

## I.

## Output and employment

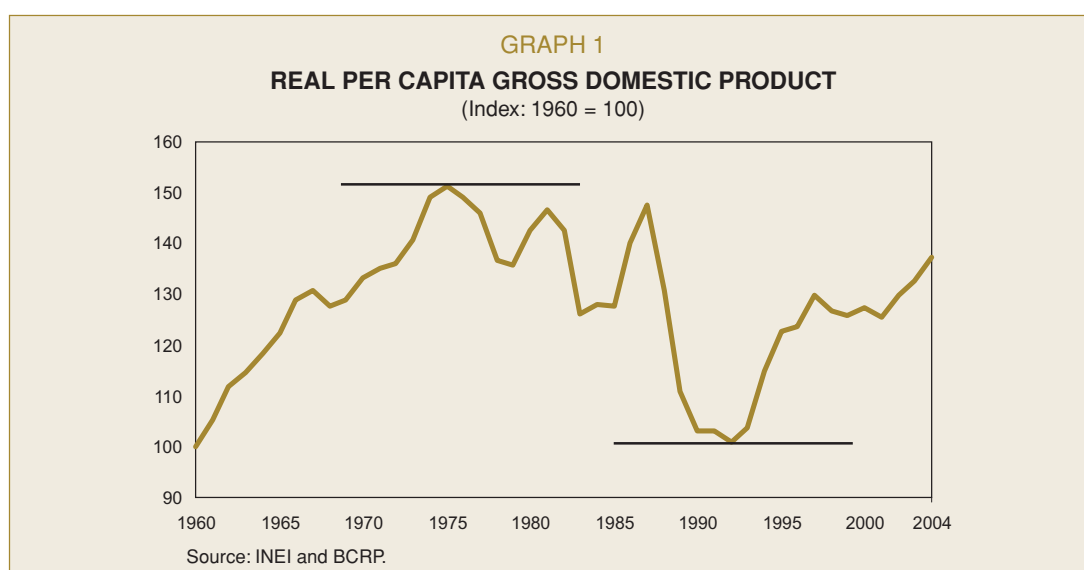
*The sustained economic expansion, which started in mid 2001 continued throughout 2004 and by December 2004 Peru had experienced 42 consecutive months of growth. The rate of growth was 4.8 percent, driven by favorable conditions for the country's exports and increased domestic demand. The latter was associated in turn with macroeconomic stability, greater availability of financing, and lower interest rates. This economic dynamism was seen principally in non-primary sectors and generated increased employment both in Lima and in the interior, as well as rising family incomes.*

During 2004 the Peruvian economy grew 4.8 percent, caused by an increase in exports of goods and services (14.7 percent) and higher domestic demand (3.9 percent) driven by consumption (3.4 percent) and private investment (9.0 percent).

In per capita terms production grew 3.3 percent, after growing by 2.4 percent in 2003 and 3.4 percent in 2002.

This figure means that per capita GDP has accumulated a growth of 9.4 percent in the last 3 years.

An analysis of the figures from 1960 onwards shows that per capita GDP in 2004 was 9.3 percent lower than its historic high, which was recorded in 1975, and 36.2 percent higher than the minimum level registered in 1992.





## 1. Global demand and supply

**Domestic demand** recorded growth of 3.9 percent in 2004. Of this result, 2.4 percentage points derive from an expansion of private consumption and 1.4 points from increased private investment.

**Private consumption** rose 3.4 percent during the year, in a context of increased national disposable income (5.5 percent) and employment (2.7 percent),

with rates of growth of 2.4 percent in Lima and 3.6 percent in cities in the interior. Another factor that made this dynamism possible was a 22.9 percent increase in consumer loans by the financial system in a context of lower domestic currency interest rates. While in 2002 the average rate for consumer loans by banks was 47.9 percent and 41.8 percent in 2003, in 2004 it averaged 39.0 percent and by the end of the year it had fallen to 37.4 percent.

Higher private consumption was revealed by a number of indicators, including a 6.8 percent rise in consumer good imports (non-durable goods

**TABLE 1**  
**GLOBAL DEMAND AND SUPPLY**  
(Real percentage changes)

	2002	2003	2004
<b>I. GLOBAL DEMAND</b>	<b>4.6</b>	<b>3.9</b>	<b>5.6</b>
1. Domestic demand	4.2	3.5	3.9
a. Private consumption	4.6	3.1	3.4
b. Public consumption	0.2	3.8	4.1
c. Gross fixed investment	-0.7	5.4	8.5
- Private	-0.1	5.6	9.0
- Public	-4.0	4.0	5.5
2. Exports 1/	6.9	6.3	14.7
<b>II. GLOBAL SUPPLY</b>	<b>4.6</b>	<b>3.9</b>	<b>5.6</b>
1. GDP	4.9	4.0	4.8
2. Imports 1/	2.6	3.5	10.4

1/ Of non-financial goods and services.

Source: INEI and BCRP.

**TABLE 2**  
**NATIONAL DISPOSABLE INCOME**  
(Real percentage changes)

	2002	2003	2004
I. Gross domestic product (GDP)	4.9	4.0	4.8
II. Gross national product (GNP) 1/	4.4	3.0	3.2
III. Gross national income (GNI) 2/	4.6	3.4	5.3
IV. Disposable national income 3/	4.5	3.6	5.5

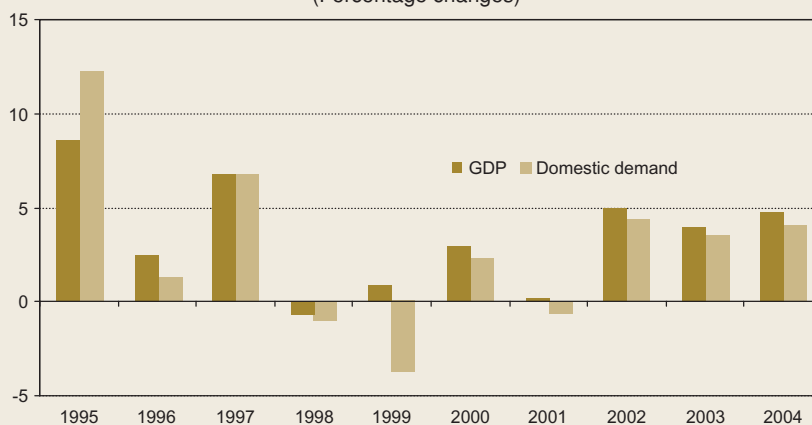
1/ Excludes from GDP the net income paid to non-resident productive factors.

