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Uruguay Strategy Flash

Uruguay's growth clocked in at -0.2%yoy in 3Q23

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GDP fell by -0.2%yoy in 3Q23— increasing +1%qoq seasonally adjusted— as the economy starts to recover from the shock of the drought. During the third quarter of the year, Uruguay's economy rebounded after experiencing a -2.5%yoy contraction during 2Q23. While the year-on-year figures did not manage to beat 3Q22, seasonally adjusted, quarter-on-quarter growth did show signs of acceleration, albeit printing a mixed performance in terms of sectors. The quarterly decrease was mainly driven by a very poor performance from the secondary sector, while the primary and services segments managed to offset part of the underperformance in the former. We expected the effect of the drought to dissolve after hitting the 2Q23 GDP print, and so the agricultural segment rebounded after a very weak second quarter. In this context, the sectors which were mainly responsible for the fall in GDP were Power Generation (-11.3%yoy), and Construction (-8.6%yoy). The segments contributed twin -0.4pp negative variations to the quarterly GDP print, with the brunt of the underperformance coming in the shape of a complex hydric scenario that affected Power generation, and the slowdown in Construction post-finalization of the UPM II project. In addition, Commerce (-1.1%yoy), Manufacturing (-1%yoy), and Professional Services (-1.8%yoy) posted timid negative variations, with all three contributing -0.1pp to the quarterly drop, respectively. On the positive side, the agricultural sector is starting to recover, and the good prospects extend to the 4Q23, as this next campaign is bound to be plentiful. In this context, the Agriculture, Fishing, and Mining segment rose by +9.6%yoy, being the largest positive contributor to the print, offsetting 0.5pp of the drop. The Services sector also continues to enjoy positive dynamics and managed to cushion economic activity, offsetting part of the decrease. In particular, Transport, Storage, Information & Communication Services (+2.6%yoy), Financial Services (+3.7%yoy), and Public Services (+2.0%yoy) managed to post quarterly increases amidst a complex scenario, slashing the drop in GDP by 0.3pp, 0.2pp and 0.1pp respectively. Finally, Health, Education, and Other Services (+0.0%yoy) showcased no variation relative to 3Q22, having no impact on the quarterly print. In this context, the general performance of the economy was conditioned by a recovering primary sector (contributing +0.5pp), which partially offset a weak performance from the secondary sector (-0.9pp), which was also compensated by a generally positive print in the Services sector, which added +0.3pp to the quarterly print.

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Under the expenditure approach, consumption continued to present encouraging dynamics, while the external sector hammered down on economic activity, with the GDP print presenting very mixed dynamics. Regarding our first point, Final Consumption performed very well, maintaining its momentum relative to 2Q23, posting a +3.3%yoy rise. This made the segment responsible for a positive +2.7pp contribution to the GDP print. The solid performance came mostly on the back of PCE (+3.4%yoy), while Govt. Expenditure also proved supportive, especially as the administration's fiscal bias continued to be softer during 3Q23, making the segment rise moderately, exhibiting a +2.7%yoy variation. In this context, the former pitched in +2.2pp to growth, while the latter's contribution was positive, albeit smaller, at +0.5pp. Investment figures also managed to chip in with a positive contribution, rising by 9.1%yoy. However, Fixed Capital Formation (-11.3%yoy) continues to suffer due to the finalization of the UPM II project and other infrastructure works. This sub-section contributed -2.1pp to the fall in GDP, which was offset by a positive variation in inventories, which pushed the section's contribution to positive territory. Finally, the external sector continued to be aggressively unsupportive during 3Q23. After posting a relatively good 1Q23, followed by a very weak 2Q the negative trend maintained its momentum in the third quarter of the year. Exports were hammered down by the effect of the drought, suffering a -9.2%yoy contraction. This slashed quarterly growth by -2.9pp. In addition, Imports continued to exhibit positive dynamics, favored by solid consumption figures and a strong UYU in this period. Both fuel imports and outgoing tourism were the main drivers behind the increase, with the latter being strongly affected by the extremely favorable bilateral REER with Argentina. Therefore, the segment rose by +5%yoy in 3Q23, presenting a negative contribution of -1.4pp to the general activity figure. All in all, the net contribution of the external sector was deeply negative, offsetting growth by nearly -4.3pp.

