Economic Growth in Colombia

The day after: Insights from Colombia's Q3 2024 GDP results

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Investment solidifies its role in the recovery, although not all investments contribute equally

- **GDP growth in Q3 2024 reached 2.0% year-on-year compared to the same period in 2023,** while year-to-date growth until September was 1.6%. Quarter-on-quarter, the economy grew 0.2%, equivalent to an annualized rate of 0.8%. This reflects a slowdown compared to the 2.0% annualized rate of the second quarter, a commonly used indicator to analyze short-term trends in developed economies.
- **The moderation of the recovery is also reflected in the monthly ISE results**, which showed monthly declines in August and September following a strong rebound in July. This indicates that **the dynamics of Q3 started strong but weakened over time**—typical of a recovery process that has yet to consolidate consistently, with months showing significant challenges and sectors of GDP still not fully aligning with the strongest economic dynamics, revealing an uneven and fragmented recovery.
- **Domestic demand continued to recover progressively, establishing itself as a pillar of economic growth**. During Q3, it grew by 3.6% year-on-year. This improvement was mainly driven by investment, while private consumption continues its recovery, supported by disinflation and lower financing costs for households. However, the drop in public consumption reflects recent fiscal adjustments, partially dampening the momentum of domestic demand. This underscores the importance of maintaining a balanced recovery between consumption and investment to strengthen growth dynamics in the coming quarters.
- **For the first time in six quarters, the economy accumulated inventories,** signaling a significant shift in the dynamics of gross capital formation. This may indicate an optimistic outlook from businesses as they begin to build up inventories in anticipation of greater future demand.
- **Investment grew at a faster rate than GDP for the second consecutive quarter**, a trend not observed since 2022. This performance marks a structural shift in the recovery's drivers, moving beyond exclusive reliance on final consumption. Additionally, it confirms a turning point in the economic cycle, which began to materialize in mid-2024 following a macroeconomic adjustment that had disproportionately affected investment.
- **Public consumption, which played a key role in Q2, recorded a sharp decline in Q3, with significant quarter-on-quarter and year-on-year contractions.** This drop is attributable to cuts in government spending, as well as reduced payrolls in registries and notaries, and lower energy and gas subsidies, limiting its capacity to support short-term economic growth.
- **Private consumption continued to recover both annually and quarterly but showed differentiated dynamics among its components**. Services saw a slowdown, particularly in education and restaurants/hotels, while non-durable goods, such as alcoholic beverages, tobacco, and clothing, recorded modest growth, indicating still-contained demand. In contrast, durable goods showed a robust recovery, driven

by lower financial costs for households, while semi-durable goods moderated their rate of decline, aligning with expectations.

