Peru’s Macroeconomic Performance: Q3 2019 GDP and Current Monthly Indicators

Overview
During Q3 2019, Peru’s GDP increased by 3.0% YoY, an acceleration from the previous quarter (1.2% YoY). The quarter-over-quarter growth rate was 0.9%. Peru’s economic upturn was spearheaded by an improvement in consumption.

Consumption increased by 3.7% YoY in Q3 2019. Household consumption grew 3.3% YoY in Q3 2019. While low inflation and low interest rates contributed to this positive performance, the improvement of the labor market also helped to drive the improvement in household consumption.

Regarding investment, gross fixed capital formation (GFCF) grew 5.7% YoY in Q3 2019, an acceleration from the previous quarter (5.5% YoY). This was driven by the increase in private investment.

The YoY inflation rate began to decelerate in June 2019. CPI grew by 1.9% YoY in December 2019, unchanged from the previous month. Food and transportation prices influenced the decrease of CPI.

During its most recent meeting in January 2020, the Central Bank decided to keep the policy rate unchanged at 2.25%, the lowest level since July 2010.

Peru’s GDP growth is expected to accelerate in 2020. Low inflation and an expansionary monetary policy are expected to support economic activity in 2020. In addition, investment is expected to pick up, partially as a result of infrastructure projects.
1. GDP

During Q3 2019, Peru’s GDP increased by 3.0% YoY, an acceleration from the previous quarter (1.2% YoY) (Chart 1). The quarter-over-quarter growth rate was 0.9%. Peru’s economic upturn was spearheaded by an improvement in consumption (Chart 2).

Consumption and Investment

Consumption increased by 3.7% YoY in Q3 2019 (Chart 3). Household consumption grew 3.3% YoY in Q3 2019. While low inflation and low interest rates contributed to this positive performance, the improvement of the labor market also helped to drive the improvement in household consumption. The number of jobs increased 3.5% YoY in October as a result of an increase in the number of private jobs (4.2% YoY) due to an expansion of the number of jobs in the construction and service sectors (Chart 4).
Regarding investment, gross fixed capital formation (GFCF) grew 5.7% YoY in Q3 2019, an acceleration from the previous quarter (5.5% YoY) (Chart 5). This was driven by the increase in private investment. Private investment has begun to accelerate since Q3 2018 as a result of: 1) increased investment in mining and construction as a result of new mining projects and the continuation of some infrastructure projects like the Lima subway and the airport terminal expansion; and 2) low interest rates. In addition, business confidence has started to show some signs of bottoming out (Chart 6) as a result of a decreased political tensions in the country.

![Chart 5: Gross Fixed Capital Formation](image5)

**Exports and Imports**

Exports of goods decreased 2.2% YoY in Q3 2019, the fourth consecutive quarter exports of goods decreased (Chart 7). This was the result of a decrease in exports of mining, principally copper (-4.6% YoY). This contraction is the result of both a drop in copper prices and low output.

Imports of goods decreased 2.1% YoY in Q3 2019 (Chart 8). The value of imports of intermediate goods decreased (-11.2% YoY), partially as a result of a decrease in fuel imports (-26.4% YoY) due to lower oil prices.

---

1 The government gave concessions to private companies to build and operate these projects.
2 At the end of September 2019, President Viscarra dissolved Congress amid a protracted showdown with lawmakers over anti-corruption reforms. The move won him support among the armed forces, police and voters. Legislative elections are scheduled for January 26.
3 This section is reporting nominal values.
2. Inflation and Monetary Policy

The YoY inflation rate began to decelerate in June 2019. CPI\(^4\) grew by 1.9% YoY in December 2019 (Chart 9), unchanged from the previous month. Food and transportation prices influenced the decrease of CPI. Core CPI\(^5\) was 2.2% YoY in December, a slight deceleration from the previous month, which indicates an absence of upward pressure on prices.

During its most recent meeting in January 2020, the Central Bank decided to keep the policy rate unchanged at 2.25%, the lowest level since July 2010. The Central Bank’s decision to keep the policy rate unchanged was based on 1) current inflation remaining around the midpoint target range; 2) inflation expectations remaining steady and moderate; and 3) weak economic activity. As a result of the current nominal policy rate, the real policy rate is below the neutral real policy rate (Chart 10), meaning there is monetary stimulus in the economy.

\(^4\) The CPI in this paper corresponds to CPI Lima as it is widely used as a proxy for CPI National because of the detailed breakdown of data it provides, which is not the case for CPI National.

\(^5\) Core inflation excludes energy and food items.
3. Outlook

Peru’s GDP growth is expected to accelerate in 2020. Low inflation and an expansionary monetary policy are expected to support economic activity in 2020. In addition, investment is expected to pick up, partially as a result of infrastructure projects.

For reference to our previous reports, see our website at: https://mufgamericas.com/insights-and-experience/latin-america-insights

The information herein is provided for information purposes only, and is not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. Neither this nor any other communication prepared by MUFG Bank, Ltd. (collectively with its various offices and affiliates, “MUFG Bank”) is or should be construed as investment advice, a recommendation to enter into a particular transaction or pursue a particular strategy, or any statement as to the likelihood that a particular transaction or strategy will be effective in light of your business objectives or operations. Before entering into any particular transaction, you are advised to obtain such independent financial, legal, accounting and other advice as may be appropriate under the circumstances. In any event, any decision to enter into a transaction will be yours alone, not based on information prepared or provided by MUFG Bank. MUFG Bank hereby disclaims any responsibility to you concerning the characterization or identification of terms, conditions, and legal or accounting or other issues or risks that may arise in connection with any particular transaction or business strategy. While MUFG Bank believes that any relevant factual statements herein and any assumptions on which information herein are based, are in each case accurate, MUFG Bank makes no representation or warranty regarding such accuracy and shall not be responsible for any inaccuracy in such statements or assumptions. Note that MUFG Bank may have issued, and may in the future issue, other reports that are inconsistent with or that reach conclusions different from the information set forth herein. Such other reports, if any, reflect the different assumptions, views and/or analytical methods of the analysts who prepared them, and MUFG Bank is under no obligation to ensure that such other reports are brought to your attention. MUFG Bank, Ltd. retains copyright to this report and no part of this report may be reproduced or re-distributed without the written permission of MUFG Bank, Ltd. MUFG Bank, Ltd. expressly prohibits the re-distribution of this report to Retail Customers, via the internet or otherwise and MUFG Bank, Ltd., its subsidiaries or affiliates accept no liability whatsoever to any third parties resulting from such re-distribution.