

## Production and employment

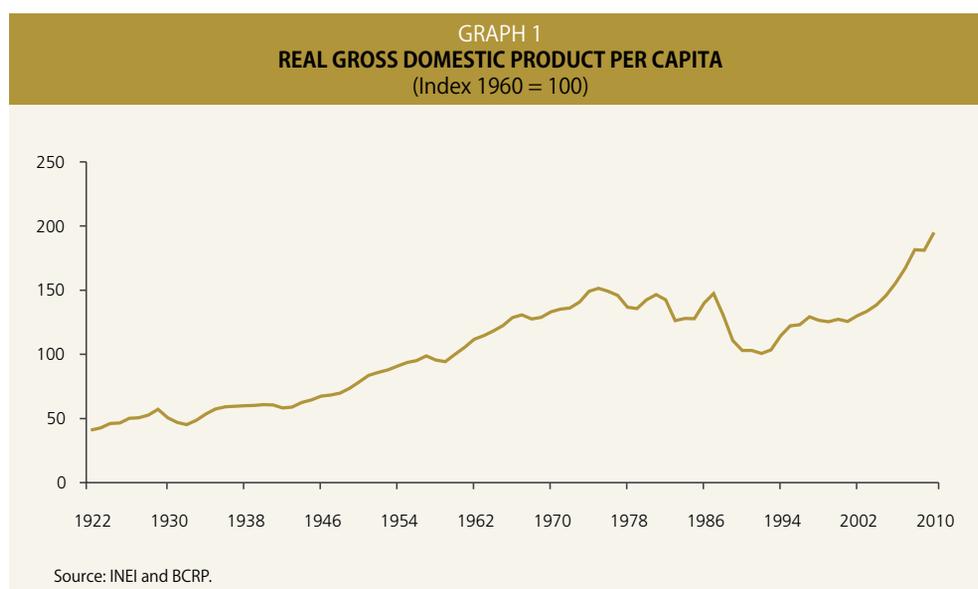
*Reaching a new maximum historical record, production in per capita terms grew 7.6 percent.*

Recovering from the weak economic cycle of 2009, the Peruvian economy grew at a rate of 8.8 percent in 2010. Growth in 2010 was mostly driven by domestic demand, which recovered from the decline observed in the previous year and showed an expansion of 12.8 percent.

This growth in the domestic economy was favored by a context of global economic recovery, as well as by the recovery of the United States, our main trading partner, and by high growth in China, our second main trading partner.

GDP growth was led mainly by non primary sectors, whose dynamism had a positive impact on employment in urban areas which grew 4.2 percent in 2010. On the other hand, growth in primary sectors was affected by the problems derived from La Niña in the case of fishing, while mining contracted 0.1 percent dragging the effects of the investments postponed since Q4-2008 when the international financial crisis started.

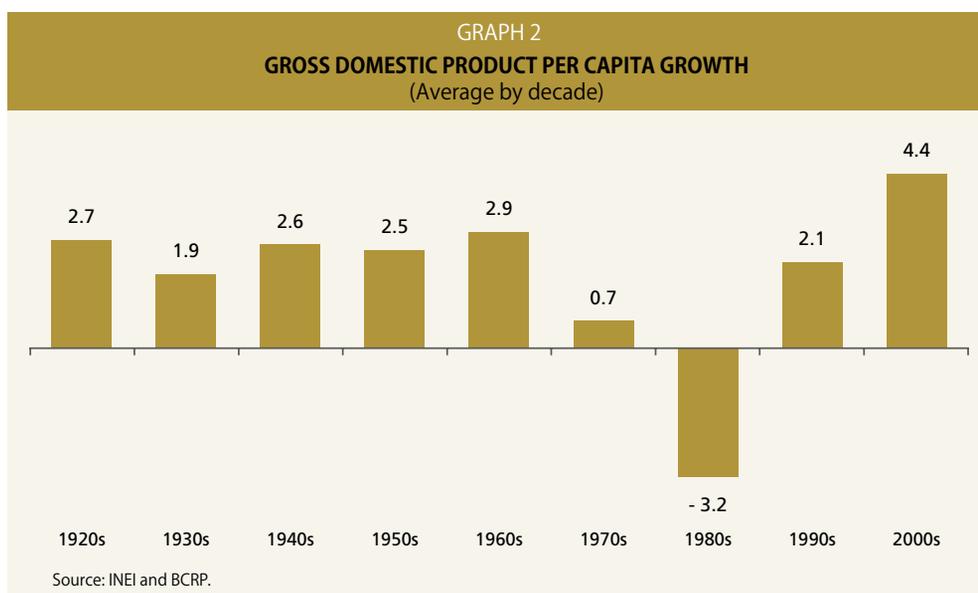
Reaching a new maximum historical record, production in per capita terms grew 7.6 percent. Measured in 2010 constant dollars, GDP per capita in 2010 was US\$ 5,225 (64 percent higher than the level observed 5 years ago and twice the level observed 10 years ago<sup>1</sup>).



<sup>1</sup> Measured as GDP per capita in current dollars and deflated by the US price index with year 2010 = 100.



It is worth pointing out that the average growth of GDP per capita at the close of the decade was 4.4 percent, the highest historical level recorded in the national accounts.



## 1. Domestic demand

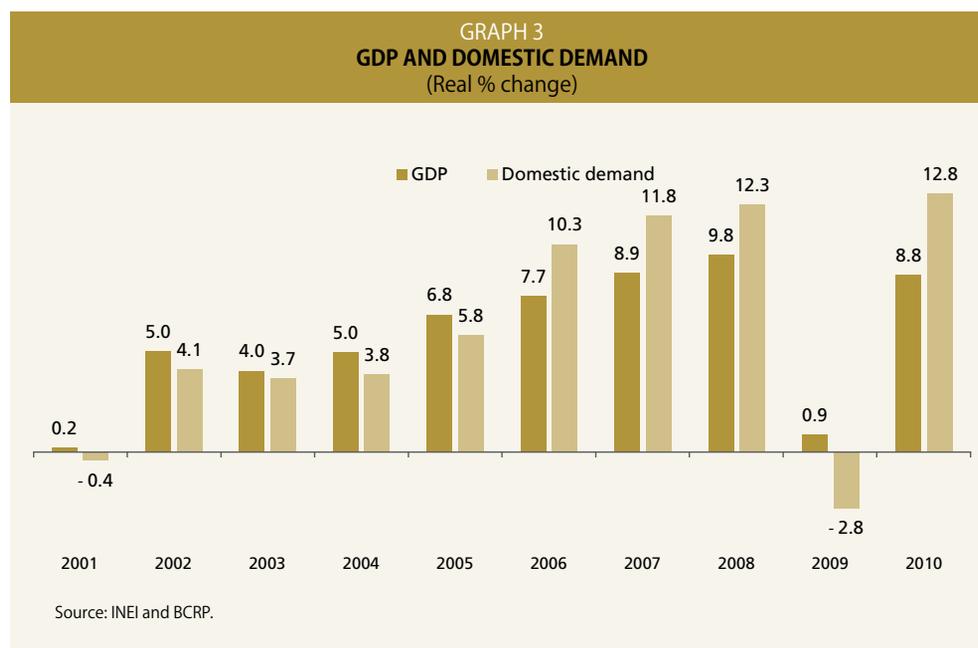
After registering a contraction in 2009, domestic demand expanded 12.8 percent in 2010. Thus, domestic demand recorded again two-digit growth rates –like in 2006 and 2008– and showed a higher pace of growth than GDP.

In terms of its composition, the growth of domestic demand is explained by increased private expenditure in both consumption and investment, as well as by the restocking. The latter variable showed a significant recovery after the negative performance it recorded during 2009 in a context of deceleration of demand. Government expenditure, on the other hand, grew 16.7 percent after having recorded a rate of 18.1 percent the previous year.

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

	2008	2009	2010
<b>Domestic Demand</b>	<b>12.3</b>	<b>- 2.8</b>	<b>12.8</b>
a. Private consumption	8.7	2.4	6.0
b. Public consumption	2.1	16.5	10.6
c. Gross domestic investment	27.1	- 9.2	23.2
- Private	25.9	- 15.1	22.1
- Public	33.6	21.2	27.3
Exports	8.2	- 3.2	2.5
Minus:			
Imports	20.1	- 18.6	23.8
<b>GDP</b>	<b>9.8</b>	<b>0.9</b>	<b>8.8</b>
Memo:			
Total public expenditure	11.4	18.1	16.7

Source: INEI and BCRP.



### 1.1 Private consumption

In 2010 private consumption grew 6.0 percent. It is worth pointing out that although this variable remained in positive levels during 2009, it started showing a faster pace of growth during 2010, particularly since Q2, and thus returned to the average growth rate observed prior the international financial crisis (5.7 percent between 2002 and 2008). This performance was associated with the growth of disposable national income (10.6 percent) and employment in urban areas (4.2 percent), as well as with consumer confidence, which remained in the positive tranche during most of the year.

**TABLE 2**  
**NATIONAL DISPOSABLE INCOME 1/**  
(% change)

	2008	2009	2010
<b>Gross domestic product</b>	<b>9.8</b>	<b>0.9</b>	<b>8.8</b>
Gross national product 2/	11.4	2.0	7.7
Gross national income 3/	7.4	1.4	11.0
<b>National disposable income 4/</b>	<b>7.3</b>	<b>1.3</b>	<b>10.6</b>

1/ Preliminary data.  
2/ Excludes non-resident factor income from GD  
3/ Includes losses and gains due to changes in terms of trade.  
4/ Gross national income plus net transfers from non-residents.  
Source: INEI and BCRP.

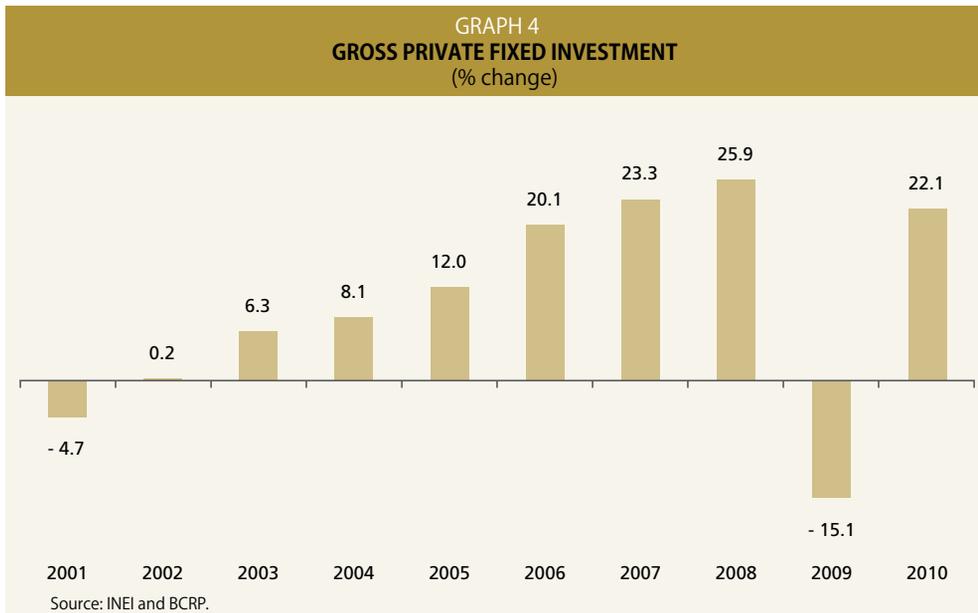
Several indicators confirm this positive evolution of private consumption in 2010. Sales of new family cars grew 51 percent (74 thousand units were sold during the year); imports of durable and non durable consumer goods grew 38 and 19 percent in terms of volume, respectively; the sales of electrical appliances increased 19 percent; the consumer loans granted by depositary institutions grew 16 percent in real terms, and new malls were built both in Lima and other cities of the country.



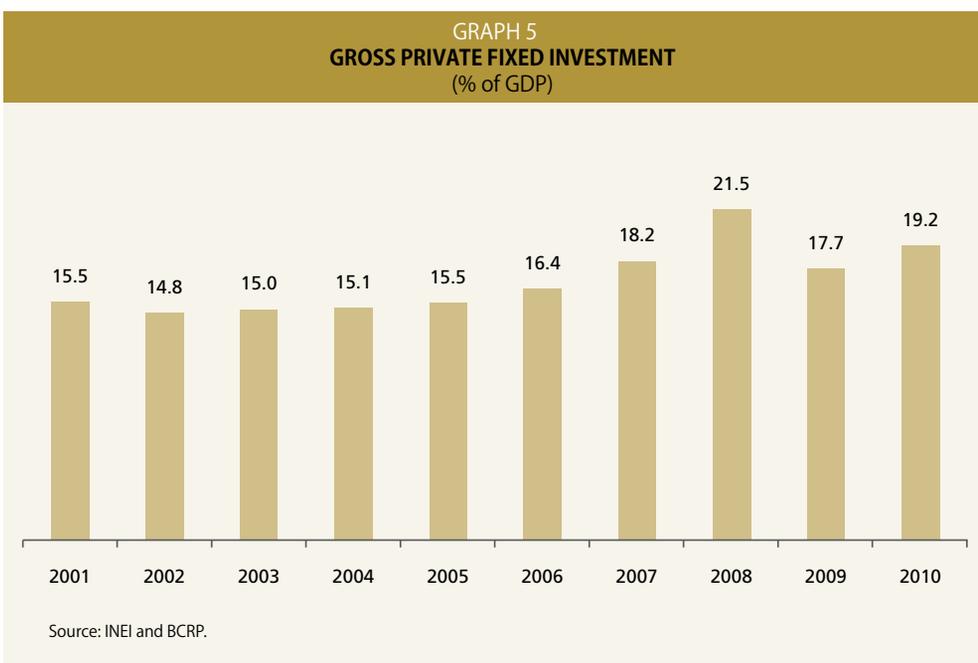
### 1.2 Private investment

After the uncertainty generated by the international financial crisis subsided, economic agents resumed pending investment projects in 2010. Other new investments associated with the positive outlook of the Peruvian economy added onto this.

Thus, returning to the two-digit growth rates observed between 2005 and 2008, private investment grew 22.1 percent during 2010.



With the growth rate recorded in the year, the private investment-to-GDP ratio increased from 17.7 percent in 2009 to 19.2 percent in 2010.



Annual growth was driven by investment projects that concentrated mainly in the sectors of mining, energy and infrastructure, although investment in commerce and tourism was also noteworthy.

TABLE 3 MAIN PRIVATE INVESTMENT PROJECTS 2010 (Millions of US\$)	
SECTOR	AMMOUNT
Agriculture and livestock	203
Fishing	92
Mining and hydrocarbon	5,333
Manufacturing	1,523
Electricity, gas and water	1,513
Construction and infrastructure	2,305
Commerce	935
Services	861
<b>TOTAL</b>	<b>12,763</b>

Source: BCRP Survey on Macroeconomic Expectations, magazines and otras specialized sources.

Investment projects worth pointing out in the mining and hydrocarbons sector included the liquefied natural gas plant in Pampa Melchorita, which initiated operations in Q2-2010, and the completion of works at Bayovar's phosphate plant, which also started operations in Q2. Other investments worth mentioning are the works carried out in Chinalco's copper projects of Toromocho; Pluspetrol's exploration activities in Lot 88 in Cusco and the expansion of the plant in Las Malvinas; Perenco's exploration activities in Lot 67 in Loreto, and BPZ Resources' exploration activities in Z-1 in Tumbes; Shougang Hierro Perú's expansion of the Marcona plant in Ica, and Antamina's plant expansion in Ancash to increase the useful life of the project from 23 to 29 years.

In the energy sector, investment projects included the expansion of the power plant of San Gabán in Puno; the fourth stage of Kallpa project in Lima, which is aimed at converting the combined cycle of its three turbines currently in operation to natural gas; Calidda's installation and connection of gas pipes, and Luz del Sur's maintenance works of the electricity grids, both in Lima.

In manufacturing, it is worth highlighting the expansion of the Cajamarquilla refinery by Votorantim Metais, the expansion of Backus & Johnston brewery, and the expansion of Ransa's refrigeration plant, all of them in Lima, the three projects representing an investment of over US\$ 700 million.

Projects that should be pointed out in the rest of the country included Cemento Andino's projects in Junín to install the new production line of Furnace N° 4 which is estimated to start operating at end 2011, and Cementos Yura's project in Arequipa, which is aimed at starting operations in the new production line N° 3.

Investments in the sector of commerce continued to be oriented to opening new malls in Lima and in the main cities of the country, reflecting consumer preference for more modern infrastructure for retail. The opening of Centro Comercial Angamos Plaza and the expansion of Jockey Plaza are worth mentioning in Lima; three new malls started operating in Arequipa: Real Plaza, Parque Lambramani and Mall Aventura Plaza; and one new mall was opened (Open Plaza Piura) and works were carried out for the construction of Plaza de la Luna and the expansion of Plaza del Sol in Piura.



