

Economic growth in Colombia

Economic growth began to moderate as a result of less dynamic private consumption

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Domestic demand continues to drive growth

In the third quarter of 2022, domestic demand completed eight consecutive quarters of growth above GDP, remaining the largest source of expansion in the economy. Moreover, the gap between the growth of domestic demand and GDP widened again, after the previous quarter's data showed signs of a better performance of foreign trade, which was quickly reversed, leading to a widening of the net foreign deficit at Q3 2022 and once again placing most of the explanation for growth on domestic demand.

This was a consequence of the sharp deceleration in exports (which grew 30.7% YoY in Q3 and 14.5% in Q2), while imports continued with an outstanding dynamic (28.9% and 23.3% YoY, respectively). In turn, the high imports responded to the greater dynamics of fixed investment, which accelerated from 9.8% YoY in the previous quarter to 16.1% between July and September, putting upward pressure on the country's external purchases, especially in terms of spending on machinery and equipment, with a large imported component. Additionally, the good performance of investment was also explained by the upward momentum of the construction sector, both due to the completion of housing works already underway and to the acceleration in the execution of civil works for roads and works financed with royalties.

On the contrary, private consumption slowed down, especially in the goods component, but not so much in spending on services, which maintained double-digit growth figures. However, this dynamic in services was not enough to halt the moderating trend in total private consumption, which was 2.2% lower in the third quarter than in the second quarter, reflecting the progressive exhaustion of the strong expansionary cycle that household spending has been experiencing up to now. Even so, this spending maintains positive growth figures when compared to the result of a year ago (+7.8% annually), but at an increasingly slower pace. This moderation was also joined by public consumption, which has been less of a determinant of economic growth this year, in contrast to its preponderant role during the pandemic and the subsequent recovery of the economy.

By economic sector, as expected, the greatest contribution to growth came from the activities most closely related to services (retail, transportation and restaurants, and arts and entertainment) and construction. On the contrary, the agricultural sector had a negative dynamic due to the effect of the rains on the sector's production. Industry, on the other hand, performed well thanks to the combination of a still strong domestic demand and exports that, although they slowed down, maintained double-digit growth rates. The mining (86% of pre-pandemic activity) and construction (86%) sectors continue to lag behind their pre-pandemic levels, while the other activities have already surpassed (some by a wide margin) those levels.

In sum, third quarter GDP grew 7.0% YoY and we expect the full year 2022 result to be very close to 8%. Private consumption, especially of goods, will continue to show a downward trend. Meanwhile, investment in machinery could start to show a lower growth capacity, not only due to a high statistical base, determined by strong expenditures in machinery and equipment in the past, but also to accommodate to a less demanding economic dynamics in terms of expansion of companies' installed capacity. In addition, housing sales have been falling

consecutively since the second quarter of 2022, anticipating lower building activity after the pre-sales period. Therefore, the process of moderation in activity is expected to continue in the fourth quarter of the year.

This deceleration will continue in the following quarters, so we cannot rule out periods with negative GDP results in 2023, when we project economic growth at 0.7%. However, our favorable outlook for the construction of civil works stands out, which should be boosted by the higher execution of the investment budget that is usually characteristic in the last years of the mayors' and governors' terms, coinciding precisely with 2023, the year prior to the change of government in these local and regional entities.

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