



# Economics Group

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## Colombian Growth Strengthened in Q1-2018

**Colombian real GDP increased 2.2 percent in Q1 year over year and 0.4 percent compared to the last quarter of 2017. Growth in Q4-2017 was revised up to 0.5 percent from 0.3 percent, quarter over quarter.**

### Q1 Results Improve but Economy Remains Weak

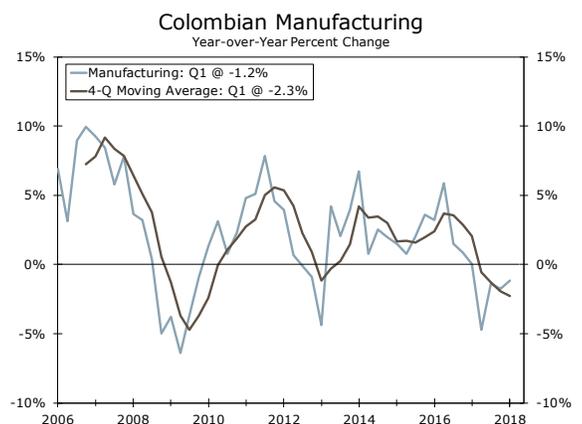
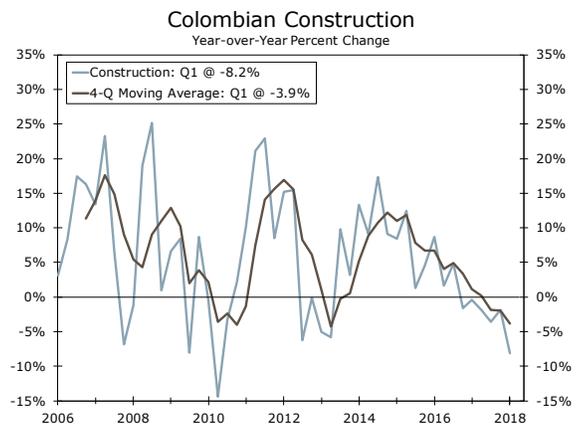
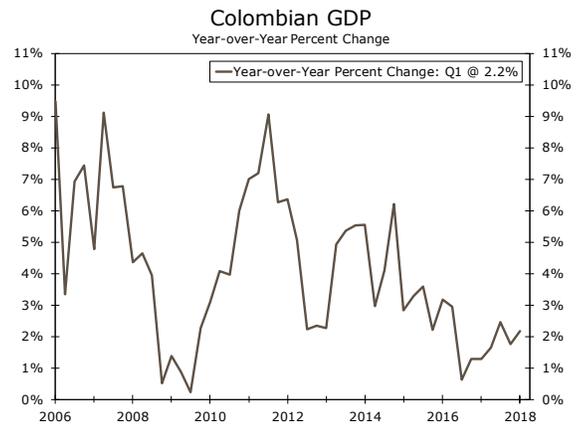
Colombian real GDP increased 2.2 percent on a year-earlier basis in Q1, and 0.4 percent versus Q4-2017 (top chart). Although demand side results were not part of the release, the supply side data show a relatively strong domestic economy during the first quarter, while the external sector seemed to have remained challenged. Mining output declined 2.4 percent sequentially and by 3.6 percent on a year-over-year basis.

It is clear that the construction sector, which represents about 6 to 7 percent of the economy, remains challenged in Colombia. Growth in this sector has been negative on a year-over-year basis since the fourth quarter of 2016. The sector plunged 5.5 percent sequentially and 8.2 percent on a year-over-year basis during the first quarter of the year (middle chart). Until Q4-2017, much of the decline in this sector was due to the private construction sector, that is, residential and non-residential construction. However, in Q1-2018 public construction added to this weakness by declining 6.4 percent on a year-earlier basis, which was the first year-over-year decline since Q4-2016.

Meanwhile, manufacturing output grew 1.7 percent sequentially, but remained down 1.2 percent, on a year-earlier basis (bottom chart). The year-over-year drop was the fourth consecutive decline for manufacturing activity in Colombia. This sector represents about 11 to 12 percent of the Colombian economy. The rest of the sectors were relatively strong during the quarter, with commerce surging 4.3 percent sequentially and 3.9 percent on a year-earlier basis. This result suggests that Colombian personal consumption expenditures were relatively strong during the first quarter of the year. Meanwhile, financial services output surged 4.1 percent sequentially and 6.1 percent on a year-earlier basis.

### Improvement in Economic Activity Should Continue

Although the Colombian economy is not surging at this time, the recent improvement in economic activity should continue during the next several quarters. The global economic backdrop remains relatively benign for Colombia's external sector, which should improve going forward. However, as we have argued in the past, the coming presidential elections and the monetary tightening by major central banks, especially the Federal Reserve, will remain a challenge for the Colombian economy going forward. Colombia needs to attract foreign capital to develop its mining sector, which has contracted in 15 out of the past 16 quarters, on a year-over-year basis. It is clear that the end to the guerrilla conflict has not improved the conditions of the sector, as many had anticipated it would, and capital is not flowing in as expected. Furthermore, higher global interest rates will make this process more challenging going forward. On the positive side, higher oil prices will also likely benefit Colombia this year.



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