Economic Research Department

BBVA

Chile

GDP Observatory

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National Accounts 2Q 2009: Gap between GDP and DD widens

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- **2Q09 GDP recorded a -4.5% yoy fall, in line with expectations. This means that the activity level is slightly lower than 1Q09 (down 0.4%)**
- **Fixed investment and change in inventories largely explain the 10.6% fall in domestic demand.**
- **Total consumption expenditure dropped 1%, for the first time since 3Q99, due to private consumption expenditure (-2.6%). It is noteworthy that even non-durables consumption expenditure was down.**
- **On the other hand, the foreign sector accounted for 7.3 percentage points of growth in the quarter.**
- **We expect a 1.5% fall in the GDP for 2009.**

Downward revisions of 1Q growth (-2.3% vs -2.1% reported initially), and monthly revisions of the activity indicator reveal a bigger margin improvement. The revised Imacec figures show that as well as positive growth in June compared to May (0.7%, seasonally-adjusted), there was growth in May compared to April (0.3%).

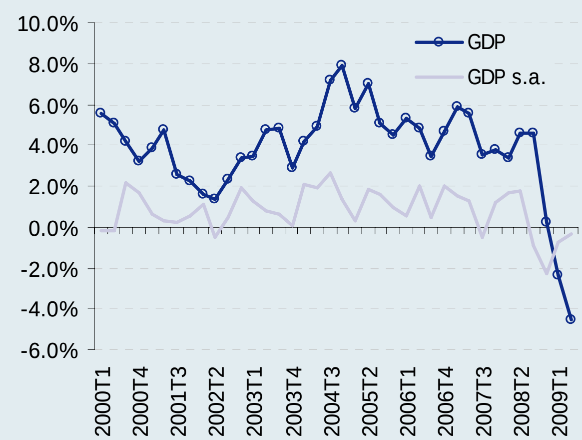
Aggregate Demand in Chile (% chg. Y-o-y)

	1Q 2009	2Q 2009		2009
	data *	BBVA forecast	data	BBVA forecast
Domestic Demanda	-7.7	-15.2	-10.6	-7.2
Consumption	0.1	-1.0	-1.0	0.2
Investment (GFCF)	-10.0	-17.1	-19.0	-13.2
Exports	-3.2	2.3	-5.4	0.4
Imports	-14.9	-23.6	-18.8	-12.5
GDP	-2.3	-4.4	-4.5	-1.5

(*) Aug-09 revision

The decline in domestic demand was once again much higher than the fall in GDP, widening the gap to 6 percentage points (pp) and contributing negatively, almost 12 pp, to GDP growth. Even so, the fall was less than expected and, more importantly, after recording falls with respect to the previous quarter (seasonally-adjusted) of -5% and -4% in 4Q08 and 1Q09, respectively, this time domestic demand fell by just 0.4%. Investment is again the domestic demand component that slowed down the most dramatically. This is due to the fixed component and the (repeatedly) heavy stock depletion. With this new downturn, the change in inventories as a percentage of the GDP recorded a new all time-low, -2.3% (moving annual average).

GDP Growth (% yoy and % qoq)

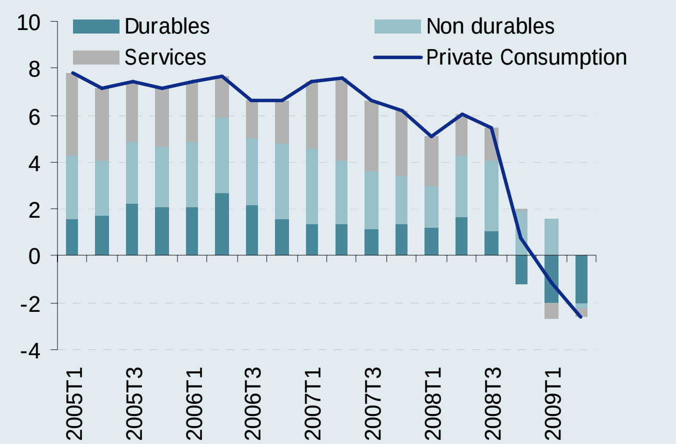


source: CBCh

The total investment rate was higher that in the previous quarter (22.2%), as was the fixed capital investment rate (25.1%).

Total consumption expenditure, however, posted a 1% fall, for the first time since 3Q99. This was because private consumption expenditure dropped 2.6%. Especially noteworthy is the fact that all of the private consumption expenditure components, including non-durables, fell.

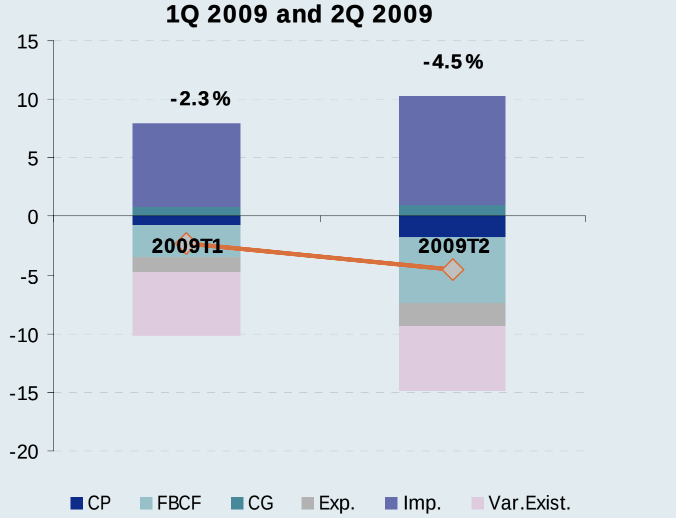
Private Consumption contribution by components



source: CBCh and BBVA

As for foreign demand, this contributed to growth positively, as in the previous quarter, although this time to a greater extent (7.3pp vs 5.8pp in the previous quarter) because imports fell more dramatically than exports.

Contribution to GDP Growth 1Q 2009 and 2Q 2009



source: CBCh and BBVA

By economic sector, the sharp fall in Fishing (-27.3%) is worthy of note, while Manufacturing also dropped considerably, although at a similar rate to the previous quarter (-13.1%). The heavy decline in the Commerce sector (-7.1%) must also be mentioned, which was more significant than the previous quarter. In particular, wholesale sales took the heaviest fall. The decline in Mining, to a large extent caused by less copper production, was less than the first quarter (-2.5% vs -7.1%). The Construction sector plunged for the second consecutive quarter. The downward revision of 1Q growth, from -1.3% to -3.8%, must be highlighted since this determined the GDP revision for that quarter. Finally, the Utilities sector made another positive contribution, by growing 21.6%.

GDP Growth (% chg. Qoq, seasonally adjusted)

source: CBCh and BBVA

Appraisal: In accordance with our forecasts, 3Q2009 will again record a negative yoy change, even though the output level will be higher than the 2Q once seasonally-adjusted. 4Q should move into "blue numbers", around 2.4%, helped by a very low basis for comparison. This latest estimate is negative compared to growth in the last quarter of 1999, hinting that this recession will not be over as quickly as the Asian crisis was. Having said that, the improved foreign outlook, especially growth above expectations for the US and other important trading partners, will probably increase our forecast for 2009, which is currently -1.5%. For 2010 we are raising our forecast to 3.5%.