

Economic growth in Colombia

The economic slowdown has been accentuated, but what's next?

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Main messages

- In the second quarter, Colombia's GDP grew 0.3% YoY, explained by a strong deceleration of domestic demand, which contributed negatively, and a positive compensation of external demand after the sharp fall in imports (-14.5%) and the expansion of exports (2.4%).
- Domestic demand was pressured downward by the fall in fixed investment (-7.8% YoY) and the high inventory deaccumulation (which was equivalent to -1.3% of GDP). On the other hand, although private consumption continued to moderate, its variation (0.7%) was still positive, driven by consumption in services. In addition, the growth of public consumption (2.5%) returned to positive after three negative quarters.
- In the same vein, the economic sectors most associated with services presented the best performance. On the contrary, activities related to the production and trade of goods (except mining) showed declines. Within the services sector, the public administration, education and health sectors stood out, especially the latter in private services.
- In quarter-on-quarter terms, GDP fell 1.0%. It moderated sharply with respect to the 2.2% expansion of a quarter earlier, explained by the negative performance of fixed investment.
- As for future expectations, the most recent and most frequent economic activity data gave mixed signals, which are coupled with the discordance extracted from the GDP release. Let's start with the latter. On the negative side is the result of domestic demand, which reflects a weakness in fixed investment and a marked slowdown in private consumption. However, today's publication can also be given a positive reading due to the strong inventory deaccumulation, which may induce the productive sectors to increase the pace of activity in order to rebuild lost inventories and put upward pressure on economic performance in the following quarters.
- On the other hand, the economic monitoring indicator —ISE by Spanish name—, which has a cut-off date of June, like GDP, but is published on a monthly basis, showed a downward trend during the second quarter, starting with a negative month-on-month variation in April, dropping below 1% in May and growing by 1.1% in June, driven by the public administration, education and health, and electricity, gas and water sectors. In fact, positive signals can also be read from this last sector due to the recent acceleration (July) of energy demand in the country.
- However, other indicators published as of July are less optimistic. These include housing and vehicle sales (which remain at lows), consumer confidence (which remains in negative territory and decreased in July) and the credit portfolio (especially consumer credit, which is moderating).
- With all of the above, it is possible that the slowdown in economic activity is already occurring at a slower pace or has paused, but it is difficult to find strong indicators that point to the beginning of economic recovery. Therefore, BBVA Research maintains its forecast of 1.2% GDP growth in 2023, which will imply a notable moderation with respect to last year's 7.3% expansion.

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