Other infrastructure projects worth mentioning are the completion of the expansion works of Muelle Sur in the port of Callao by Dubai Port World; investments in road infrastructure by Odebrecht; sanitation works in the water treatment plant of Huachipa; the opening of new bank agencies by local and foreign banks, and hotel projects such as "Tambo del Inka" and "Las Nazarenas" in Cusco and "Westin Libertador" in Lima.

### **1.3 Government expenditure**

Government expenditure grew 16.7 percent in 2010 as a result of both the expansion of consumption, which recorded a growth rate of 10.6 percent at year end, and the dynamic growth of investment (27.3 percent), which maintained the high pace of growth recorded in the previous year (21.2 percent).

Higher expenditure in goods and services was concentrated in the sectors of transports and communications (road maintenance and repair); defense and interior (maintenance and recovery of operating capacity, police surveillance, maintenance of machinery and equipment); education, (training of teachers and literacy activities); agriculture, (support actions for agriculture, promotion of productive chains and formalization of firms commercializing agricultural products, among others), and in the Oficina Nacional de Procesos Electorales and Jurado Nacional de Elecciones (organization and development of municipal and regional elections in 2010).

Government investment increased as a result of the higher expenditure of the national government in the sectors of transports (road concession projects; Tren Eléctrico; airport concessions; road rehabilitation, improvement and expansion in the areas of access to the port terminal of Callao); education (improvement of education infrastructure); electricity (rural electrification projects); agriculture (irrigation projects and support to agriculture); health (improvement and equipment in hospital emergency services), and housing, (Proyecto Nacional de Agua Potable and Saneamiento Rural).

### **1.4 Exports and imports**

Exports of goods and services grew 2.5 percent. It is worth pointing out that the volume of non traditional exports, particularly textiles, agricultural products, chemicals and steel&metal products, grew 15 percent. On the other hand, exports of coffee, silver, lead, and molybdenum were noteworthy in terms of traditional products. Moreover, natural gas began to be exported since the second half of the year.

The rapid recovery of the economy was also reflected in the increased dynamism of foreign trade. Imports of goods and services grew 23.8 percent, contrasting with the 18.6 percent drop recorded in 2009. This growth was observed in all the items: imports of consumer goods grew 28.0 percent, imports of inputs grew 21.3 percent, and imports of capital goods grew 27.5 percent, in line with the economy's higher growth.

### **1.5 Saving and investment**

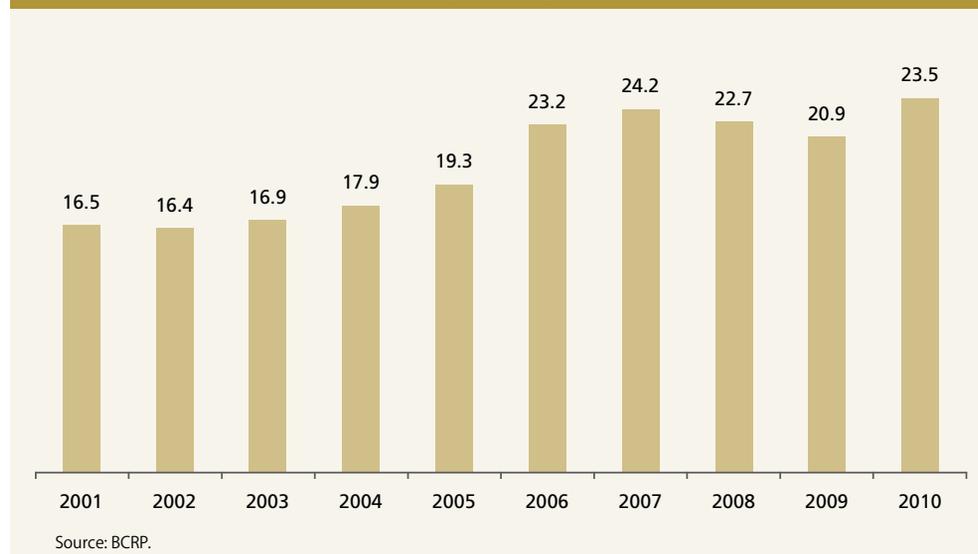
In 2010, domestic investment recovered from the contraction recorded in 2009 and increased from 20.7 to 25.0 percent of GDP. Domestic saving grew from 20.9 percent of GDP in 2009 to 23.5 percent of GDP in 2010 as a result of higher private and government savings, with increased tax revenues accounting significantly for the growth of government savings. The growth of domestic investment during the year was higher than the growth of domestic saving, which generated a higher current account deficit that reached a level of 1.5 percent of GDP contrasting with the surplus (0.2 percent) in the previous year.

TABLE 4  
SAVING AND INVESTMENT  
(% of GDP)

	2008	2009	2010
<b>I. Investment (=II+III)</b>	<b>26.9</b>	<b>20.7</b>	<b>25.0</b>
Public investment	4.3	5.2	5.9
Private fixed investment	21.5	17.7	19.2
Change in inventories	1.0	- 2.1	- 0.1
<b>II. Domestic savings</b>	<b>22.7</b>	<b>20.9</b>	<b>23.5</b>
Public sector	6.4	4.1	5.8
Private sector	16.3	16.8	17.7
<b>III. External savings</b>	<b>4.2</b>	<b>- 0.2</b>	<b>1.5</b>
Memo:			
Gross fixed investment	25.9	22.9	25.1

Source: BCRP.

GRAPH 6  
DOMESTIC SAVINGS  
(% of GDP)



## 2. Production sectors

The production sectors experienced a recovery during 2010 after the slowdown recorded in the previous year. This was particularly noteworthy in the case of non primary sectors, which grew 10.3 percent after having recorded a rate of only 0.8 percent in 2009. On the other hand, primary sectors grew 1.1 percent, with growth in agriculture contrasting with the drops observed in fishing and mining and hydrocarbons.



**TABLE 5**  
**GROSS DOMESTIC PRODUCT**  
(Real % change)

	2008	2009	2010
<b>Agriculture and livestock</b>	<b>7.2</b>	<b>2.3</b>	<b>4.3</b>
Agriculture	7.4	0.9	4.2
Livestock	6.0	4.4	4.4
<b>Fishing</b>	<b>6.3</b>	<b>-7.9</b>	<b>-16.4</b>
<b>Mining and hydrocarbons</b>	<b>7.6</b>	<b>0.6</b>	<b>-0.1</b>
Metallic mining	7.3	-1.4	-4.9
Hydrocarbons	10.3	16.1	29.5
<b>Manufacturing</b>	<b>9.1</b>	<b>-7.2</b>	<b>13.6</b>
Manufacturing based on raw materials	7.6	0.0	-2.3
Non-primary manufacturing	8.9	-8.5	16.9
<b>Electricity and water</b>	<b>7.8</b>	<b>1.2</b>	<b>7.7</b>
<b>Construction</b>	<b>16.5</b>	<b>6.1</b>	<b>17.4</b>
<b>Commerce</b>	<b>13.0</b>	<b>-0.4</b>	<b>9.7</b>
<b>Other 1/</b>	<b>9.1</b>	<b>3.1</b>	<b>8.0</b>
<b>GDP</b>	<b>9.8</b>	<b>0.9</b>	<b>8.8</b>
<b>Primary</b>	<b>7.4</b>	<b>1.0</b>	<b>1.1</b>
<b>Non-Primary</b>	<b>10.3</b>	<b>0.8</b>	<b>10.3</b>

1/ Includes VAT, excise tax, and import duties.  
Source: INEI.

## 2.1 Agriculture

Accumulating six consecutive years of expansion, the agriculture sector grew 4.3 percent in 2010. A strong dynamism was observed in terms of agroindustry and export crops, as well as in the production of poultry.

**GRAPH 7**  
**AGRICULTURE AND LIVESTOCK PRODUCTION**  
(% change)



Source: Ministry of agriculture.

TABLE 6  
**AGRICULTURE AND LIVESTOCK PRODUCTION**  
 (Real % change)

	2008	2009	2010
<b>Agricultural production</b>	<b>7.4</b>	<b>0.9</b>	<b>4.2</b>
<b>For the domestic market</b>	<b>4.3</b>	<b>6.2</b>	<b>1.5</b>
Potato	6.3	4.6	1.0
Rice	14.7	7.0	-5.5
Banana	-2.3	3.4	3.0
Cassava	1.2	4.2	5.1
Amilaceous maize	1.7	14.5	-9.8
Garlic	-16.4	-14.8	7.3
Onion	0.7	-6.3	18.9
Dry beans	5.1	14.1	-5.8
Lemon	-17.2	-11.8	12.0
Mandarine	-1.7	-11.3	33.2
Tomato	21.4	4.8	1.0
<b>For export and industry</b>	<b>14.8</b>	<b>-10.9</b>	<b>11.1</b>
Coffee	21.1	-6.9	8.8
Sugar cane	14.2	7.5	-2.7
Yellow maize	9.7	2.2	0.3
Asparagus	15.6	-4.4	8.2
Grapes	13.6	18.4	6.2
Olive	118.1	-93.7	941.9
Mango	9.6	-48.7	172.6
Cocoa	7.5	6.2	8.3
Avocado	12.0	14.4	16.8
Oil palm	3.3	6.2	10.8
<b>Livestock production</b>	<b>6.0</b>	<b>4.4</b>	<b>4.6</b>
Poultry	13.9	6.9	5.8
Beef	0.1	2.2	4.4
Milk	-0.9	6.1	3.3
<b>AGRICULTURE AND LIVESTOCK</b>	<b>7.2</b>	<b>2.3</b>	<b>4.3</b>

Source: Ministry of agriculture.

Comparing the production for the domestic market, for agroindustry, and for exports, growth in the case of the former was 1.5 percent noteworthy as a result of the increased number of areas cultivated with crops that have a high share in the household consumer basket, such as rice, potato, banana, plantain, and beans.

This positive result was observed in agriculture despite the climatic alterations that generated excess rainfall in the central and southern sierra and scarce precipitation in the selva region early in 2010. In the case of the former, this anomaly translated into lower yields that affected mainly Andean crops like potato, maize, and plantain, while in the case of the latter, this affected the cultivation of rice in areas such as Amazonas and San Martín. Nonetheless, the increased number of sown areas with potato and plantain offset the effects of lower yields.



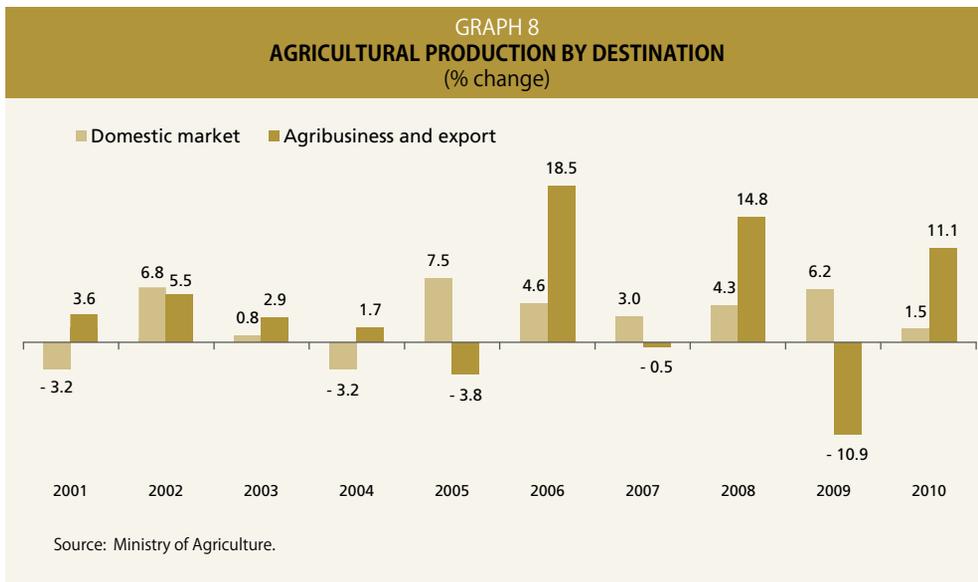
The production of rice was affected by the delay of the rain cycle, which in the selva region started only in March 2010 instead of starting in October 2009. Delays in the sowing period in Piura due to the maintenance of the San Lorenzo reservoir added onto this. However, the consumption of this cereal was not affected due to the significant level of inventories available.

The supply of mandarin, lemon and onion increased substantially in 2010, which was a good year for citrus crops due to the expansion of new sown areas<sup>2</sup> as well as to the low winter temperatures that favored higher yields of mandarin in Chincha and Cañete and also a higher production for the domestic market in Junín. The increased production of lemon in Piura was associated with the good yields resulting from abundant winter efflorescence.

A higher production of onion was obtained in both the yellow variety in Ica, Lima, La Libertad and Lambayeque and in the red variety in Arequipa, with increased harvests (20 percent) to meet both the higher external and domestic demand.

Agricultural production oriented to the external market grew 11.1 percent due to the recovery of global demand, particularly in the case of coffee and olives. For example, after recording a decline of 6.9 percent in 2009, the production of coffee showed an expansion of 8.8 percent in 2010 in a context in which the international price<sup>3</sup> of coffee recovered from US\$ 3,128 to US\$ 4,301/ton between 2009 and 2010.

The growth of agro exports was influenced both by higher yields and by the expansion of sown areas. Cultivated areas with high quality coffee extended to ceja de selva areas in Puno, Cusco, Ayacucho and Apurímac, while cultivated areas with mango in Piura extended to areas where lemon is grown. In addition to this, sown areas with olives increased in Tacna, Arequipa and Moquegua, and sown areas with grapes also increased in Piura, Lambayeque and Arequipa<sup>4</sup>, which resulted in 5.6 percent increase in the number of cultivated areas in production in 2010. Moreover, the cultivation of avocado<sup>5</sup> extended in the valleys of Ica, Junín and La Libertad, reaching over 27 thousand hectares of sown areas. Cocoa was also grown in new areas in Ayacucho, Apurímac and Cusco. The higher production of asparagus reflected new sown areas in all the regions where this crop is grown –Ancash, La Libertad, Lima, and Ica–, as well as the contribution of Piura which is a new producing area of asparagus.



2 This resulted in an annual growth of 52 and 47 percent in the production of mandarine in Ica and Lima, respectively.

3 Price of the soft Arabic coffee variety, whose quality is similar to the quality of Peruvian coffee.

4 In annual terms, the production of grapes grew 131.8 percent in Piura, 40.9 percent in Lambayeque and 4.1 percent in Arequipa.

5 The higher production of avocado was associated with both larger sown areas (6.2 percent) and with higher yields (10 percent).

**Sugar** production fell 2.8 percent due to low availability of mature sugar cane<sup>6</sup> after previous campaigns of intense cuts, in a context of high yields –which have led Peruvian sugar cane to be among the ones with the top two better global yields in the year– and constant increases in harvested areas since 2006<sup>7</sup>. A total of 77 thousand hectares were harvested in 2010, La Libertad and Lambayeque concentrating the largest harvested areas with 34 and 28 thousand hectares, respectively.

TABLE 7  
INDICATORS OF PRODUCTION OF SUGAR CANE

	Harvested area		Production		Yield	
	Hectares	% Chg.	Thousand MT	% Chg.	MT/Ha.	% Chg.
2001	60,373	-5.4	7,386	3.5	122.3	9.4
2002	68,050	12.7	8,420	14.0	123.7	1.1
2003	77,720	14.2	8,864	5.3	114.0	-7.8
2004	70,851	-8.8	6,946	-99.9	98.0	-14.0
2005	61,549	-13.1	6,304	-9.2	102.4	4.5
2006	65,847	7.0	7,246	14.9	110.0	7.4
2007	67,952	3.2	8,229	13.6	121.1	10.0
2008	69,127	1.7	9,396	14.2	135.9	12.2
2009	75,348	9.0	9,937	5.8	131.9	-3.0
2010	76,985	2.2	9,661	-2.8	125.5	-4.8

Source: Ministry of agriculture.

The growth of export-oriented agriculture is reflected in the increase in nontraditional exports, which amounted to US\$ 394 million at the beginning of the decade and had increased by over 5 times this value in 2010 (US\$ 2,190 million) due to higher exports of asparagus, grapes, artichokes, mango, avocado, red pepper and piquillo pepper, paprika, onion, and cocoa, among other crops.