- **Foreign trade stood out for its dynamic imports and moderate export growth during Q3.** Exports grew by 3.8% year-on-year, driven by services, which posted a notable 13.3% growth in the quarter and a 22.7% increase year-to-date. Moreover, service exports reached a new historic high, accounting for 18% of total exports, surpassing the previous high of 16% recorded in 2019. This milestone consolidates services as a key driver in the diversification of Colombia's foreign trade.
- **Imports, following a 3.2% drop in the first half of the year, recovered significantly in Q3, growing by 11.0% year-on-year.** This reflects the rebound in domestic demand, mainly driven by investment and private consumption. Machinery investment, which heavily relies on imported goods, and durable goods consumption, also largely dependent on imports, have been key drivers of this trend. In this context, the increase in imports highlights the role of capital expenditure and private consumption in the economic recovery and signals that investment is gaining momentum while domestic demand continues to strengthen sustainably.
- **Therefore, the recovery in Q3 was primarily driven by investment, a shift that promotes more balanced growth in Colombia.** This strengthens the sustainability of economic growth by reducing reliance on public or private consumption**. However, the recovery of investment was not uniform.** The greatest contributions came from civil works, followed by non-residential buildings and machinery and equipment. Conversely, investment in housing remained in negative territory. It is crucial for housing investment to stabilize and for non-residential buildings to expand ongoing projects to ensure a more homogeneous and sustainable recovery.
- **Housing investment not only has a direct impact on overall investment but also serves as a cornerstone for key productive sectors.** Its recovery can directly influence sectors such as manufacturing and mining, with multiplier effects on industrial activities. The continued decline in housing investment affects both job creation and the dynamism of related supply chains, limiting the expansion of these sectors.
- **A medium-term analysis, beyond quarterly fluctuations, highlights that Colombia's economic recovery faces significant challenges, particularly in investment.** To better understand the current state of GDP components, an index based on December 2019 (base = 100) is used, allowing an assessment of how close or far these components are from pre-pandemic levels. Domestic demand stands out with an index of 112.9% (12.9% above pre-pandemic levels), driven primarily by final consumption, which reached 118.3%. Within this category, household consumption leads with a robust 121.5%, while public consumption stands at 105.3%, reflecting a recent slowdown after maintaining elevated levels during periods of stricter health restrictions. In contrast, fixed investment remains lagging, reaching only 96.2% of pre-pandemic levels, highlighting the structural challenges faced by this critical growth driver. Meanwhile, exports and imports, with indices of 111.0% and 113.9%, respectively, demonstrate a more balanced recovery in foreign trade, though still insufficient to reverse accumulated deficits. These results underscore the need to strengthen investment and achieve a better balance across the economy's growth drivers.
- **Sectoral performance shows a contrast among primary, secondary, and tertiary sectors.** Growth in agriculture and fishing (+10.7%) contrasts with persistent declines in manufacturing (-1.3%) and mining (-7.1%). Among services, artistic and entertainment activities stood out (+14.1%), while sectors such as transportation and lodging faced significant challenges. Indeed, the ISE results, which track the monthly evolution of the economy, confirm this dynamic: primary activities lead the recovery, while secondary and tertiary activities remain lagging.
- **Economic recovery appears to have continued in October,** although September marked a weak close to the third quarter. According to the monthly ISE, economic activity in September showed a significant slowdown,

reflecting challenges in key sectors. However, the most recent indicators suggest improvements in October, raising more optimistic expectations for year-end results.

- **Freight transport rebounded in October,** reflecting improvements in the production and distribution of goods, while the **industry, with low inventory levels,** is prepared to increase activity to meet rising domestic demand. This suggests a more dynamic supply response to the strengthening economic activity.
- **Lower financial costs, resulting from declines in interest rates and inflation, continue to benefit both households and businesses.** This financial relief has been key to sustaining domestic demand, especially for durable goods, and could consolidate a broader recovery in the fourth quarter. Private consumption showed positive signs in October, with **improved household confidence** and increased auto sales. However, the residential market displayed a moderate recovery, still marked by volatility and lacking a clear consolidation trend. These results reflect progress in consumption but highlight the need for greater stability in key sectors like housing. Finally, the **BBVA Consumption Tracker also showed improvements in October**, underscoring the gradual strengthening of domestic demand. This upturn, combined with positive signals in other sectors, points to a stronger year-end than the third quarter.
- **Projections for 2024 GDP remain stable at 2.0%,** but achieving this figure requires at least 2.8% growth in the fourth quarter**. Looking ahead to 2025, growth is expected to accelerate gradually,** supported by the strength of investment, particularly in civil works and the sustained recovery of machinery spending. Meanwhile, building construction is expected to gain momentum in the second half of 2025, contributing to a more balanced expansion.
- **In private consumption, growth will be led by goods, while private services, particularly in tourism and entertainment, will continue to moderate.** On the external front, exports are expected to face challenges, including a potential slowdown if additional tariffs are imposed in global trade. In contrast, imports are expected to maintain their acceleration, driven by the recovery of domestic demand and the dynamism of productive investment.

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