Colombia

Economic Watch

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Mauricio A. Hernández M.
mauricio.hernandez@bbva.com.co

Economic recovery speeds up

GDP 1st Quarter of 2010

The economy grew 4.4% yoy in the first quarter of 2010 thanks to public spending and to the improved performance of private spending

Public expenditure on consumption and investment was the demand component that most contributed to GDP. Even though the growth of civil works (up 37.9% yoy) slowed down, it compensated for the year-on-year fall in private investment, while government spending (up 6.1% yoy) supported the still weak recovery of household spending (up 3.5% yoy). Net external demand contributed negatively to the GDP as a result of higher growth of imports and a year-on-year fall in exports. However, exports experienced the greatest quarter-on-quarter change among the demand components of GDP (up 5.8% qoq) and reflected the greatest progress undergone by the diversification of foreign sales in the majority of the branches of the industrial sector. The other components of private demand also speed up their recovery and have enabled the current level of GDP to be 3.1% higher than that observed in September 2008, the highest level before the economic slowdown.

On the supply side, the productive capacity of the mining industry continues to grow

Mining and construction of civil works were the sectors that contributed most to GDP in the quarter. However, the performance of the industrial sector and commerce was also remarkable, thus confirming the positive perspective of businesses in the surveys of confidence. These sectors will be decisive in consolidating economic recovery, as they generate greater relations with other activities and, moreover, are key to the creation of formal employment.

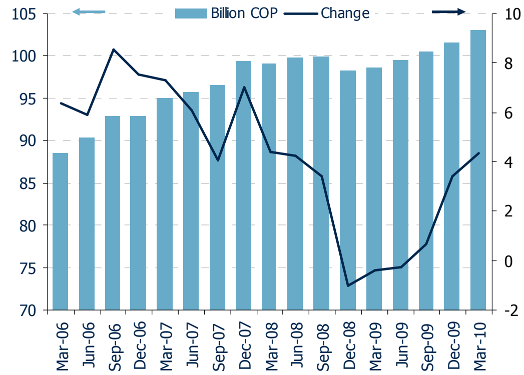
Leading indicators point to greater strength of domestic demand and a better balance of the diversification of exports

The process of recovery for the Colombian economy started with an increase in the confidence of households and businesses that then led to decisions on consumption and production at a faster rate than anticipated. Specifically, consumers have alleviated their financial burden and, sustained upon a lower rate of unemployment and on the perspectives for greater income, their willingness to spend will continue to increase. This corresponds with the recent earnings in trade, a sector with a sustained increase in the level of sales and with a positive outlook thanks to the stability of prices and the increase of the economy's level of credit. Finally, the use of installed capacity of industry is on the rise and, as orders continue to grow and greater diversification of foreign sales is achieved, new investment projects may be started ahead of time while those that had been postponed are reinitiated. This process will be accompanied by growth in imports of durable consumer goods and commodities as well as capital goods for industry.

Analyst consensus predicts greater growth in 2010 than expected

The GDP figures came as a surprise to the market consensus. In the coming weeks, increases in the forecasts for GDP growth for 2010 toward a range of 3.5% to 4.0% may be confirmed. However, there will still be some factors that will hold back an exacerbated growth of the economy. Civil works will not have space to grow after next June, due to the moderation in public spending in this heading. Likewise, exports will continue to lag significantly with regard to the performance of imports and will determine a negative contribution to net external demand over the year. Finally, the deterioration of the job market, in terms of non payed jobs, will take time to return to normal and will halt the recovery of private consumption.

Chart 1
GDP
(Levels and change)



Souce: DANE BBVA Research

Table 1
GDP by demand
(YOY change, %)

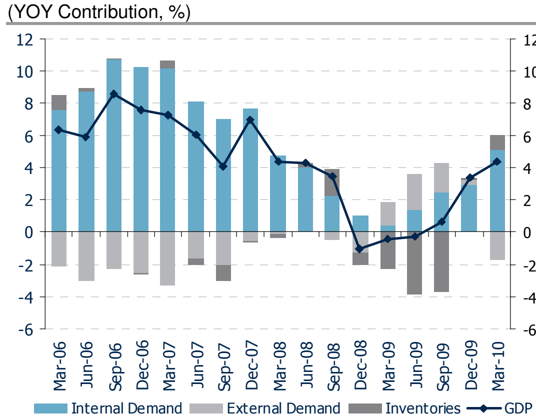
	2009	4Q09	1Q10
Consumption	1.3	1.9	4.0
Investment	3.2	5.8	8.0
Domestic demand[1]	1.8	2.9	5.1
Exports	-3.9	-12.2	-6.3
Imports	-9.0	-10.4	2.2
Net external demand[1]	1.5	0.3	-1.7
GDP	**0.8**	**3.4**	**4.4**

Source: DANE BBVA Research
(1) Contribution

Table 1
GDP by supply
(YOY change, %)

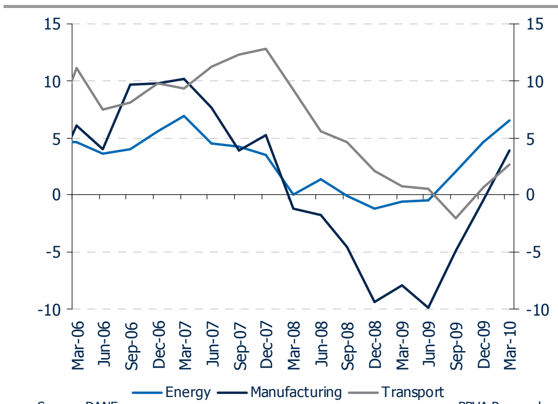
	2009	4Q09	1Q10
Agro	-0.4	2.3	-1.3
Mining	9.6	11.9	13.2
Manufactoring	-5.9	-0.5	4.6
Energy	1.4	4.6	6.5
Construction	14.6	25.5	15.9
Commerce	-2.3	-1.1	3.6
Transport	0.0	0.7	2.6
Finance	3.1	2.1	1.5
Social Services	1.3	1.6	4.1
GDP	**0.8**	**3.4**	**4.4**

Chart 2
GDP by demand
(YOY Contribution, %)



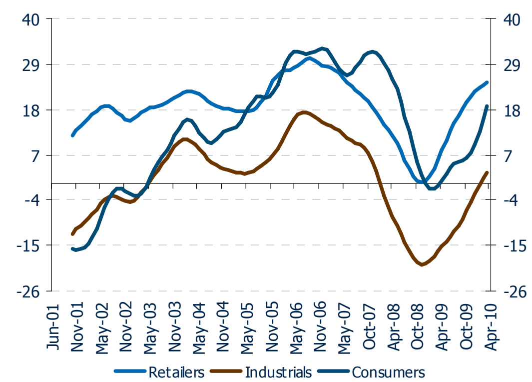
Source: DANE BBVA Research

Chart 3
Sector dynamics: Impact of the industrial sector
(YOY change, %)



Source: DANE BBVA Research

Chart 4
Consumer and business confidence
(index)



Source: Fedesarrollo BBVA Research

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