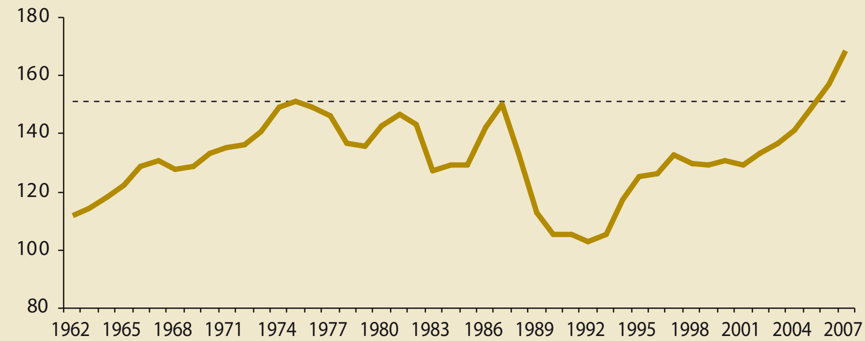
I. Production and Employment

Peru continued showing a high growth in 2007 –accumulating 78 months of consecutive growth between July 2001 and December 2007– in a context of favorable terms of trade, especially in the first half of the year. GDP grew at a rate of 9.0 percent, driven mainly by increased domestic demand as a result of macroeconomic stability, the growth of employment, and higher consumer confidence. Non-primary sectors, particularly construction, non-primary manufacturing, and commerce, accounted for the dynamism observed in the product.

In 2007, Peru's GDP grew 9.0 percent (the highest growth rate observed since 1994), with this result, the Peruvian economy accumulates six years of consecutive growth in per capita terms and reaches a level that is 11.5 percent higher than the previous historical peak observed in the 70s. The current process of expansion has been taking place in a context marked by the dynamism of investment, macroeconomic balances and growing employment, and economic agents' confidence.

GRAPH 1
REAL GROSS DOMESTIC PRODUCT PER CAPITA
(Index 1960=100)



Source: INEI and BCRP.

1. Overall demand and supply

The acceleration of the Peruvian economic growth during 2007 (9.0 percent) was associated with an increased **domestic demand** (11.6 percent) that was driven by higher private consumption (8.3 percent) and private investment (23.2 percent).

1.1 Consumption

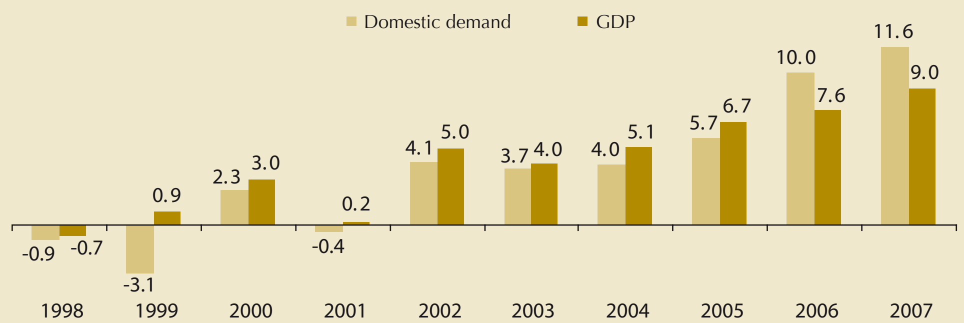
Private consumption increased 8.3 percent during 2007 in a context of growth of both the national disposable income (10.0 percent) and employment (8.3 percent). Employment grew 8.6 percent in Lima and 7.2 percent in the rest of the cities in the country.

TABLE 1
GROSS DOMESTIC PRODUCT BY TYPE OF SPENDING
(Real percentage change)

	2005	2006	2007
Domestic Demand	**5.7**	**10.0**	**11.6**
a. Private consumption	4.6	6.2	8.3
b. Public consumption	9.1	8.7	4.8
c. Gross domestic investment	12.0	18.9	22.7
- Private	12.0	20.1	23.2
- Public	12.2	12.7	19.7
Exports	15.2	1.2	5.4
Minus:			
Imports	10.9	12.6	18.8
GDP	**6.7**	**7.6**	**9.0**

Source: BCRP and INEI.

GRAPH 2
GDP AND DOMESTIC DEMAND
(Percentage change)

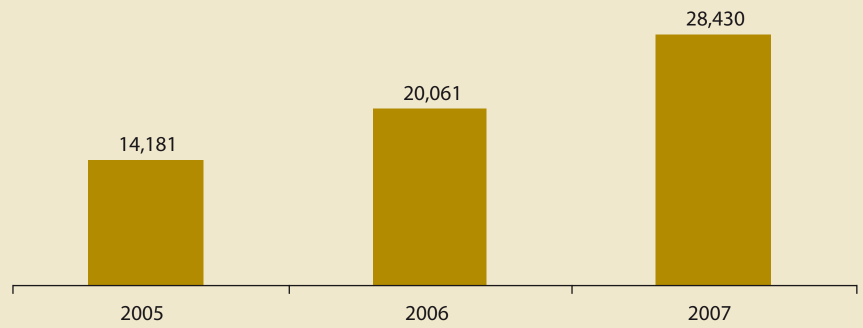


Source: INEI and BCRP.

Another factor that contributed to the growth of consumption was the 36.8 percent increase seen in consumer loans granted by the financial system (26.2 percent in the previous year). Additionally, consumers' confidence remained optimistic, as reflected in Apoyo's Consumer Confidence Index (INDICCA) which showed an average of 51.3 points during 2007.

Increased private consumption was reflected in the evolution of several indicators, such as the 24.6 percent increase seen in imports of durable consumer goods and the 41.7 percent increase observed in the sale of new family vehicles –a total of 28,430 new units were sold in 2007.

GRAPH 3
SALES OF NEW FAMILY CARS
(Units)



Source: ARAPER.

1.2 Investment

Private investment grew 23.2 percent in 2007. This dynamism was reflected in firms' construction and expansion of plants, and purchases of machinery and equipment in all the economic sectors. The onset of new projects and the expansion of mines and explorations in the mining and hydrocarbon sector should be pointed out in terms of investment by sectors.

