



Economic Activity Observatory

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December 2009: Recovery is still underway, but it's a bumpy road.

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- At the end of 2009 industrial output recorded a slight drop of 0.3%, although the salmon industry is still not showing signs of recovery.
- The average unemployment rate for 2009 was 9.7%, after the National Institute of Statistics reported that for the rolling quarter October to December this was 8.6%, in line with our forecast for the period.
- We maintain the Imacec (Monthly Economic Activity Indicator) growth estimate for December at 2.3% yoy, which means that average growth in 2009 would be 1.8%, and we expect the central bank to keep the Monetary Policy Rate at 0.5% at its February meeting.

In accordance with the information that the National Institute of Statistics published today, in December physical industrial output recorded a positive change over a twelve-month period of 0.3%, slightly higher than we expected (-0.4%). Once seasonally-adjusted, it recorded a 1.1% increase in the margin. The heavy falls that the fish industry is still recording, mainly due to the salmon sector, are especially noteworthy. Molybdenum output also fell due to the shutdown of a production plant, which accounted for -0.54 pp.

Mining output recorded a 3.1% fall in the margin in seasonally-adjusted terms in spite of 1.7% growth over twelve months, which is explained by the increases in activity related to copper, gold, silver and iron, while molybdenum saw a decrease in output. Construction ended the year with an accumulated decline of 18.9%. Overall, the monthly changes were positive and a slowdown in falling rates is evident.

Demand continues to rise, with a recovery in retail sales to their pre-crisis levels, driven by a 17.5% yoy increase in durable goods. Although the supermarket sales margin dropped slightly (-0.3%, which was affected by closings on the day of the presidential election), it grew 8.6% over 12 months, the largest increase recorded in the index since 2001.

The labor market continues to send out positive news. The unemployment rate that the National Institute of Statistics reported for the rolling quarter October to December was 8.6%, only 0.1 pp below our estimate for the period. The year 2009 therefore ended with an average unemployment rate of 9.7%, 1.9 pp more than the average for 2008, which was 7.8%. Employment rose 1% compared to the previous rolling quarter, with 0.9% and 1.9% growth in the wage earner and self-employed components, respectively.

Finally, the financial market recorded positive total credit flows in December according to the data that the SBIF submitted. This rise is due to increases in the margin in every component, except international trade. Bank credit therefore ended 2009 with a 2.5% yoy fall.

Appraisal:

- ⇒ Activity results reveal a gradual recovery in economic growth, although probably not consolidated in every sector. In the manufacturing sector, the salmon industry has still not recovered from the effects of the ISA virus, and due to the important role it plays in the sector we expect moderate growth for the coming months.
- ⇒ The construction sector is already showing signs of recovery, with growth in the margin of total building permits and a rise in the production of necessary supplies for the sector. The sector's physical sales also recorded positive results, which hints at a recovery in 2010.

- ⇒ The wage earner component continues to grow, as does the self-employed component. However, the recovery in unemployment will be slower in the coming months and we expect the average unemployment rate to fall from 9.7% in 2009 to 9.2% in 2010.
- ⇒ We are keeping our IMACEC growth estimate at 2.3% for December, which means that the GDP will end 2009 with -1.8% growth. In light of these activity results and our inflation estimate for the coming months, we do not think that the central bank will change its monetary policy standardization strategy, keeping the monetary policy rate at its all-time-low of 0.5% and not starting the standardization period until 2Q10.

Change (% y-o-y)	2009									
	Jan-28-2010	2008	1T	2T	Jul	Ago	Sep	Oct	Nov	Dec
Industrial Production		0.3	-9.2	-10.0	-7.4	-3.8	-5.2	-6.6	1.0	-0.3
Industrial Sales		-0.7	-9.8	-8.3	-7.0	-0.2	-2.2	-1.7	-1.2	-1.8
Retail Sales		5.6	-1.8	-3.8	0.3	2.9	1.6	3.1	6.0	10.1
Supermarket Sales		1.1	0.5	4.6	7.2	6.7	5.2	7.8	7.4	8.6
Mining Production		-4.9	-6.8	-1.8	-3.6	8.3	7.4	8.1	4.5	1.7
Electricity Generation		1.8	-1.2	-1.3	-3.3	1.4	2.0	-0.1	-0.1	0.1
Total Employment		3.2	0.1	-0.8	-1.6	-1.5	-1.0	-0.8	-0.7	-0.4
- Payroll		5.4	0.9	-1.4	-3.2	-3.5	-2.7	-2.8	-2.1	-2.2
- Self-employed		-1.1	-1.2	3.0	5.2	6.7	5.4	6.1	4.3	5.4
Unemployment rate		7.7	8.6	10.2	10.8	10.8	10.2	9.7	9.1	8.6
Imacec		3.2	-2.4	-4.7	-3.0	-0.4	-1.1	-0.9	3.1	2.3

source: INE, BCCh and BBVA