



# Economics Group

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## Peruvian Economy Strengthens in Q1-2018

*Economic growth strengthened in Q1 driven by an improvement in domestic demand. Growth was strongest in agriculture, fisheries, construction, other services and commerce. Q1 was up 3.2 percent versus a year earlier.*

### Economic Growth is Strongest Since Q3-2016

The Peruvian economy, one of the strongest and most consistent performers in South America over the past several decades, fell into a weak spell as economic conditions in the global economy deteriorated. However, it seems that consistent economic policies are starting to relieve this situation, as economic growth improved to 3.2 percent on a year-earlier basis in Q1, the strongest year-over-year print since Q3-2016 (top graph). Although segmented data from the demand side of the economy is not yet available, the supply side numbers, plus the release of domestic demand results, show a very strong domestic economy in the first quarter. Domestic demand increased 4.2 percent on a year-earlier basis in Q1.

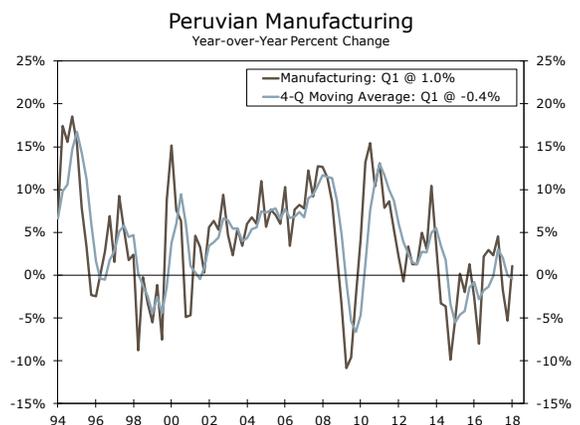
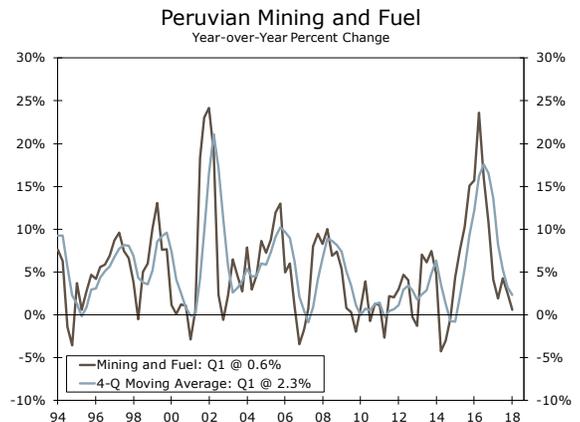
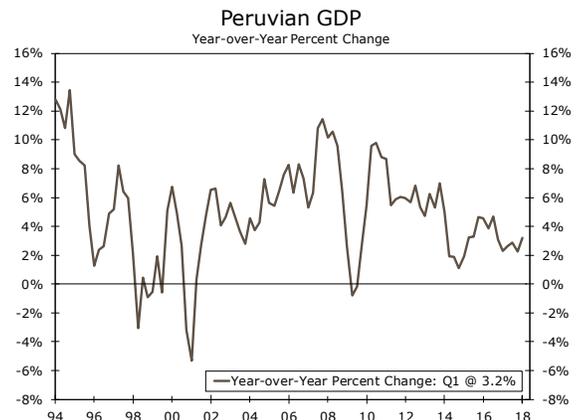
Interestingly, the mining sector, which has been one of the leading sectors of the Peruvian economy, remained weak, growing only 0.6 percent during the quarter (middle graph). Still, mining output increased 1.7 percent, while fuel production dropped 5.9 percent.

The strongest sector during the quarter was fisheries, up 6.1 percent, while agriculture and livestock output increased 5.7 percent. Likewise, construction increased a strong 5.1 percent, while other services did so at a 4.3 percent pace. Meanwhile, commerce output, which can be used as a proxy for personal consumption expenditures, increased at a slower but still respectable pace of 2.7 percent.

The manufacturing sector increased 1.0 percent, as raw materials manufacturing increased only 0.1 percent during the quarter, while non-primary products manufacturing improved 1.4 percent (bottom graph). Lastly, public utilities output increased 1.4 percent, all on a year-over-year basis.

### Improvement in Economic Activity to Persist

What is interesting from the Q1 economic performance is it appears the Peruvian economy was able to overcome the political turmoil affecting the country. Recall that Pedro Pablo Kuczynski (PPK), a constitutionally elected president, resigned amid impeachment procedures brought about by the corruption charges related to the infamous Brazilian construction company Odebrecht. However, PPK's resignation was followed by the investiture of one of the vice presidents, Martin Vizcarra, who was serving as the Peruvian ambassador to Canada at the time. The success of this transition was a relief for everyone concerned that Peru would fall into a political and constitutional crisis. For now, the transition has been successful and thus the effects on economic activity seem to have been minimal. Of course, one number does not make a trend, so we will be following the incoming data closely to see if the apparent improvement in Peruvian economic activity has lasting legs.



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