Juan Manuel Pazos
Chief Economist
+54 11 4898 6606
jmpazos@tpcgco.com

Santiago Resico
Economist
sresico@tpcgco.com
+54 11 4898 6615

March 22, 2024

Uruguay Strategy Flash

Uruguay's growth clocked in at +0.4%yoy in 2023

GDP rose by +2%yoy in 4Q23—+0.4%qoq seasonally adjusted—with total growth for 2023 clocking in at +0.4%, hovering around official estimates.

GDP rose by +2%yoy in 4Q23—+0.4%qoq seasonally adjusted—with total growth for 2023 clocking in at +0.4%, hovering around official estimates. With the baseline effect starting to play in Uruguay's favor, activity levels continued exhibiting positive momentum, after the 3Q23 print clocked in with a positive, albeit very timid +0.1%qoq variation. GDP started to pick up some pace during 2H23, as the solid consumption dynamics propelled by high real wages compounded with a recovering agricultural sector, which had been hit severely by the drought during 4Q22. This resulted in twin positive quarter-on-quarter prints, even if the yoy gauge finally broke through to positive territory in 4Q23. However, the Uruguayan economy was unable to grow in line with potential GDP, mainly due to the drought shock, and posted weak yearly metrics, which came in line with our +0.4%yoy point estimate. The yearly increase was mainly driven by the recovery of the Agricultural sector, which posted a +5%yoy rise, in addition to Health, Education & Other Services (+1.1%yoy), Financial Services (+2.7%yoy), and Commerce (+1.2%yoy), all of which performed well on the back of solid consumption dynamics. However, with the meager print, contributions were equally marginal, as the segments contributed 0.3pp, 0.26pp, 0.15pp, and 0.16pp to the GDP gauge, respectively. Then, it seems that both the primary and tertiary sectors of the economy were the main architects behind Uruguay's growth in 2023, as their aggregate contribution totaled 1.04pp, doubling actual GDP growth. In this context, most of the underperformance came on the side of the secondary sector, as it was heavily hit by idiosyncratic factors. While Manufacturing suffered a moderate contraction (-1.6%yoy), both Power Generation and Construction suffered very significantly, falling by -9.2%yoy and -5.6%yoy, respectively. The first suffered the brunt of the drought, as the weak water flows hurt hydroelectric production significantly. Instead, the second was hit by the end of the UPM II works, which had bloated the contribution of the segment in 2022. All the secondary segments contributed negatively to the GDP print, with Manufacturing being responsible for cutting growth short by -0.16pp, while Power Generation and Construction shaved GDP growth by -0.25pp and -0.26pp each, putting the aggregate contribution of the sector at -0.67pp.

Figure 1: The economy performed in line with expectations in 4Q23

%yoy	2022	1Q23	2Q23	3Q23	3Q23	2023
GDP	4.7%	1.9%	-2.1%	-0.2%	2.0%	0.4%
Final Consumption	5.0%	1.9%	4.2%	3.2%	2.1%	2.8%
PCE	5.7%	2.8%	5.0%	3.9%	2.8%	3.6%
Govt. Expenditure	2.5%	-1.7%	1.1%	0.4%	-0.6%	-0.2%
Investment	5.7%	-1.7%	-8.4%	9.1%	-6.3%	-2.7%
Exports	9.8%	10.9%	-6.2%	-8.6%	8.9%	0.7%
Imports	12.4%	9.4%	7.0%	4.8%	3.1%	6.0%

%yoy	2022	1Q23	2Q23	3Q23	3Q23	2023
GDP	4.7%	1.9%	-2.1%	-0.2%	2.0%	0.4%
Agriculture	-9.5%	-5.5%	-25.2%	9.3%	59.4%	5.0%
Manufacturing	0.8%	1.8%	-1.0%	-1.2%	-5.5%	-1.6%
Power Generation	2.9%	-1.8%	-19.6%	-10.8%	-3.0%	-9.2%
Construction	10.6%	5.0%	-4.9%	-8.4%	-12.4%	-5.6%
Commerce	9.5%	6.9%	-3.2%	-0.5%	2.5%	1.2%
Transport	9.7%	3.9%	-1.6%	1.0%	-0.3%	0.6%
Financial Services	1.6%	1.1%	2.0%	3.8%	3.8%	2.7%
Professional Activites	7.2%	1.9%	8.8%	-1.1%	-5.0%	1.0%
Public Administration	-1.5%	-3.2%	3.5%	1.8%	1.0%	0.8%
Other Services	5.4%	2.7%	0.7%	0.2%	0.6%	1.1%

