



Observatorio Actividad

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July 2009: Industrial sector confirms signs of recovery

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- Industrial output shows another considerable improvement over the previous month.
- Retails sales (IVCM) record a 0.2% increase, the first once since January, while durable goods sales fall more slowly.
- Surprise in the labor market with slight upturn in unemployment, to 10.8%. Employment falls by 1.6%.
- We are improving our IMACEC (Monthly Economic Activity Indicator) estimate to -3.2% yoy (from -3.5%) and we expect the central bank to keep the Monetary Policy Rate at 0.5% at its meeting in September.

Just like last month, physical industrial output recorded a margin improvement, rising by 0.6% compared to June. On the other hand, industrial sales were down with respect to last month. Mining output recorded a fall in the margin, down 1.7% compared to June. This was due to the lower ore grade, as well as labor disputes and the halt in activity at the Escondida SAG mill. Finally, electricity generation stabilized compared to June, even though it fell 3.3% over a period of twelve months. Overall, the improvements as far as activity is concerned reveal a trend change that, should it continue, would mean that economic activity will move into positive territory by 4Q09.

As regards demand, the news is more or less positive. Commerce, which until now has delivered mixed signals, recorded yoy increases in supermarket sales (7.2%) and in retail sales (0.2%). These figures are not so positive if compared to those in June, but the significant slowdown in the rate of decline of durable goods is noteworthy (-6.7% yoy versus -12.3% yoy Jan-Jun), which is a sign that confidence is returning.

There was a surprise in the labor market with an increase of just 0.1 percentage points in the unemployment rate for the May-July moving quarter, from 10.7% to 10.8%. This figure also applied to the unemployment rate in Gran Santiago. In line with expectations, total employment continued to decline (-1.6%), influenced by the fall in the wage earner component (-3.2%). Compared to the previous quarter, job losses could be showing signs of touching bottom because for the second consecutive month they recorded positive changes compared to the previous moving quarter (0.2%), even though the most important component, payroll employment, is continuing on its downtrend (-0.2% compared to April-June).

Credit flows improved in almost all segments, a sign of greater demand. In July, imports were up compared to the previous month for the second consecutive month, a reflection of stronger domestic demand.

In view of all of the indicators, we are improving our July IMACEC (Monthly Economic Activity Indicator) variation estimate to -3.2% (from -3.5%) and we expect the Central Bank to keep the Monetary Policy Rate at 0.5%.

Change (% y-o-y)	Aug-31-2009							
	2008		2009					
	Dic	Ene	Feb	Mar	Abr	May	Jun	Jul
Industrial Production	-3.7	-9.0	-11.5	-7.1	-11.1	-10.5	-8.3	-7.4
Industrial Sales	-5.5	-9.5	-11.6	-8.3	-10.2	-8.1	-6.6	-7.0
Retail Sales	-1.0	1.1	-3.1	-3.4	-5.2	-1.6	-4.7	0.2
Supermarket Sales	-4.2	3.8	-1.2	-1.1	4.5	6.2	3.3	7.2
Mining Production	-9.1	-3.8	-10.3	-6.2	-0.7	-2.3	-2.4	-3.7
Electricity Generation	1.1	-0.8	-5.0	2.9	1.0	-1.2	-3.1	-3.3
Total Employment	2.6	0.5	0.1	-0.5	-0.5	-0.9	-1.0	-1.6
- Payroll	3.8	1.9	0.9	-0.2	-0.9	-1.1	-2.2	-3.2
- Self-employed	0.6	-2.3	-1.1	-0.3	2.0	2.1	5.0	5.2
Unemployment rate	7.5	8.0	8.5	9.2	9.8	10.2	10.7	10.8
Imacec	-0.2	-2.3	-3.9	-1.0	-5.1	-4.4	-4.1	-3.2

source: INE, BCCh and BBVA