TABLE 8  
MAIN NON-TRADITIONAL AGRICULTURAL EXPORT PRODUCTS  
(Millions of US\$)

Most sold products	2000	2010	Annual average % change.
Asparagus	148	427	11.2
Grapes	6	180	40.5
Paprika	6	97	32.3
Prepared artichokes	1	96	61.0
Fresh mangos	23	89	14.4
Avocado	2	85	42.3
Piquillo and sweet peppers	5	84	33.2
Evaporated milk	3	77	38.4
Animal feed	6	70	28.1
Organic bananas	0	49	68.7
Canned chilly peppers and other	1	47	48.6
Fresh onions	6	42	20.6
Cocoa	0	35	99.2
Fresh mandarine	1	35	42.7
Other	185	776	15.4
<b>TOTAL</b>	<b>394</b>	<b>2,190</b>	<b>18.7</b>

Source: SUNAT.

<sup>6</sup> Sugar cane takes about 16 months to mature. Mature sugar cane is valued for its higher content of saccharose, which is the substance used in the sugar industry.

<sup>7</sup> The growing period of sugar cane is 3 years.



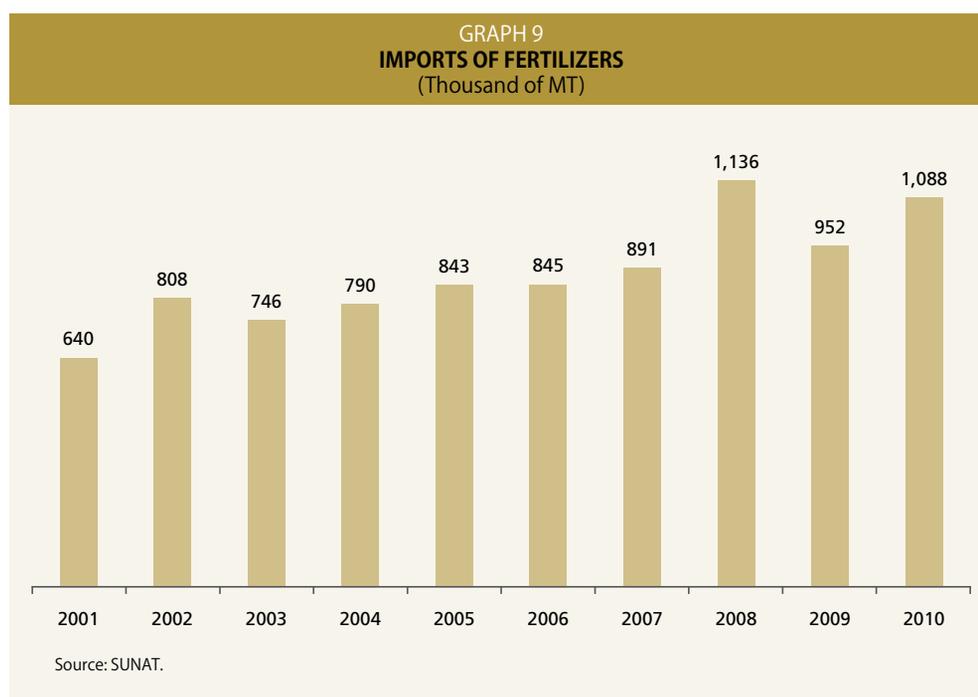
Several indicators of export-oriented agriculture, among which recent improvements in yield are included, reflect the increased use of modern technologies in crops such as cocoa, coffee, olive, avocado and grapes. The improvements being made in other crops that have achieved high yields, such as asparagus and mango, which have been part of agro-exports for a longer period of time, focus on the processes involved in the value chain of these crops.

**TABLE 9  
GROWTH INDICATORS OF AGRICULTURAL EXPORTS**

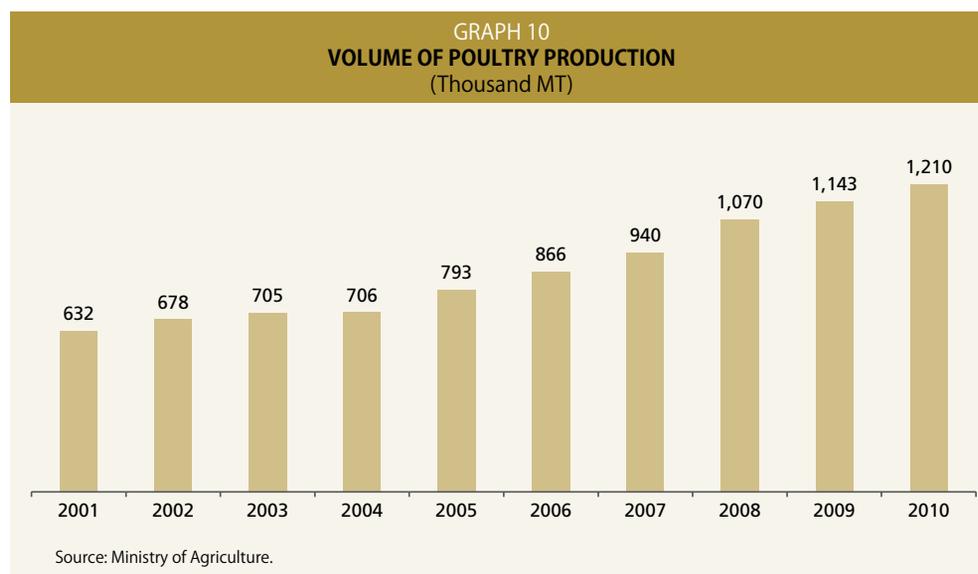
	Harvested area (Thousand ha) 1/		Yield (MT/ha) 1/	
	2001	2010	2001	2010
Cocoa	41	65	0.6	0.5
Coffee	259	368	0.7	0.8
Olives	6	9	4.0	6.0
Avocado	9	15	9.4	9.6
Grape	11	14	10.3	17.9
Mango	11	25	13.5	10.0
Asparagus	20	30	9.0	10.8

1/ Average of the last two farming periods for coffee and biannual for mango, olives and avocado.  
Source: Ministry of Agriculture.

The increase observed in terms of harvested areas of export-oriented crops has also implied an increased use of imported fertilizers, such as urea, diammonium phosphate, ammonium nitrate and potassium chloride. The volume of these imported fertilizers has risen from 640 thousand tons in 2001 to 1,088 thousand tons in 2010.



Livestock production grew 4.6 percent due to increased poultry and cattle production. The growth observed in poultry production was particularly noteworthy, given that poultry consumption at the end of the decade was over 30 kilos per capita (vs. 20 kilos in 2000).



## 2.2 Fishing sector

Reflecting the climate anomalies that affected the sea temperature in 2009 and 2010, fishing in 2010 recorded a decline of 16.4 percent, the second consecutive drop in this sector and the fourth decline in the decade.

Given that conditions that favored the development of a mild El Niño event were observed in late 2009 and early 2010, the authorities decided to reduce the quota of anchovy catch during the first season of anchovy fishing.

Later, during the second half of the year, the sea temperature declined due to the presence of La Niña, which caused not only a generalized dispersal of various marine resources such as giant squid, yellow mackerel, and Pacific chub mackerel, but also the reproductive stage of anchovy to extend. In order to mitigate the adverse effects of La Niña, additional non-fishing periods were established, affecting the volume of annual catch.

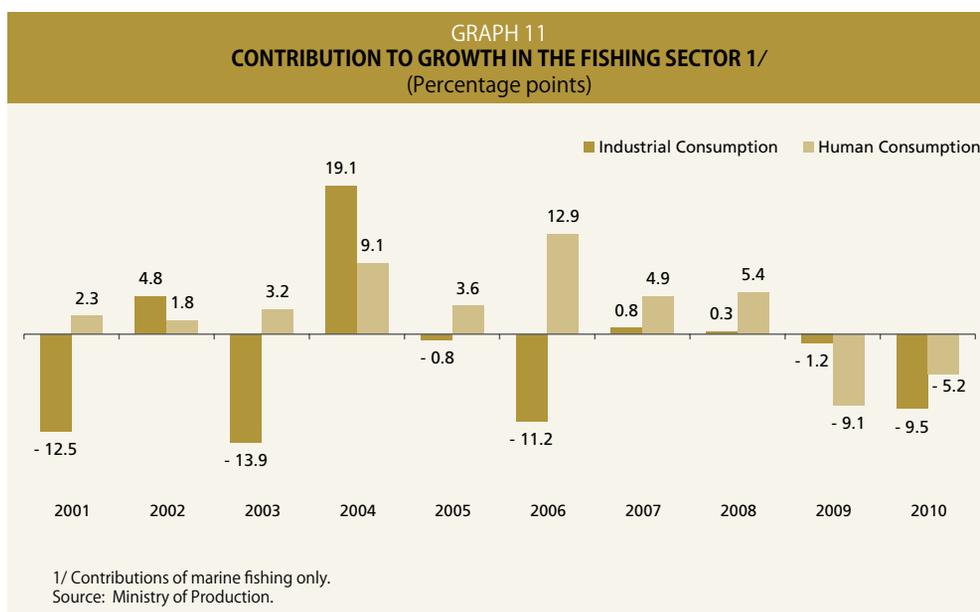
**TABLE 10**  
**FISH CATCH, BY DESTINATION**  
(Real % change)

	2008	2009	2010
<b>Human consumption</b>	<b>8.1</b>	<b>- 13.6</b>	<b>- 8.2</b>
Canned	15.2	- 22.3	8.7
Frozen	12.5	- 22.1	- 6.0
Fresh	- 0.8	6.1	- 13.2
Dry-salted	16.3	- 36.9	- 15.0
<b>Industrial consumption</b>	<b>1.3</b>	<b>- 5.4</b>	<b>- 42.9</b>
Anchovy	1.2	- 5.4	- 42.8
<b>Fishing Sector</b>	<b>6.3</b>	<b>- 7.9</b>	<b>- 16.4</b>

Source: Ministry of Production.



Thus, the sector recorded drops both in fishing for human consumption (down 5.2 percentage points) and in fishing for industrial consumption (down 9.5 percentage points).



**Anchovy** fishing for industrial consumption was most affected in 2010, registering a drop of 42.8 percent. Due to weather conditions, the Ministry of Production limited the authorized total catch of anchovy to 5.4 million tons in 2010 (vs. 6 million tons in 2009). Total anchovy catch for industrial consumption in the year was 3.3 million tons in the entire coastline.

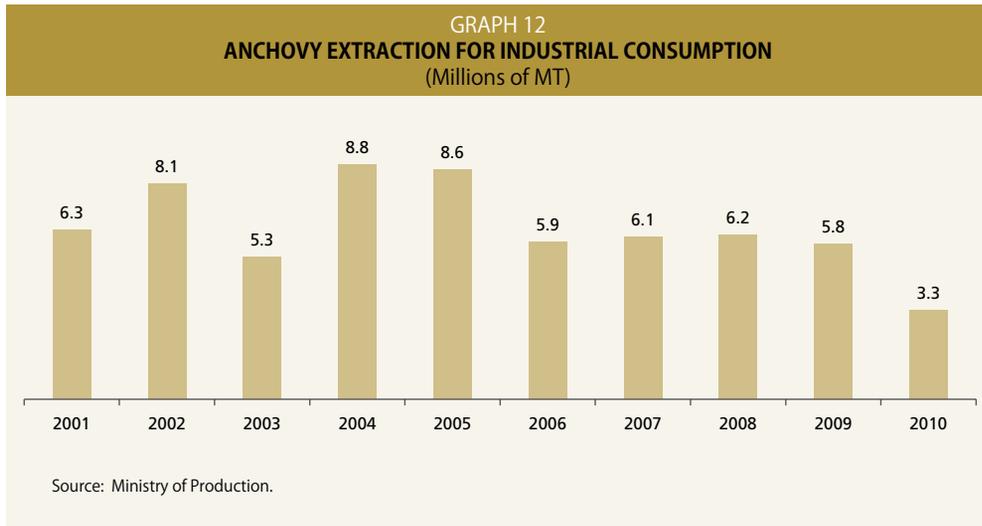
**TABLE 11**  
**FISHING SEASONS**  
(Thousand MT)

	2009		2010	
	South	North-Central	South	North-Central
First season	500,1/	3,500	400	2,500
Second season	-	2,000	450	2,070
<b>Year total</b>	<b>6,000</b>		<b>5,420</b>	

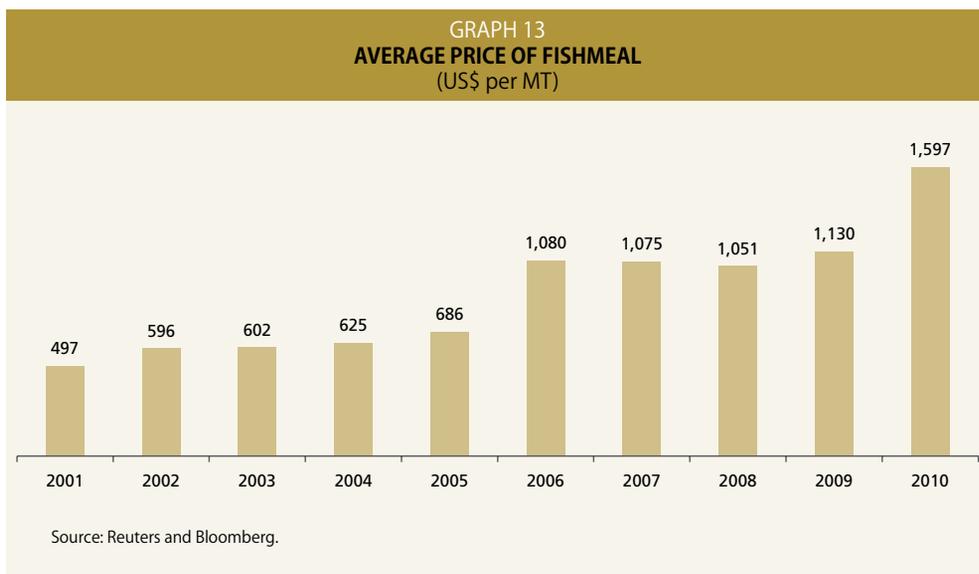
1/ In 2009 there was only one fishing season in the South area.  
Source: Ministry of Production.

Given that the first season of anchovy fishing in the north-central area –the area with the highest productivity–, which started on May 13, was affected by the sea warming associated with the late-2009 El Niño event, the Ministry of Production set a quota of 2.5 million tons, a quota one million tons lower than in 2009. This first season ended on July 31.

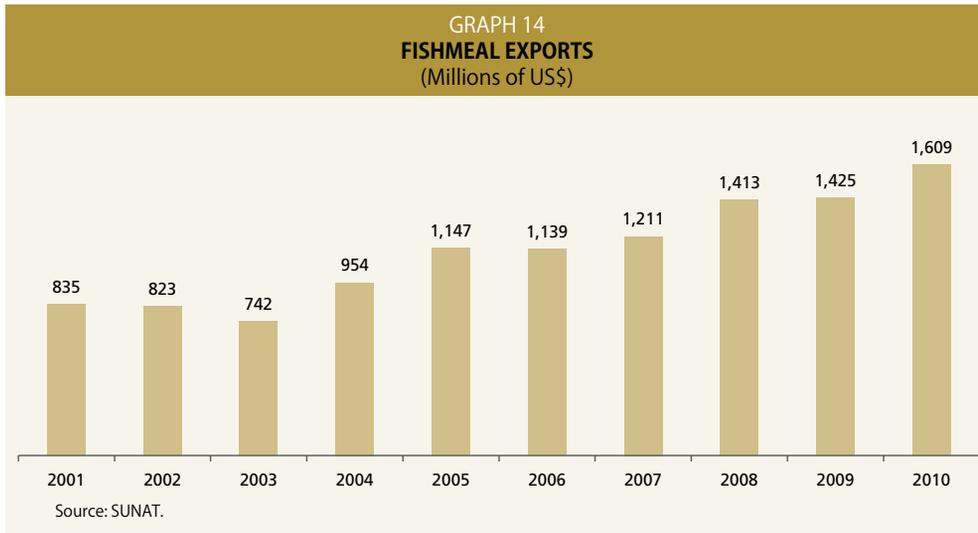
The second season, which began on November 20, was affected by the cooling of water temperatures as a result of La Niña. Because this anomaly intensified and extended the reproductive stage of anchovy, which resulted in a greater presence of young fish, the Ministry of Production postponed the beginning of the season, set temporary non fishing periods to protect the biomass of this species, and established that the season would end earlier on January 18, 2011.



