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Uruguay Strategy Flash

Uruguay's growth clocked in at +4.9%yoy in 2022

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GDP dropped by -0.1%yoy in 4Q22—-1.3%qoq seasonally adjusted—with total growth for 2022 clocking in at +4.9%, hovering around official estimates. With a weakening baseline effect, Uruguay's growth could not maintain its momentum, as the positive trend it enjoyed since the start of 2021 finally came to an end. GDP growth slowed down significantly during 2H22, closing the year with a weak performance as seasonally adjusted %qoq growth came in negative for both the 3Q (-0.7%) and 4Q (-1.3%), losing increasingly more push as the year advanced. This ended a five-quarter long qoq growth spree that started in 2Q21. The yearly hike was mainly driven by the increases in Commerce, Hotels & Restaurants (+10.4%yoy), Transport, Storage, Information & Communication Services (+9.7%yoy), and Professional Activities (+6.2%yoy) which continued to recover strongly from the pandemic dip, enjoying the positive dynamism of economic activity. The segments contributed 1.3pp, 0.9pp, and 0.5pp to the GDP print, respectively. In addition, Health, Education, and Other services (+5.6%yoy) and Financial Services (+2.7%yoy) accounted for another 1.5pp of the yearly increase. Then, it is clear the services sector carried the economy, contributing 4.1pp of the total GDP print. The primary sector ended the year on a low, as Agriculture Fishing and Mining dropped by -2.9%yoy. The secondary sector did not manage to maintain 2021's momentum, with both Manufacturing (+0.1%yoy) and Power Generation (+0.4%yoy) having no impact on yearly growth, posting modest rises. Only Construction (+7%yoy) managed to move the needle, adding 0.3pp to the general increase.

Figure 1: The economy underperformed in 4Q22

%yoy	2021	1Q22	2Q22	3Q22	4Q22	2022
GDP	5.3%	8.4%	8.7%	3.4%	-0.1%	4.9%
Final Consumption	4.0%	6.2%	5.6%	5.0%	3.4%	5.0%
PCE	2.9%	6.5%	5.7%	7.3%	4.5%	6.0%
Govt. Expenditure	8.4%	5.2%	5.2%	-3.0%	-0.2%	1.6%
Investment	18.3%	13.4%	13.5%	-2.1%	-1.2%	5.2%
Exports	11.7%	22.4%	17.1%	13.6%	-5.6%	11.1%
Imports	18.2%	19.2%	12.3%	16.8%	3.7%	11.1%

%yoy	2021	1Q22	2Q22	3Q22	4Q22	2022
GDP	5.3%	8.4%	8.7%	3.4%	-0.1%	4.9%
Agriculture	13.4%	3.9%	19.6%	-6.5%	-21.5%	-2.9%
Manufacturing	7.6%	6.7%	2.2%	-3.2%	-4.3%	0.1%
Power & Water	5.8%	0.9%	5.3%	1.2%	-5.7%	0.4%
Construction	6.0%	10.8%	8.7%	8.4%	1.5%	7.0%
Commerce	7.8%	13.9%	11.4%	11.2%	5.6%	10.4%
Transport	0.8%	14.3%	10.9%	7.6%	6.8%	9.7%
Financial Services	5.8%	1.0%	5.9%	1.2%	2.7%	2.7%
Professional Activites	8.1%	9.2%	7.2%	5.0%	3.8%	6.2%
Public Administration	0.1%	-0.5%	-2.5%	-1.9%	0.3%	-1.1%
Other Services	2.6%	9.8%	10.7%	1.9%	1.1%	5.6%