TABLE 2
MAIN PRIVATE INVESTMENT PROJECTS 2007
(Millions of US$)

Sector	Amount
Agriculture and livestock	164
Fishing	225
Mining and fuel	1,617
Manufacturing	1,168
Electricity, water and gas	310
Construction	96
Commerce	487
Transport and telecommunications	636
Services	48
Total	**4,750**

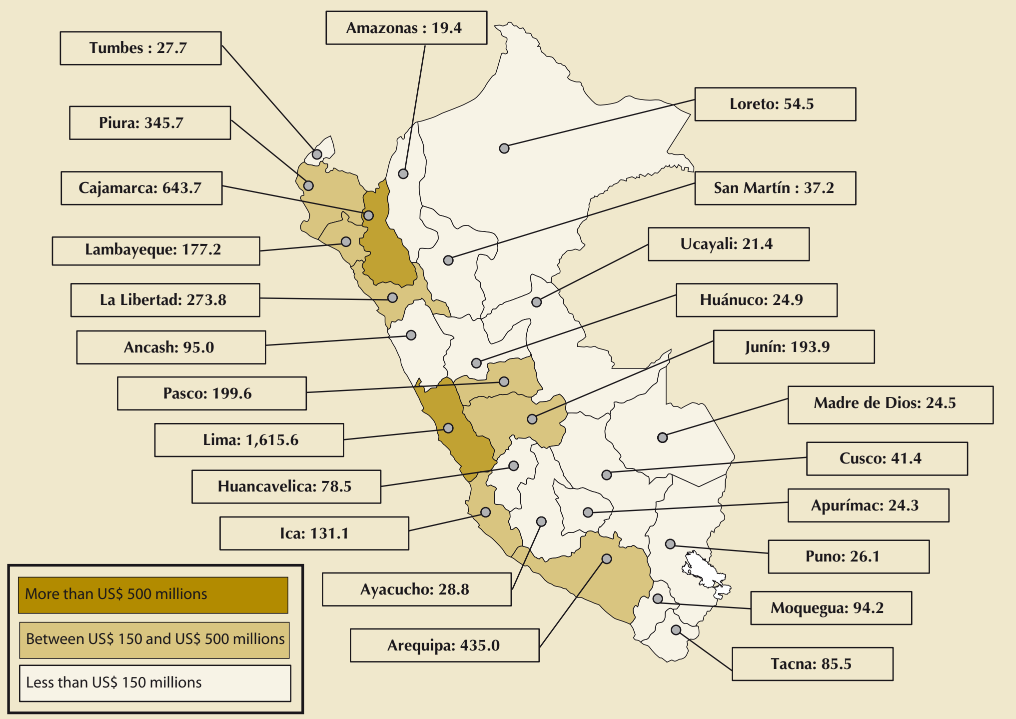
Source: Survey of Macroeconomic Expectations, BCRP, December 2007; magazines and newspapers.

A growing domestic demand was the main factor encouraging investments in the manufacturing sector, which included the expansion of Backus' plants in the departments of Lima, Lambayeque, and Arequipa. Other important investments included the expansion of the Refinery of Cajamarquilla to increase the production of zinc and to initiate the production of metallic indium[2]; the expansion of furnace I at Cementos Lima's plant

2 Metallic indium is a by-product obtained in the zinc production process. It has a high market value and is used to manufacture liquid crystal monitors.

in Atocongo; and Doe Run's investment in Junín for the onset of its new plant for the production of sulfuric acid. It is worth mentioning here that Lima is the department that concentrates the higher investments in the manufacturing sector, followed by Arequipa, with the investments made by Aceros Arequipa and textile enterprises.

GRAPH 4
MAIN INVESTMENT PROJECTS BY DEPARTMENTS 2007
(Millions of US$)



Source: Survey on Macroeconomic Expectations, BCRP, December 2007.

Investment in the sector of transport and communications was led by the investment projects carried out all over the country by Telefónica del Perú, América Móvil, Telmex Perú, and Nextel to expand fixed, mobile, and wideband telephony. Moreover, the construction of malls in Lambayeque, La Libertad, and Lima was noteworthy in the commerce sector.

Investment projects to be pointed out in the sector of electricity, gas, and water included the installation of the second generation turbine of 180 Mw in Enesur's thermic power plant in Lima (which generates 3.5 percent of the total power generated in Peru), as well as water and sanitation projects. The most relevant investments in the agriculture and livestock sector were the sugar projects implemented by the enterprises Laredo, Casagrande, and Cartavio in La Libertad, and the cultivation of sugar cane to produce ethanol in Piura.

The investments made by fishing enterprises were mainly oriented to building new fish processing plants and to expanding fishing capacity. These investments were mainly concentrated in the departments of the Peruvian coast.

As regards road construction, the investment carried out by public-private associations (PPAs) to implement the projects associated with the Initiative for South American Regional Integration (IIRSA) are worth mentioning. Private investment in the case of IIRSA North, which will be executed in the following 4 years, amounts to US$ 220 million.

Public investment grew 19.7 percent. The investments made by ESSALUD and public enterprises; regional governments; the Ministry of Housing, Construction, and Sanitation; the Ministry of Transport and Communications, the Ministry of Education, and the electricity sector should be highlighted. The main projects carried out in 2007 included the Reposo Saramiriza Road Axis N° 4; the Proyectos de Emergencia Social Productiva – PESP; the Ingenio-Chachapoyas highway; and the rehabilitation, improvement, and construction of the Piura-Guayaquil Road Axis N° 01, among other projects.

Public consumption increased 4.8 percent due to the higher purchases of goods and services by regional governments and ESSALUD, as well as to higher remunerations in local governments.