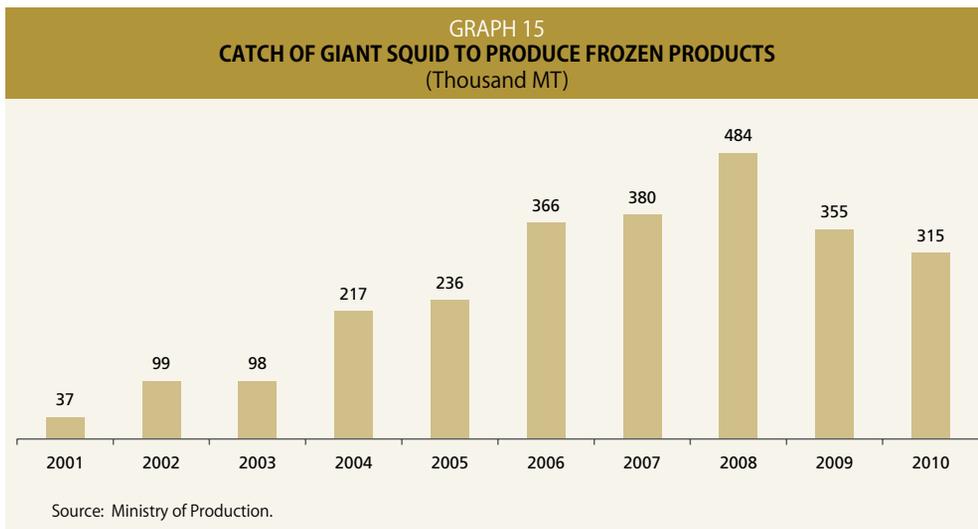
The production of fishmeal was affected by climate factors in a context of higher prices. The price of fish meal showed an upward trend during the first quarter, following the trend observed since 2009 due to uncertainty about the availability of this resource. This was coupled by China’s growing demand, which led the price of fishmeal to record over US\$ 1,800/ton during April, stabilizing thereafter around US\$ 1,500 per ton towards mid-year. With this, the value of exports of fishmeal in 2010 grew 12.9 compared to 2009.



Year 2010 was the second year during which Legislative Decree 1084, “Law on Maximum Anchovy Catch for Industrial Consumption per Vessel”, was in force to promote the sustainable development of this resource. By setting a maximum catch limit per vessel, this law reduces the number of vessels that can fish each day and allows for better planning of fishing days, as well as for a better state of preservation of the raw material obtained.



Fisheries for human consumption dropped 8.2 percent compared to 2009, reflecting the lower catch for consumption of fresh and frozen fish, although this was offset by an increased production of canned seafood products. The production of frozen fish dropped 6.0 percent, with catch of giant squid declining 11.3 percent. Given that this species is mostly caught by artisan fishing boats of limited mobility, the catch was negatively affected by the dispersal of the species associated with the cooling of sea temperatures since mid-2010. In addition to this, there were very low levels of Pacific chub mackerel and yellow mackerel, even though this was offset by an increased presence of shrimps, whose extraction grew 37.1 percent. The latter was favored by higher prices in the Spanish and the U.S. markets, the main consumers of this resource.



The catch of fresh fish for human consumption fell 13.2 percent reflecting the lower capture of yellow mackerel, bonito, Pacific chub mackerel, and striped mullet. However, fish catch for canning increased 8.7 percent due to a greater catch of tuna and abalone.

### 2.3 Mining and hydrocarbons sector

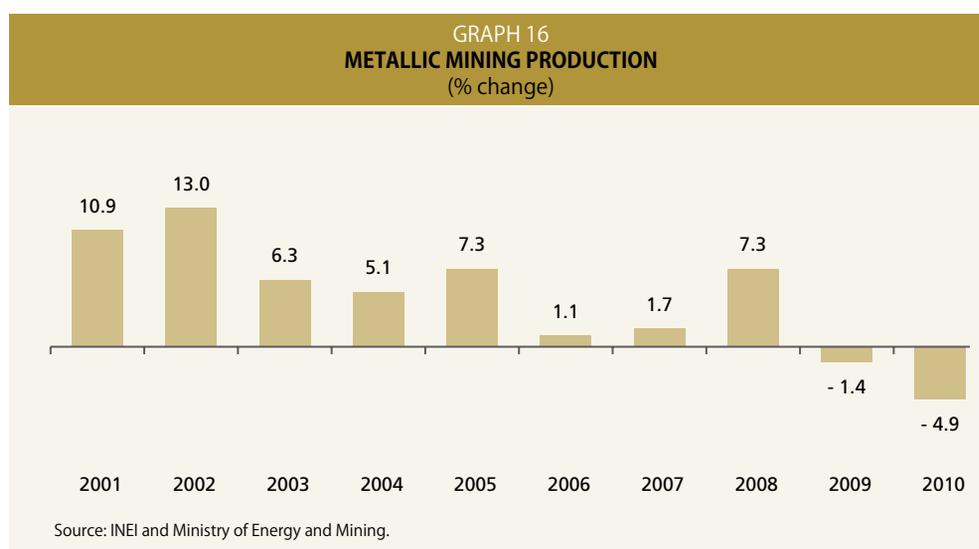
In contrast with the dynamism observed in other sectors, the mining and hydrocarbons sector fell 0.1 percent reflecting supply problems associated with the low mineral content obtained in gold, copper, and silver extraction, as well as firms' strategies of extracting less zinc and lead and concentrating on the production of other minerals that showed a greater price recovery in the international market (copper and molybdenum).

As a result of this, the metal mining sub sector registered a drop of 4.9 percent, which was offset by the growing dynamism observed in the hydrocarbons sub sector. However, mining and hydrocarbons closed the 2001-2010 decade with an average annual growth of 5.3 percent, due to the onset of operations in large mining projects such as Antamina, Alto Chicama, and Cerro Verde.

TABLE 12 MINING AND HYDROCARBONS PRODUCTION (Real % change)			
	2008	2009	2010
<b>METALLIC MINING</b>	<b>7.3</b>	<b>- 1.4</b>	<b>- 4.9</b>
Gold	5.7	2.3	- 11.2
Copper	8.8	0.5	- 1.7
Zinc	11.0	- 5.6	- 2.8
Silver	5.4	6.4	- 7.3
Lead	4.8	- 12.4	- 13.3
Tin	0.0	- 3.9	- 9.7
Iron	1.1	- 14.4	36.7
Molybdenum	- 0.4	- 26.5	37.9
<b>HYDROCARBONS</b>	<b>10.3</b>	<b>16.1</b>	<b>29.5</b>
Liquid hydrocarbons	5.7	20.7	8.2
Natural gas	27.0	4.5	104.0
<b>TOTAL</b>	<b>7.6</b>	<b>0.6</b>	<b>- 0.1</b>

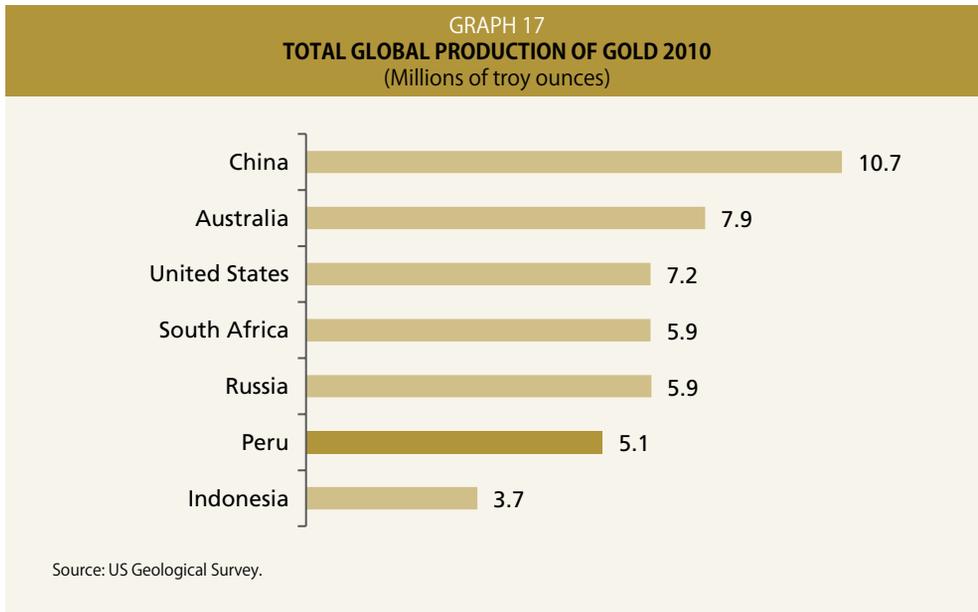
Source: INEI, Ministry of Energy and Mining and Perupetro.

The decline of metal mining for a second consecutive year was reflected both in the lower extraction of precious metals like gold and silver and also in the lower extraction of some industrial metals, such as copper, zinc, lead, and tin. However, this result was partially offset by an increased production of iron and molybdenum in response to the growing demand of Asian markets.

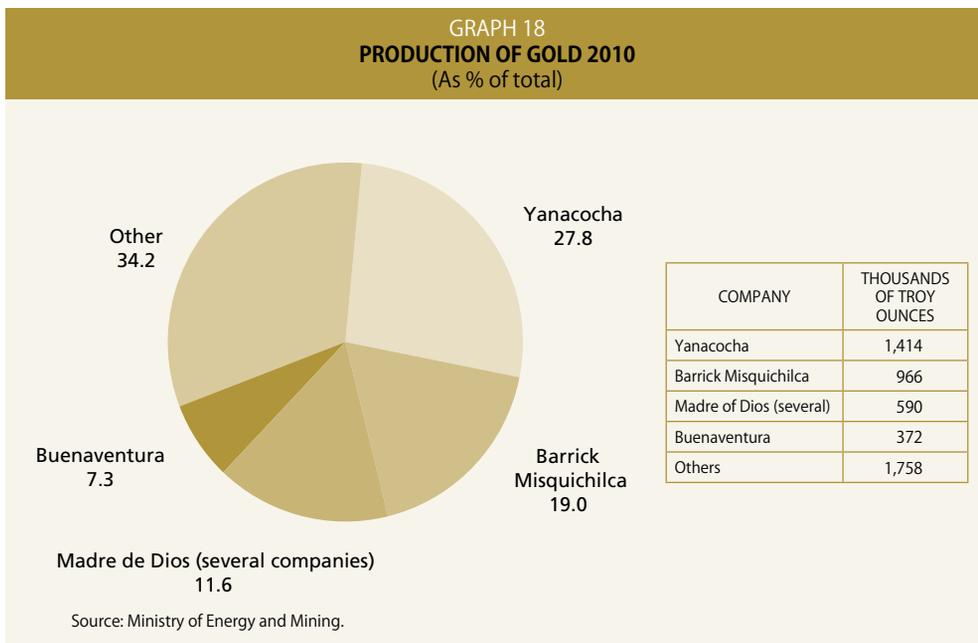




The metal with the highest incidence in the annual result was **gold**, which recorded a drop of 11.2 percent compared to the previous year. Nonetheless, Peru remained as the first producer of the precious metal in the region and as the sixth producer in the world, with a contribution of 6.6 percent in terms of global production.



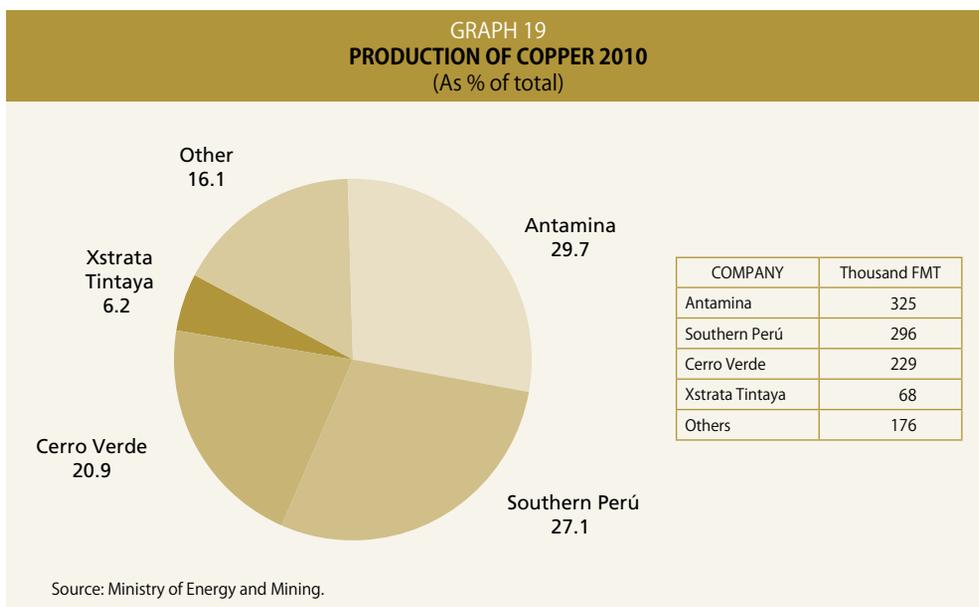
This drop is explained by lower production in Minera Yanacocha due to the lower grades of the mineral extracted, and by lower production in Barrick, also due to the lower mineral obtained in its units of Pierina and Alto Chicama. The latter site has declining yields since the end of its useful life is already near. Production from informal gold exploitation in Madre de Dios amounted to 590 thousand troy ounces, while the production of La Zanja project which started in September provided an additional 37 thousand troy ounces to domestic production.



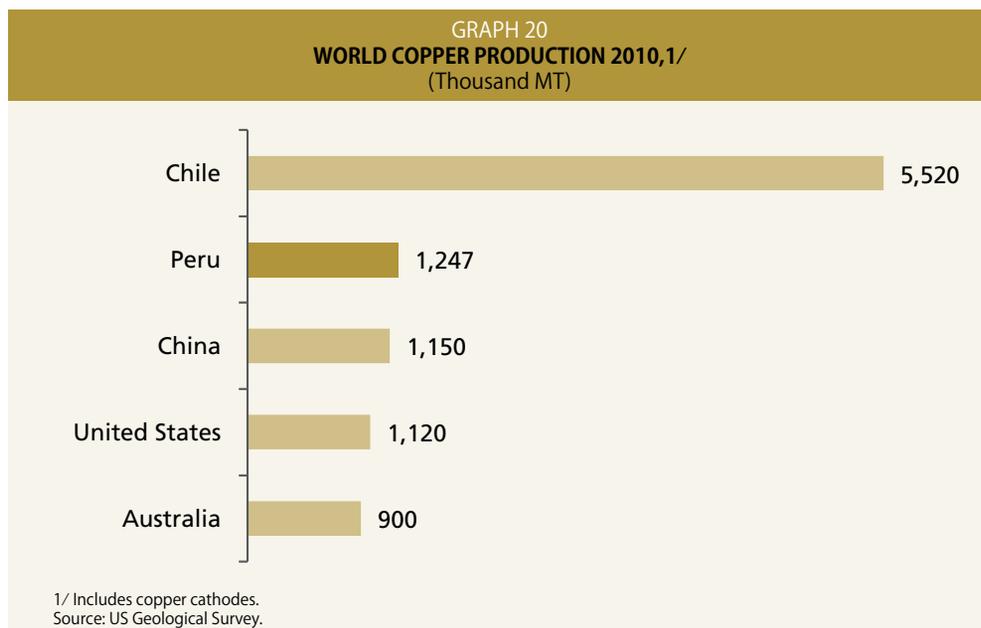
Between 2009 and 2010, the price of gold rose from an average of US\$ 974 to US\$ 1,225 per troy ounce –an increase of 25.8 percent–, reaching a record high of US\$ 1,424 per ounce on December 6. This increase was sustained by the

weakening of the dollar against other currencies due to the extension of monetary easing in the United States, as well as by gold's greater appeal as a haven asset amid fears of debt crisis in Europe.

The extraction of **copper** dropped 1.7 percent, from 1,113 thousand fine metric tons (FMT) to 1,094 thousand FMT. This result reflected lower production in Southern Peru, particularly in Cuajone (Moquegua), which recorded a production of 165 thousand FMT (vs. 189 thousand FMT in the previous year due to the lower grade of the mineral extracted. This was offset by higher production from Cerro Verde (6.7 percent) as a result of process improvements in its concentrator plant located in Arequipa. Moreover, production in Antamina fell 5.6 percent, mainly because lower copper ore was treated in the concentrator plant given that priority was given to other minerals containing molybdenum.

