

## Colombia's Macroeconomic Performance: Q3 2017 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

16 FEBRUARY 2018

**The Bank of Tokyo-Mitsubishi UFJ, Ltd.**  
A member of MUFG, a global financial group

### Overview

Colombia's GDP growth accelerated during Q3 2017 to 2.0% YoY in comparison to the previous quarter (1.2% YoY). This was the highest growth rate since Q2 2016, but still below its long term average growth rate.

Although household consumption grew during Q3 (1.7% YoY), its performance remained lackluster in comparison to previous years. One of the possible factors behind the weak performance of household consumption is the limited improvement in the labor market.

Gross Fixed Capital Formation (GFCF) grew at 0.2% YoY during Q3 2017, a deceleration in comparison to the previous quarter. This deceleration was mainly driven by the contraction in construction (-15.8% YoY).

After reaching its lowest point in July 2017 (3.4% YoY), inflation plateaued and remained largely unchanged from August through December. After the impact of the El Niño phenomenon during 2016, weather patterns have returned to a more normal state, leading to a reduction in the rate of increase of food prices.

At its last meeting in January 2018, the Central Bank decided to reduce the policy rate by an additional 0.25 percentage points, to 4.50%.

For 2018, it is expected that Colombia's GDP growth will accelerate somewhat. Low inflation, lower interest rates, a continued positive outlook of the global economy and higher oil prices will be some of the factors that positively affect Colombia's economy. An upturn in investment is also expected.

## 1. GDP

Colombia's GDP growth accelerated during Q3 2017 to 2.0% YoY in comparison to the previous quarter (1.2% YoY) (Figure 1). This was the highest growth rate since Q2 2016, but still below its long term average growth rate.

### GDP by Sector

On the production side, there is still a disparate performance among the different sectors.

The agriculture sector expanded faster than any other sector (7.1% YoY) during Q3 (Figure 2). The main factor behind this rapid growth was the improved weather conditions.

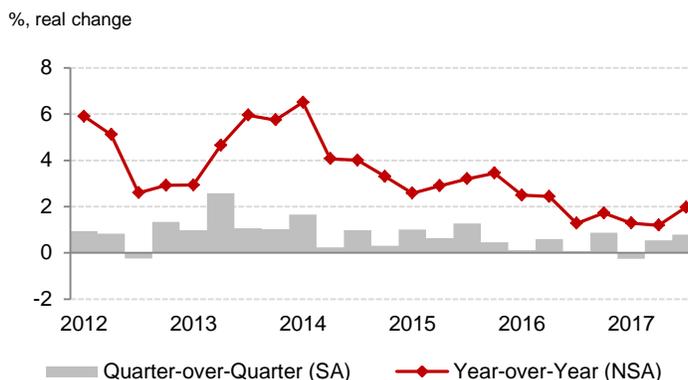
In contrast, the mining and construction sectors are the two sectors that contracted the most (both sectors contracted 2.1% YoY in Q3).

### Consumption

Consumption increased by 2.1% YoY in Q3 2017, driven by an increase in both household and government consumption (1.7% YoY and 3.9% YoY, respectively) (Figure 3).

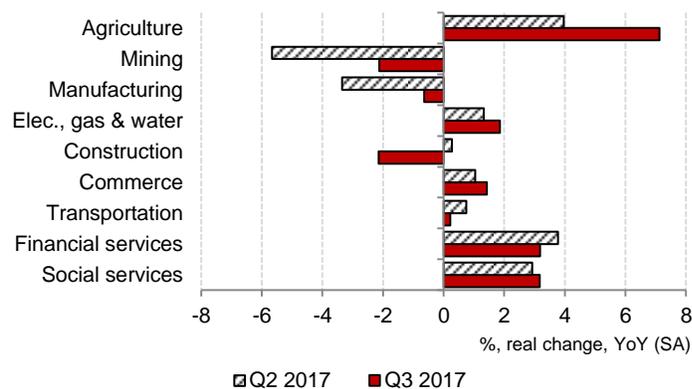
Although household consumption grew during Q3, its performance remained lackluster in comparison to previous years. Durable goods and services were the ones most affected by the slowdown in household consumption (3.6% YoY and 1.5% YoY in Q3, respectively). These rates are lower than the average growth rates between 2012-2016).

