Economic Research Department

BBVA

Peru

GDP Observatory

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GDP increase in February was 0.2%

- **The INEI reported that in February GDP rose by 0.2%, lower than our estimate[1] and the market consensus (1.8%). As a result, activity downturn surprises have been recorded for four consecutive months.**
- **A greater slowdown of non-primary manufacturing, which fell by 9.1%, would explain the difference with our estimate, tempered by the positive results in the construction (4.7%) and agricultural (4.0%) sectors.**
- **According to preliminary indicators, activity will perform better in March, placing GDP for the first quarter at around 2%.**

Production growth in February was 0.2%

In February, y-o-y GDP growth was 0.2%, lower than the market consensus and our estimate. The difference with our estimate is largely explained by the slump in **non-primary manufacturing**

It is worth mentioning that as regards consumer goods, the recession in industries related to the foreign sector was striking, such as the clothing (-35.9%), and the agroindustrial (-12.1%) sectors. The industry related to consumer goods for the domestic market (estimated by extracting the clothing and agroindustrial sectors) recorded a fall, in anticipation of an adjustment in private consumption.

Furthermore, the inventory reduction process has continued, in view of the fall in imported material prices and the change in demand growth expectations. Oil production fell by 20.8%, while iron and steel production dropped by 37.9%.

On a more positive note, the growth of the **construction** sector (4.7%) was noteworthy, boosted by public sector investment in roads and infrastructure, as well as private sector construction of houses, offices and shopping centers.

Domestic demand fell 1.9% in February

Our estimates are that production for the domestic market increased by 0.3% in February, while production for the foreign market (exports) fell by 0.2%.

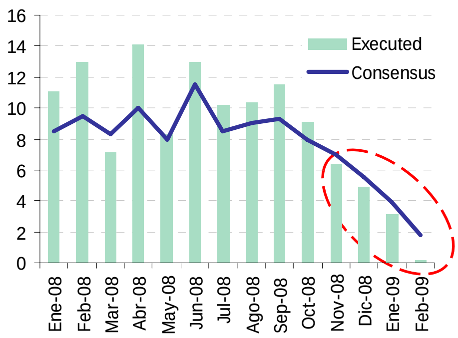
[1] Our forecast for January (see GDP Forecast Observatory, April 1) ranged between 1.6% and 2.0%, from the information available at the start of April.

Table 1: GDP sectors (YoY% var.)

Sectors	February
Agriculture and Livestock	**4.0**
Agriculture	1.9
Livestock	6.6
Fishing	**-17.6**
Mining and Hydrocarbons	**-2.0**
Metals mining	-3.8
Hydrocarbons	15.0
Manufacturing	**-7.5**
Primary	1.6
Non-Primary	-9.1
Electricity and Water	**-1.7**
Construction	**4.7**
Trade	**-0.7**
Services	**3.5**
GDP	**0.2**

Source: INEI
Prepared by: BBVA ERD - Banco Continental

Graph 1: Implemented v consensus GDP (y-o-y % var.)



Source: INEI, Reuters, Bloomberg
Prepared by: BBVA ERD - Banco Continental

In accordance with the above, domestic demand continued to record a deceleration and in February it dropped by 1.9% (in January it increased by 2.3%). This deceleration seems to be more accentuated in the private sector, where consumption and investment recorded a slump compared to 2008. This is confirmed by indicators such as imports and industrial production of consumer and capital goods, respectively.

Appraisal

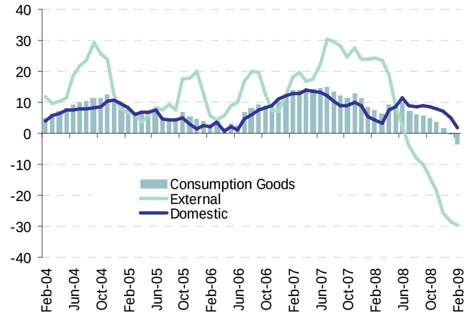
The results for February confirm a slowdown in economic activity, affected by less vigorous external demand and a change in consumption and private investment, in a climate of greater uncertainty. The inventory adjustment in industries such as processed food and iron and steel seems to have continued in February, which is reflected in lower production in certain sectors of the industry.

In March, activity will perform better (with a growth rate between 2.5% and 3%), according to hints from some early activity indicators such as electricity output (1.7% compared to -1.7% in February) and local cement order (6.2%, above February's 4.0%). As a result, we estimate that GDP growth in the first quarter could be around 2%.

For the coming quarters, the main risks for economic activity are: i) the international credit crunch will have a greater impact than expected on foreign demand and consumer and local company confidence, ii) the improvement in commodities prices experienced during the first quarter is reversed, reducing the possibility of applying countercyclical policies, and iii) the inventory adjustment process lasts longer and is more widespread than first anticipated.

However, the room that tax and monetary policies have to implement countercyclical measures are supporting factors that will lessen the negative impact of the international credit crunch on Peru's economy.

Graph 2: Consumer Goods Industry (YoY% var. – moving average 3m)



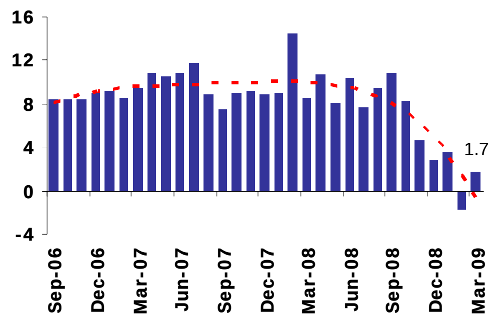
Source: INEI, Produce
Prepared by: BBVA ERD - Banco Continental

Table 2: Domestic Demand (YoY% var.)

Indicator	Feb-09
GDP	**0.2**
Domestic Market[1]	0.3
External market[2]	-0.2
Domestic Demand (estimate)	**-1.9**

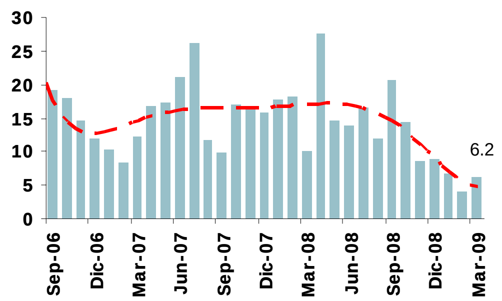
1/ Domestic production, sold in local markets
2/ Exports of goods
Prepared by: ERD BBVA Banco Continental

Graph 3: Electricity output (YoY% var.)



Source: Asocem
Prepared by: BBVA ERD - Banco Continental

Graph 4: Local cement orders (YoY% var.)



Source: Asocem
Prepared by: BBVA ERD - Banco Continental