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Monthly Composite Coincident Index of the province of Santa Fe ICASFe

The province's recession in the first quarter of 2009

March 09
Monthly %: -0.10
Interyear %: -3.1

ICASFe
Base 1994 =100
140.2

During the first quarter of 2009 there was a new slow down observed on the economic activity's falling. The question is, are we facing a moderate recession or could be that its real effects are being momentarily contained?

The Composite Coincident Index of the province of Santa Fe (ICASFe) constitutes a monthly indicator used to describe the global evolution of the province's economy. It allows us to determine the precise dates in which recessions/expansions begin and end, as well as following up the main economic sectors. Finally, it provides a reliable source of information appropriate to support decision makers of public and private institutions.

According to the last obtained results, during the month of March 2009, the ICASFe was located at **140.2**, presenting a **-0.10** monthly variation with respect to February 2009.

The last 12 months' results exposed in this document are based on preliminary information and hence subject to further revisions. Calculated values gain consistency while primary sources publish consolidated data that provides and input to our indicator.

o **The province's economic activity at the first quarter of 2009**

During these 14 months of recession the province's economic activity has already fallen -3.7%. By the moment, compared to previous recessions, its amplitude is still low and has not yet reached catastrophic levels. In fact, the whole negative accumulated variation of the recession dated between 1994 and 1995 was -9% and it lasted 12 moths. At the same time, the recession occurred between 2000 and 2002 presented a total contraction of -16.1% and lasted 28 months; even dough, most of its falling was experienced 15 months after it began.

It's true that since August 2008 santafesinean recession started to go through a deeper contraction phase. However, the first quarter of 2009 shows a better performance and its monthly accumulated rate is only -0.5%, similar to 2008 first quarter's which reached -0.6%. In this connection, besides having a similar numeric contraction, the relative contributions of the series included in the ICASFe where significantly different during both compared moments.

In accordance with the beginning of commercial brakes particularly related with the commodity market, and in addition of low international prices, the group of series that initially contributed with negative rates was mainly represented by variables related to the agro-industry sector. Afterwards, as we have already pointed out on previous digests, the crisis spread up and was rapidly generalized to the entire industrial sector. This lower level of activity was simultaneously translated on a decreasing of tax revenues and less investment on durable goods (automobiles and construction).

On the other side, during the first quarter of 2009 the series related to the agro-industry sector had a better performance while the worst contribution to the aggregate falling in economy basically came from series related to the labor market (number of registered jobs and demand for new employees) and consumption (supermarket retail sales). This lagged behavior, in terms of the recession's beginning, results to be consistent if we consider the local labor market rigidities and the strong public economic intervention we are experiencing at this moment. As examples on this regard, we can refer to the forced holidays, temporary layoffs, direct subsidies to the labor market, pro-consumption policies, fiscal agreements, etc.

At this point, the discussion is centered on the following issue: are we really facing up a smooth recession? Or, are we just contemplating an economy which has been momentarily contained by assuming an increasing pressure?

o **Indicators' evolution. First quarter 2008 - First quarter 2009**

Although stats related to the consumption of industrial electricity during 2009 are not yet published, the sector seems to have had a better development this year than in 2008. Industrial gas consumption accumulates -1.8% of decline since the beginning of 2009 while during the first quarter of 2008 it went down on -8.2%. This mild improvement is also observed by the series of meat slaughter industry, oilseed milling and hydrocarbons used by agro-industry and transportation, which deeply went down during the whole 2008 and are now presenting positive variations even though they are still far bellow the highest levels reached before the beginning of the recession.

The meat slaughter industry started 2008 showing an important slow down which actually got worst as a

consequence of commercial brake downs in the primary meat market. Even so, at the first quarter of 2009 it had a positive expansion of 7.1%. Although porcine meat slaughter decreased, the bovine one had an important expansion; the problem is that the mentioned increase on activity is being caused by slathering mother cows all over the country, which represents a structural future issue.

Oilseed milling reached an accumulated rate of 6.2% during the first quarter of 2009. But beyond this expansion, if we get inside the sector's recent evolution, while in December 2007 Santa Fe was processing 3.2 millions tons the correspondent level for March 2009 is only 1.8 millions tons.

Hydrocarbons used by agro-industry and transportation accumulated a total increase of 4.7% during the first quarter of 2009, while its expansion reached in the same period of time but one year before was a negative -0.5%.

Unlike the precedent analyzed sectors, agricultural machinery production couldn´t revert its negative trend. In fact, it has enlarged its falling between the first quarter of 2008 and the first quarter of 2009. Along these ideas, this indicator which includes tractors and harvesters showed an accumulated variation of -4.6% and -28.4%, respectively for each evaluated period.

Dairy production presents an accumulated growing rate of 6.6% for the first quarter of 2009 but its activity still below the regular levels the sector showed before the abrupt decline that took place between May 2006 and May 2007.

Table 1. **Monthly accumulated variations per quarter of the series included in the ICASFe.**
First quarters 2008 and 2009. Seasonally adjusted series corrected by extreme irregular values.

	First Quarter 2008	First Quarter 2009
Meat slaughter industry	-9.6%	7.1%
Dairy production	4.3%	6.6%
Oilseed milling	-15.0%	6.2%
Hydrocarbons used by agro-industry and transportation	-0.5%	4.7%
Real wage	1.7%	1.2%
Tax revenues	-0.04%	0.4%
Cement consumption	-5,8%	0.3%
Number of employees	1.0%	-0.4%
ICASFe	**-0.6%**	**-0.5%**
Industrial gas	-8.2%	-1.8%
Electricity used by industry	-0.6%	---
Supermarket retail sales	-0.6%	-4.2%
New car registrations	-6.2%	-13.8%
Demand for new employees	-0.4%	-19.3%
Agricultural machinery production	-4.6%	-28.4%

Source: Research and Services Center, Santa Fe's Chamber of Commerce.