Figure 1: GDP growth



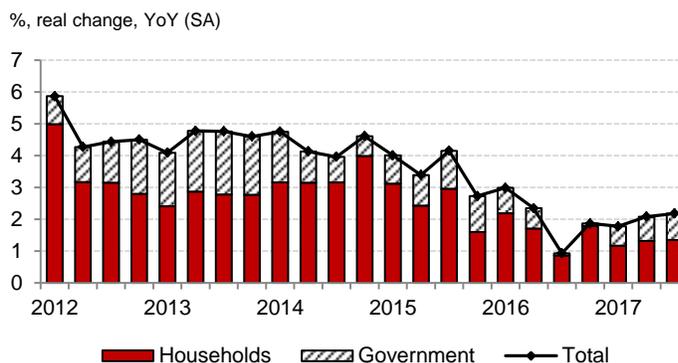
Source: DANE (National Administrative Department of Statistics), MUFG

Figure 2: GDP by Sector



Source: DANE, MUFG

Figure 3: Consumption



Source: DANE, MUFG

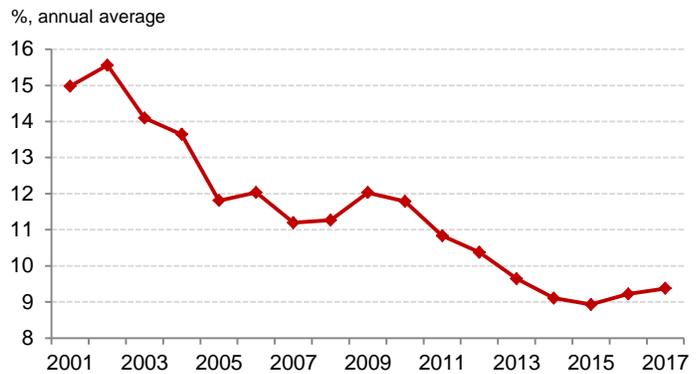
One of the possible factors behind the weak performance of household consumption is the limited improvement in the labor market. Over the last two years the unemployment rate (annual average) increased from 8.9% in 2015 to 9.4% in 2017 (Figure 4).

## Investment

Gross Fixed Capital Formation (GFCF) grew at 0.2% YoY during Q3 2017, a deceleration in comparison to the previous quarter (Figure 5). This deceleration was mainly driven by the contraction in construction (-15.8% YoY).

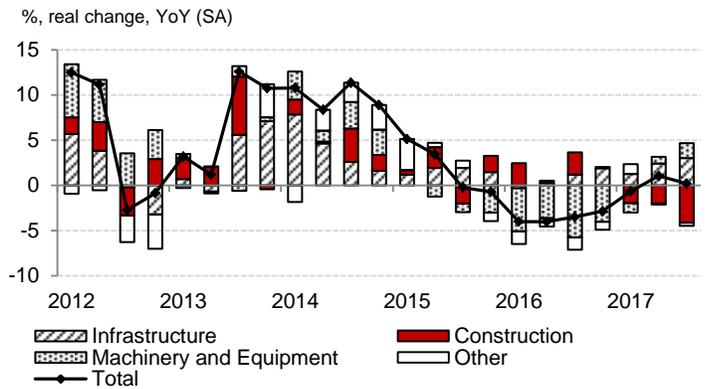
The factors behind the weakness in construction appeared to be coming from weak housing demand (reflected in the continued high housing construction costs) (Figure 6).

