



Economic Activity Observatory

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May 2009: No signs of recovery in the manufacturing sector

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- **Industrial output** is once again falling significantly, this time -10.5% in yoy terms, but there is an improvement in industry sales (in the margin), which dropped less than expected.
- **Mining output** recorded a -2.3% change, better than expected, but with falls in the margin.
- **The unemployment rate rose to 10.2%.** The negative change in employment, for the third consecutive month, is worthy of note, especially the wage earner component (-1.1%).
- **We are keeping our estimate for the IMACEC variation for May at -3% and we expect the Monetary Policy Rate to remain at 0.75% at the next monetary policy meeting.**

Once again **industrial output** registers a disappointing outcome (-10.5% y-o-y), showing no signs of hitting bottom as the m-o-m variation (seasonally-adjusted) continues on its downtrend. The extent of this decline is much more pronounced than during the Asian crisis. **Industrial sales** in turn decreased less than expected (-8.1% vs. -9.9% BBVA), even recording a slight upturn in the margin, a situation that has been noted since March. **Mining output** also registered a lower than expected negative variation (-2.3% a/a), but once corrected by working days and seasonality, it is back to negative figures (after showing a recovery in April).

As for demand, retail sales, calculated by the IVCm, fell 1.6% in twelve months. Nevertheless, the index that excludes motor vehicle sales posted a positive change of 0.5% in y-o-y terms, something that had not been seen since January. As regards to type of goods, the much-awaited **recovery in the durable goods sector is yet to be seen.** There is a slight slowdown in the rate of decline, but it is not enough to reverse the trend. Real supermarket sales continue to improve (6.2% compared to May 2008), showing an upturn in the margin for the second consecutive month.

In line with our forecast, **the unemployment rate rose to 10.2%** (+0.4 pp. in relation to Feb-Apr). Employment fell more quickly, this time posting a -0.9% y-o-y change, mostly due to the decline in the payroll component (-1.1% in y-o-y terms). This component continues to fall (-0.3% mom) in seasonally-adjusted terms, as has happened over the last seven months. Self-employment on the other hand registered a positive growth of 2.1% yoy. The unemployment rate will continue on its upward trend for at least the next two moving quarters.

We are keeping our estimate for the variations of the **IMACEC** (Monthly Economic Activity Indicator) **for May at -3%** and we expect the Monetary Policy Rate to remain at 0.75% at the next monetary policy meeting.

Change (% y-o-y)						
Jun-30-2009	2008		2009			
	Dec	Jan	Feb	Mar	Abr	May
Industrial Production	-3.7	-9.0	-11.5	-7.1	-11.1	-10.5
Industrial Sales	-5.5	-9.5	-11.6	-8.3	-10.2	-8.1
Retail Sales	-1.0	1.1	-3.1	-3.4	-5.2	-1.6
Supermarket Sales	-4.2	3.8	-1.2	-1.1	4.5	6.2
Mining Production	-9.1	-3.8	-10.3	-6.2	-0.7	-2.3
Electricity Generation	1.1	-0.8	-5.0	2.8	1.0	-1.2
Total Employment	2.6	0.5	0.1	-0.5	-0.5	-0.9
- Payroll	3.8	1.9	0.9	-0.2	-0.9	-1.1
- Self-employed	0.6	-2.3	-1.1	-0.3	2.0	2.1
Unemployment rate	7.5	8.0	8.5	9.2	9.8	10.2
Imacec	-0.2	-2.1	-3.7	-0.7	-4.6	-3.0

source: INE, BCCh and BBVA