



# GDP Observatory

December 22th, 2009

## The Colombian economy posts three successive quarters of positive growth

- GDP growth in the third quarter was in line with the BBVA ERD forecast (0.2% q/q), but was a negative surprise for the latest market forecasts (0.6% q/q).

The strong growth in civil works in the third quarter had led many analysts to be optimistic about the forthcoming GDP figures. However, the fall in private investment, particularly in the purchase of machinery and capital goods and construction, combined with inventory cuts, balanced the greater public investment during the period, as BBVA ERD had anticipated. It is true that the quarterly falls in capital goods moderated in September, suggesting the start of a recovery in the coming months.

- Total consumption in the economy grew more than expected (1.7% q/q) thanks to the early start to a recovery in private consumption (0.9% q/q) and the surprising expansion in public spending (4.7% q/q).

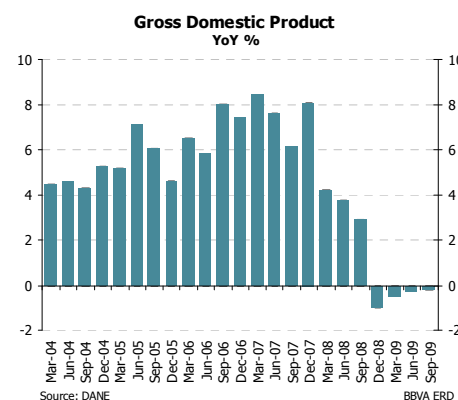
Household confidence had begun to show an improvement in May this year, with people showing a positive outlook on the purchase of durable goods and a reduced fear of losing their jobs. As well as this, the additional cuts in the BanRep intervention rate and its swift transfer to bank market rates has eased the financial burden of households and left room to moderate the fall in other types of spending. The increase in public spending suggests an acceleration in the contracting and execution of public works projects before the electoral law restricting new subsidized contracts comes in to effect.

- Exports fell more than expected, while imports had their first quarterly growth in 2009.

There were additional barriers to trade with Venezuela in the third quarter of the year, limiting the export of many industrial and primary goods that had sustained the good performance of sales in the first half of the year. In September, total exports fell despite the sustained increase in oil and coal production. This came in the midst of a climate of improved international prices which did not manage to compensate the slump in non-traditional sales. This shows the sensitivity of the Colombian economy to demand from our neighbor, and highlights the need to diversify markets in the near future.

Imports grew by 0.6% q/q as a response to the improved performance of domestic demand (1.1% q/q) and thanks to the appreciation of the peso since last June.

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GDP by demand		
3Q09		
	(% y/y)	(% q/q)
Total consumption	1.0	1.7
Private consumption	0.0	0.9
Public spending	4.7	4.7
Gross investment	-10.7	-1.1
Fixed investment	-2.8	-0.5
Domestic demand	-1.9	1.1
Exports	-10.0	-4.6
Imports	-12.5	0.6
<b>GDP</b>	<b>-0.2</b>	<b>0.2</b>

Source: DANE

BBVA ERD

GDP by supply		
3Q09		
	(% y/y)	(% q/q)
Agriculture	2.0	2.6
Mining	8.8	1.7
Energy	1.7	1.6
Industry	-5.8	1.7
Construction	13.7	-2.5
Commerce	-4.0	-0.7
Transport	-2.9	-1.6
Finance	1.1	-0.2
Social services	0.9	0.2
Taxes	-4.1	-0.1
<b>GDP</b>	<b>-0.2</b>	<b>0.2</b>

Source: DANE

BBVA ERD

- While industry bottomed out in the first half of the year, trade continued to decline.

Industry had been moderating its expansive cycle before the deepening of the international crisis in September 2008, and the sector declined sharply in subsequent quarters. In contrast, trade had moderate falls at the end of 2008 and delayed its biggest adjustment until the first half of 2009. This meant that the recovery in industry came earlier.

The mining and hydrocarbons sector continued to lead economic growth through greater oil production. Between September 2008 and September 2009 average daily extraction increased by 70 thousand barrels. Agriculture and energy also contributed positively to growth in the quarter, with surprising figures in agriculture given the low coffee production so far this year, and with energy anticipating an improved performance in the productive sectors in coming months. The financial sector also continued to moderate its activity as a result of the lower lending activity.

**Assessment**

- The quarterly growth in domestic demand in September confirms that domestic activity bottomed out in the first half of the year.

The latest data for retail sales and industrial production register significant monthly growth since May and June respectively. At the same time, building permits have grown by an average of 25% more in the second half of the year so far than between January and June. Finally, the DNP reports on public investment show that infrastructure resources continue to be executed at a good level in the last quarter of 2009.

- This year the economy will have grown slightly, close to the lower range of the government’s target.

In recent months business and consumer confidence began a process of recovery thanks to improved expectations of future economic performance. At the same time, the readiness of households to purchase homes and durable goods has recovered quickly as a result of the lower interest rates and reductions in mortgage rates offered by the government for the purchase of a new home. However, the performance of industrial exports in the coming quarters will limit the recovery in investment in machinery and capital goods, while the deterioration in the quality of the labor market will restrict the possibility of high growth rates in private consumption.

- Over the coming months, unlike what happened in the first half of the year, we expect an improved performance of domestic demand and a negative contribution from foreign demand on quarterly growth.

The peculiar response of Latin American economies to the deepening world crisis was a greater deterioration in domestic confidence and major slowdown in domestic demand, which was compensated by a positive contribution from net foreign demand. Colombia reacted in a similar way until the first half of the year. But in the second half of the year the country has been moving away from this trend as a result of its idiosyncratic factors that are putting a greater risk on its export performance. In addition, the low diversification of Colombian exports and its limited exposure to trade with Asia will not enable it to take full advantage of the economic boost given by this part of the world to the development of other economies in the region with more extensive trading links. We thus expect the Colombian economy to grow in 2010, but below the Latin American average due to these idiosyncratic factors.