Source: TPCG Research based on BCU

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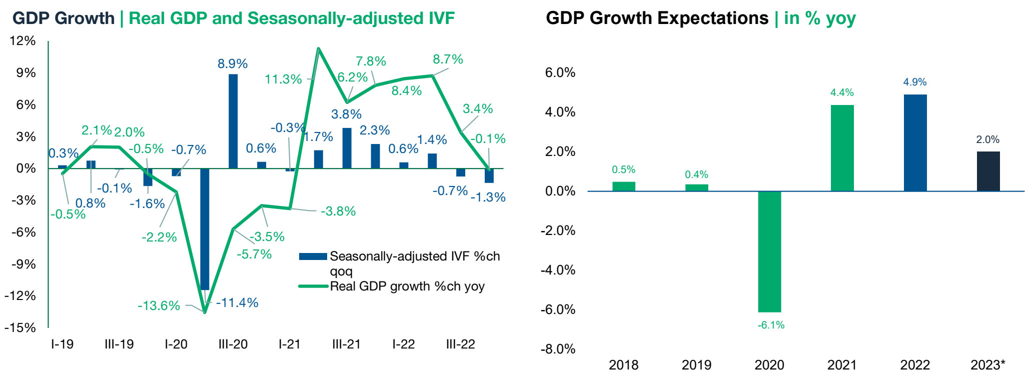
In the quarterly department, the -0.1%yoy drop came mostly on the back of the very poor agricultural campaign, as Agriculture Fishing and Mining crashed by -21.5%yoy, slashing 1.9pp from the GDP print. In addition, Manufacturing (-4.3%yoy) and Power Generation (-5.7%yoy) deepened the negative trend, cutting GDP growth short by 0.5pp and 0.2pp respectively. The services sector instead managed to mostly offset the weak performance of the primary and secondary sectors. Commerce, Hotels & Restaurants (+5.6%yoy) and Transport, Storage, Information & Communication Services (+6.8%yoy) contributed 0.7pp and 0.6pp to the GDP print respectively and were supported by good performances of Professional Activities

(+3.8%yoy) and Health, Education and Other services (+1.1%yoy), that increased the GDP print by 0.3pp each.

In this context, the seasonally adjusted qoq drop indicates economic activity is starting to lose some steam, pointing at a slowdown in growth beyond 2022.

Under the expenditure approach, consumption continued to present encouraging dynamics, with the external sector offsetting the internal improvements. Looking at yearly data, Final Consumption was responsible for 4pp of the GDP print. The solid performance came mostly on the back of PCE (+6%yoy), as Govt. Expenditure experienced a marginal increase (+1.6%yoy) in 2022, contributing 3.7pp and 0.3pp respectively. Investment benefited from the reduced uncertainty and hiked by +5.2%yoy, resulting in a 1pp contribution to the GDP print. However, the external sector was not as supportive. While Exports exhibited a solid rise (+11.1%yoy), its 3pp contribution was matched by the +12.5%yoy hike in Imports, consequence of recovering disposable income, which slashed 3pp from GDP growth, making the contribution of Net Exports neutral, not affecting the GDP print.

Figure 2: The administration expects growth to slow down to +2%



Source: TPCG Research based on BCU

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Instead, quarterly figures enjoyed support from Internal demand, albeit with the external sector proving heavily unsupportive. The increase in PCE (+4.5%yoy) was more sluggish, still being the largest positive influence on the quarterly print, representing 2.6pp. Instead, Govt. Expenditure decreased marginally (-0.2%yoy), on the back of fiscal consolidation, not influencing GDP growth. Investment fell marginally (-1.2%yoy), as inventories dropped heavily (-31.2%yoy) subtracting 1.0pp from the GDP print, a drop which was partially offset by a 0.7pp contribution from Gross Fixed Capital investment (+3.9%yoy). Finally, in the external sector, Exports showcased a weak quarter, dropping by -5.6%yoy, as the drought mangled the agricultural campaign. On the contrary, Imports continued to increase, rising by +3.7%yoy, consistent with the dynamics of private sector consumption. All in all, the external sector slashed -2.5pp from the GDP print, fueled by both Exports (-1.5pp) and Imports (-0.9pp).

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The print conveys the economy's performance decoupled, with solid internal dynamics, while the external sector is already accusing the weak agricultural campaign. 2022 finally closed with a robust +4.9% yoy growth. Still, it came below market expectations, as the latter, gathered by the BCU's survey, envisaged a +5.3% rise However, the performance was wildly different during 1H and 2H. Growth in 1H stood at +8.6%yoy, while the second half of the year barely scraped a +1.5%yoy rise. This trend was mostly driven by a diluting baseline effect, which faded completely during 2H22, and by the weak agricultural campaign in 4Q, which compounded with a slowdown in the services sector dynamics. The latter remained positive but deaccelerated as the year advanced. The weak seasonally adjusted qoq dynamics do not present a flattering scenario for 2023, especially in a context where the full brunt of the drought is still to be reflected in in GDP figures. On some positive news, the economy stands at +3.7% over pre-pandemic levels. The administration expects yearly growth to total +2% for 2023. Looking at 1Q23, with the tertiary sector continuing to deaccelerate, and the effects of the drought worsening, activity dynamics are poised to suffer, even as a solid tourism campaign could present some relief to GDP figures.

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