Scotiabank

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Latam Daily: Colombia January Retail Sales and Manufacturing Exceed Expectations

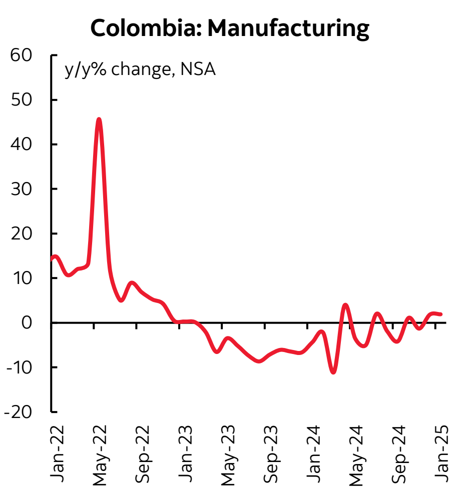
- **Colombia: Strong activity numbers in retail sales and manufacturing**

On Friday, March 14th, the National Institute of Statistics (DANE) published the manufacturing production and retail sales data for January 2025. Manufacturing production increased 1.9% y/y, above the market expectation of 1.5% y/y, and, retail sales increased 10.2% y/y, above the market expectation of 6.8% (chart 1). January's result obeys partially to a base effect due to the contraction in January 2024 of 3.8%y/y, however in Friday's number, it was evident that the recovery in retail sales was due to the surge of the demand for durable goods which could announce the beginning of a new cycle. Having said that, it will be interesting to monitor how the demand continues recovering given that FX appreciation could have some impact on imported prices, and some services prices are showing sticky high inflation due to the indexation to the minimum wage, and the historical remittances inflows which explained the consumer advance in 2024.

Manufacturing output continues with positive trends observed in December. January results showed a positive performance in the manufacturing sector compared to the previous year (+1.9% y/y), following a 4.3% drop during the same period last year. On a seasonally adjusted basis, activity appears to be continuing its expansion (chart 2). In this context, positive contributions came from the cleaning industry, electrical equipment, beverages, and food. On the other hand, the pharmaceutical sector, the oil and fuel industry, and the paper and cardboard industry offset growth during this period.

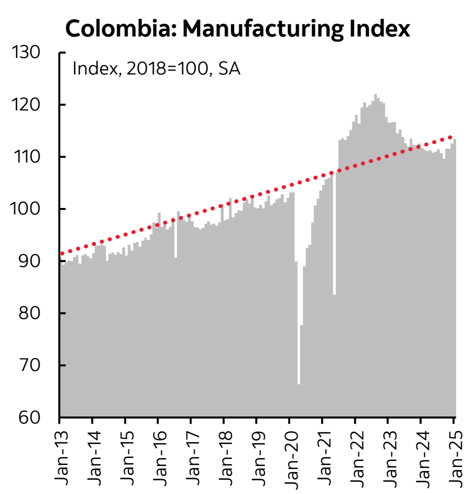
Retail sales continued their positive trend for the eighth consecutive month, showing a significant expansion. In January, retail sales increased by 10.2% y/y, explained by strong telecommunication equipment sales, vehicle sales and durable goods such as furniture which together explained the 53% of total growth. Something to highlight is the increase in textile sector sales after almost two years in contraction, but this could be explained by a base effect due to the 16.9% y/y drop in January 2024. In general, the positive performance in retail sales could be attributed to the price stability of tradable goods for many months and the impact of the FX performance, which has shown an appreciation of 5.9% YTD. Additionally, the sales after the holiday season helped to boost the acceleration in sales in midst of the retailers' inventories accumulation evidenced in 2024. In contrast, non-alcoholic beverages were the only sector that registered a drop in the period after an expansion of 8.6% in January 2024 (chart 3).

Chart 1



Sources: Scotiabank Economics, DANE.

Chart 2



Sources: Scotiabank Economics, DANE.

In monthly seasonally adjustment terms, retail sales in January (excluding other vehicles) increased by 0.7% m/m. This result offers further signs of the start of a new cycle (chart 4) in which commerce is expected to drive economic growth in 2025.

On Tuesday, March 18th, the general picture of economic activity in January 2025 will be released with the publication of the Economic Activity Index, Friday's data skew our forecast of 1.7% to the upside. However, it will be relevant to monitor whether the sectors that had a positive dynamic during the first half of 2024 would lose traction due to transitory effects in agriculture and public administration restricted by a tight fiscal position. All in all, the economic performance at the beginning of 2025 is a reason for the central bank to maintain caution in the easing cycle. At Scotiabank Colpatria, the expectation is that the central bank will maintain the interest rate at 9.50% during the monetary meeting on March 31st.

Key Highlights:

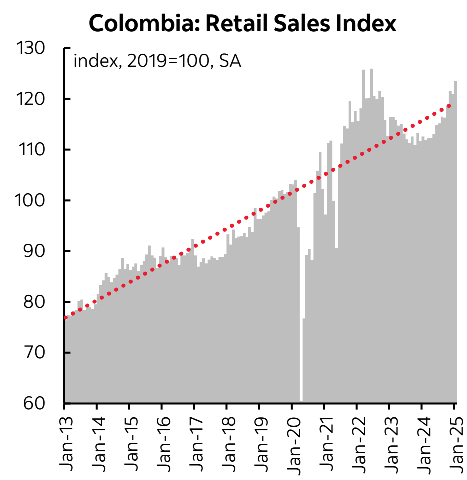
- **Manufacturing production increased 1.9% y/y. 21 of the 39 activities showed annual expansion.** On the positive side, notable contributors included the cleaning industry (+7.9% y/y), electrical equipment (+15.7% y/y), beverages (+2.7% y/y) , and food (7.9% y/y) which together contributed +5.4 ppts to the result. In contrast, the pharmaceutical industry (-18.0% y/y), the oil and fuel industry (-7.0% y/y), and paper and cardboard production (-6.8% y/y) were the main sectors driving the negative outcome for the month, collectively contributing -1.6 ppts.
- **Retail sales grew 10.2% y/y. 18 of the 19 activities registered positive variations.** Telecommunication equipment sales (+51.0% y/y), vehicle sales (+20.0% for household vehicles and +23.6% for other vehicles), and durable goods such as furniture (+19.7% y/y) were the ones that contributed the most to retail sales growth. Something to highlight is the increase in textile sector sales (+3.8% y/y) after almost two years in contraction. Meanwhile, on the negative side, non-alcoholic beverages (-3.0% y/y) was the only sector that offset the result.
- **From February 2024 to January 2025, retail sales expanded by +3.2% y/y where the sales of textile products have experienced the greatest deterioration** with a drop of -9.3% compared to the same period in 2023, while the sales of vehicles and telecommunication equipment are the ones that have had the best contribution to the result with an expansion of +11.0%. Furthermore, the industry output dropped -1.6% y/y explained by the minerals industry (-7.6% y/y), the pharmaceutical industry (-7.4% y/y), and oil and fuel production (-4.1% y/y). In contrast, the cleaning industry (+4,4% y/y) and transport (+26.7%) maintained a positive contribution in the indicator.

—Jackeline Piraján & Valentina Guio

Chart 3

Sources: Scotiabank Economics, DANE.

Chart 4



Sources: Scotiabank Economics, DANE.

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