1.3 Real exports and imports

Exports increased 5.4 percent in real terms in 2007, after having grown 1.2 percent in 2006. This increase was associated with tariff preferences for our products in markets such as the United States and to the higher demand for our non-traditional export products in Latin America and the European Union. These factors were reflected in the growth of traditional exports, mainly mining products (due to the higher volumes of exports of copper, zinc, and lead) and fisheries (fish oil), as well as in the growth of non-traditional exports, particularly chemicals (essence oils and toilette products), agricultural products (fruit and legumes), and metal mechanic products.

In line with the growth of private consumption and private investment, **imports** grew 18.8 percent in real terms in the year. This was reflected in the higher growth of imports of consumer goods, both durable and non-durable; of imports of inputs for both industry and agriculture; and of imports of capital goods, which increased 42.0 percent in nominal terms.

1.4 Saving and investment

Investment increased from 19.8 to 23.0 percent of GDP in 2007. This increase is mainly explained by the growth of investment of the private sector, which increased from an equivalent of 17.0 percent of GDP in 2006 to an equivalent of 19.9 percent of GDP in 2007 as a result of the economy's sustained growth, business' optimistic expectations, and the expansion of credit, among other factors.

This higher investment was coupled by an increase in domestic saving, due both to higher private and public saving. Domestic saving showed a rate of 24.4 percent of GDP –which represented an increase of 1.6 percentage points compared to 2006, of which higher public saving accounted for 1.0 percentage point and private saving accounted for 0.6 percentage points of this increase. In both cases, this reflected the impact of the increase seen in the national disposable income (10.0 percent) –higher than the 9.0 percent increase observed in GDP–, which was favored by higher terms of trade.

Domestic saving was higher than investment for the third consecutive year, as reflected in the 1.4 percent surplus recorded in the current account.

TABLE 3
SAVINGS AND INVESTMENT
(Percentage of GDP)

	2005	2006	2007
I. Investment (=II+III)	**17.9**	**19.8**	**23.0**
Public investment	2.9	2.8	3.1
Private investment	15.1	17.0	19.9
II. Domestic savings	**19.3**	**22.8**	**24.4**
Public sector	2.6	4.9	5.9
Private sector	16.7	17.9	18.5
III. External savings[1/]	**-1.4**	**-3.0**	**-1.4**
Memo:			
Gross fixed investment	18.3	19.1	21.5

1/ A negative sign means that the domestic savings were higher than domestic investment, which contributes to reduce the country's net foreign debt.
Source: BCRP.

2. Production sectors

The growth of **gross domestic product** in 2007 was generalized in all the economic sectors. Non-primary activities –those with a higher component of added value and generation of employment– grew 10.8 percent, while primary activities –those oriented to the generation and/or extraction and processing of raw materials– grew at a lower pace (2.3 percent).

Primary sectors

Activity in the primary sectors grew 2.3 percent, although growth in the agriculture and livestock sector (3.1 percent), fishing sector (6.9 percent), and mining sector (2.1 percent) contrasted with the slight fall observed in the industry based on raw materials (-0.5 percent).

TABLE 4
GROSS DOMESTIC PRODUCT
(Real percentage change)

	2005	2006	2007
Agriculture and livestock	**4.8**	**7.4**	**3.1**
Agriculture	4.0	8.3	2.1
Livestock	6.6	7.6	4.7
Fishing	**3.2**	**2.4**	**6.9**
Mining and fuel	**8.4**	**1.4**	**2.1**
Metallic mining	7.3	1.1	1.7
Fuel	23.4	5.7	6.5
Manufacturing	**7.2**	**7.4**	**10.6**
Manufacture based on raw materials	3.9	4.1	-0.5
Non-primary manufacture	8.2	8.3	12.9
Electricity and water	**5.6**	**6.9**	**8.4**
Construction	**8.4**	**14.8**	**16.5**
Commerce	**6.3**	**11.1**	**10.5**
Other services	**6.4**	**7.0**	**9.3**
GLOBAL GDP	**6.7**	**7.6**	**9.0**
GVA Primary sectors	**5.8**	**4.5**	**2.3**
GVA Non-primary sectors	**6.8**	**8.5**	**10.8**

Source: INEI and BCRP.

Agriculture and livestock sector

The **agriculture and livestock sector** grew 3.1 percent. The agriculture subsector showed a moderate growth of 2.1 percent due to favorable weather conditions in most parts of the country, except in the jungle areas where anomalous rainfall affected the production of coffee (excluding this product, the sector would have grown 4.2 percent). Activity in the agriculture sector was characterized by high volumes of harvested sugar cane and rice, as well as by historical production levels of potato (3,388 thousand MT), asparagus (283.5 thousand MT), and hard maize (1,117 thousand MT). Activity in the livestock subsector contributed to growth with 1.9 percentage points, favored by a positive evolution of poultry production (meat and eggs) and livestock production (meat and milk).

Crops in the coast showed good yields due to favorable weather conditions, while the yields of potato, wheat, and coffee in the mountain and jungle areas declined slightly due to cold temperatures, frost, and irregular rains. At the national level, the yields of hard yellow maize (4 MT/hectare), rice (7.2 MT/hectare), and sugar cane (122 MT/hectare) were 8, 5, and 11 percent higher than in 2006.

Sugar cane production increased 13.8 percent due to higher investment, as reflected in the 11 percent increase seen in in-field yields and the 3 percent increase seen in harvested areas.

The production of **potato** grew 4.3 percent, favored by cold temperatures in the coast that contributed to increase production in La Libertad and Ica, as well as in other departments such as Arequipa, Apurimac, Huanuco, Cajamarca, and Amazonas. The departments that were most affected by frost were Junin, Pasco, Huancavelica, and Ayacucho.

Rice production showed a 3.9 percent increase, basically in Lambayeque, Piura, and La Libertad, with a production level of 2,456 thousand MT –the second highest rice production level after the one recorded in 2005 (2,468 thousand MT). The lower yield of rice in San Martin due to the deficit of rainfall was more than compensated by increased production in the northern departments given the implementation of water storage reservoirs in these areas.

The production of **asparagus** grew 9.0 percent, encouraged by a 19.7 percent increase in farm prices during the year. This higher production was reflected in the higher volume of exports of canned, frozen, and fresh asparagus (24.8 percent, 28.9 percent, and 4.1 percent respectively).