**Figure 4: Unemployment Rate**



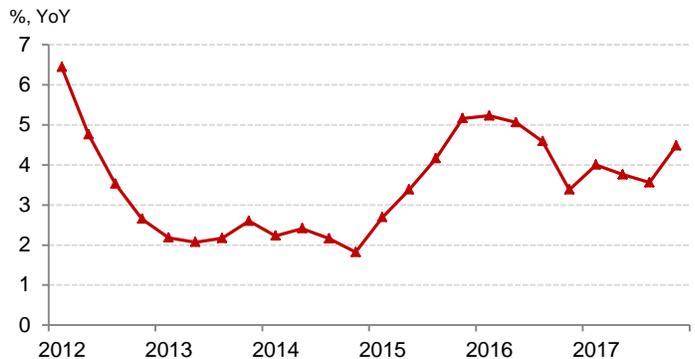
Source: DANE, MUFG

**Figure 5: Gross Fixed Capital Formation**



Source: DANE, MUFG

**Figure 6: Housing Construction Costs**



Note: Housing Construction Costs is an index that includes 3 major groups of costs: materials, labor force, and machinery and equipment.

Source: DANE, MUFG

## Exports and Imports

Exports of goods grew by 18.6% YoY in Q3 2017. This increase was driven by an upturn in fuel and mining (23.1% YoY) (Figure 7). This expansion is the result of the continued improvement in the global economy and commodity prices.

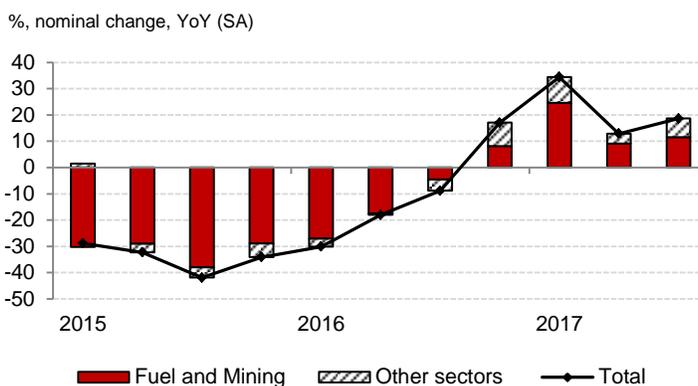
Imports of goods grew more slowly during Q3 2017, increasing only 1.1% YoY (Figure 8). The deceleration in imports of capital goods (4.9% YoY) in comparison to previous quarter and the contraction of intermediate goods (-0.8% YoY) were the main drivers of the overall slower growth rate during Q3. The lackluster performance of imports during this period is a reflection of the continued weakness of investment.

## 2. Inflation and Monetary Policy

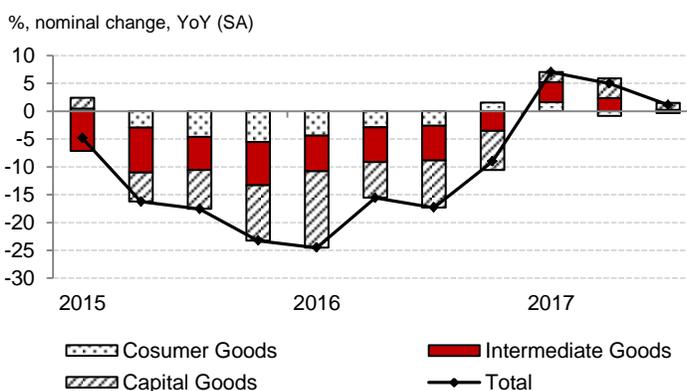
After reaching its lowest point in July 2017 (3.4% YoY), inflation plateaued and remained largely unchanged from August through December (Figure 9). The YoY inflation rate in December 2017 was 4.1%, slightly above the upper band of the inflation target of 4.0%.

One of the principal causes of the fall in inflation during the first half of 2017 was a reduction in food price inflation. After the impact of the El Niño phenomenon during 2016, weather patterns have returned to a more normal state, leading to a reduction in the rate of increase of food prices.