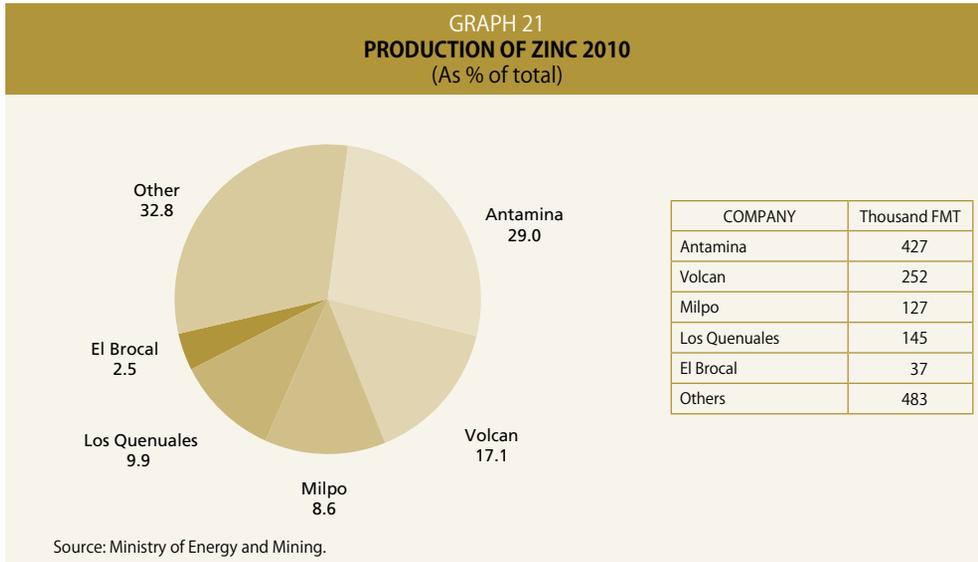


With this level of production of copper, Peru remained for the second consecutive year as the second largest producer, with a share of 7.7 percent.



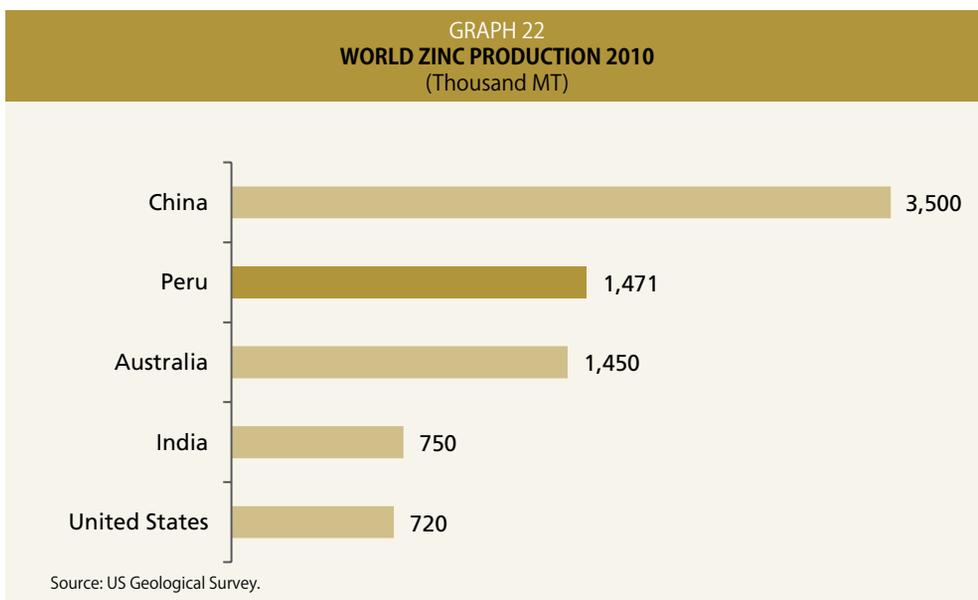


The production of **zinc** contracted by 2.8 percent, from 1,513 FMT in 2009 to 1,471 FMT in 2010, affected mainly by lower production at Antamina (-14.5 percent) and El Brocal (-47.5 percent). These companies favored the production of molybdenum and copper in their mining plans due to increased external demand.



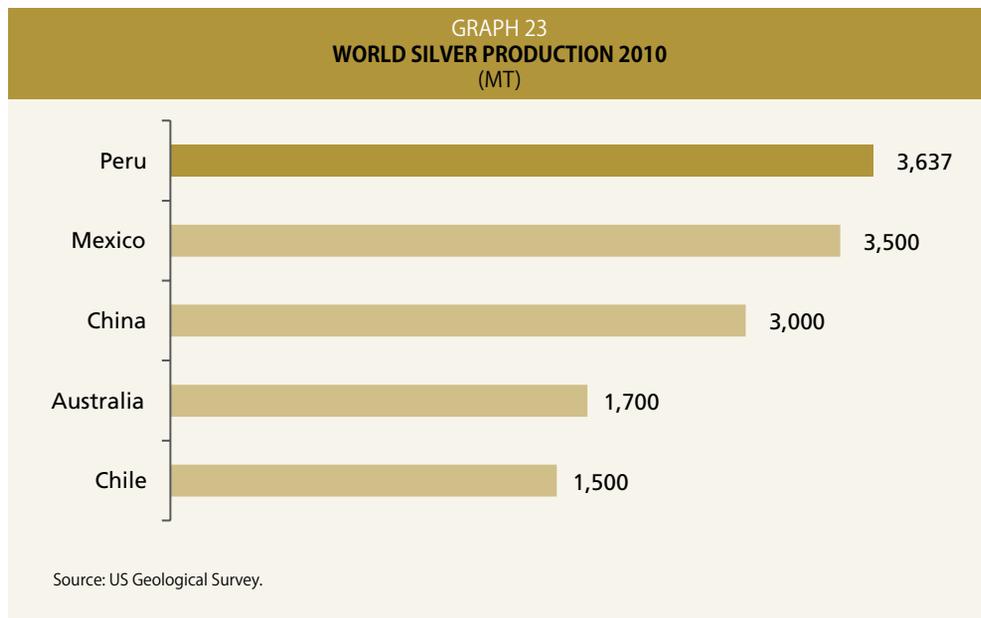
This lower production was offset by the production of Empresa Minera Los Quenuales in its Iscaycruz unit in Lima, which resumed operations since April 2010 after having interrupted them in the first months of 2009 due to the effects of the international financial crisis on the price of this metal.

In 2010, Peru remained for the third consecutive year as the second largest producer of zinc with a share of 12.3 percent.

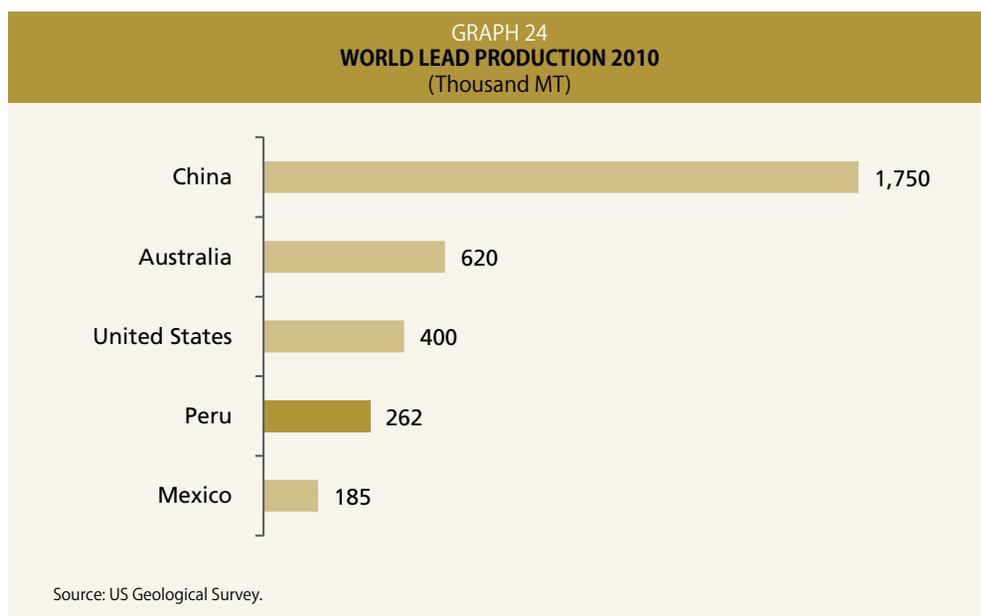


The production of **silver** in 2010 shrank 7.3 percent, affected by lower grades in the mineral obtained by Minera Ares' Arcata unit, as well as by the plant improvement works carried out at Volcan's unit in Cerro de Pasco. This decline was partially offset by a production increase in Minera Suyamarca's Pallancata mine, which recorded a growth of 16.5 percent.

Despite this drop, Peru remained as the first producer of the precious metal, with a share of 16.7 percent of world production. Notwithstanding, the gap between Peru and Mexico, the second largest producer, has declined from 600 tons in 2009 to less than 200 tons in 2010 due to the onset of operations of Canadian company Goldcorp's mine Peñasquito in Mexico, which has a potential annual production of 1,000 tons.



The extraction of **lead** fell 13.3 percent, affected mainly by lower production in Volcan (-23.1 percent) and El Brocal (-45.7 percent) in a context in which the high price of copper favored the production of this metal in detriment of the former. It is worth pointing out that with a production of 262 thousand tons in 2010, Peru ranked fourth in the world ranking with a share of 6.4 percent of world production.





**Tin** mining contracted 9.7 percent due to a temporary reduction of 20.0 percent in Minsur's concentrator plant capacity as a result of problems associated with the capacity of the sludge field.

Contrasting with the evolution of other metals, the production of **iron** grew 36.7 percent due to higher demand from China, while the production of **molybdenum** concentrates grew 37.9 percent due to increased activity in Cerro Verde. It should be pointed out that the latter reflects a base effect since Cerro Verde did not produce this metal during four months in 2009 due to low international prices.

Executed investments in the mining sub sector grew 47 percent in the year and amounted to US\$ 3,707 million. Major capital investments worth pointing out included Xstrata Tintaya's project Antapaccay in Cusco; Antamina's investment to increase the installed capacity of its concentrator plant by 20 thousand tons per day; Yanacocha's investment in the engineering and design of Minas Conga project, the expansion of the lixiviation areas in Chaupiloma Sur and the construction of a central supply warehouse, and Southern Peru' investment to modernize and expand its facilities in Toquepala and Cuajone.

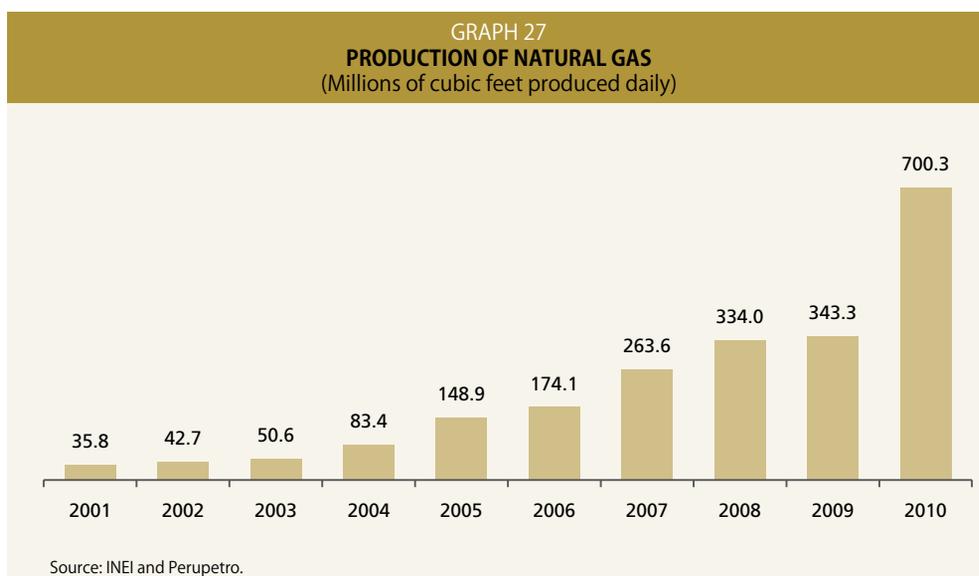
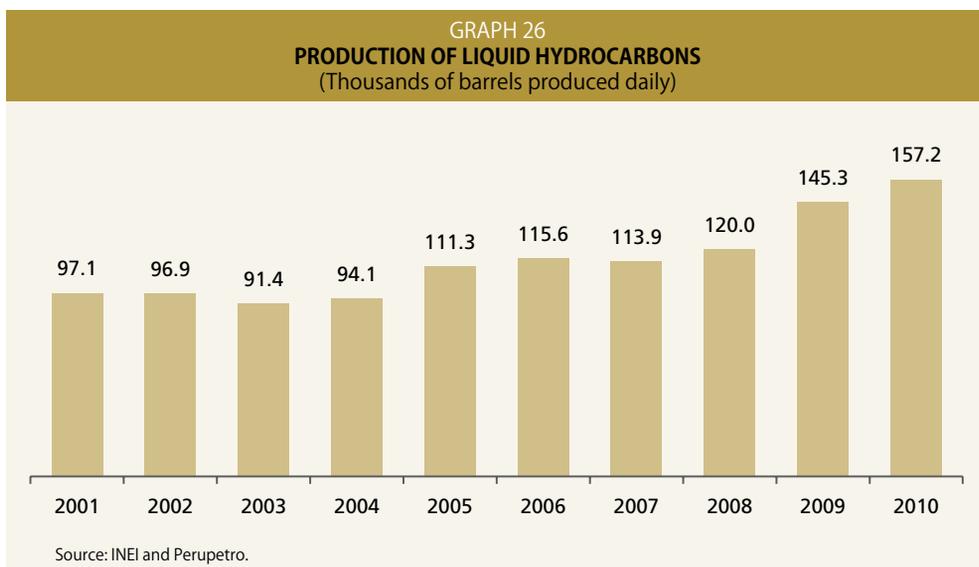
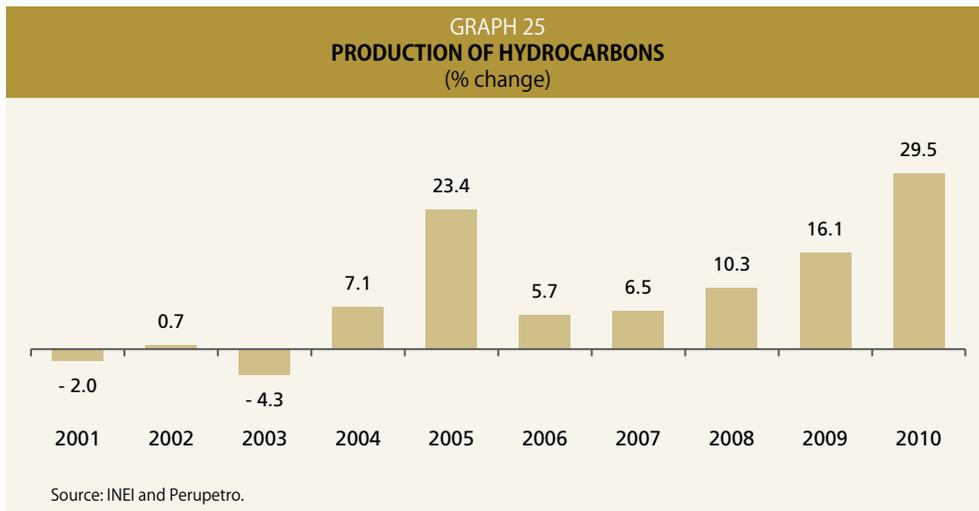
TABLE 13  
INVESTMENT EXECUTED BY MINING COMPANIES  
(Millions of US\$)

COMPANY	METAL	2008	2009	2010
Xstrata Tintaya	Copper	102.0	332.1	604.2
Compañía Minera Antamina S.A.	Polymetallic	45.7	88.7	368.8
Minera Yanacocha S.R.L.	Gold	248.3	146.7	302.4
Compañía de Minas Buenaventura S.A.A.	Gold and silver	266.8	251.1	301.1
Southern Peru Copper Corporation	Copper and molybdenum	302.5	434.8	267.9
Volcan Compañía Minera S.A.A.	Polymetallic	238.9	85.3	156.9
Sociedad Minera Cerro Verde S.A.	Copper and molybdenum	74.0	91.0	122.3
Shougang Iron Perú S.A.A.	Iron	26.0	132.5	103.0
Sociedad Minera El Brocal S.A.	Polymetallic	16.0	60.1	77.1
Minera Barrick Misquichilca S.A.	Gold	25.7	30.8	73.0
Empresa Minera Los Quenuales S.A.	Polymetallic	63.6	40.5	69.4
Compañía Minera Condestable S.A.A.	Copper	11.1	15.0	42.3
Minsur S.A.	Tin	12.2	8.0	4.2
Compañía Minera Atacocha S.A.	Polymetallic	42.2	5.0	10.3
Others		233.1	799.6	1,204.2
<b>TOTAL</b>		<b>1,708.1</b>	<b>2,521.1</b>	<b>3,707.1</b>

Source: CONASEV, and Ministry of Energy and Mining.

Accumulating 7 consecutive years of expansion, the production of **hydrocarbons** grew 29.5 percent in 2010.

This growth resulted primarily from the increased production of natural gas (104 percent) associated with the initiation of Pluspetrol's exports of gas from Lot 56 in June, after the gas was processed in the plant Melchorita operated by Peru LNG, a consortium integrated by the U.S. company Hunt Oil, the Spanish company Repsol YPF, the Korean company SK Energy and the Japanese company Marubeni. In early 2006 this consortium signed an agreement with the Peruvian government to build a natural gas liquefaction plant 169 km south of Lima, with an investment of about US\$ 3,800 million, to allow exports of Camisea gas.