TABLE 5
AGRICULTURE AND LIVESTOCK PRODUCTION BY MAIN PRODUCTS
(Percentage changes)

	2005	2006	2007
AGRICULTURE	**4.0**	**8.3**	**2.1**
Cotton	10.5	2.9	0.0
Rice	33.6	-4.3	3.9
Coffee	-22.1	56.1	-15.6
Sugar cane	-9.2	14.9	13.8
Dry bean	20.5	15.0	-0.8
Asparagus	9.7	26.2	9.0
Yellow maize	1.7	2.1	9.5
Amylaceous maize	10.9	3.2	-1.6
Potato	9.4	-1.3	4.3
Banana	2.0	4.8	3.4
Wheat	4.6	7.1	-4.7
Yucca	3.0	13.5	2.0
Mango	-13.8	36.1	-8.7
Garlic	11.7	33.8	10.2
Onion	-4.3	16.9	9.3
LIVESTOCK	**6.6**	**7.6**	**4.7**
Poultry	9.6	9.3	7.2
Eggs	3.9	11.0	5.4
Milk	4.7	7.5	6.2
Pork	5.0	5.6	5.6
Beef	4.6	6.2	0.4
TOTAL	**4.8**	**7.4**	**3.1**

Source: Ministry of Agriculture.

The production of **hard yellow maize** was 9.5 percent higher than in 2006 given that farm prices increased by 24.8 percent due to higher demand in the United States for the production of ethanol. The departments that contributed most to this production were La Libertad, Lima, and Ica.

Although the farm prices of some crops (i.e. potato and yucca) declined in 2007, most of them increased (especially in the cases of rice, amylaceous maize, onion, tomato, sweet potato, asparagus, hard yellow maize, cotton, coffee and wheat). Higher agricultural costs, such as fertilizers and labor, were offset by these higher prices.

TABLE 6
EVOLUTION OF FARM PRICES, 2005-2007
(Nuevos soles per kg)

Products	Price			% Chg.	
	2005	2006	2007	2006	2007
Domestic market					
Rice	0.65	0.58	0.81	-11.4	40.2
Amylaceous maize	1.04	0.95	1.16	8.3	21.8
Potato	0.37	0.50	0.44	36.1	-11.8
Yucca	0.28	0.33	0.30	107.9	-9.1
Onion	2.11	2.08	2.33	-1.4	11.8
Tomato	0.67	0.67	0.72	0.0	7.5
Sweet potato	0.28	0.36	0.46	28.6	27.8
Orange	0.41	0.42	0.40	2.4	-4.0
Papaya	0.38	0.34	0.28	10.5	-18.1
For industry and agro-exports					
Asparagus	2.89	2.59	3.11	-10.4	20.0
Hard yellow maize	0.49	0.53	0.66	8.3	24.8
Cotton	2.11	2.08	2.33	-1.4	11.8
Coffee	4.64	4.13	4.70	-11.0	13.8
Wheat	0.71	0.73	0.82	2.8	12.3

Source: Ministry of Agriculture.

Driven by increased domestic consumption, **livestock production** was led by a higher production of chicken meat (7.2 percent) and eggs (5.4 percent), dairy cattle (6.2 percent), and pigs (5.6 percent).

Fishing Sector

Activity in the **fishing sector** grew for the fourth consecutive year, with this year's result (6.9 percent) reflecting the higher catch of fish that was sold as frozen fish, fresh fish, or fish meal.

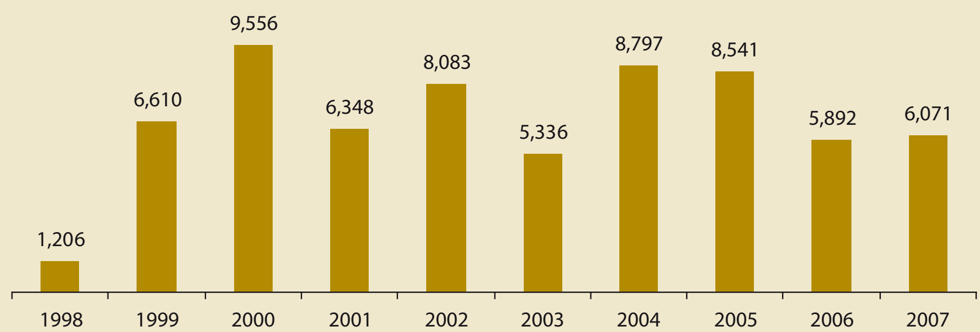
TABLE 7
FISH PRODUCTION
(Percentage change)

	2005	2006	2007
HUMAN CONSUMPTION	**4.7**	**26.1**	**8.2**
Canned fish	50.0	57.1	-19.9
Fresh fish	-7.3	10.3	9.1
Frozen fish	12.8	40.0	11.2
Dry-salted fish	5.7	-19.0	24.9
INDUSTRIAL CONSUMPTION	**-3.1**	**-31.0**	**3.0**
Anchovy	-2.9	-31.0	3.0
Other species	-99.2	3,208.0	-97.0
TOTAL	**3.2**	**2.4**	**6.9**

Source: Ministry of Production.

Increased fish catch for **human consumption** (8.2 percent) was due to larger volumes of yellow mackerel –used to elaborate frozen products– mainly during the first three months of the year, when this species is more abundant. In terms of fresh fish, it is worth pointing out the larger volumes of species, such as striped mullet, sand grunt, and palm ruff, which compensated the lower catch of yellow mackerel and Pacific chub mackerel that negatively affected the production of canned products.

GRAPH 5
ANCHOVY EXTRACTION
(Thousand metric tons)



Source: Ministry of Production.

With a total catch of 6.1 million tons (179 thousand tons more than in 2006), 2007 was a positive year for the extraction of anchovy. Sea temperatures declined due to La Niña phenomenon, which favored the presence and development of this species. In this context, the Ministry of Production increased the fishing quota in the northern and central coast areas (between Paita and Pisco) for the last fishing period by 300 thousand tons.

