



GDP Observatory

September 15, 2009

GDP falls 1.4% in July

- The INEI reported that in July GDP contracted by 1.4% YoY, below our estimates.¹ The difference is explained by a greater manufacturing contraction and lower service sector growth.
- In seasonally-adjusted terms, economic activity would have seen 0.5% growth over the previous month (adjusting for working days), thereby maintaining a similar level to that seen in previous months.

The July result was mainly due to lower non-primary manufacturing output which continued its adjustment process and contracted for the seventh consecutive month, this time by 13.1%

In turn, some service sector businesses recorded declines, particularly those linked to transport and communications, as well as restaurants and hotels. The low growth seen in these sectors is due, among other things, to lower tourism rates (overnight stays by foreigners fell 12.9%) and a high statistical comparison base (in July 2008, these sectors expanded 8.3% and 11.4% respectively).

In positive terrain, the higher Construction sector output stood out (6.4%), expanding after three consecutive months of falls. This sector recovery was linked to the advanced infrastructure works on roads (public investment in roads and highways), manufacturing (especially energy), hotels, commerce and housing.

Finally, in seasonally-adjusted figures, economic activity in July would have shown 0.5% growth over June, thereby closely following the average seen in the first half of 2009.

Appraisal

Due to the high comparison base, the third quarter is likely to show negative YoY growth (in 3Q08, GDP expanded by 10.9%).

However, in seasonally-adjusted terms, activity remained stable with regard to the levels in the first six months. In addition, advance indicators for business (electricity generation, imports) and confidence (consumer and business) showed improvements in August. Combined analysis of this information suggests output may well have bottomed out, although this depends on the stabilization in global activity consolidating and the implemented economic stimulus policies.

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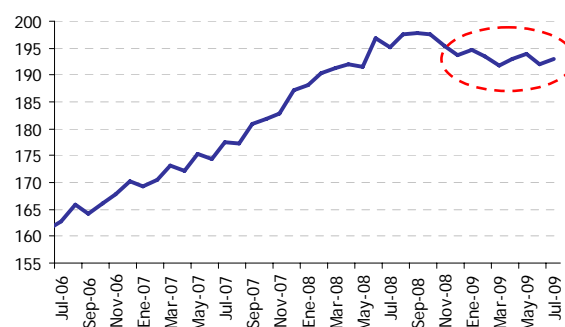
Table 1: GDP sectors
(% change yoy)

Economic Sectors	July	YTD
Agriculture and Livestock	1.4	2.3
Agriculture	1.0	1.2
Livestock	2.1	4.3
Fishing	-11.0	-9.6
Mining and Fuels	0.2	1.8
Metals	-1.9	-0.4
Fuels	17.3	22.3
Manufacturing	-12.4	-8.9
Based on raw materials	-7.9	0.2
Non-Primary	-13.1	-10.6
Electricity and Water	-2.0	0.3
Construction	6.4	2.6
Commerce	-2.8	-1.2
Other Services	2.5	4.0
GDP	-1.4	0.1

Source: INEI

Prepared by: BBVA ERD - Banco Continental

Chart 2: Gross Domestic Product
(seasonally adjusted*)



* Seasonally-adjusted using the TRAMO-SEATS method, adjusted by working days

Source: BCRP

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¹ Our estimate for July was -0.6% (see GDP Forecast Observatory of September 1); the consensus among institutions consulted by Reuters was -0.5%).