Figure 1: The economy recovered slightly in 3Q23

%yoy	4Q22	2022	1Q23	2Q23	3Q23
GDP	-0.1%	4.9%	1.6%	-2.5%	-0.2%
Agriculture	-21.5%	-2.9%	-6.2%	-27.3%	9.6%
Manufacturing	-4.3%	0.1%	1.6%	-1.4%	-1.0%
Power & Water	-5.7%	0.4%	-0.7%	-14.7%	-11.3%
Construction	1.5%	7.0%	2.6%	-6.6%	-8.6%
Commerce	5.6%	10.4%	5.9%	-2.2%	-1.1%
Transport	6.8%	9.7%	5.5%	3.4%	2.6%
Financial Services	2.7%	2.7%	1.5%	1.1%	3.7%
Professional Activites	3.8%	6.2%	0.8%	2.8%	-1.8%
Public Administration	0.3%	-1.1%	-3.1%	3.5%	2.0%
Other Services	1.1%	5.6%	3.0%	0.9%	0.0%

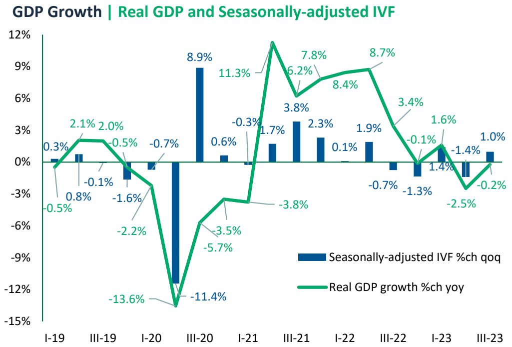
%yoy	4Q22	2022	1Q23	2Q23	3Q23
GDP	-0.1%	4.9%	1.6%	-2.5%	-0.2%
Final Consumption	3.4%	5.0%	2.8%	3.9%	3.3%
PCE	4.5%	6.0%	4.0%	4.5%	3.4%
Govt. Expenditure	-0.2%	1.6%	-2.2%	1.8%	2.7%
Investment	-1.2%	5.2%	-7.8%	-7.1%	9.1%
Exports	-5.6%	11.1%	10.9%	-6.9%	-9.2%
Imports	3.7%	12.5%	9.9%	7.9%	5.0%

Source: TPCG Research based on BCU

In this context, we find the GDP print marginally credit negative, with the contraction coming in line with expectations.

In this context, we find the GDP print marginally credit negative, with the contraction coming in line with expectations. Analyst expectations predicted a -0.3%yoy print, with the final figure coming in line with estimates. Growth in the first three quarters of the year stands at the -0.4%yoy mark, showcasing an improvement relative to 1H23. In this regard, the economy exhibited a significant divergence between GDP components, especially relative to the solid performance of internal demand, compared with the very unsupportive external sector. In terms of activity, this translated into a recovering primary sector and dynamic services segment offsetting a weak secondary sector performance. The Uruguayan economy is leaving a transitory supply shock behind, and now baseline figures should start to aid growth. In this context, the latest BCU survey conveys analyst expectations for GDP growth this year stand at +0.69%yoy, while the MEF's budget review estimates suggest a +1.3%yoy GDP increase for 2023. Still, we expect these figures to be revised slightly to the downside, as the former is only consistent with a +3.8%yoy increase in 4Q23, while the latter is consistent with a quarterly increase of +6.2%yoy. With statistical carry presenting a scenario where the economy contracts by -1.9%yoy, we expect positive dynamics to continue during the 4Q23 in the services sector, while the primary and secondary sectors recover. Our point estimate for 4Q growth stands at +2.7%yoy, responding largely to the solid perspectives for the agricultural sector, which should compound with a strong positive baseline effect. In this context, our estimates are consistent with a timid +0.4%yoy growth for the year.

Figure 2: Growth forecasts hover around the +0.6% mark



Source: TPCG Research based on BCU

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