

## Economics Group

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# Peruvian Economy Grew 2.5 Percent in 2017

*The Peruvian economy grew 2.5 percent in 2017, while the monthly index grew only 1.3 percent in December, year over year. Domestic demand as well as foreign demand remained relatively strong in 2017.*

### Weak November and December Results

The Peruvian economy grew only 2.5 percent in 2017 after posting a 1.3 percent year-over-year rate during the last month of the year. Economic growth improved mid-year in Peru, but it is clear that in the last two months of the year the economy slowed down considerably, growing just 2.0 percent in November and only 1.3 percent in December, year over year. Again, the biggest culprit of the slowdown in activity from the production side in 2017 was the country's manufacturing sector, which plunged 12.5 percent in December compared to a year earlier. This sector's performance was also negative in 2017 as a whole, down 0.3 percent. Although the drop was very small, manufacturing is the largest individual sector in the Peruvian economy, representing about 16.5 percent of overall production.

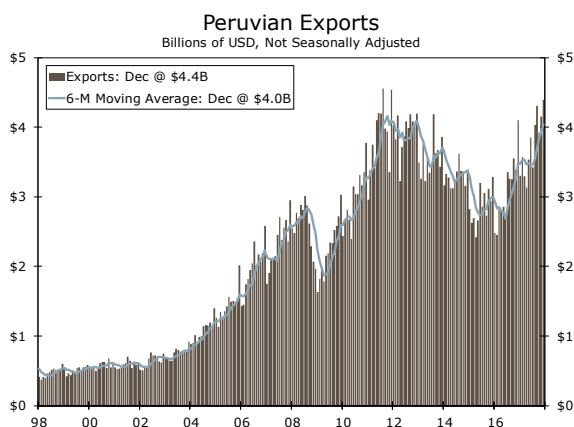
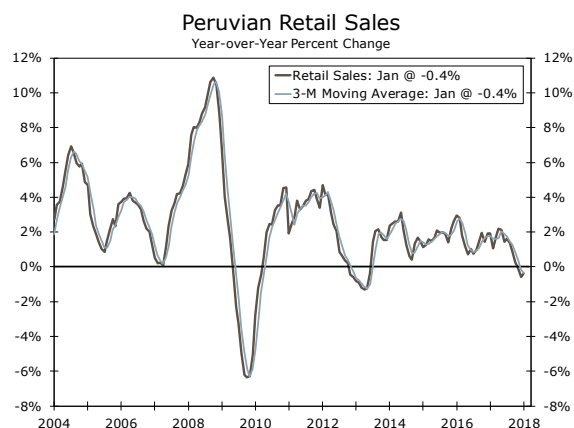
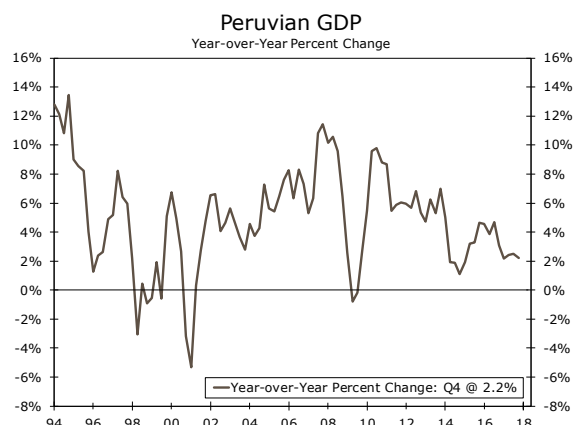
It is clear that the domestic economy remained relatively weak in 2017 with commerce output increasing only 1.0 percent for the year, while restaurant and hotel activity increased 1.2 percent. The strongest domestic sector was output of telecommunications and other information services, which increased 8.0 percent during the year and by 6.4 percent on a year-earlier basis in December. Although we do not yet have the demand components of GDP, the picture for retail sales remains weak, down 0.4 percent in January on a year-earlier basis (middle graph).

Some of the weakness in the Peruvian economy could be related to the recent political turmoil and fallout from the Odebrecht investigation as well as for the release of ex-President Fujimori for health reasons. These political issues will probably fade in coming quarters.

The good news is that the country's important mining sector, which represents 14.4 percent of the economy, was one of the strongest growth sectors in 2017, up 3.2 percent over the year and by 5.6 percent in December, year over year. Meanwhile, the Peruvian government was very active during the year as public administration, defense and other government services increased at a strong 4.1 percent rate in 2017. Furthermore, output in the transportation, depot and postal service sector grew a strong 2.9 percent during the year and by 4.0 percent in December, year over year. Output in other services was also robust in 2017, growing 3.7 percent after a similar year-over-year rate in December.

### Economic Growth Expected to Improve in 2018

Although we do not explicitly forecast economic growth for the Peruvian economy, we expect the economy to improve if it is able to avoid further political noise in 2018 as the prospects for the global economy continue to improve. Peru is a very open and well-managed economy that benefits considerably from global economic growth. It is clear that global growth is already contributing to stronger economic growth and this will probably continue in 2018.



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