Pluspetrol, an Argentine firm specialized in hydrocarbons exploitation and electricity generation, which operates petroleum lots 8 and I-AB and natural gas lots 88 and 56, remained the major company in this sub sector in Peru accounting for 77.7 percent of the domestic production.

TABLE 14  
PRODUCTION OF HYDROCARBONS

	2008	2009	2010
<b>LIQUID HYDROCARBONS</b>	<b>120</b>	<b>145</b>	<b>157</b>
(Thousand barrels produced daily)			
<b>Pluspetrol</b>	<b>79</b>	<b>101</b>	<b>111</b>
Lot I-AB	22	16	19
Lot 8	15	14	12
Lot 88	31	37	47
Lot 56 1/	10	34	33
<b>Other contractors</b>	<b>41</b>	<b>44</b>	<b>46</b>
<b>NATURAL GAS</b>	<b>122</b>	<b>125</b>	<b>256</b>
(Billions of cubic feet)			
<b>Pluspetrol</b>	<b>93</b>	<b>102</b>	<b>234</b>
Lot 88	93	102	136
Lot 56 2/	0	0	99
<b>Other contractors</b>	<b>29</b>	<b>23</b>	<b>21</b>

1/ Operations initiated in September 2008.  
2/ Operations initiated in February 2010.  
Source: INEI, Ministry of Energy and Mining and Perupetro.

## 2.4 Manufacturing sector

Contrasting with the 7.2 percent drop observed in 2009 as a result of the international financial crisis, activity in the manufacturing sector grew 13.6 percent in 2010. This recovery was observed mainly in non primary manufacturing, given that manufacturing based on the processing of raw materials dropped 2.3 percent.

**Manufacturing based on raw materials** was mainly affected by lower activity in the processing of fishmeal and fish oil and in the industry of canned and frozen fish products. The refining of nonferrous metals reflected the interruption of operations at Doe Run since mid-2009, as well as Cerro Verde's lower production of copper cathodes and Southern's lower production of anodes due to the technical problems experienced by these two enterprises in their production processes. Moreover, sugar production was affected by the shareholders problems faced by two of the major sugar companies operating in the north of the country, as well as by the lower availability of sugar cane.

This lower production was offset by a 14.2 percent increase in crude refining that was driven by La Pampilla and Petroperu's increased demand for diesel and gasoline and by the onset of operations in Lot 88 by Pluspetrol in July 2009, as well as by a 4.8 percent increase in the production of meat products in response to higher demand for poultry.

TABLE 15  
**MANUFACTURING BASED ON RAW MATERIALS, BY  
 MAIN INDUSTRIAL GROUPS**  
 (Real % change)

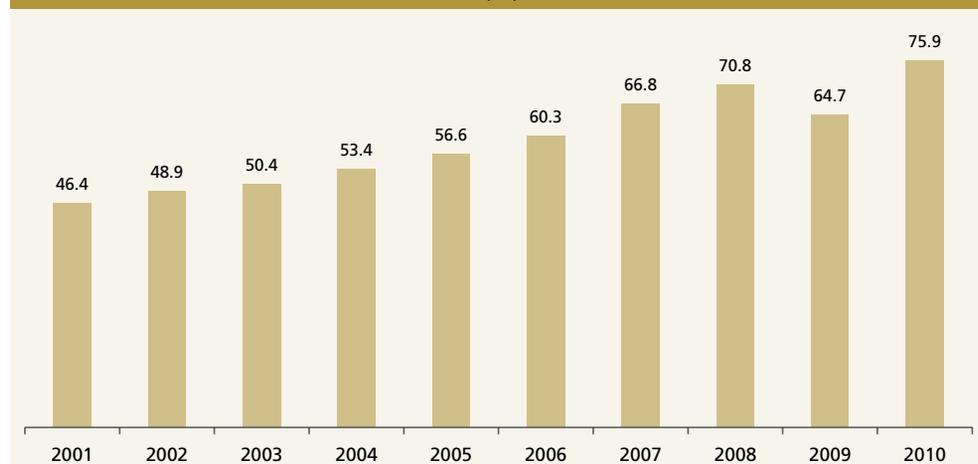
	2008	2009	2010
<b>MANUFACTURING BASED ON RAW MATERIALS</b>	<b>7.6</b>	<b>0.0</b>	<b>- 2.3</b>
Sugar	10.7	7.2	- 4.1
Meat products	9.2	4.6	4.8
Fishmeal and fish oil	0.5	- 4.2	- 42.1
Canned and frozen fish products	17.6	- 17.4	- 17.4
Refining of non-ferrous metals	9.4	- 18.0	- 6.1
Refining of crude	4.1	27.7	14.2

Source: Ministry of Production and INEI.

In 2010 **non primary manufacturing** grew 16.9 percent, as a result of which industrial production in the decade reached an average growth rate of 6.4 percent, a rate comparable to the one recorded in the fifties.

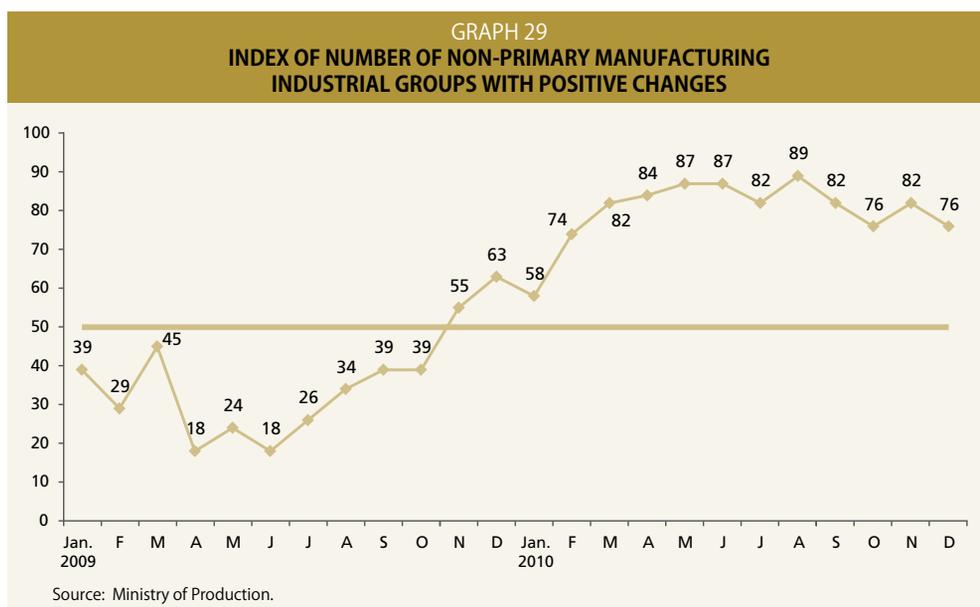
Another indicator confirming the recovery of industrial activity over the year was the rate of utilization of installed capacity, which recorded sustained growth rates and reached an average level of 75.9 percent in 2010 after having registered a level of 64.7 percent in 2009.

GRAPH 28  
**INSTALLED CAPACITY RATE IN NON-PRIMARY MANUFACTURING**  
 (%)



Source: Ministry of Production.

Furthermore, the number of industrial branches with positive growth rates after having registered minimum levels in Q2 2009 remained on the positive tranche in all the months of 2010, reflecting that most industrial branches showed a favorable evolution.



Growth in the non primary manufacturing sub sector during 2010 was based on the expansion of production oriented to the domestic market, which accounted for around 90 percent of the sub sector’s growth in the year, in contrast with the early years of the decade during which the domestic market accounted for about 70 percent of industrial growth.

**TABLE 16**  
**NON-PRIMARY MANUFACTURING:**  
**PERCENTAGE CONTRIBUTION TO GROWTH BY MARKET OF DESTINATION**  
(in percentage points)

	Domestic	External	Total
2001	0.3	1.1	1.4
2002	5.4	0.5	5.9
2003	3.3	0.4	3.7
2004	4.3	2.9	7.2
2005	6.3	2.2	8.5
2006	7.6	0.9	8.5
2007	11.6	2.4	14.0
2008	7.4	1.5	8.9
2009	-5.6	-2.9	-8.5
<b>2010</b>	<b>14.7</b>	<b>2.2</b>	<b>16.9</b>
Food and beverage	1.5	0.3	1.8
Textiles, leather and footwear	4.1	0.3	4.4
Wood and furniture	0.7	0.0	0.7
Paper and print industry	2.0	0.0	2.1
Chemical products, rubber, and plastics	0.6	1.3	1.9
Non metallic minerals	2.6	0.2	2.8
Iron and steel industry	0.1	0.0	0.1
Metallic products, machinery and equipment	2.9	0.1	3.0
Miscellaneous products	0.1	0.0	0.1

Source: BCRP.

By production groups, growth in annual terms was led by production in the textile sector, followed by metal products, machinery and equipment, and by non metal minerals, which together represented approximately 60 percent of industrial growth during 2010.

The positive performance of the textile industry, which showed even higher production levels than the average ones observed prior to the crisis, was associated with the recovery of domestic and external demand. However, since the second semester of the year this industry was affected by the rise in inputs costs. The international price of cotton, for example, rose from US\$ 63/quintal in 2009 to US\$ 103 in 2010.

Production in the group of metal products, machinery and equipment grew 26.6 percent, thus contributing with 3.0 percentage points to the result in non primary manufacturing, mainly as a result of the recovery of domestic demand. The increased production of metal products, transport material and electric machinery was noteworthy.

TABLE 17  
NON-PRIMARY MANUFACTURING BY MAIN INDUSTRIAL GROUPS  
(% contributions)

	2008	2009	2010
<b>NON-PRIMARY MANUFACTURING GDP</b>	<b>8.9</b>	<b>- 8.5</b>	<b>16.9</b>
Food, beverages and tobacco	1.7	0.1	1.8
Textiles, leather and footwear	- 1.0	- 3.2	4.4
Wood and furniture	0.6	- 0.2	0.7
Paper and print industry	2.3	- 1.3	2.1
Chemical products, rubber and plastic	1.1	- 1.3	1.9
Non metallic minerals	2.1	- 0.1	2.8
Iron and steel industry	0.4	- 0.8	0.1
Metallic products, machinery and equipment	1.8	- 1.6	3.0
Diverse industries	0.0	0.0	0.1

Source: Ministry of Production, and INEL.

In 2010, growth was observed in all the domestic market-oriented manufacturing branches: production grew 17.6 percent in the branches producing mass consumption goods; 18.7 percent in the branches of chemical inputs, plastics and paper; 20.8 percent in the branches producing capital goods, and 16.5 percent in the branches of construction materials and construction finishes.

The production of garments, which contributed with 3.2 percentage points to the sector's growth, is worth highlighting in terms of the production of **mass consumption goods**. It should be pointed out that this was one of the most affected activities in 2009, when it recorded a drop of 29.9 percent.

The production of paper and cardboard items, oils and greases, and wood and furniture was also noteworthy and compensated by far the lower production of pharmaceutical products associated with the high levels of inventories they still register.

In terms of production of **inputs**, growth was noteworthy in the following activities: glass, paper and cardboard containers, due to the higher demand of the beverage industry and agricultural exports, respectively; plastics, due to increased demand for plastic pipes for construction; and explosives, chemicals and natural oils, due to higher demand in the mining sector. It should be pointed out that in order to reduce costs and risks associated to fluctuations in the international prices of inputs, the firms producing paper, plastic and glass packaging have invested in technology that allows them to produce a greater variety of products and new economic presentations.



As regards the **construction-oriented industry**, the higher production of majolica tiles, premixed concrete and cement stands out, in line with the strong dynamism of construction. It is worth mentioning that this industrial activity was the only one that maintained a positive evolution in 2009.

TABLE 18  
GROWTH OF NON-PRIMARY MANUFACTURING DUE TO DOMESTIC DEMAND

	2008	2009	2010
<b>Mass consumer products</b>	<b>10.3</b>	<b>-9.6</b>	<b>17.6</b>
Dairy products	11.4	-3.0	13.1
Oils and fats	-6.6	1.6	17.0
Miscellaneous food products	5.4	-2.7	13.2
Beer and malt	15.5	-1.5	6.2
Soft drinks	15.9	9.1	7.1
Clothing	-2.3	-29.9	56.8
Wood and furniture	16.6	-6.0	15.6
Other paper and cardboard items	48.8	-21.9	21.7
Toiletries and cleaning products	11.6	-2.7	7.6
Pharmaceutical products	9.4	-1.2	-8.0
Miscellaneous items 1/	-1.0	-1.6	3.0
<b>Inputs</b>	<b>13.5</b>	<b>-9.1</b>	<b>18.7</b>
Paper and cardboard	9.4	-5.1	18.1
Paper and cardboard containers	2.5	-2.1	19.4
Publishing and printing	17.7	-7.6	15.6
Basic chemicals	2.2	-19.5	12.5
Explosives, chemical and natural scents	8.2	-13.0	17.3
Rubber	-2.6	-14.2	21.9
Plastic	7.0	-3.9	19.1
Glass	52.7	-5.8	29.6
<b>Materials for construction</b>	<b>15.2</b>	<b>1.3</b>	<b>16.5</b>
Paints, varnishes and lacquers	21.7	5.3	5.3
Cement	10.7	6.4	14.0
Construction materials	17.9	-3.7	22.3
Abrasive products	15.7	-20.6	23.9
<b>Metal mechanics, machinery, and equipment</b>	<b>15.9</b>	<b>-16.2</b>	<b>20.8</b>
Iron and steel industry	9.9	-21.1	3.3
Metal products	20.9	-13.4	30.2
Machinery and equipment	-6.9	-28.2	5.7
Electric machinery	3.0	-22.4	19.1
Transport equipment	47.3	-3.5	28.0
<b>TOTAL NON-PRIMARY MANUFACTURING</b>	<b>8.9</b>	<b>-8.5</b>	<b>16.9</b>

1/ Jewelry and office items mainly.  
Source: Ministry of Production.

Finally, the production of **capital goods** showed the highest growth rate, even though this also reflects that this sector dropped the most in 2009 because firms postponed their investment plans. The higher production of metal products (30.2 percent), due to increased demand for metal structures in the construction sector, and the higher production of transport parts and equipment (28.0 percent) to assemble the Metropolitan buses are worth highlighting in terms of their recovery.

### Growth of Non Primary Manufacturing in the Decade

Non primary manufacturing recorded an annual growth rate of 6.4 percent in the last decade. In order to identify the factors accounting for the differentiated rates registered in each of them, the branches of non primary manufacturing were classified according to the main destination of the goods they produce.<sup>8</sup>

TABLE 19 NON-PRIMARY MANUFACTURING (Annual average % change)	
BRANCHES OF ACTIVITIES	2010 / 2000
<b>Mass consumer product</b>	<b>6.3</b>
Paper and cardboard items	14.2
Beer and malt	9.0
Dairy products	8.5
Wood and furniture	7.1
Toiletries and cleaning products	6.9
Soft drinks	6.0
Oils and fats	5.6
Miscellaneous items 1/	4.6
Pharmaceutical products	3.8
Clothing	3.7
Miscellaneous food products	2.7
<b>Inputs</b>	<b>7.5</b>
Glass	10.4
Publishing and printing	9.1
Explosives, chemical and natural scents	8.6
Paper and cardboard containers	8.1
Plastic	6.5
Basic chemicals	5.6
Paper and cardboard	4.9
Rubber	2.9
<b>Materials for construction</b>	<b>10.9</b>
Construction materials	13.4
Paints, varnishes and lacquers	11.3
Cement	8.9
Abrasive products	4.7
<b>Metal mechanics, machinery, and equipment</b>	<b>6.5</b>
Transport equipment	13.0
Metal products	9.1
Iron and steel industry	4.3
Electric machinery	2.8
Machinery and equipment	-4.6
<b>Exports</b>	<b>4.8</b>
Canned food	11.1
Garments of knitted fabrics	4.1
Synthetic fibers	1.2
Textile yarn, fabrics and finishes	0.5

Source: Ministry of Production, INEI and BCRP.

<sup>8</sup> This classification of industrial branches was based mainly on the use of the goods produced because many of these products are manufactured for both domestic and foreign markets..



Five main destinations were identified for the production of non primary manufacturing based on whether the goods produced were oriented to mass consumption, to be used as inputs, to construction, the metal-mechanic industry or the external market.