2/ GDP and GNP are isolated from changes in foreign terms of trade.

3/ Net transfers from non-residents is added to GNI.

Source: BCRP.

**GRAPH 2**  
**GDP AND DOMESTIC DEMAND**  
(Percentage changes)



Source: INEI and BCRP.

**TABLE 3**  
**PRIVATE CONSUMPTION INDICATORS**  
 (Percentage changes)

	Measurement unit	2003	2004	% var.
Consumption goods imports	Milions of US\$	1,848	1,973	6.8
Non-durable consumption goods	Milions of US\$	1,035	1,136	9.7
Durable consumption goods	Milions of US\$	812	837	3.1
New vehicles sales	Units	12,479	15,919	27.6

Source: BCRP, SUNAT and Peruvian Cars Dealers Association (ARAPER).

rose 9.9 percent) and increased sales of new cars, which ended the year with 15,919 units sold, i.e., a 27.6 percent increase compared to the previous year.

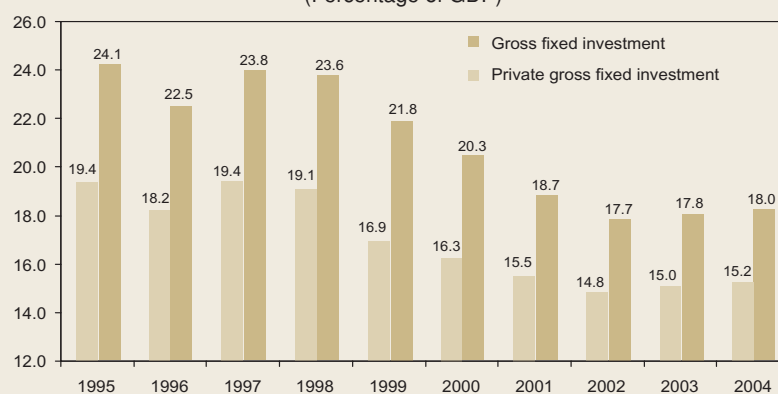
During 2004 there was an increase in the relative importance of consumption in cities in the interior of the country with respect to Lima. According to figures by Latin Panel, consumption in Lima fell from 64.4 percent of the national total in 2003 to 62.7 percent in 2004, with increases in all regions, especially on the north coast. This was related to the creation of jobs, which has been highest in Piura, Paita, Trujillo, and Chimbote, driven by increased activity in the agribusiness and fishing sectors.

In all cases, food was the item that drove the increase in consumer consumption; a breakdown by socioeconomic level shows higher growth among the middle and lower levels.

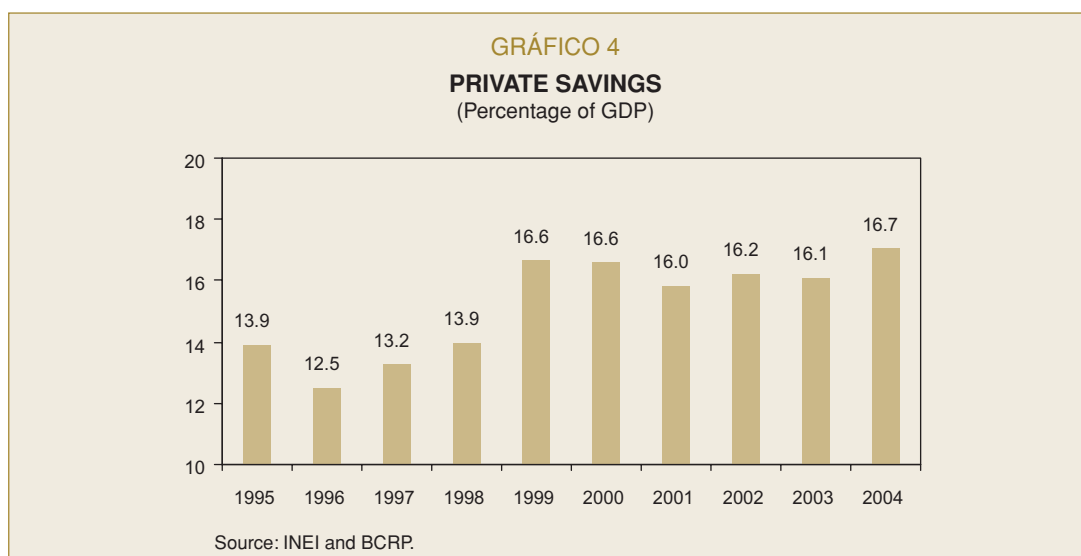
**Private investment** rose 9.0 percent in 2004, for the second consecutive year. This dynamism was explained by higher company profits, factory expansions to meet increased local and export demand, greater investor confidence and higher demand for family housing.

Bank mortgage loans rose 14.1 percent in 2004. This was associated with State-sponsored housing programs MiVivienda and Techo Propio. The first of these programs continued to grow, as it had done

**GRAPH 3**  
**PRIVATE AND TOTAL GROSS FIXED INVESTMENT**  
 (Percentage of GDP)



Source: INEI and BCRP.



in the previous two years. That fund made 7,960 loans valued at S/. 561 million in 2004, compared to 6,842 loans valued at S/. 437 million in 2003.

Among the largest non-residential construction projects were those carried out by mining companies such as Yanacocha, in exploration and development operations; Southern, in the modernization of Ilo refinery and Barrick in the Alto Chicama project. It is also important to emphasize the investments carried out by manufacturing companies such as Cementos Lima, Alicorp, Corporación Aceros Arequipa, Cerámica Lima, and Cerámica San Lorenzo, among others, in capacity increases and plant renewals.

Among capital goods imports, increased purchases of computer and office equipment and machinery and equipment for the telecommunications, mining, construction, and textile industries stood out.

**Public investment** was concentrated in the second half of the year and included significant central government consumption on road building and maintenance (S/. 773 million), new schools and school extensions and improvements (S/. 190 million), and regional government consumption on building, repairing and improving urban road systems (S/. 249 million).

**Public consumption** rose by 4.1 percent, with **public expenditure** increasing 4.4 percent.

In GDP terms, **total gross fixed investment** increased from 17.8 percent to 18.0, reflecting the increased share of gross private fixed investment, which rose from 15.0 percent to 15.2 percent. Private savings as a percentage of GDP rose from 16.1 to 16.7 percent, associated with temporary increases in the prices of our exports.