Source: TPCG Research based on BCU

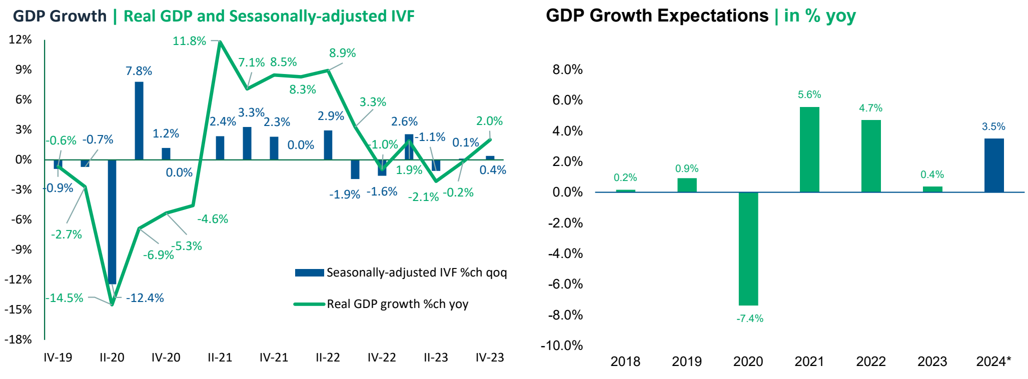
In the quarterly department, the +2%yoy rise responded almost exclusively to the vigorous rebound of the Agricultural sector.

In the quarterly department, the +2%yoy rise responded almost exclusively to the vigorous rebound of the Agricultural sector. While 4Q22 was a very underwhelming quarter for agricultural production, as it was hit surprisingly hard by the dry climatic conditions, the weak baseline set the basis for a solid rebound in 4Q23. In this context, the segment posted a +59.4%yoy rise, contributing 3pp to the 4Q23 print. The services sector had a positive overall contribution, albeit showcasing some signs of exhaustion after a year of robust prints. In this context, Both Commerce (+2.5%yoy) and Financial Services (+3.8%yoy) were the standout segments in a mediocre tertiary sector, while Professional activities experienced a -5%yoy drop which partially offset GDP growth. In this context, the services sector contribution amounted to a mild 0.3pp. Finally, mirroring the yearly performance, the secondary sector did poorly in 4Q23, and its contribution held back GDP growth. Manufacturing experienced a -5.5%yoy contraction, which cost 0.57pp worth of GDP growth, while the fall in Construction deepened in the last quarter of the year, as it slumped by -12.4%yoy, posting a negative contribution of -0.6pp. While Power Generation also contracted, its drop was milder, falling by -3%yoy, and having near to no impact on the aggregate GDP print.

Under the expenditure approach, consumption continued to present encouraging dynamics, with the external sector and falling investment offsetting the robust PCE improvements.

Under the expenditure approach, consumption continued to present encouraging dynamics, with the external sector and falling investment offsetting the robust PCE improvements. Looking at yearly data, Final Consumption was responsible for 2.2pp of the GDP print, six times the actual economic growth. The solid performance came solely on the side of PCE (+3.6%yoy), as Govt. Expenditure contracted marginally (-0.2%yoy) in 2023, with the former contributing 2.2pp, while the latter had no impact on economic growth. Investment suffered in 2023, dropping by -2.7%yoy, and shaving GDP growth by -0.5pp. The weak performance of investment compounded with a hostile external sector and offset most of the improvements in consumption figures. While Exports presented some unexpected resilience, rising by +0.7%yoy, mostly on the back of a very solid 4Q, its meager 0.2pp contribution was significantly offset by the strong hike in Imports. The latter rose by +6%yoy, responding to an appreciating REER and high salaries in USD, which fueled international consumption. This caused a -1.6pp slash in GDP growth, putting the aggregate contribution of the external sector at -1.1pp.