Mining and hydrocarbon sector

The **mining and hydrocarbon sector** grew 2.1 percent in 2007 due to the higher production of the metal mining industry (1.7 percent) and the hydrocarbon subsector (6.5 percent). The growth of **metal mining** was mainly led by a higher production of copper and zinc that contributed with 6.8 percentage points to the expansion of this sector. On the other hand, a lower production of gold due to Yanacocha's lower extraction accounted for a reduction of 5.6 percentage points in the sector's final result.

TABLE 8
MINING AND FUEL BY MAIN PRODUCTS
(Real percentage changes)

	2005	2006	2007
METALLIC MINING	**7.0**	**0.6**	**1.7**
Copper	-2.8	3.6	16.4
Tin	1.3	-8.7	1.4
Iron	7.5	4.8	6.7
Gold	20.0	-2.3	-16.1
Silver	4.4	8.3	0.7
Lead	4.3	-1.9	5.0
Zinc	-0.6	0.0	20.0
FUELS	**23.4**	**5.7**	**6.5**
Natural gas	76.5	17.0	50.7
Crude oil	17.9	3.9	-1.5
TOTAL	**8.1**	**1.0**	**2.1**

Source: Ministry of Energy and Mining.

The total production of **copper** in 2007 amounted to over one million fine metric tons (1'018,163 FMT), which represented a 16.4 percent increase explained by the onset of operations at Cerro Verde in Arequipa. The higher production of Xstrata Tintaya (5.9 percent) and Compañía Minera Milpo (3.2 percent), the latter of which initiated operations at Cerro Lindo in mid-2007, also contributed to this result. In contrast, Antamina's production declined due to operational problems in the company at the end of the year. With these results, Peru became the world's second producer of copper in 2007.

As regards the higher production of **silver** (0.7 percent) and lead (5.0 percent), the contribution of Volcan should be pointed out as this company has increased its production capacity significantly since 2006, accelerating the pace of its investments to strengthen its operations and improve mechanization in its mines.

The higher production of **zinc** (20.0 percent) was mainly due to Antamina, which contributed with 12.0 percentage points to the production of this metal. Other companies contributing to this higher production were Volcan Compañía Minera and Sociedad Minera El Brocal, with 3.6 and 1.8 percent respectively. Volcan's improved performance was associated with the expansion of operations, as well as with improvements in the metal contents obtained. With these results, Peru took the place of Australia as the world's second producer of zinc, after China.

The production of **gold**, which amounted to 5.5 million troy ounces, declined by 16.1 percent due to Yanacocha's lower production. Although the latter fell 40.1 percent during the year, a slight but sustained recovery was observed as from September. In contrast with this, the gold production of Compañía de Minas Buenaventura increased by 44.2 percent due to the production of its Poracota unit in Arequipa, contributing with 1.7 percentage points to the production of gold.

TABLE 9
INVESTMENTS EXECUTED BY MINING COMPANIES[1/]
(Millions of US$)

Companies	Metals	2005	2006	2007
Minera Yanacocha S.R.L.[2/]	Gold	238.0	277.0	290.0
Minera Barrick Misquichilca S.A.[3/]	Gold	172.0	63.0	53.2
Southern Peru Copper Corporation Sucursal del Perú[2/]	Copper	253.0	322.0	275.8
Volcan Compañía Minera S.A.A.[4/]	Polimetallic	49.8	43.0	112.0
Compañía Minera Antamina S.A.[2/]	Polimetallic	52.0	47.3	40.0
Empresa Minera Los Quenuales S.A.[5/]	Polimetallic	37.3	57.0	69.0
Compañía de Minas Buenaventura S.A.A.	Gold and silver	45.0	70.0	65.0
Compañía Minera Atacocha S.A.[2/]	Polimetallic	27.3	31.3	68.0
Sociedad Minera Cerro Verde S.A.	Copper	237.0	479.0	100.0
Shougang Hierro Perú S.A.A.	Iron	40.0	42.0	50.6
Minsur S.A.	Tin	8.0	12.0	6.0
Compañía Minera Condestable S.A.A.[2/]	Copper	3.6	12.7	7.6
Sociedad Minera El Brocal S.A.[2/]	Polimetallic	7.0	21.5	17.0
Sociedad Minera Corona S.A. / Gold Fields	Polimetallic	0.6	0.5	320.0
Compañía Minera Santa Luisa S.A.	Polimetallic	7.6	3.8	15.0
Others[6/]		11.6	22.0	43.9
TOTAL		**1,189.7**	**1,504.0**	**1,533.1**

1/ Based on the financial statements and information given by the companies.
2/ Information reported directly by companies.
3/ Includes investment in Pierina and the building of new mine Alto Chicama.
4/ Includes the investment in Empresa Administradora Chungar S.A.C., subsidiary company of Volcan Compañia Minera S.A.A.
5/ Includes Empresa Minera Iscaycruz and Empresa Minera Yauliyacu.
6/ Includes the investments of Raura, Huaron, Castrovirreyna, Pan American Silver, Poderosa, Milpo, Perubar and the Refinería de Zinc de Cajamarquilla.
Source: Companies.

The production of **hydrocarbons** grew 6.5 percent due to the higher production of natural gas (50.7 percent), associated mainly with the high level of sales in Camisea's lot 88 as a result of the demand of thermoelectric power stations. On the other hand, the production of hydrocarbons declined 1.5 percent due to Pluspetrol's low production levels in March and August as a result of maintenance operations and the impact of the earthquake of August 15 respectively.

TABLE 10
FUEL PRODUCTION

	2005	2006	2007
NATURAL GAS (Millions of cubic feet per day)	**146.2**	**171.8**	**258.5**
Aguaytía	41.7	37.9	38.4
Camisea	77.7	103.0	189.1
Petrotech	9.6	14.1	14.1
Petrobras	10.0	10.1	10.1
Others	7.1	6.7	6.9
CRUDE OIL (Thousands of barrels per day)	**111.3**	**115.6**	**113.9**
Pluspetrol 1/	45.0	45.0	43.7
Petrobras	12.6	12.7	13.3
Petrotech	10.7	12.5	11.9
Camisea	32.1	34.7	33.7
Others	10.9	10.7	11.1

1/ Pluspetrol operates blocks 1–AB and 8, both in the northern jungle.
Source: Ministry of Energy and Mining.