**TABLE 4**  
**SAVINGS AND INVESTMENT**  
(Percentage of GDP)

	2002	2003	2004
<b>I. INVESTMENT (=II+III)</b>	<b>18.8</b>	<b>18.8</b>	<b>18.5</b>
Public investment	2.8	2.8	2.8
Private investment 1/	16.0	16.0	15.7
<b>II. DOMESTIC SAVINGS</b>	<b>16.9</b>	<b>17.3</b>	<b>18.5</b>
Public sector	0.7	1.2	1.8
Private sector	16.2	16.1	16.7
<b>III. EXTERNAL SAVINGS</b>	<b>1.9</b>	<b>1.5</b>	<b>0.0</b>
<b>Memo:</b>			
Total gross fixed investment	17.7	17.8	18.0
Private gross fixed investment	14.8	15.0	15.2

1/ Includes inventories.

Source: INEI and BCRP.

**Real exports** grew 14.7 percent as a result of a more dynamic world economy, better terms of trade and preferential tariffs applicable to our products in markets such as the United States. These factors were reflected in an expansion of traditional exports, principally from the mining industry (higher volumes of copper and lead) and fishing (fishmeal); as well as non-traditional exports, particularly textiles (apparel), agricultural & livestock (asparagus, artichokes, and milk) and ferrous metal products.

**Real imports** rose 10.4 percent driven by increased economic activity, with increases of 10.0 percent for imports of raw materials excluding fuels and 9.0 percent for imports of capital goods for industry. The 28.4 percent increase in vehicle imports should also be mentioned.

## 2. GDP by sector

Growth in gross domestic product during 2004 affected all sectors with the exception of agriculture. Non-primary activities, those with a high value added and job creation component grew 5.1 percent, while growth in primary activities (the generation and/or extraction and processing of raw materials) was somewhat lower at 3.1 percent. Within the later group the fishing sector had the highest rate of growth (30.5 percent).

### 2.1 Primary sectors

As in 2003, the primary sector averaged a low rate of growth, although there were differences between subsectors.

#### Agriculture & livestock sector

Production in the agriculture & livestock sector fell by 1.1 percent, due especially to lower production of 5 of the main crops: rice, sugar cane, hard yellow maize, potatoes, and amilaceous maize. In the first three cases, drought affected yields on the north

coast, while the potato crop was damaged at an early stage by hot dry weather and then frost in the highlands.

The drought on the north coast was caused by a lack of rainfall in the northern highlands and as a result the reservoirs of the region were only 50 percent full on average until October, though the situation returned to normal by the end of the year.

Anomalies in the maximum temperature of up to 3 degrees centigrade in the highlands and up to 4 degrees in Puno were recorded during the potato growing season (October - December). At the same

TABLE 5  
ANNUAL GROSS DOMESTIC PRODUCT  
(Real percentage changes)

	2002	2003	2004
<b>I. PRIMARY GROSS VALUE ADDED</b>	<b>7.1</b>	<b>2.9</b>	<b>3.1</b>
Agriculture and livestock	5.9	2.1	-1.1
<i>Agriculture</i>	6.1	1.6	-3.2
<i>Livestock</i>	5.3	3.0	2.0
Fishing	6.1	-12.5	30.5
Mining and fuel	12.5	6.8	5.4
<i>Mining</i>	13.6	7.7	5.3
<i>Fuel</i>	0.7	-4.3	7.1
Manufacturing based on raw materials	0.6	-0.1	5.9
<b>II. NON-PRIMARY GROSS VALUE ADDED</b>	<b>4.5</b>	<b>4.1</b>	<b>5.1</b>
Non-primary manufacturing	5.1	3.1	6.9
Construction	7.9	4.2	4.7
Commerce	4.0	3.2	4.8
Electricity and water	5.5	4.9	4.6
Other services	4.1	4.6	4.7
<b>III. GROSS VALUE ADDED</b>	<b>5.0</b>	<b>3.8</b>	<b>4.6</b>
Taxes on goods and import duties	4.0	5.2	6.4
<b>IV. GROSS DOMESTIC PRODUCT</b>	<b>4.9</b>	<b>4.0</b>	<b>4.8</b>

Source: INEI and BCRP.



time the minimum temperature at night showed anomalies of more than one degree in the central highlands and up to 5 degrees centigrade in the main potato growing zones in Puno.

It should be mentioned that lower production of **hard yellow maize**, associated with the drought in the coastal valleys (La Libertad and Lambayeque), meant that imports increased by 173,000 MT.

The 21.6 percent reduction in **sugar cane** production was a reflection of a fall in yields (14 percent) and harvests (8 percent); due to both the drought and excessive cutting of immature cane by the Pucala and Pomalca companies in order to resolve financial problems.

Production of hulled **rice** fell 14.9 percent because of the drought and low reservoir levels in Piura and Lambayeque, which was partially offset by increased production in the jungle, financed by a

**TABLE 7**  
**PRODUCTION AND IMPORTS OF AGRICULTURE PRODUCTS**  
(Thousand of tons)

	2002	2003	2004	Change. 04-03
<b>RICE</b>				
Imports 1/	34	16	80	64
Production	2,119	2,136	1,817	-319
<b>SUGAR</b>				
Imports	139	11	181	170
Production	878	959	746	-213
<b>YELLOW MAIZE</b>				
Imports	915	924	1,098	173
Production	1,039	1,098	963	-135

1/ Broken rice and bleached and semi bleached rice.  
Source: Ministry of Agriculture and SUNAT.

S/.20 million loan from the Agricultural Sector Revolving Fund (FRASA) managed by Agrobanco and rural savings and loan institutions in the region.

In contrast **raw cotton** production increased (27.2 percent) to meet higher demand from the textile industry. Farm prices for cotton throughout Peru rose 6 percent during the year (from S/. 2.29 to S/. 2.43 a Kg.). The Cotton Trade Formalization Program transferred S/. 21 million to compensate producers in 55,000 hectares (S/. 8 per quintal of raw cotton delivered to the ginning plant). The stability provided by this program was reflected in a 20 percent increase in planting during the last two cotton growing seasons.