Figure 2: The administration expects growth to pick up to +3.5% in 2024



Source: TPCG Research based on BCU

Instead, quarterly figures enjoyed support from Internal demand, albeit with the external sector's bias turning to supportive.

Instead, quarterly figures enjoyed support from Internal demand, albeit with the external sector's bias turning to supportive. The increase in PCE (+2.8%yoy) was more sluggish, albeit still a meaningful contributor to GDP growth, representing 1.6pp of the print. Instead, Govt. Expenditure suffered a sharper drop (-0.6%yoy), on the back of fiscal consolidation, which in 2023 concentrated strongly in the 4Q23. Mirroring Govt. Expenditure, Investment suffered a more acute drop in 4Q23, falling by -6.3%yoy, which resulted in a -1.3pp slash to GDP figures, responding mainly to the end of the UPM II works. Finally, in the external sector, Exports showcased a strong quarter, rising by +8.9%yoy, reverting a weak 9M23, albeit strongly aided by a significant baseline effect. On the contrary, Imports softened their growth, rising by +3.1%yoy, consistent with the dynamics of private sector consumption. All in all, the external sector was a net contributor to GDP growth, adding 1.6pp to the print, as the 2.4pp addition caused by Exports outweighed the -0.8pp shave caused by Import growth.

The print conveys the economy is poised to perform robustly in 2024, with a recovering exports sector compounding with solid momentum in consumption dynamics.

The print conveys the economy is poised to perform robustly in 2024, with a recovering exports sector compounding with solid momentum in consumption dynamics. 2023 finally closed with a weak +0.4% yoy growth, in line with our point estimate. The result is also consistent with the expectations portrayed in the BCU's survey, which pointed to a +0.45%yoy increase in GDP. Looking at 2024, in a context where agriflows are projected to rebound we expect both the agricultural sector on the supply side and exports on the demand side to recover the lost ground in 2023. While weaker terms of trade, based on lower international prices, could put a cap on recovery, the increase in quantities should allow Uruguay's growth to rebound back to the potential +2.8%yoy levels in 2024, especially given the weak baseline presented by 2023 figures, and with the additional support provided by UPM II, which is expected to produce at full capacity in 2024, bolstering GDP growth further. We expect consumption to continue being supportive, as the increased disposable income generated by the strong UYU and flattening inflation, in addition to the government's supportive income policy, should aid PCE to maintain its momentum, especially with the election cycle taking place in 2024. On a negative note, construction should continue to shrink during 1H24, partly offsetting the strong rebound. While 2024's tourism campaign is likely to be weaker, accounting for a more competitive REER with Argentina, service imports due to outgoing tourism, which boomed in 2023, should also weaken significantly. In this context, we expect imports to slow while exports recover, envisaging a more constructive scenario for the external sector. All in all, we expect growth to rebound back to +3.5% next year, with BCU estimates pointing at a +3.4% growth with MEF estimates envisaging the GDP increase at +3.5%, being corrected downwards by -0.2pp relative to Budget Review forecasts.