Primary manufacturing

Production in the **resource-based manufacturing sector** fell 0.5 percent due to lower refining of non-ferrous metals, although other activities in this sector showed a positive evolution. The refining of non-ferrous metals declined 11.5 percent due to technical problems in Southern Copper Corporation that affected the production of copper anodes.

The higher refining of petroleum –particularly gasoline and kerosene– by enterprises such as Refinería La Pampilla and Petroperú was associated with increased domestic demand. On the other hand, the higher production of sugar was associated with a greater availability of sugar cane. A total of 909 thousand tons of sugar were produced in 2007 (805 thousand tons in 2006).

TABLE 11
RESOURCE-BASED MANUFACTURING BY MAIN INDUSTRIAL GROUPS
(Real percentage changes)

	2005	2006	2007
RESOURCE-BASED MANUFACTURING	**3.9**	**4.1**	**-0.5**
Sugar	-11.7	15.6	12.8
Meat products	7.2	7.8	5.6
Fishmeal and fish oil	-2.1	-24.5	4.1
Canned and frozen fish products	2.7	54.4	1.3
Non-ferrous metals refining	-2.2	2.5	-11.5
Petroleum refining	16.3	-1.7	4.2

Source: Ministry of Production and INEI.

The higher production of fish meal and fish oil reflected the greater availability of anchovy, associated with favorable hydrobiological conditions. A total of 1,387 thousand tons were processed in 2007, while this figure amounted to 1,342 thousand tons in 2006.

Non-primary manufacturing

The sector of **non-primary manufacturing** grew 12.9 percent, the highest rate observed since 1994. This result is explained by increased private consumption, as reflected in the increase seen in the groups associated with massive consumption products, and by increased demand in the groups associated with construction, inputs for mining, and agro-exports.

TABLE 12
NON-PRIMARY MANUFACTURING BY MAIN INDUSTRIAL GROUPS
(Percentage change)

	2005	2006	2007
NON-PRIMARY MANUFACTURING	**8.2**	**8.3**	**12.9**
Food, beverages and tobacco	7.8	9.3	11.7
Textiles, leather and footwear	2.1	-2.0	6.7
Wood and furniture	-0.6	4.3	12.7
Paper and printing industry	16.7	7.9	11.5
Chemical, rubber and plastics products	8.2	11.9	12.8
Non metallic minerals	12.8	13.0	16.0
Iron and steel industry	19.1	12.3	8.1
Metallic products, machinery and equipment	8.7	17.1	19.3
Miscellaneous manufactures	9.9	5.8	31.7

Source: Ministry of Production and INEI.

The groups contributing most heavily to growth included food and beverages (2.8 percentage points); chemicals, rubber, and plastics (2.2 percentage points); metal products, machinery and equipment (2.0 percentage points), and non-metal minerals (1.7 percentage points).

TABLE 13
NON-PRIMARY MANUFACTURING: PERCENTAGE CONTRIBUTION TO GROWTH BY MARKET OF DESTINATION
(Percentage points)

	Domestic	Foreign	Total
2003	**2.9**	**0.8**	**3.7**
2004	**4.7**	**2.9**	**7.6**
2005	**5.9**	**2.3**	**8.2**
2006	**7.3**	**1.0**	**8.3**
2007	**11.2**	**1.7**	**12.9**
Food and beverages	2.5	0.3	2.8
Textiles, leather and footwear	0.9	0.3	1.2
Wood and furniture	0.4	0.2	0.5
Paper and printing industry	1.0	0.2	1.2
Chemical, rubber and plastics products	1.5	0.6	2.2
Non metallic minerals	1.7	0.0	1.7
Iron and steel industry	0.4	0.0	0.4
Metallic products, machinery and equipment	1.9	0.1	2.0
Miscellaneous manufactures	1.0	0.0	1.0

Source: BCRP.

It is worth highlighting that the higher production of non-primary manufacturing in 2007 was based on the expansion of production for the domestic market, which accounted for 87 percent of total sales, a rate similar to that of 2006 (88 percent) and higher than the ones observed in previous years (72 and 62 percent in 2005 and 2004 respectively).

As previously pointed out, the domestic market accounts for 11.2 points percentage of total growth in non-primary manufacturing. The higher production of massive consumption products (such as toilet and cleaning products, miscellaneous food products, manufacturing products), of inputs (mainly glass, basic chemical substances, and paper and cardboard), and, of machinery, equipment and metal-mechanic products (such as transport equipment, electrical machinery and metal products) was noteworthy in the domestic market.

TABLE 14
GROWTH OF NON-PRIMARY MANUFACTURING BY DOMESTIC DEMAND
(Percentage change)

Consumer product	12.4	Inputs	10.9	Metallic products, machinery and equipment	15.9
Diverse manufactures[1/]	31.7	Glass	26.3	Transport equipment	40.7
Toilet and cleaning products	20.1	Basic chemical substances	19.1	Electrical machinery	24.9
Miscellaneous food products	15.3	Paper and cardboard	16.2	Metal products	15.8
Other items, paper and cardboard	15.1	Plastics	10.9	Iron and steel industry	8.1
Pharmaceutical	12.8	Explosives, natural and chemical essences	8.3	Machinery and equipment	1.6
Wood furniture	12.7	Paper and printing industry	8.0		
Beer and malt	10.6	Paper and paperboard containers	7.8		
Other garments	8.9	Rubber	5.8		
Dairy	8.2				
Oils and grease	3.2				
Carbonated beverages	2.7				

1/ Includes jewelry, bijouterie, matches and office supplies.
Source: Ministry of Production.

The branches associated with construction also contributed to the dynamic perfomance of non primary manufacturing with 2.9 percentage points. The production of conventional enamels, latex paints and fiber-cement boards was noteworthy.