There was also a significant increase in **coffee** production (3.9 percent) encouraged by a substantial price increase (the average price was US\$ 358 per MT higher than that of the previous year) caused by a lower supply in production in Colombia and Brazil because of adverse weather conditions. It is also worth mentioning that Peruvian coffee is meeting with increasing success in international markets, principally organic and gourmet varieties, which have won prizes for their flavor and quality. Coffee exports increased 28 percent in 2004.

**TABLE 6**  
**AGRICULTURAL AND LIVESTOCK PRODUCTION BY MAIN PRODUCTS**  
(Real percentage changes)

	2002	2003	2004
<b>AGRICULTURE</b>	<b>6.1</b>	<b>1.6</b>	<b>-3.2</b>
Potato	23.1	-4.5	-4.9
Rice	4.7	0.5	-14.9
Coffee	5.9	0.1	3.9
Sugar cane	14.0	5.0	-21.6
Yellow maize	-2.4	5.9	-12.3
Cotton	-5.0	-0.1	27.2
Other	3.1	2.8	0.9
Grape	7.8	7.3	0.4
Tangerine	6.1	21.0	8.8
Mango	25.6	9.2	37.9
<b>LIVESTOCK</b>	<b>5.3</b>	<b>3.0</b>	<b>2.0</b>
Poultry	6.7	4.4	1.1
Beef	2.7	2.4	4.8
Milk	7.1	2.7	3.2
Eggs	19.1	0.2	-5.0
<b>TOTAL</b>	<b>6.0</b>	<b>2.3</b>	<b>-1.1</b>

Source: Ministry of Agriculture.

**TABLE 8**  
**AGRICULTURE EXPORTS**  
(Millions of US\$)

	2002	2003	2004	% var.
<b>TOTAL</b>	<b>766</b>	<b>844</b>	<b>1,123</b>	<b>33</b>
<b>Traditional</b>	<b>216</b>	<b>223</b>	<b>325</b>	<b>46</b>
Coffee	188	181	290	60
Sugar	16	19	15	-24
<b>Non-traditional 1/</b>	<b>550</b>	<b>621</b>	<b>798</b>	<b>29</b>
Asparagus	185	207	234	13
Mango	37	36	48	35
Artichoke	2	7	22	206
Grapes	19	24	20	-17
Avocado	5	16	19	20
Beans	21	19	19	1
Paprika	19	22	50	125
Onion	15	14	16	15
Tangerine	6	8	13	64
Almond	4	6	11	67
Banana	6	7	11	56
Olive	6	8	11	46
Milk	10	18	34	83

1/ In all forms (fresh, frozen, canned, processed and others).

Source: BCRP and PROMPEX.

Exports of other agricultural products also continued to rise, with higher volumes of fresh asparagus, mandarin oranges, onions, mangoes, avocado, olives, and bananas; as well as processed olives, vegetables, and beans, together with fruit juices, cocoa butter, and vegetable colorants (mainly paprika and annatto). These products, added to the country's traditional exports (coffee, sugar, and cotton) totaled US\$ 1,123 million.

**Poultry** production increased by 1.1 percent, less than in previous years, as production costs rose (principally because of increased maize prices), which meant low growth in placements of "BB chicks". Production was concentrated in the departments of Lima, La Libertad, Arequipa, and Ica, which were responsible for 87 percent of the total.

**Beef** production increased 4.8 percent as more cattle were put up for sale because drought and low temperatures had reduced available pasture

in the northern and southern highlands, and because of increased beef cattle production in the jungle region, particularly in Huanuco and San Martin.

### Fishing Sector

The fishing sector recorded the highest growth of any sector (30.5 percent), after contracting by 12.5 percent in 2003. There were higher landings for both industrial use and for direct human consumption. The fall in Peruvian anchovy catches in 2003 was due to a fall in the sea temperature between March and June, the first fishing season of the year, causing the fish to disperse; as well as a longer close season, which reduced the number of days available for fishing.

It should be pointed out that the policy of catching chub mackerel and jack mackerel exclusively for direct human consumption established in September 2002 was continued in 2004.



The increase in landings for **industrial processing** is explained principally by higher Peruvian anchovy catches, which rose from 5.3 to 8.6 million metric tons, the second highest figure in the last 10 years. This was the result of three main factors: individual fish were larger; more days were available for fishing (from 173 in 2003 to 185 in 2004); and permission from the Ministry of Production for the industrial fleet to operate temporarily and subject to limitations, in the area reserved for artisanal fishing on the south coast (SD 037-2003-PRODUCE). The dynamism of the anchovy fishery encouraged companies such as Tecnológica de Alimentos (part of the Brescia group) and Austral to invest in the modernization of their fleets.

The anchovy catch on the north-central coast was limited to a global total of 8 million MT on the recommendation of the Peruvian Marine Institute. As a consequence of higher catches in Peru, fishmeal prices declined from April, regaining certain stability after July.

Fishing for **direct human consumption** however, expanded for the fourth consecutive year. Production of fresh and frozen fish increased, offsetting a fall in canned production caused by a reduction in the availability of tuna, jack, and chub

**TABLE 9**  
**FISHING PRODUCTION**  
(Real percentage changes)

	2002	2003	2004
<b>INDUSTRIAL CONSUMPTION</b>	<b>12.6</b>	<b>-34.5</b>	<b>61.0</b>
Anchovy	27.3	-34.0	61.0
Other species	-91.4	-85.7	27.5
<b>DIRECT HUMAN CONSUMPTION</b>	<b>3.5</b>	<b>6.2</b>	<b>13.8</b>
Frozen	42.0	16.2	33.2
Canned	-10.6	36.7	-30.8
Fresh	-9.2	-1.4	9.3
Dry-salted	13.6	-4.6	-0.6
<b>TOTAL</b>	<b>6.1</b>	<b>-12.5</b>	<b>30.5</b>

Source: Ministry of Production and INEI.

mackerel. As far as fresh fish sales were concerned, there were higher landings of jack mackerel, hake, and smooth hound; while hake and giant squid were preferred for freezing.

### Mining and fuel sector

Economic activity in the mining and hydrocarbons sector rose 5.4 percent in 2004, with higher production recorded for both metallic and non-metallic mining (5.3 percent) and in the hydrocarbons subsector (7.1 percent), which included the start of the Camisea operation.

