Economic Research Department

BBVA

GDP Observatory

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GDP expanded 5.9% in February

- **The result was in line with our forecast for the month[1] and was due to the boost in Commerce, Construction and Manufacturing.**
- **According to preliminary indicators, activity will continue to show a good performance in March, with output coming in at around 5% in the first quarter.**
- **The rate of economic expansion, where activities linked to private spending are contributing even more, supports our forecast that the Central Bank will move towards a less expansive position in 2Q10, starting with an increase in reserve requirements.**

February once again saw growth across the board in productive sectors except for fisheries (an expected fall due to higher sea temperatures associated with the El Niño phenomenon). The performance seen in construction and manufacturing should be highlighted (particularly non-primary manufacturing) – activities which are labor-intensive. The construction sector (16.1%) was boosted by public sector investment in infrastructure (building and renovating roads and schools) and private sector projects linked to mining and shopping centers. Non-primary manufacturing saw its third month in a row of growth, in an environment marked by a recovery in domestic and foreign demand that favored higher production of consumer (furniture and clothing) and intermediate goods.

Early indicators point to output continuing to perform well in March. Thus, local cement dispatches grew by 26.3% for the month, while electricity generation increased by 8.5% (9.5% in the first half of April). Therefore, we forecast GDP in the first quarter of the year to come in at around 5% growth.

Appraisal

The results for February and early indicators for March point to the economic recovery consolidating. Public spending continues to be important for this performance, although private spending is showing ever better development. With regard to the latter, the growth rate in durable goods imports should be highlighted, going from -4% yoy in December last year to 14% yoy in January. Meanwhile, new family car sales between December and February went from 9% to 28% and mortgage loans in local currency increased from 41% to 46%. In addition, in month-on-month terms, GDP growth in February came in at

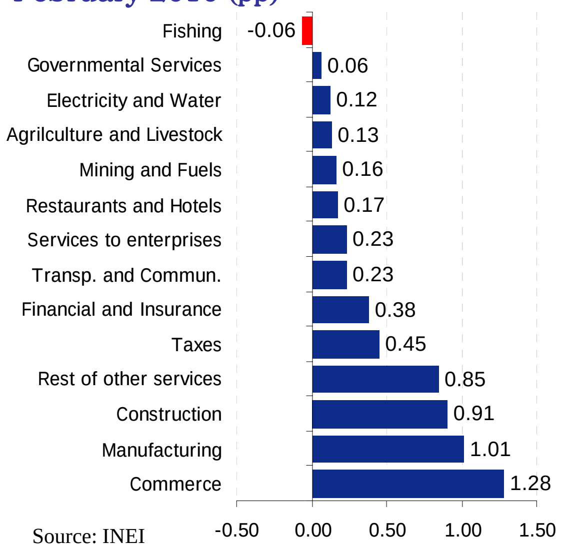
[1] Analyst consensus: i) Reuters: 5.3%, ii) Bloomberg: 5.5%. BBVA ERD: 5.9%.

Table 1: Gross Domestic Product
(% change yoy)

Sectors	Weight	Feb-10
Agrilculture and Livestock	**7.6**	**2.0**
Agriculture	4.4	-1.1
Livestock	3.2	5.9
Fishing	**0.7**	**-15.7**
Mining and Fuels	**4.7**	**2.9**
Metals	3.7	1.0
Fuels	1.0	17.6
Manufacturing	**16.0**	**7.2**
Based on raw materials	3.7	-5.6
Non-Primary	12.3	9.8
Electricity and Water	**1.9**	**6.1**
Construction	**5.6**	**16.1**
Commerce	**14.6**	**8.2**
Transportation and Communication	**7.5**	**2.7**
Financial and Insurance	**1.8**	**13.5**
Services to enterprises	**7.1**	**3.1**
Restaurants and Hotels	**4.2**	**3.8**
Governmental Services	**6.3**	**1.0**
Rest of other services	**12.3**	**6.6**
GDP	**100.0**	**5.9**

Source: INEI
Prepared by BBVA Banco Continental ERD

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



Source: INEI
Prepared by BBVA Banco Continental ERD

0.8% (seasonally adjusted), a significant rate. This supports our base scenario where we expect the negative output gap to close over the year and the BCR to start preventive adjustments in 2Q10 with regard to monetary policy, having higher reserve requirements to ensure growth without any demand pressures.