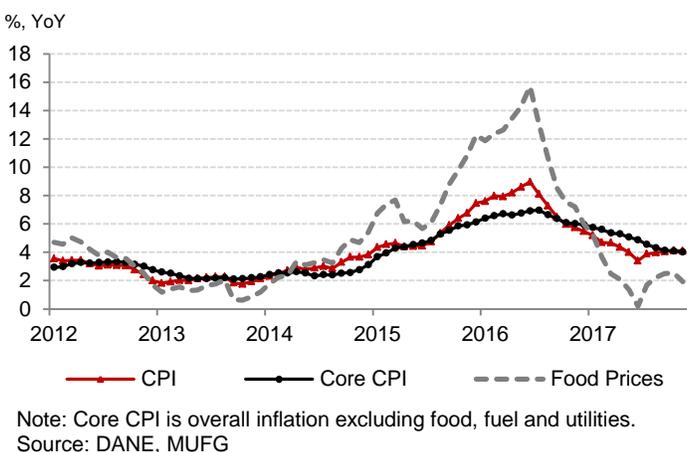
**Figure 7: Exports of Goods**



**Figure 8: Imports of Goods**



**Figure 9: Inflation**



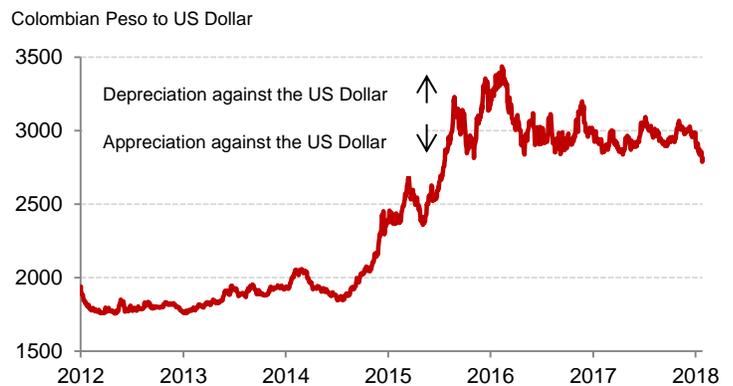
---

Throughout 2017, the Central Bank cut its policy rate 9 times (2.75 percentage points). At its last meeting in January 2018, the Central Bank decided to reduce the policy rate by an additional 0.25 percentage points, to 4.50%. Policy makers are seeking to boost growth, and with inflation expectations continuing to be reduced, further rate cuts could occur.

### 3. Exchange Rate

The sharp decline in oil prices during 2015 hit the Colombian Peso hard (Figure 10). From its low point at the beginning of 2016, the Colombian peso has gradually begun to regain value, closely following the slow improvement in oil prices. Despite the gradual improvement over the past two years, the Colombian peso is still highly undervalued, as it is 27.0%<sup>1</sup> below its historic 10 year average (2008-2017).

**Figure 10: Exchange Rate**



Source: DataStream, MUFG

### 4. Outlook

For 2018, it is expected that Colombia's GDP growth will accelerate somewhat. Low inflation, lower interest rates, a continued positive outlook of the global economy and higher oil prices will be some of the factors that positively affect Colombia's economy. An upturn in investment is also expected.

---

<sup>1</sup> As of January 31, 2018

---

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 The Bank of Tokyo-Mitsubishi UFJ, Ltd. (collectively with its various offices and affiliates, "BTMU") 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 BTMU. BTMU 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 BTMU believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, BTMU makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that BTMU 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 BTMU is under no obligation to ensure that such other reports are brought to your attention. The Bank of Tokyo-Mitsubishi UFJ, Ltd. retains copyright to this report and no part of this report may be reproduced or re-distributed without the written permission of The Bank of Tokyo-Mitsubishi UFJ, Ltd. The Bank of Tokyo-Mitsubishi UFJ, Ltd. expressly prohibits the re-distribution of this report to Retail Customers, via the internet or otherwise and The Bank of Tokyo-Mitsubishi UFJ, Ltd., its subsidiaries or affiliates accept no liability whatsoever to any third parties resulting from such re-distribution.