The growth of the metallic mining subsector was based on increased production of copper, iron ore, silver and gold in a context of rising world prices, which also encouraged mining companies to invest in extending or modernizing their operations. In total, investment by the mining sector during 2004 amounted to US\$ 828 million, an increase of 79 percent compared to the previous year. Most investment was spent on extending or modernizing the existing mines operated by Minera Yanacocha, Southern Peru Copper Corporation, Volcan Compañía Minera and Minera Antamina, among

**TABLE 10**  
**MINING AND FUEL BY**  
**MAIN PRODUCTS**  
(Real percentage changes)

	2002	2003	2004
<b>METALLIC AND</b>			
<b>NON-METALLIC MINING</b>	<b>13.6</b>	<b>7.7</b>	<b>5.3</b>
Copper	15.8	-2.2	29.4
Tin	1.7	3.6	3.5
Iron	0.6	14.0	21.9
Gold	13.5	13.8	0.6
Silver	4.3	1.7	4.4
Lead	2.6	1.0	-0.9
Zinc	15.4	11.3	-11.9
<b>FUELS</b>	<b>0.7</b>	<b>-4.3</b>	<b>7.1</b>
Natural gas	19.3	18.5	64.2
Oil crude	-0.2	-5.7	3.3
<b>TOTAL</b>	<b>12.5</b>	<b>6.8</b>	<b>5.4</b>

Source: Ministry of Energy and Mines and INEI.



TABLE 11  
**INVESTMENT BY MINING COMPANY 1/**  
(Millions of US\$)

Companies	Metals	2002	2003	2004
Minera Yanacocha S.R.L.	Gold	146.2	205.7	231.9
Minera Barrick Misquichilca S.A. 2/	Gold	5.0	17.0	190.0
Southern Peru Copper Corporation Sucursal del Perú	Copper	77.0	50.0	172.0
Volcan Compañía Minera S.A.A. 3/	Polymetallic	29.7	32.1	56.7
Compañía Minera Antamina S.A.	Polymetallic	49.7	35.2	29.5
Empresa Minera Los Quenuales S.A. 4/	Polymetallic	9.4	20.0	22.7
Compañía de Minas Buenaventura S.A.A.	Gold and silver	17.7	21.8	20.1
Compañía Minera Atacocha S.A.	Polymetallic	7.4	10.5	19.3
Sociedad Minera Cerro Verde S.A.	Copper	7.3	5.1	16.8
Shougang Hierro Perú S.A.A.	Iron	2.8	9.3	16.1
Minsur S.A.	Tin	10.5	10.7	14.1
Compañía Minera Milpo S.A.	Polymetallic	13.5	14.1	10.0
Compañía Minera Condestable S.A. A.	Copper	0.7	4.3	5.7
Perubar S.A.- Rosaura	Polymetallic	6.0	12.7	4.3
Sociedad Minera El Brocal S.A.	Polymetallic	1.5	1.0	3.7
Sociedad Minera Corona S.A.	Polymetallic	7.7	1.5	3.7
Compañía Minera Santa Luisa S.A.	Polymetallic	0.8	1.7	1.5
Others companies 5/		27.3	7.7	15.0
<b>TOTAL</b>		<b>420.3</b>	<b>462.0</b>	<b>828.1</b>

1/ Prepared using financial statements and corporate data.

2/ Includes the investment in Pierina and the construction of the new mine Alto Chicama.

3/ Includes the investment in Empresa Administradora Chungar S.A.C., a Volcan Compañía Minera S.A.A. subsidiary.

4/ Formed by Empresa Minera Iscaycruz and Empresa Minera Yauliyacu.

5/ Investments of Raura, Huarón, Castrovirreyna, Pan American Silver, Poderosa and Refinería de Zinc de Cajamarquilla, among others.

Source: Corporations.

others. Most of investment in new mining operations was carried out by Minera Barrick Misquichilca at its Alto Chicama project in La Libertad.

5 130 new mining claims were lodged during 2004, a 7 percent increase compared to 2003. These claims covered an area of 2.33 million hectares, 4 percent higher than the figure for 2003. The department with the highest number of claims was Arequipa with 679 claims, followed by Madre de Dios and Ancash with 620 and 441 claims respectively.

Metal prices were driven upwards by increased demand associated with increased world economic activity, principally in the United States, China and other Asian countries, as well as a weak dollar, an alternative to precious metals as a store of wealth.

Production of **copper** rose 29.4 percent to 814,000 MT, because of the higher metal content of ores processed by Antamina, the reopening of the operations of BHP Billiton Tintaya in October 2003, and increased processing capacity at Southern Peru's Toquepala plant.

**Iron ore** production rose by 21.9 percent, in response to higher demand from China and other Asian countries for construction and industrial steel. The annual production of iron ore reached 4.32 million MT, the highest level for 9 years.

**Molybdenum** is a metal used mainly in hard steel alloys to make them more resistant to high pressure and temperature, as a pigment in paint manufacture and in the manufacture of high-temperature lubricants. Molybdenum concentrate is produced



in Peru by two companies: Southern Peru and Antamina. Over the previous decade, annual molybdenum production averaged 3,300 metric tons; in 2004 production was a record 13,600 MT, resulting mainly from increased production by Antamina (an annual increase of 522 percent) from ore with a higher metal content. The continual growth in molybdenum production in Peru has kept pace with increased world demand associated with higher steel production. This increased demand has also driven up molybdenum prices; in the case of Peruvian exports the average price increased 235 percent in 2004 with respect to 2003.

**Silver** production reached 2,685 MT, 4.4 percent higher than in 2003. Companies such as Volcan (which has now overcome a financial crisis that affected it in 2001 and 2002), Buenaventura, Atacocha, El Brocal, and Perubar have been more active. The latter company operated its now Rosaura mine throughout the year.

**Gold** production was slightly higher than last year (an 0.6 percent increase to reach a record of 175 MT) as a result of increased production by Yanacocha and several medium-sized mining companies, which was offset by a 29 percent fall in production by Pierina (owned by Barrick) as that company's reserves were worked out. Yanacocha embarked on a sizeable investment program (US\$ 232 million) to expand the leaching cells at La Quinua, develop mining operations at Cerro Negro and Carachugo, increase the capacity of its treatment plant and purchase mining equipment.

Furthermore, **tin** production by Minsur reached a record 36,000 MT while **zinc** production by Antamina fell because of a lower metal content in that mine's ore, though this was partially offset by increased production from Volcan.