Per capita production of the main massive consumption goods over the last five years increased significantly relative to 2002 due to families' higher incomes, particularly in the provinces, as reflected in the expansion of malls and supermarkets in these areas.

The higher production of juices and diverse beverages, paper towel, bottled water, shampoo, yogurt, cleaning products, and toilet paper should be pointed out.

TABLE 15
INDUSTRIES RELATED WITH THE CONSTRUCTION SECTOR

	2007	
	Percentage change	**Percentage contribution**
Metal structures	27.7	0.7
Non refractary ceramics for structural purposes	18.7	0.5
Basic iron and steel industry	8.5	0.3
Cement	6.7	0.3
Concrete, cement, gypsum articles	26.9	0.3
Paints, veneers and varnishes	22.4	0.3
Isolated wires and cables	31.5	0.2
Non refractary ceramics for non-structural purposes	28.6	0.2
Electricity distribution and control devices	18.8	0.1
Abrasive products	13.1	0.0
Wood plates, miscellaneous boards and panels	-0.7	0.0
Subtotal	**16.1**	**2.9**
Total	**12.9**	

1/ Percentage contribution to growth associated with non-primary manufacturing.
Source: Ministry of Production.

TABLE 16
PER CAPITA PRODUCTION OF SELECTED CONSUMER GOODS
(Percentage change 2002 - 2007)

	Measurement unit	**2002**	**2007**	**Percentage change 2007/2002**
Juices and refreshments	liters	1.2	7.8	537.0
Paper towel	kg	44.3	129.1	191.5
Bottled water	liters	2.2	6.1	177.6
Yogurt	kg	1.1	2.6	137.7
Shampoo	kg	0.1	0.3	132.3
Cleaning products	kg	0.3	0.6	94.5
Toilet paper	kg	0.9	1.7	85.7
Chocolates	kg	0.3	0.5	66.7
Beer	liters	23.5	37.8	60.8
Diapers	units	9.6	14.1	48.1
Evaporated milk	kg	9.4	13.8	47.1
Cheese	kg	0.2	0.3	39.0
Detergents	kg	3.2	4.5	38.4
Cosmetic soaps	kg	0.1	0.2	36.2
Hot dog	kg	0.5	0.6	33.5
Ham	kg	0.1	0.2	31.8
Poultry	kg	21.8	28.3	29.7
Candies	kg	0.4	0.5	26.7
Margarine	kg	0.5	0.6	17.6
Pasta	kg	9.3	10.6	14.0
Oils	kg	6.6	7.3	11.6
Rice	kg	56.0	61.5	9.7

Source: Ministry of Production.

Production of **goods and beverages** increased by 11.7 percent, due to the dynamism of the production of fruit juices, beer, yogurt, milk, and chocolate products.

The higher production of **dairy** products was due to the expansion of the main producer companies as a result of increased demand and the diversification of product presentations.

The group of **textiles, leather, and footwear** grew 6.7 percent, mainly due to the higher production of garments which increased 8.9 percent as a result of increased domestic demand. The branch of knitted garments grew 6.0 percent due to higher external demand, while the branch of yarns and knitted fabrics grew 2.4 percent. Moreover, the volume of exported knitted garments increased 4.0 percent during the year.

The **paper and printing** industry showed an increase of 11.5 percent due to the higher production of other paper and cardboard items, an evolution explained by the investments that the main firms made to meet higher demand and increase their installed capacity. The higher production seen in terms of publishing and printing was associated with increased exports of catalogs and pamphlets, as well as with increased demand for advertising fliers by stores, supermarkets, and department stores.

Production in the group of **chemical products, rubber, and plastic** grew 12.8 percent as a result of the higher production of toilet and cleaning products due to the introduction of new products and presentations in a context of high growth of private consumption. The higher production of industrial gases for the iron and steel industry, of sulfuric acid due to Southern's increased installed capacity, and the higher exports of chemical and natural colorants should be pointed out in terms of the evolution seen in the group of basic chemicals.

The industry of **plastic** products grew 10.9 percent, mainly due to the higher production of PVC pipes –associated with increased demand in the construction sector– and to a lesser extent to the higher production of containers and flexible wraps, due to increased demand for massive consumption goods. Moreover, the production of paints and barnishes also grew due to the higher demand of construction.

The group of **non-metal** minerals showed a 16.0 percent increase due to the growth of construction materials (majolica tiles and concrete items); cement, due to increased demand in construction; and glass, due to the higher demand for beer containers.

Production in the **steel and iron** industry increased 8.1 percent due to the expansion of installed capacity and the demand for construction iron.

Moreover, production in the group of **metal products, machinery, and equipment** grew 19.3 percent due to the higher production of metal products as a result of increased demand for metal structures in the sectors of construction, mining, and electricity, as well as to higher exports of welding electrodes. Furthermore, the higher production of electric machinery is explained by increased demand for electric wires, cables and generators.

In 2007, the branches producing massive consumption goods grew 12.4 percent, while the branches producing inputs and capital goods grew 10.9 percent and 15.9 percent, respectively.

Construction

Maintaining the favorable evolution observed in the last 6 years, the **construction sector** grew 16.5 percent in 2007. Diversified growth increased the demand for the construction of homes, offices, commercial and industrial facilities, as well as the implementation of construction projects in the sectors of mining and energy, and the implementation of road construction, maintenance and rehabilitation works.

The construction of residential buildings grew due to increased demand for housing, driven by families' higher purchasing capacity and by better conditions for mortgage loans (due to lower interest rates and longer terms).