TPCG Analysts & Staff

Research			
Juan Manuel Pazos	**Chief Economist**	**jmpazos@tpcgco.com**	**+54 11 4898-6606**
Paula La Greca	Corporate Research Analyst	plagreca@tpcgco.com	+54 11 4898-6638
Santiago Resico	Economist	sresico@tpcgco.com	+54 11 4898-6615
Camila Sanchez Lauria	Research Analyst	csanchezlauria@tpcgco.com	+54 11 6616-9512
Sales & Trading			
Juan Manuel Truppia	**Head of Sales & Trading**	**jmtruppia@tpcgco.com**	**+54 11 4898-6659**
Institutional Sales			
Lucia Rodriguez Pardina	S&T Director	lrodriguezpardina@tpcgco.com	+54 11 4898-6614
Agustina Guadalupe	Sales	aguadalupe@tpcgco.com	+54 11 4898-6682
Maria Pilar Hurtado	Sales	mhurtado@tpcgco.com	+54 11 4898-6616
Juan Ignacio Vergara	Sales	jivergara@tpcgco.com	+54 11 4898-1936
Santiago Baibiene	Sales	sbaibiene@tpcgco.com	+54 11 4898-6648
Pedro Nollmann	Sales	pnollmann@tpcgco.com	+54 11 4898-6617
María Ruiz de Castroviejo Salas	Sales	mruizdecastroviejo@tpcgco.com	+54 11 4898-6643
Santiago Jauregui	Sales	sjauregui@tpcgco.com	+598 9933-9495
Victoria Faynbloch	Desk Analyst	vfaynbloch@tpcgco.com	+54 11 4898-6635
Trading			
Felipe Freire	Trader	ffreire@tpcgco.com	+54 11 4898-1921
Homero Fernandez Bianco	Trader	hfbianco@tpcgco.com	+54 11 4898-6667
Andres Robertson	Trader	arobertson@tpcgco.com	+54 11 4898-6693
Corporate Finance			
José Ramos	**Head of Corporate Finance**	**jramos@tpcgco.com**	**+54 11 4898-6645**
Corporate Sales			
Camila Martinez	Corporate Sales Director	cmartinez@tpcgco.com	+54 11 4898-6621
Fernando Depierre	Corporate Sales	fdepierre@tpcgco.com	+54 11 4898-6636
Sol Silvestrini	Corporate Sales	ssilvestrini@tpcgco.com	+54 11 4898-6641
Nicolas Iglesias	Corporate Sales	niglesias@tpcgco.com	+54 11 4898-6612
Capital markets			
Nicolás Alperín	DCM	nalperin@tpcgco.com	+54 11 4898-6604
Wealth Management			
Josefina Guerrero	Private Wealth Management Specialist	jguerrero@tpcgco.com	+54 9 11 6556 2401
Asset Management			
Ileana Aiello	**Portfolio Manager**	**iaiello@tpcgco.com**	**+54 11 4898-6611**
Claudio Achaerandio	**Portfolio Manager**	**cachaerandio@tpcgco.com**	**+54 11 4898-6618**

Important Disclaimer

The document, and the information, opinions, estimates and recommendations expressed herein, have been prepared by TPCG Valores SAU to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. TPCG Valores SAU is not liable for giving notice of such changes or for updating the contents hereof. The document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall the document nor its contents form the basis of any contract, commitment or decision of any kind.

Investors who have access to the document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare the report. Therefore, investors should make their own investment decisions considering the said circumstances and obtain such specialized advice as may be necessary.

The contents of the document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by TPCG Valores SAU, and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. TPCG Valores SAU. accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance. The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment.

Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

TPCG Valores SAU. and/or any of its affiliates, as well as their respective directors, executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in the document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of the report, to the extent permitted by the applicable law.

TPCG Valores SAU or any of its affiliates' salespeople, traders and other professionals may provide oral or written market Commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, TPCG Valores SAU, or any of its affiliates' proprietary trading and investing businesses, may make investment decisions that are inconsistent with the recommendations expressed herein.

For U.S. persons only:

This report is a product of TPCG, which is the employer of the research analyst(s) who has prepared the informative report. The research analyst(s) preparing this report is/are resident(s) outside the United States (U.S.) and is/are not associated person(s) of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations.

This report is intended for distribution by TPCG only to U.S. Institutional Investors and Major U.S. Institutional Investors, as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by the U.S. Securities and Exchange Commission (SEC), in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a a US Institutional Investors nor a Major U.S. Institutional Investor, as specified above, then he should not act upon this report and return it to the sender. Further, this report may not be copied, duplicated and/or transmitted to any U.S. person, which is not a U.S. Institutional Investor, nor a Major U.S. Institutional Investor.

In order to comply with the US regulations, our transactions with US Institutional Investors and Major US Institutional Investors are effected through the US-registered broker-dealer Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this report should be effected through Marco Polo or another U.S. registered broker dealer.