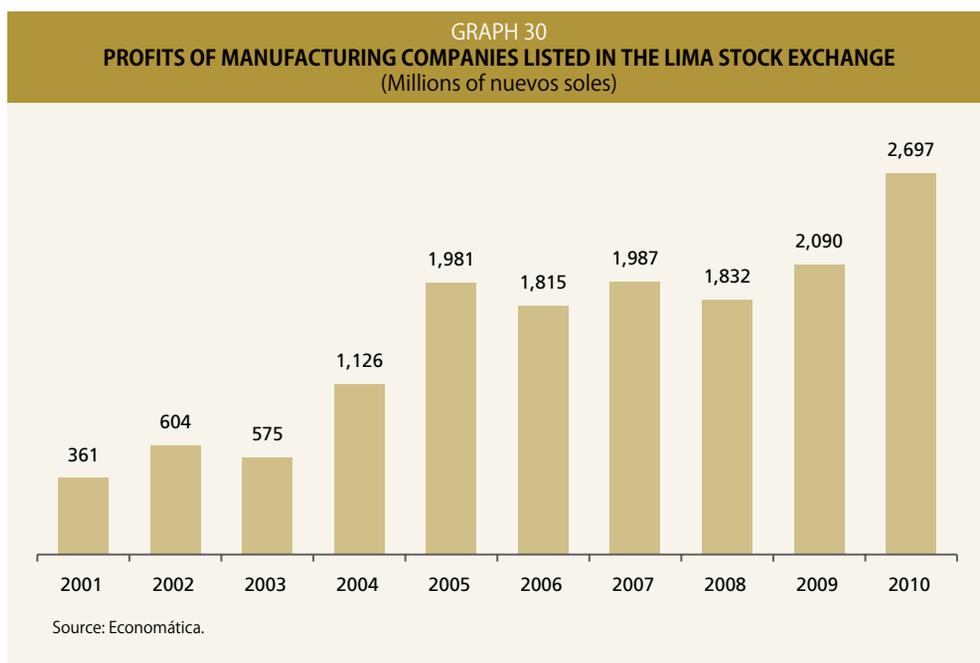
The branches that showed higher growth rates than the average rate in the decade were the ones oriented to construction, with a rate of 10.9 percent. Growth was particularly noteworthy in the branches of construction materials, such as majolica tiles and pre-mixed concrete, as well as in paints, varnishes and lacquers.

The branches producing inputs stand second, with a growth rate of 7.5 percent. This growth was associated mainly with higher production in the branches that produce glass, due to increased demand for bottles for beverages, juices, and beer. Metal-mechanic branches were third, with the production of materials for transport (motorcycles and spare parts) in the north of the country being noteworthy.

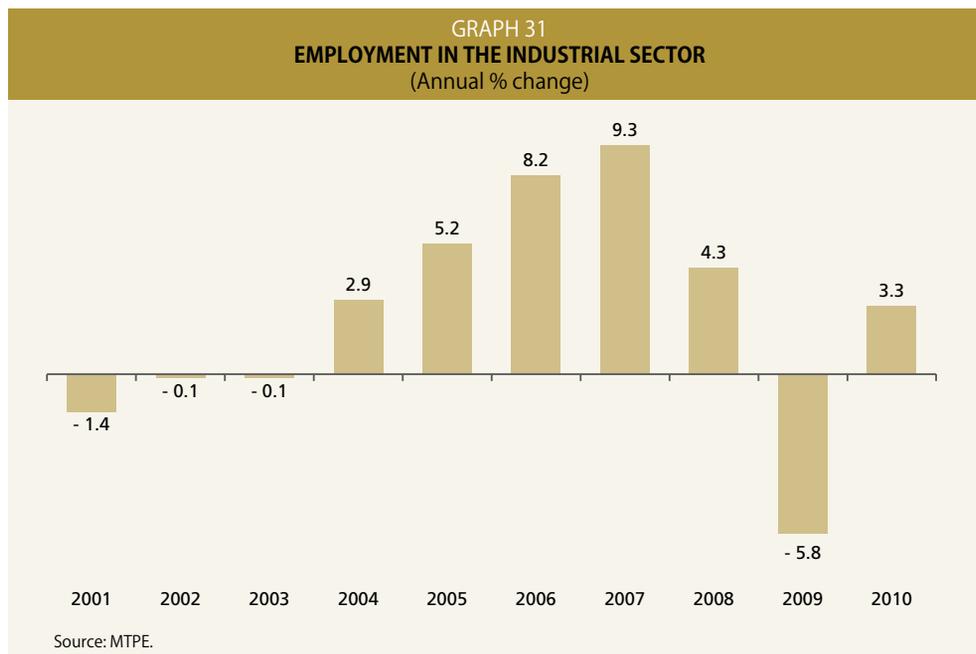
The branches producing mass consumption goods ranked fourth, with an average annual growth rate of 6.3 percent. The branch producing paper and cardboard items, such as diapers, paper napkins, paper towel, etc. recorded a two-digit rate.

Finally, the branches producing export-oriented goods were fifth, with an average rate of 4.8 percent. The production of food conserves grew 11.1 percent due to a higher production of instant beverages and chocolate products.

Moreover, in 2010 manufacturing companies listed in the Lima Stock Exchange registered a record profit of S/. 2,697 million. This increase in reported earnings relative to the previous year (29.0 percent) was mainly associated with the greater dynamism of construction, which boosted activity in suppliers of construction materials such as Cementos Pacasmayo, Cementos Yura, Corporación Aceros Arequipa and Siderperú. The better performance of the latter two companies (S/. 200 million profit in 2010 vs. S/. 134 million loss in 2009) is also explained by the higher average price of steel products in the national and international markets.



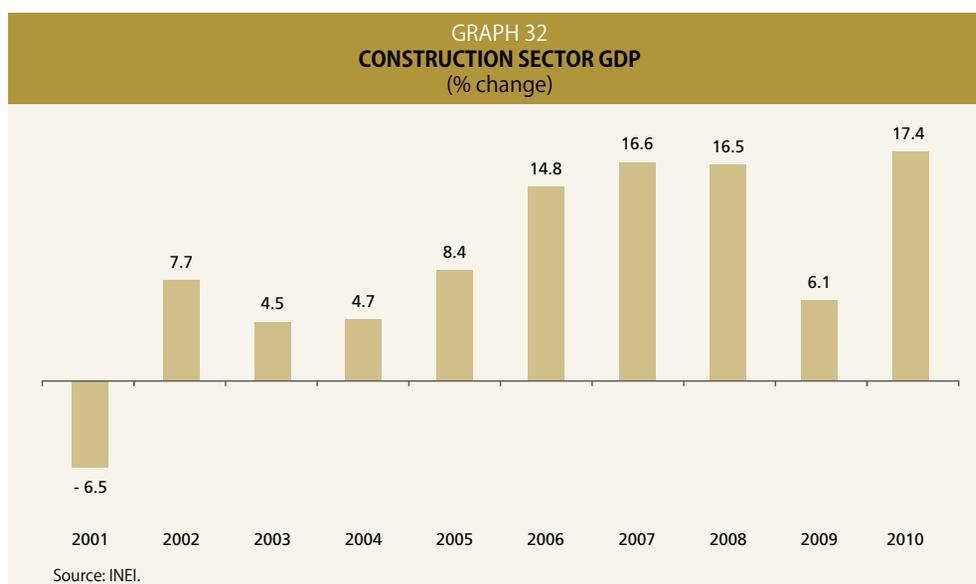
Recovering partially from the drop observed in 2009 (-5.8 percent), employment in the sector of industry grew 3.3 percent in 2010. This recovery was stronger in cities other than Lima (5.1 percent), since industrial employment in Lima grew 2.7 percent.



## 2.5 Construction sector

In 2010, **construction** returned to the growth rates observed during the years prior to the international financial crisis of 2008-2009, recording a rate of 17.4 percent, a level of growth unseen since 1995. This result reflected the implementation of a large number of mining, infrastructure development and housing projects, most of which were carried out with private investment.

In contrast with 2009 when construction grew more in other cities, growth in construction in 2010 was led by Lima, although other cities like Arequipa, Trujillo, Chiclayo and Piura also recorded significant rates. For example, in 2009 local dispatches of cement for Lima grew only 2.1 percent, while those for the provinces grew 8.1 percent –this growth was particularly noteworthy in the southern provinces–, while in 2010 the dispatches of cement for both Lima and other cities registered two-digit rates (11.7 and 18.0 percent, respectively).





Strong dynamism was observed in home construction, which was driven by the population's higher purchasing capacity, lower interest rates that fostered greater competition in the real estate market, and the housing programs being implemented by the State for medium and low income families, in a context of unmet demand.

The demand for housing has increased not only as a result of the growth of income generated by Peru's process of economic growth, but also as a result of lower interest rates. The interest rates on loans in domestic currency declined from 9.8 percent at end 2009 to 9.3 percent at end 2010, while the interest rates on loans in foreign currency fell from 9.1 to 8.1 percent in the same period.

The number of mortgage loans increased from 123 thousand 2009 to 137 thousand in 2010, while the number of apartments sold in Lima Metropolitana and Callao grew 13.7 percent in the same period, according to CAPECO.

TABLE 20  
REAL STATE SECTOR: EVOLUTION OF MAIN VARIABLES

	2008	2009	2010
Apartments sold (units) - CAPECO 1/	12,642	11,598	13,184
% change.	25.9	- 8.3	13.7
Apartment units sold - TINSA 2/	13,604	13,378	15,643
% change.	n.a.	- 1.7	16.9
New mortgages 3/	n.a.	20,529	29,457
% change.	n.a.	n.a.	43.5
N° of debtors of current mortgages 3/ 4/	113,485	122,992	136,929
% change.	n.a.	8.4	11.3
Average interest rate of mortgages in soles 3/ 5/	11.4	9.8	9.3
Interest rate of mortgages in dollars 3/ 5/	10.8	9.1	8.1

1/ El Mercado de Edificaciones Urbanas en Lima Metropolitana and el Callao. CAPECO. A one year period is considered (from July to June).

2/ Informe de Coyuntura Inmobiliaria. TINSA PERU SAC.

3/ In commercial banks.

4/ Credits for the acquisition or construction of property not subject to individual mortgages because of ownership were reclassified from consumer loans to mortgage loans since December 1, 2008.

5/ Average monthly interest rates on bank mortgages in December.

On the side of supply, a number of important projects were developed in the year, including Grupo San José's construction of 3,072 houses in "Parques de la Huaca" in San Miguel, and Grupo Acuario's "Las Torres de Santa Clara" construction project in Ate, with a total of 1,224 new homes that will be delivered in five stages.

Housing projects developed in the provinces that should be pointed out included the construction of "Las Casuarinas de Ica" by IVC Contratistas General, which has already delivered more than two thousand houses, and "Residencial Huaranguillo" by SRL Diesa in Arequipa, an ongoing project that will deliver 315 apartments.

In a context of increased investment in tourism and hotels in the country, the following hotel construction projects are worth highlighting: "Casa Andina Classic – Chinchá Sausal" in Ica and Starwood's "Tambo del Inka" in Cusco (with an investment of US\$ 50 million), both of which opened during the year, and "Aranwa Hotel" (with an investment of US\$ 7 million), "Vista Pacífico Resort" in Lima (with a US\$ 30 million investment) and "Hotel Westin

Libertador "in Lima (with a US\$ 130 million investment), which are still in construction and should open in the course of 2011.

Office constructions also showed an outstanding performance due to the growing demand for these facilities associated with the increased interest of international corporate conglomerates in the local market as a result of the country's economic growth, as well as due to the growth of business and staff, as reported by Colliers International.

Thus, four office complexes started operations in 2010: Platinum Plaza I and II (with an investment of US\$ 30 million) and Plaza República (with an investment of US\$ 70 million) in the district of San Isidro; Qubo (with an investment of US\$ 20 million) in Surco, and Edificio Santa Cruz in Miraflores. All of these projects are oriented to the prime office segment.

In 2010, the construction of shopping centers regained the dynamism observed in 2008 after having declined in 2009, when only two malls opened (Plaza Norte and Real Plaza Centro Cívico, both in Lima). This activity was particularly dynamic in the city of Arequipa, where three new shopping centers started operating at year-end: Real Plaza, Mall Aventura Mall and Mall Parque Lambramani. In addition to this, the group Falabella inaugurated Open Plaza a mall in Piura (with an investment of US\$ 60 million) and group Romero opened Plaza del Sol Norte Chico in Huacho (with an investment of US\$ 19 million).

Furthermore, with an investment of US\$ 100 million, a new mall, Angamos Open Plaza, started operations in Lima; Jockey Plaza inaugurated its Boulevard (investment of US\$ 50 million), and the Interbank group announced an investment of US\$ 30 million for the expansion and remodeling of Real Plaza Primavera.

TABLE 21  
MALLS 2010

Economic group	Project	Location	Investment amount (Millions of US\$)
Grupo Interbank	Real Plaza Arequipa	Arequipa	30.0
Open Plaza	Angamos Open Plaza	Lima	100.0
Los Portales	Lima Outlet Center (Faucett)	Lima	4.5
Grupo Brescia	Strip Center Paso Manco Cápac - La Victoria	Lima	3.5
Grupo Interbank	Expansion of Real Plaza Primavera	Lima	30.0
Aventura Plaza	Mall Aventura Plaza Arequipa	Arequipa	56.0
Open Plaza	Open Plaza	Piura	60.0
Grupo Romero	Expansion of Plaza del Sol	Piura	5.0
(Multimercados zonales)	Plaza del Sol Norte Chico	Lima (Huacho)	19.0
Centros Comerciales del Perú	Boulevard Jockey Plaza	Lima	50.0
Parque Arauco	Mall Parque Lambramani	Arequipa	40.0

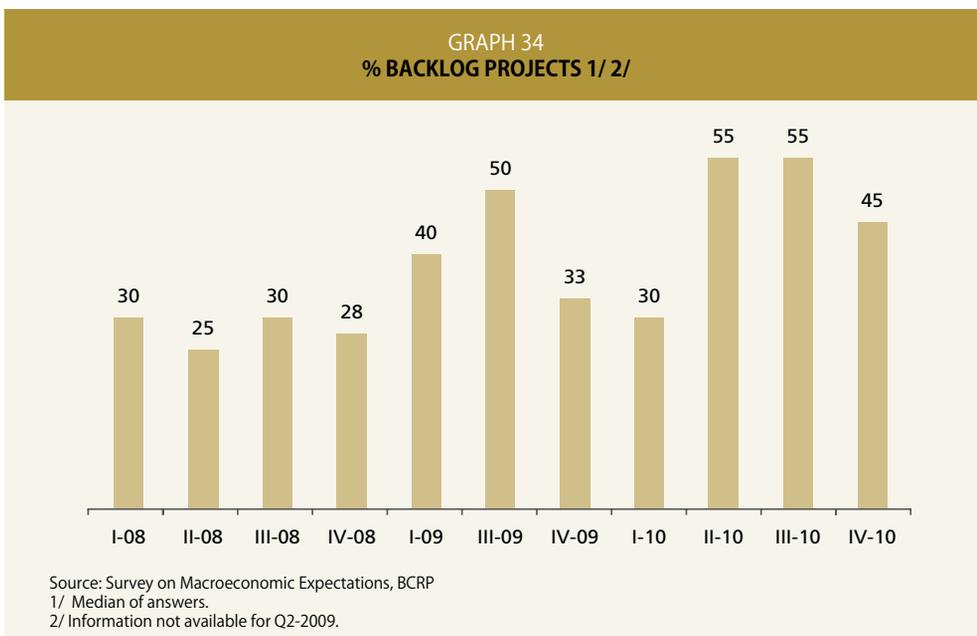
Source: Colliers International, news in printed media.

Showing similar levels of optimism than the ones observed prior to the international crisis, construction companies<sup>9</sup> remained confident and maintained positive forecasts for the sector throughout 2010.

<sup>9</sup> Construction companies included in the BCRP Monthly Survey on Macroeconomic Expectations.



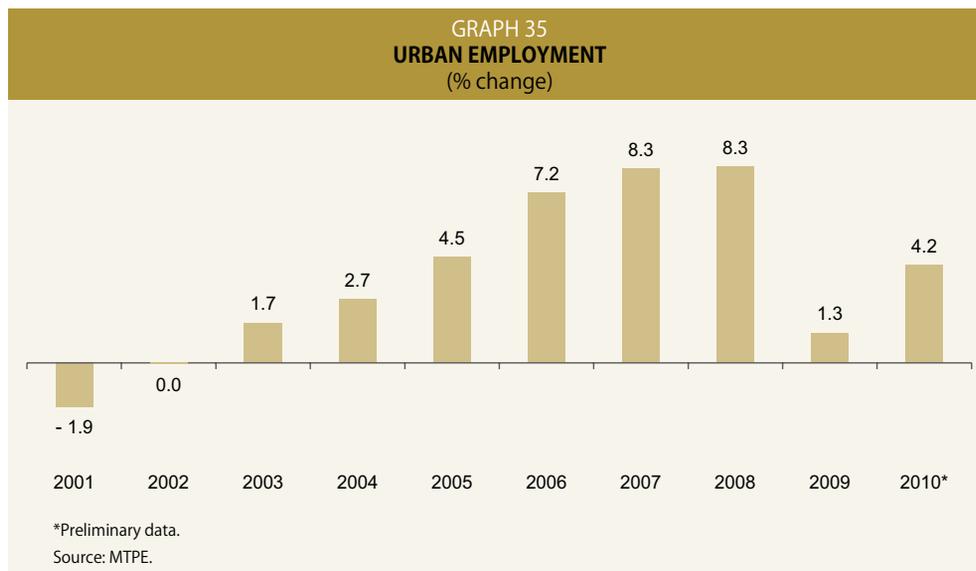
In addition to this, the average ratio of portfolio projects to total projects has been over 20 percent in the last three years and over 40 percent in the last three quarters of 2010. These figures reflect that construction companies have continuously had projects to develop.



