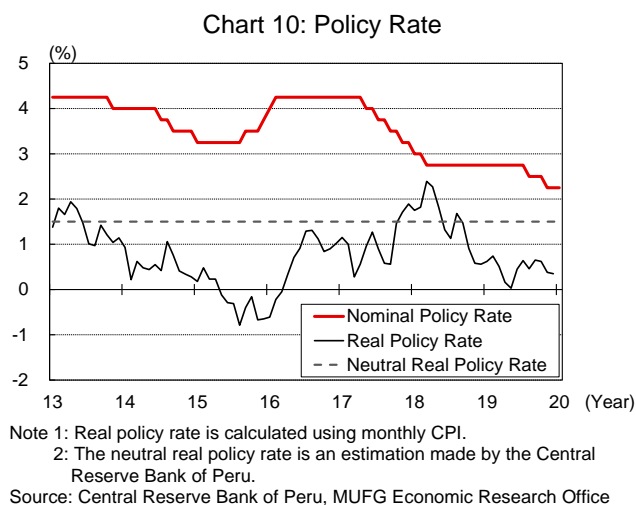
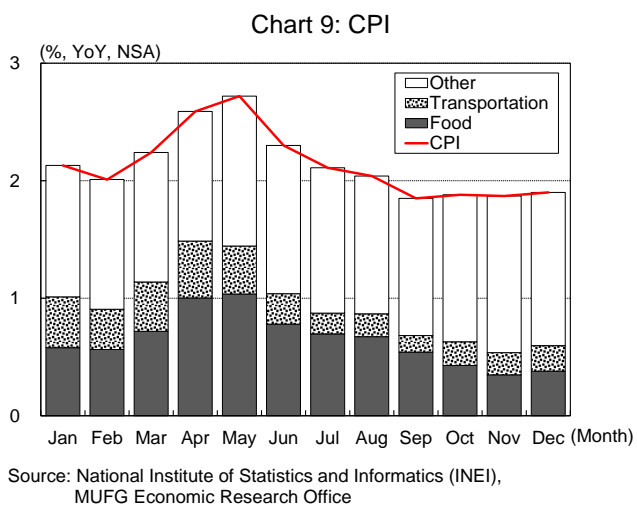
³ This section is reporting nominal values.



2. Inflation and Monetary Policy

The YoY inflation rate began to decelerate in June 2019. CPI⁴ grew by 1.9% YoY in December 2019 (Chart 9), unchanged from the previous month. Food and transportation prices influenced the decrease of CPI. Core CPI⁵ was 2.2% YoY in December, a slight deceleration from the previous month, which indicates an absence of upward pressure on prices.

During its most recent meeting in January 2020, the Central Bank decided to keep the policy rate unchanged at 2.25%, the lowest level since July 2010. The Central Bank's decision to keep the policy rate unchanged was based on 1) current inflation remaining around the midpoint target range; 2) inflation expectations remaining steady and moderate; and 3) weak economic activity. As a result of the current nominal policy rate, the real policy rate is below the neutral real policy rate (Chart 10), meaning there is monetary stimulus in the economy.



⁴ The CPI in this paper corresponds to CPI Lima as it is widely used as a proxy for CPI National because of the detailed breakdown of data it provides, which is not the case for CPI National.

⁵ Core inflation excludes energy and food items.

3. Outlook

Peru's GDP growth is expected to accelerate in 2020. Low inflation and an expansionary monetary policy are expected to support economic activity in 2020. In addition, investment is expected to pick up, partially as a result of infrastructure projects.

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