**Hydrocarbons** production increased by 7.1 percent over the year, which was mainly a reflection of the Camisea gas project (Pluspetrol's block 88) starting

tests in June and beginning commercial production in August. Of the raw materials extracted, the Pisco fractionating plant produced, 50 percent LPG, 40 percent naphtha for the petrochemical industry and 10 percent diesel oil. Most of the natural gas was supplied to electricity generators, who thus partially overcame the shortage of water that affected them during the year.

Six new hydrocarbons exploration and extraction contracts were signed in 2004 between Perupetro and a number of private companies: in September an extraction contract was signed with a consortium consisting of Pluspetrol, Hunt Oil, SK Corporation, Tecpetrol, and Sonatrach for Block 56, known as Parogeni, for the second stage of the Camisea project (natural gas for export). Five exploration contracts were also entered into with Repsol Exploración Perú (Block 57), Compañía Consultora de Petróleo (Block 100), Occidental Petrolera de Perú (Block 101 and Block 103) and Petro-Tech Peruana (Block Z-33).

Five exploratory wells and 34 development wells were drilled in 2004 compared to the 3 exploratory and 26 development wells drilled in 2003; thus reversing the steady fall in the number of wells

TABLE 12  
PRODUCTION OF FUELS

	2002	2003	2004
<b>NATURAL GAS 1/</b>	<b>42.7</b>	<b>52.6</b>	<b>82.9</b>
Aguaytía	24.2	29.5	36.1
Camisea	0.0	0.0	19.2
Petrotech	7.6	9.1	11.2
Petrobras	6.4	7.1	8.4
Others	4.5	6.9	8.1
<b>OIL CRUDE 2/</b>	<b>96.9</b>	<b>91.4</b>	<b>94.1</b>
Pluspetrol 3/	62.5	57.6	51.0
Petrobras	11.2	11.5	11.3
Petrotech	12.4	11.6	10.7
Camisea	0.0	0.0	10.3
Other contractors	10.7	10.7	10.8

1/ Millions of cubic feet per day.

2/ Thousands of barrels per day.

3/ Pluspetrol operates blocks 1-AB and 8, both in the northern jungle.

Source: Ministry of Energy and Mines.

drilled in recent years. Of the five exploratory wells, three are still to be evaluated, two by Olimpic (Block XIII) and one by Petro-Tech (Block Z-2B); while the wells drilled by Graña y Montero (Block XIV) and Occidental Petrolera (Block 64) have been permanently abandoned after they produced negative results.

### Manufacturing based on raw materials

Bigger schools of Peruvian anchovy and other fish meant growth for industries involved in primary resource processing. This offset lower sugar production (29.5 percent), which resulted from a lack of rain and led to sugar being imported to meet domestic demand.

Production of **fishmeal and oil** rose 59.2 percent to 1,940,000 MT, given the larger available biomass of anchovy. Production of **canned and frozen fish** increased 6.8 percent thanks to higher landings of giant squid and hake; the figure would have been higher but for reduced canned production as a result of lower catches of chub and jack mackerel. Oil refining grew slightly (1.5 percent), because of increased production of diesel and fuel oil by La Pampilla

refinery. Non-ferrous metal refining also showed modest growth (1 percent) as higher blister copper production by Southern Peru was offset by lower gold bullion production by Doe Run as the ore being extracted contained less metal.

### 2.2 Non-primary sectors

There was generally more activity in the non-primary sectors in 2004, average growth being 5.1 percent.

#### Non-primary manufacturing

The 6.9 percent growth in non-primary manufacturing was explained by factors affecting both internal and external demand.

The first included historically low interest rates, an increase in the terms of trade and tariff reductions promulgated in December 2003 and February 2004, which enabled companies to acquire capital goods and raw materials not produced in Peru at lower cost. Among the factors affecting external demand was the renewal of the ATPDEA in 2002, the impact of regional agreements (with CAN, Chile, and MERCOSUR) as well as world economic growth (particularly in the United States and China).

The textile, leather and footwear industries made the biggest contributions to this growth with 1.9 percent, of which 0.9 percentage points was explained by higher external demand; non-metallic minerals and the paper and printing industry with 1.1 and 1.0 percentage points respectively, associated principally with the domestic market; chemical products, rubber, and plastics, responsible for 0.9 percentage points, entirely due to external demand; and the timber and furniture industries, which were responsible for 0.7 percentage points.

The **foodstuffs, beverages and tobacco** group recorded growth of 3.1 percent. Not all the

	2002	2003	2004
<b>MANUFACTURING BASED ON RAW MATERIALS</b>	<b>0.6</b>	<b>-0.1</b>	<b>5.9</b>
Sugar	15.6	14.6	-29.5
Meat products	1.5	4.4	3.0
Fishmeal	7.3	-30.9	59.2
Canned and frozen fish	-16.1	35.3	6.8
Non-ferrous metals refining	-1.6	2.2	1.0
Petroleum refining	-0.8	-1.2	1.5

Source: Ministry of Production and INEI.



TABLE 14  
**NON-PRIMARY MANUFACTURING: GROWTH CONTRIBUTION  
 BY DESTINITY MARKET IN 2004 1/**  
 (In percentage points)

	Growth by domestic market	Growth by foreign market	Growth contribution
Food, beverages and tobacco	0.5	0.3	0.8
Textile, leather and footwear	1.0	0.9	1.9
Wood and furniture	0.3	0.3	0.7
Paper and printing industry	0.9	0.2	1.0
Chemical, rubber and plastic products	0.0	0.9	0.9
Non-metallic minerals	0.9	0.1	1.1
Iron and steel	0.1	0.0	0.2
Metallic products, machinery and equipment	0.1	0.2	0.3
Miscellaneous manufacturing	0.0	0.1	0.2
<b>NON-PRIMARY MANUFACTURING</b>	<b>3.8</b>	<b>3.1</b>	<b>6.9</b>

1/ Not include indirect effects.

Source: BCRP.

components of this group behaved in the same way: dairy products recorded the highest growth (19.5 percent), followed by chocolate and confectionery (8.8 percent), pasta (7.0 percent) preserved foods (4.7 percent) and sodas. This growth was offset by lower rice production (-14.9 percent) caused by the drought on the north coast; and tobacco production (-20.6 percent) caused by reduced exports.

