Economic Research Department

BBVA

GDP Observatory

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GDP grows 3.6 % in January, less than expected[1]

- **The difference is explained by a change in the methodology used for calculating government services.**
- **Although this result is lower than expected, the leading indicators suggest that economic activity will pick up in the rest of the quarter.**

Previously, the calculation of government services included both expenditure on wages and the purchase of goods and services by central government. However, in its latest economic activity report, the INEI no longer includes the component of goods and services, which over the last few months has grown more than wages. It was correct to make this change because it prevents registering twice the acquisition by the government of goods and services produced by other sectors. This change caused a deviation of -1.4 pp compared with our estimate for the month.

In the January result, it is worth notice that practically all the productive sectors registered growth (except for fishing, due to anomalous sea temperatures associated with the El Niño phenomenon). At the same time, the non-primary manufacturing sector has been recovering. In January it increased for the second month in a row, boosted by the greater production of capital and consumer goods, in particular in the clothing branch (21%).

Appraisal

The January result confirms that economic activity is recovering and the advance indicators suggest that growth will speed up in the rest of the quarter. For example, the local cement dispatches continue to register double-digit growth and the rate of electricity generation is still speeding up (in the first half of March it was up by 9%). In addition, INEI figures suggest that employment has been performing better in recent months, as companies are reactivating their purchases of inputs (use the indicator of purchases eligible for a tax credit as a proxy).

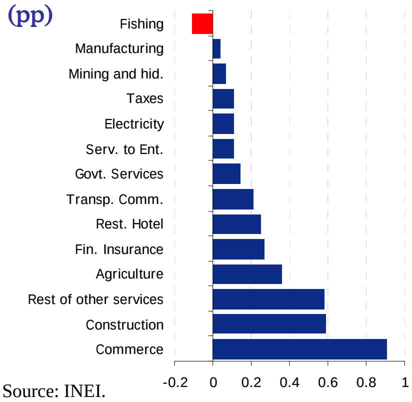
[1] Consensus of Bloomberg analysts: 5.8%. BBVA ERD: 5.3%.

Table 1: Gross Domestic Product
(% change yoy)

Sectors	Jan-10
Agrilculture and Livestock	**6.0**
Agriculture	8.3
Livestock	3.5
Fishing	**-27.1**
Mining and Fuels	**1.3**
Metals	0.6
Fuels	6.2
Manufacturing	**0.2**
Based on raw materials	-9.9
Non-Primary	2.3
Electricity and Water	**5.1**
Construction	**10.2**
Commerce	**5.6**
Transportation and Communication	**2.4**
Financial and Insurance	**10.0**
Services to enterprises	**1.5**
Restaurants and Hotels	**5.9**
Governmental Services	**2.7**
Rest of other services	**4.6**
GDP	**3.6**

Source: INEI
Prepared by: BBVA Banco Continental ERD

Chart 1: Contribution to GDP growth January 2010
(pp)



Source: INEI.
Prepared by: BBVA Banco Continental ERD

Table 2: Advance indicators of economic activity
(% annual change)

Indicator	Feb-10
Local cement dispatches	14.3%
Electricty production	6.5%
Imports (nominal)	20.1%
Employment (Lima)	8.7%
Taxes	14.7%
Purchases eligible for tax credit 1/	3.2%

1/ Indicates of inputs purchases by firm. In february this indicator record its first positive growth since December 2008.
Source: COES, ASOCEM, SUNAT.
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