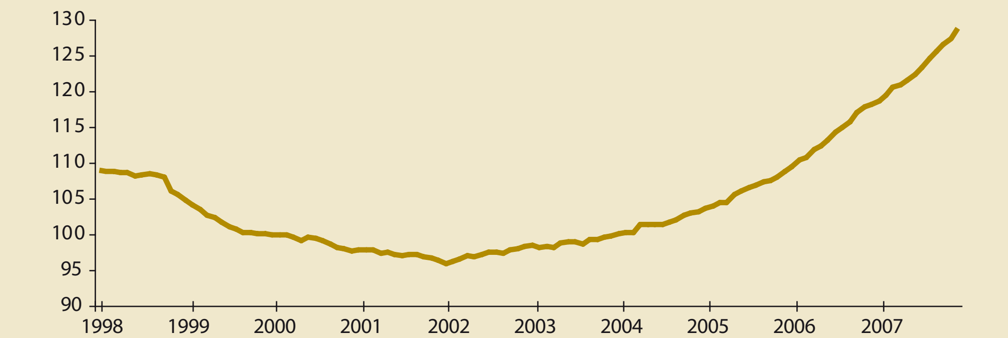
In 2007, the Ministry of Transport and Communications invested US$ 800 million in road construction. The main projects carried out included the construction of the Izcuchaca - Huancavelica, Ollantaytambo – Alfamayo, Ingenio – Chachapoyas, and Tarapoto – Juanjui highways; as well as the construction of the bridge President Guillermo Billinghurst which will be the longest bridge in the country. The brigdges Tambillo Grande and Rubio and their correspondign access roads were also built.

The boom of construction was influenced by investment projects in department stores, supermarkets, and by the sale of hardware and home maintenance items. The main projects included Grupo Falabella's US$ 7 million investment in the construction of a Tottus supermarket in Chiclayo, the opening of Sodimac stores in Lima, Chiclayo, and Trujillo (US$ 21 million) and other stores of this group in Ica and Cajamarca. Moreover, the Wong Group (Cencosud) opened 15 new stores with an investment of US$ 40 million; Ripley invested US$ 95 million in the construction of stores in Trujillo, Santa Anita and El Callao; Supermercados Peruanos invested US$ 40 million in Trujillo, Chiclayo, Arequipa, Huancayo, and Lima; El Super invested US$ 5 million in the construction of a supermarket in Arequipa; and US$ 6 million were invested in the expansion of the commercial center Mega Plaza.

3. Employment

Employment in urban areas in Peru –considering formal firms with 10 and more workers– continued to show a favorable evolution and grew 8.3 percent in 2007, consolidating the positive trend observed since May 2002.

GRAPH 6
NATIONAL URBAN EMPLOYMENT INDEX IN COMPANIES WITH 10 OR MORE WORKERS
Seasonally adjusted index January = 100

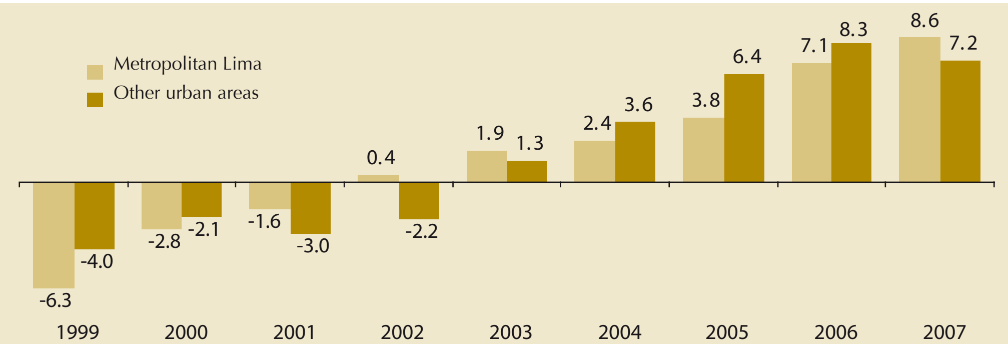


Source: MTPE.

In contrast with the three last years, when employment was driven mainly by other cities, employment in 2007 grew especially in Metropolitan Lima (8.6 percent), while employment in the rest of urban areas grew at a rate of 7.2 percent.

By production sectors, employment was mainly driven by the manufacturing industry (9.3 percent), followed by commerce (8.8 percent) and services (8.4 percent).

GRAPH 7
EMPLOYMENT IN COMPANIES WITH 10 OR MORE WORKERS
(Annual percentage change)



Source: MTPE. National Survey of Monthly Variation of Employment in Firms with 10 or more workers in the private activity.

In Metropolitan Lima, the highest variations were observed in the manufacturing industry, mainly due to growth of employment in the branches of textiles and garments, the food industry (dairy products, bread, softdrinks), jewelry, pharmaceutical products, and toilet items; followed by the service sector as a result of increased demand for workers in schools, restaurants, financial entities (AFPs, Edpymes, and insurance companies), and entrepreneurial advisory services.

At the regional level, employment grew particularly in Sullana, Trujillo, and Arequipa, mainly in agroindustrial activities oriented to exports. The growth of employment in Sullana was associated with the processing of mango, lemon, and banana, while in Trujillo and Arequipa it was mainly associated with the processing of green asparagus and the manufacturing of alpaca knitted garments respectively.

TABLE 17
URBAN EMPLOYMENT IN COMPANIES WITH 10 OR MORE WORKERS
(Growth rates)

	2005	2006	2007
URBAN PERU	**4.5**	**7.3**	**8.3**
Metropolitan Lima	3.8	7.1	8.6
Other urban areas	**6.4**	**8.3**	**7.2**
Sullana	23.3	14.1	13.2
Trujillo	5.6	17.0	12.7
Arequipa	4.2	7.5	11.2
Piura	8.5	8.3	11.1
Talara	18.7	10.7	10.1
Pucallpa	2.9	2.1	9.3
Cuzco	6.4	5.7	9.0
Tarapoto	7.3	8.7	7.9
Tacna	2.4	2.0	7.2
Pisco	6.1	6.6	6.7
Puno	5.5	3.1	6.2
Chincha	15.5	14.2	6.0
Ica	16.5	10.4	5.6
Huancayo	3.8	6.1	5.3
Chiclayo	3.5	7.5	4.2
Paita	-4.6	9.4	3.7
Iquitos	9.1	3.2	1.9
Cajamarca	3.6	4.1	1.8
Huaraz	-7.4	3.0	1.2
Chimbote	0.4	0.8	-1.7

Source: Ministry of Labor.