### 3. Employment

According to the Ministry of Labor, in 2010 employment in urban areas (in formal firms with 10 or more workers) grew 4.2 percent, recording a higher rate than the one observed in 2009 (1.3 percent) and higher than the average annual rate observed in the 2000-2010 period.

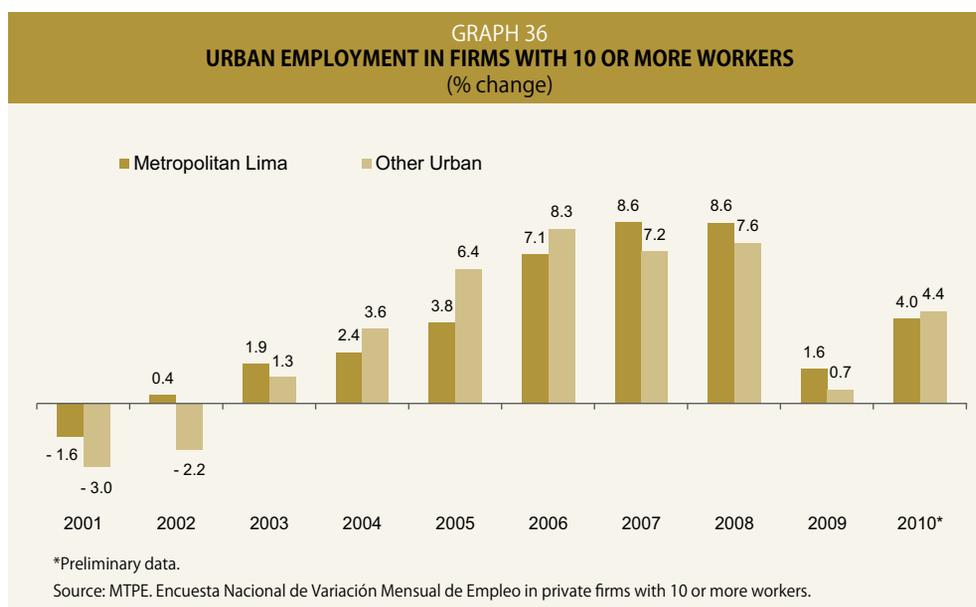
In line with the evolution of economic activity, employment showed positive growth rates in the sectors of commerce (6.0 percent), services (4.0 percent) and transportation, storage and communications (0.7 percent).



After recording a negative rate of 1.9 percent in 2009, employment in the primary sector grew 7.2 percent in 2010 showing a significant recovery associated mainly with higher employment in grapes and asparagus agro export firms.

Employment also showed a noteworthy recovery in the industrial sector, where it grew from -5.8 percent to 3.3 percent, mainly due to increased activity in textile.

By geographical areas, employment in Lima and other urban areas showed similar growth rates (4.0 and 4.4 percent, respectively). Compared to 2009, employment in other urban areas recorded the highest recovery, rising from 0.7 percent to 4.4 percent, due to increased activity in agro-industry and mining (gold, silver and copper).

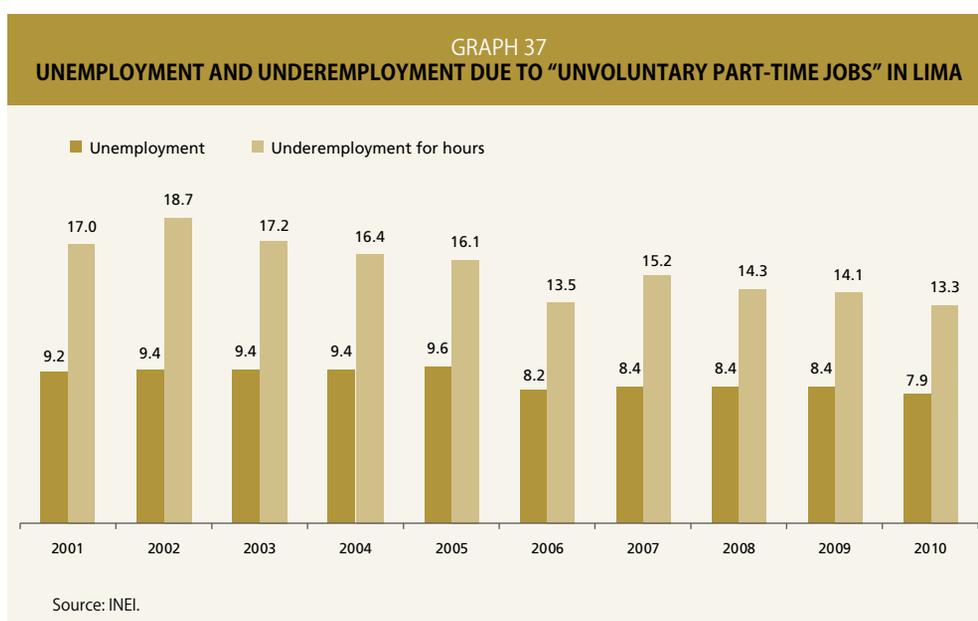


Employment in the regions showed a good performance, particularly in the cities in which export-oriented agro-industrial production increased, such as Sullana (12.0 percent), Piura (9.9 percent) and Chincha (8.0 percent). In



cities such as Puno and Juliaca (8.9 percent), the growth of employment was driven by increased demand for personnel in education centers and financial firms.

According to the National Statistics Institution (INEI), the economically active population in Lima, estimated by the *Encuesta Permanente de Empleo*, was 4.7 million, higher than in 2009 (4.5 million). The employed population grew 4.8 percent (from 4.1 million in 2009 to 4.3 million in 2010), while the rate of unemployment fell from 8.4 percent to 7.9 percent. Employment not only increased, but also improved in terms of quality given that adequately employed workers grew 9.9 percent.



BOX 1

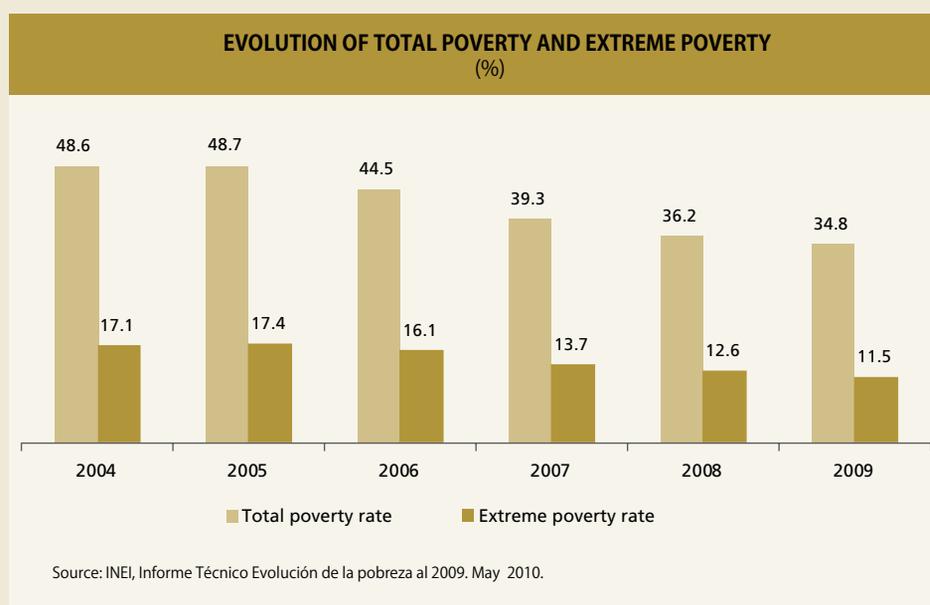
**POVERTY AND INCOME DISTRIBUTION FIGURES**

In 2009<sup>10</sup>, 34.8 percent of the Peruvian population lived in conditions of poverty, which implied that poverty had declined by 1.4 percentage points compared with the poverty rate in the previous year (36.2 percent). In this period, the rate of extreme poverty declined from 12.6 percent to 11.5 percent (-1.1 percentage points)<sup>11</sup>.

Poverty declined more in urban areas (-2.4 percentage points) than in rural areas (0.5 percentage points). By geographic areas, the reduction of poverty was particularly noteworthy in Lima (-3.6 percentage points), in rural sierra areas (-3.2 percentage points), urban coast areas (-2.3 percentage points), and urban sierra areas (-2.2 percentage points). In contrast, it increased in rural selva areas (8.3 percentage points) and in rural coast areas (5.8 percentage points).

<sup>10</sup> The latest official data on poverty corresponds to 2009. INEI. Informe Técnico, Situación de la pobreza en 2009, Lima, 2010.

<sup>11</sup> Total poverty includes the population whose per capita spending is lower than the cost of a basic basket of products (food and non food products). Extreme poverty compares this level of spending with the value of a basic food basket.



A lower incidence of poverty is observed in urban areas (21.1 percent), especially in Metropolitan Lima (14.1 percent) and in urban coast areas (21.1 percent). On the other hand, the population most affected by poverty is concentrated in rural areas (60.3 percent), particularly in the rural sierra (65.6 percent) and the rural selva areas (57.4 percent).

**INCIDENCE OF TOTAL POVERTY BY GEOGRAPHIC AREAS**  
(%)

	2004	2005	2006	2007	2008	2009	Change 2008-2009 (% points)
<b>Total Poverty</b>	<b>48.6</b>	<b>48.7</b>	<b>44.5</b>	<b>39.3</b>	<b>36.2</b>	<b>34.8</b>	<b>- 1.4</b>
<b>Geographic area</b>							
Urbana	37.1	36.8	31.2	25.7	23.5	21.1	- 2.4
Rural	69.8	70.9	69.3	64.6	59.8	60.3	0.5
<b>Geographic domain</b>							
Urban coast	37.1	32.2	29.9	25.1	23.4	21.1	- 2.3
Rural coast	51.2	50.0	49.0	38.1	34.8	40.6	5.8
Urban highland	44.8	44.4	40.2	36.3	33.5	31.3	- 2.2
Rural highland	75.8	77.3	76.5	73.3	68.8	65.6	- 3.2
Urban jungle	50.4	53.9	49.9	40.3	31.3	32.5	1.2
Rural jungle	63.8	65.6	62.3	55.3	49.1	57.4	8.3
Metropolitan Lima	30.9	32.6	24.2	18.5	17.7	14.1	- 3.6

Source: INEI, Informe Técnico Evolución de la pobreza al 2009, May 2010.

The incidence of extreme poverty in rural areas was 27.8 percent in 2009 (1.9 percentage points lower than in 2008). A more favorable evolution was observed in rural sierra and urban sierra areas, where it declined by 4.2 and 2.4 percentage points between 2008 and 2009.



INCIDENCE OF EXTREME POVERTY BY GEOGRAPHIC AREAS (%)							
	2004	2005	2006	2007	2008	2009	Change 2008-2009 (% points)
<b>Extreme Poverty</b>	<b>17.1</b>	<b>17.4</b>	<b>16.1</b>	<b>13.7</b>	<b>12.6</b>	<b>11.5</b>	<b>- 1.1</b>
<b>Geographic area</b>							
Urban	6.5	6.3	4.9	3.5	3.4	2.8	- 0.6
Rural	36.8	37.9	37.1	32.9	29.7	27.8	- 1.9
<b>Geographic domain</b>							
Urban coast	5.6	4.0	3.0	2.1	2.4	2.3	- 0.1
Rural coast	13.8	13.4	14.4	10.5	7.9	9.2	1.3
Urban highland	13.6	11.6	10.3	8.5	9.2	6.8	- 2.4
Rural highland	44.0	46.6	46.5	40.8	37.4	33.2	- 4.2
Urban jungle	18.7	22.5	18.1	11.0	7.2	8.8	1.6
Rural jungle	30.4	28.0	24.6	23.4	20.7	23.8	3.1
Metropolitan Lima	1.3	2.0	0.9	0.5	0.7	0.2	- 0.5

Source: INEI. Informe Técnico Evolución de la Pobreza al 2009, May 2010.

The poverty gap, indicator that shows the difference in percentage terms between the per capita spending of the poor and the poverty line, was 10.1 percent in 2009, one percentage point lower than in the previous year. This indicator, which may be used to estimate how much income a person requires to stop living under poverty conditions, declined in both rural areas (-1.3 percentage points) and in urban areas (-0.8 percentage points). Moreover, even though rural sierra areas show the highest poverty gap rate (22.8 percent) by geographical areas, poverty dropped more in these areas (2.9 percentage points).

POVERTY GAP BY GEOGRAPHIC AREAS (%)								
	2004	2005	2006	2007	2008	2009	Poverty lines 2009 (soles)	Change 2008- 2009 (% points)
<b>Total</b>	<b>16.2</b>	<b>16.6</b>	<b>15.1</b>	<b>12.8</b>	<b>11.1</b>	<b>10.1</b>	<b>257</b>	<b>- 1.0</b>
<b>Geographic area</b>								
Urban	10.6	10.6	8.7	6.5	5.8	5.0	286	- 0.8
Rural	26.6	27.7	27.0	24.4	21.0	19.7	203	- 1.3
<b>Geographic domain</b>								
Urban coast	10.1	8.4	7.8	5.7	5.2	4.6	257	- 0.6
Rural coast	15.5	14.7	14.4	11.6	8.3	10.3	211	2.0
Urban highland	15.4	15.1	13.5	11.6	10.5	8.7	270	- 1.8
Rural highland	30.6	32.4	32.2	29.3	25.7	22.8	207	- 2.9
Urban jungle	16.5	18.2	16.3	11.9	8.1	8.7	250	0.6
Rural jungle	21.9	22.2	20.0	18.0	15.2	16.5	186	1.3
Metropolitan Lima	7.5	8.4	5.5	3.7	3.5	2.9	318	- 0.6

Source: INEI. Informe Técnico Evolución de la Pobreza al 2009, May 2010.

The reduction of poverty and the reduction of the poverty gap express the sustained growth recorded in the level of real per capita spending in the last five years. The latter increased by 4.1 percent between 2008 and 2009, mainly as a result of the growth of spending in Metropolitan Lima (9.1 percent) and in rural sierra areas (4.4 percent).

<b>MONTHLY REAL PER CAPITA EXPENDITURE</b>							
(Average constant nuevos soles, base=2001 a prices in Metropolitan Lima)							
	2004	2005	2006	2007	2008	2009	Change 2008-2009 (% points)
<b>NATIONAL</b>	<b>300</b>	<b>303</b>	<b>325</b>	<b>346</b>	<b>355</b>	<b>370</b>	<b>4.1</b>
<b>Geographic area</b>							
Urban	374	378	408	436	443	464	4.8
Rural	164	165	170	179	193	195	1.1
<b>Geographic domain</b>							
Costa urbana	330	347	359	400	400	402	0.3
Costa rural	220	223	229	251	269	263	- 2.0
Sierra urbana	323	336	342	375	398	400	0.4
Sierra rural	152	153	155	160	173	180	4.4
Selva urbana	271	266	278	318	348	346	- 0.7
Selva rural	163	160	171	185	202	192	- 4.7
Lima Metropolitana	444	438	494	509	508	554	9.1

Source: INEI, Informe Técnico Evolución de la Pobreza al 2009, May 2010.

The improvement in living conditions is also reflected in the reduction of inequality levels in terms of per capita spending, measured by the Gini coefficient, which fell from 0.41 in 2004 to 0.39 in 2009.

<b>EVOLUTION OF GINI COEFFICIENT 1/</b>			
Year	Total	Urban	Rural
2004	0.41	0.37	0.32
2005	0.41	0.37	0.32
2006	0.42	0.38	0.32
2007	0.41	0.36	0.33
2008	0.38	0.34	0.32
2009	0.39	0.35	0.31

1/ Index used as a measure of inequality of income. A value of 0 express total equality and a value of 1 maximal inequality.  
Source: INEI, Informe Técnico, Evolución de la Pobreza 2009, May 2010.