The **textiles, leather and footwear** group expanded by 9.8 percent, contributing 1.9 percentage points to growth in non-primary manufacturing. The main contribution came from apparel and knitwear, which grew 22.6 percent to meet increased external demand. It is worth pointing out that clothing exports increased from US\$ 654 million in 2003 to US\$ 887 million in 2004. The “other garments” group of small and medium-sized clothing manufacturers also benefited from healthy domestic demand.

The **timber and furniture** industry expanded considerably, based on the production of mattresses and despite an increase in competition from imported products.

Production by the **paper and printing** industry increased by 11.4 percent and its contribution to

non-primary manufacturing growth was 1.0 percentage point. The paper and cardboard industry recorded a significant 12.7 percent growth, which reflected increased manufacturing capacity by Productos Tissue and Industrias de Papel, two of the industry’s largest companies, and increased exports by Quimpac. In addition, growth of 10.1 percent in publishing and printing was a reflection of increased exports by Metrocolor, higher circulation achieved by an important magazine, and greater use of leaflets for advertising purposes.

The **chemical products and rubber** group grew by 5.2 percent, primarily a reflection of increased external demand for products such as colorants, caustic soda, and explosives (which also increased in response to higher demand by the mining industry), as well as increased local consumption of liquid oxygen by industry, materials for the textile industry, and beauty and cleansing products.

Production of **non-metallic** minerals increased 11.0 percent thanks to demand for construction materials (because of more diversified production, particularly of ceramics) and cement (in response to higher external demand).

The **iron and steel** industry recorded growth of 4.8 percent, contributing 0.2 percentage points to non-primary manufacturing. This growth is associated with an increase in demand from the construction, mining and light engineering sectors. The opening of a new wire rod plant in Pisco by Corporacion Aceros Arequipa can be added to the factors mentioned above.

Production of **metal products, machinery and equipment** increased by 2.8 percent. There was a significant increase in the production of electrical control panels for the mining industry and in exports, as well as the production of cables for the telecommunications industry and buses for tourist and inter-provincial transport.

Finally, the group referred to as **industry - various** recorded an increase of 5.1 percent, reflecting increased jewelry exports to the North American market, increased domestic demand for office and school materials, and the launching of new costume jewelry lines.

### **Construction**

This sector recorded growth of 4.7 percent in 2004, making three consecutive years of expansion after the industry contracted between 1999 and 2001.

Among private infrastructure projects being undertaken, the Alto Chicama mining project should be mentioned, together with EGASA's Pillones Project, shopping malls and greater consumption on roads and related infrastructure.

Road infrastructure projects completed by the public sector in 2004 include the Olmos-Corral Quemado, La Oroya- Huancayo, and Huancayo-Imperial-Izcuchaca highways. The Ministry of Transport and Communications announced that a total of 212 Km. of roads were completed in 2004 at a total cost of S/. 330 million.

House building was driven by a growth in the purchasing capacity of householders, which in recent years has been accompanied by an increased supply of different types of homes and other premises at lower cost. Thus different companies in the sector recorded a significant increase in the production of materials used in modern infrastructure projects.

### **Electricity and water**

This sector grew 4.6 percent as a result of increased electricity generation (5.8 percent) even though production of drinking water fell 2 percent. The increase in electricity generation, which totalled 24 146 GWh, was the result of increased consumption by different industries, particularly manufacturing, as their output rose. The production of hydroelectric energy fell 6 percent as there was less water available, while thermal power stations generated 53 percent more energy in order to meet increased demand from the domestic market. Thermal generation's share of total power production changed significantly, rising from 19 percent in 2003 to 28 percent in 2004. For the first time gas from Camisea was used to generate electricity at the simple-cycle Ventanilla power station (Lima), by electricity generating company Etevensa.

The drop in drinking water production occurred because lower rainfall in the central highlands ensured that there was less water available to supply Sedapal, Lima's main drinking water and hygiene company. In 2004, all districts of Lima suffered water rationing between May and December.

### **3. Employment**

Estimated urban employee, according to the National Monthly Employment Survey of Companies with 10 or more Employees carried out by the Ministry of Labor and Employment Promotion, increased by 2.7 percent during 2004;



urban employment grew in Metropolitan Lima, where the figure was 2.4 percent, and in other urban areas (not including Metropolitan Lima) which reported an increase of 3.6 percent.

Employment growth was more vigorous in urban areas outside the capital, particularly in: Piura (8.9 percent), Ica (8.8 percent), Trujillo (5.8 percent) and Chincha (4.8 percent) caused by increased industrial farming activity, especially production of export crops such as asparagus, grapes, paprika, artichokes, and peppers, among others. Employment also increased in Paíta (8.1 percent) and Iquitos (6.5 percent) driven by the fishing and timber industries respectively.

In 2004 the estimated economically active population (EAP) in Metropolitan Lima according to the Permanent Employment Survey, was 4.1 million people, 2.8 percent higher than in the previous year. This increase in the EAP included the employed EAP, which increased by 2.8 percent and the unemployed EAP, which grew by 3.0 percent.

Salaried employees (staff and workmen) made up most of the increase in the employed EAP, growing by 5.7 percent. While the self employed, domestic workers and other non-remunerated workers contracted by 0.2 percent. The highest growth in employment (11.1 percent) occurred among the university educated, while employment among those

TABLE 15  
URBAN EMPLOYMENT IN COMPANIES WITH 10 OR MORE WORKERS

	Indices (2003 = 100) 1/			Percentage change 2004/2003
	2002	2003	2004	
<b>URBAN PERU</b>	<b>98.3</b>	<b>100.0</b>	<b>102.7</b>	<b>2.7</b>
<b>Metropolitan Lima</b>	<b>98.1</b>	<b>100.0</b>	<b>102.4</b>	<b>2.4</b>
<b>Other urban</b>	<b>98.7</b>	<b>100.0</b>	<b>103.6</b>	<b>3.6</b>
Huaraz	n.d.	100.0	110.2	10.2
Talara	n.d.	100.0	109.4	9.4
Piura	99.8	100.0	108.9	8.9
Ica	91.4	100.0	108.8	8.8
Paíta	151.6	100.0	108.1	8.1
Iquitos	94.8	100.0	106.5	6.5
Trujillo	90.7	100.0	105.8	5.8
Chincha	n.d.	100.0	104.8	4.8
Huancayo	98.3	100.0	102.6	2.6
Chimbote	101.6	100.0	102.6	2.6
Arequipa	97.9	100.0	102.6	2.6
Pisco	n.d.	100.0	102.1	2.1
Cajamarca	101.6	100.0	101.4	1.4
Cusco	102.1	100.0	100.5	0.5
Pucallpa	92.8	100.0	100.4	0.4
Tarapoto	99.3	100.0	99.1	-0.9
Chiclayo	97.3	100.0	98.7	-1.3
Sullana	n.d.	100.0	97.4	-2.6
Tacna	107.9	100.0	96.3	-3.7
Puno	102.9	100.0	95.6	-4.4

1/ Annual average.

Source: MTPE - National Monthly Employment Survey in Companies with 10 or More Workers.

**TABLE 16**  
**LABOR FORCE BY EMPLOYMENT LEVELS**  
**METROPOLITAN LIMA 1/**  
(Thousands of people)

	2002	2003	2004	Variation 2004/2003	
				In thousands	In percent
<b>I. LABOR FORCE: 1 + 2</b>	<b>3,984</b>	<b>3,993</b>	<b>4,104</b>	<b>111.4</b>	<b>2.8</b>
<b>1. EMPLOYED LABOR FORCE</b>	<b>3,609</b>	<b>3,617</b>	<b>3,717</b>	<b>100.2</b>	<b>2.8</b>
<b>By economic activity</b>					
Manufacturing	577	540	565	25.4	4.7
Construction	191	189	195	6.2	3.3
Commerce	919	901	895	-6.1	-0.7
Services	1,872	1,937	2,010	72.4	3.7
Others	51	50	52	2.2	4.5
<b>By education</b>					
Elementary 2/	n.d.	495	466	-28.6	-5.8
High School 3/	n.d.	1,895	1,951	56.4	3.0
Technical	n.d.	582	583	1.0	0.2
University	n.d.	645	717	71.7	11.1
<b>By occupational category</b>					
Wage earners	1,815	1,811	1,915	103.5	5.7
Non-wage earners	1,794	1,806	1,803	-3.3	-0.2
<b>By size of employer</b>					
1 to 10 workers	2,508	2,503	2,512	8.2	0.3
11 to 50 workers	327	312	343	31.1	10.0
51 and more	772	801	862	61.0	7.6
<b>By hours worked in a week</b>					
Workers employed over 20 hours a week	3,093	3,133	3,283	149.7	4.8
Wage earners employed over 20 hours a week	1,636	1,640	1,759	119.0	7.3
<b>2. UNEMPLOYED LABOR FORCE</b>	<b>375</b>	<b>376</b>	<b>387</b>	<b>11.2</b>	<b>3.0</b>
<b>II. INACTIVE POPULATION</b>	<b>1,836</b>	<b>1,932</b>	<b>1,929</b>	<b>-3.5</b>	<b>-0.2</b>
<b>III. POPULATION IN WORKING AGE (PWE): I + II</b>	<b>5,821</b>	<b>5,925</b>	<b>6,033</b>	<b>108.0</b>	<b>1.8</b>
<b>RATES (in percentage)</b>					
Activity rate (Labor Force / PWE)	68.5	67.4	68.0		
Ratio Labor Force Employed / PWE	62.0	61.0	61.6		
Unemployment (Unemployed Labor Force / Labor Force)	9.4	9.4	9.4		
Underemployment rate by hours	18.7	17.2	16.4		

1/ Annual average.

2/ Excludes kinder.

3/ Complete and incomplete high school.

Source: INEI - Permanent Employment Survey.



**TABLE 17**  
**OPEN UNEMPLOYMENT RATE**  
**METROPOLITAN LIMA 1/**  
(In percents)

	2002	2003	2004
<b>TOTAL</b>	<b>9.4</b>	<b>9.4</b>	<b>9.4</b>
By gender			
Male	8.3	8.5	8.1
Females	10.8	10.6	11.1
By age			
14-24 years	15.2	14.8	15.8
25-44 years	7.2	7.7	7.3
45 and over	8.0	7.5	7.1

1/ Annual average.

Source: INEI - Permanent Employment Survey.

**TABLE 18**  
**MINIMUM**  
**WAGE**

	Nuevos soles (S/.)	Real index (1994 = 100)
2002	410	222.6
2003	425	225.4
2004	460	235.6
<b>Var. % 2004/2003</b>	<b>8.3</b>	<b>4.5</b>

Source: MTPE.

with primary schooling only or lower levels of education fell 5.8 percent.

Jobs were created in all sectors except trade; broken down by company size, employment increased in all the groups considered, especially among companies with more than 10 employees. In addition, employment among those who worked more than 20 hours a week rose by 4.8 percent with respect to 2003, while salaried employees working more than 20 hours a week increased by 7.3 percent.

Unemployment in 2004 was estimated at 387 000 people, an increase of 11 200 compared to the previous year. The unemployment rate remained constant at 9.4 percent between 2003 and 2004. Broken down by gender, the rate of unemployment among women increased (from 10.6 to 11.1

percent), while the rate for men fell from 8.5 to 8.1 percent. Broken down by age group, the rate for those above 45 years of age fell while that for those between 14 and 24 years of age the unemployment rate rose from 14.8 to 15.8 percent.

The minimum wage was S/. 460 throughout 2004. During this period the minimum wage increased by 4.5 percent in real terms compared to the previous year.

According to figures published by Apoyo Opinión y Mercado in the Greater Lima Annual Socioeconomic Report, average family incomes in Metropolitan Lima in 2004 were 2.7 percent higher in real terms than in 2003. The socioeconomic breakdown shows that lower income groups benefited most. Between 2003 and 2004 average real incomes of socioeconomic groups C, D and E rose 5.7, 4.4 and 3.8 percent respectively.

**TABLE 19**  
**HOUSEHOLD INCOME IN METROPOLITAN LIMA**

Socioeconomic levels	Monthly household income (nuevos soles of june of 2004)			% var. 2004/2003
	2002	2003	2004	
A	12,062	12,687	12,187	-3.9
B	3,025	3,228	3,105	-3.8
C	1,194	1,280	1,353	5.7
D	712	736	768	4.4
E	530	530	549	3.8
<b>TOTAL</b>	<b>1,553</b>	<b>1,574</b>	<b>1,617</b>	<b>2.7</b>

Source: Socio economic levels in Metropolitan Lima. Apoyo Opinión y Mercado.