As it has already been pointed out in the first section of the digest, most negative contribution came from the labor market and consumption. While the number of employees went up 1% during the first quarter of 2008, this indicator presented a total contraction of -0.4% in the first 3 months of 2009. Simultaneously, demand for new employees (firms' perspectives for hiring incoming people) went down with an accumulated -19.3%.

Furthermore, supermarket retail sales presented another global decline of -0.6% in the first quarter of 2008 and -4.2% in the first quarter of 2009; in spite of the deceleration lately observed with respect to the inflation, being possibly related with a lower positive variation rate on the purchasing power. As a matter of fact, total real wages only increased 1.2% during this first quarter of 2009 against a 1,7% in the first quarter 2008.

Tax real revenues presented a 1.2% accumulated growing rate for the two first months of 2009 compensated by a -0.8%, dated in March 2009. This means the variable had a total growth of 0.4% during the first quarter of 2009. Nevertheless, this soft expansion doesn't seem to be sufficient enough in order to face up the increasing costs that the government regularly assumes during an inflationary process.

Cement consumption went up 0.3% (accumulated for the first quarter) but has already verified a -0.3% falling in April which compensates the initial expansion. New car registrations, an indicator related with investment, shows an accumulated -13.8% for the first quarter of 2009; this represents a deeper decrease than the one it had during the first quarter of 2008 (-6.2%).
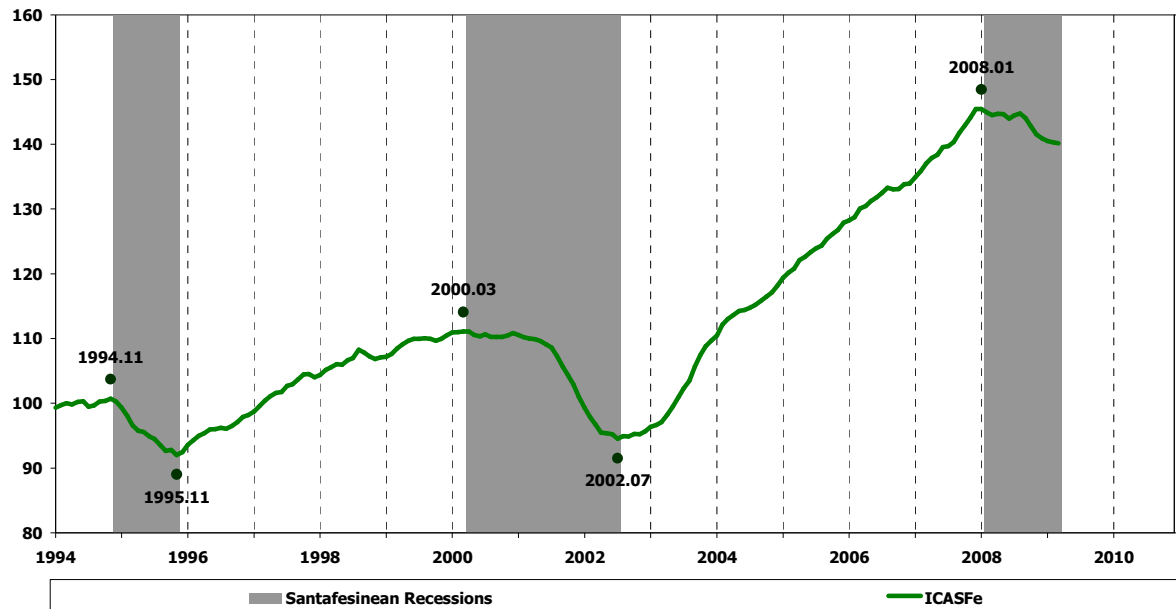
o **Future perspectives**

The analysis of future perspectives for the province's economic activity is related with the ICASFe behavior and, therefore, based on the study of long terms provincial economic cycles. Taking this into consideration it's important to say that the delay suffered by some statistical time series' publication (which are actually supposed to respect certain particular characteristics linked with public information; opportunity is on of them) forces the last values calculated by using the *leading indicators approach* to be subject to further revisions but, on the other hand, doesn't invalidate medium term analysis at all.

The slow down observed in the economic activity's falling during the first quarter of this year, is confirmed by looking at ICASFe's interyear variation rates which actually showed a mild improvement between January and March. Even though, recalling the dilemma postulated at the beginning of this document, the observed improvement doesn't seem to be perdurable considering the "insides" of the province's economy. Fact is, having already passed the first quarter of the year the province's economy is still going trough a recession which is probably going to get worst before the end of 2009. Certain indicators which have been showing important declines from the beginning of 2008 are still having troubles; this is the case of the demand for new employees, new cars registrations and agricultural machinery production. At this point, indicators related with the labor market and consumption started to show negative rates since 2009, and comparing this situation with previous recessions, we expect them to empathize their last behavior.

Taking everything into account and considering the direct relationship that the province's economic activity and the national/international context have, the negative perspective written on the previous paragraph could be toned down if we receive a new positive influence coming from the external markets.

Graph 1 - ICASFe - Monthly Composite Coincident Index of the province of Santa Fe -
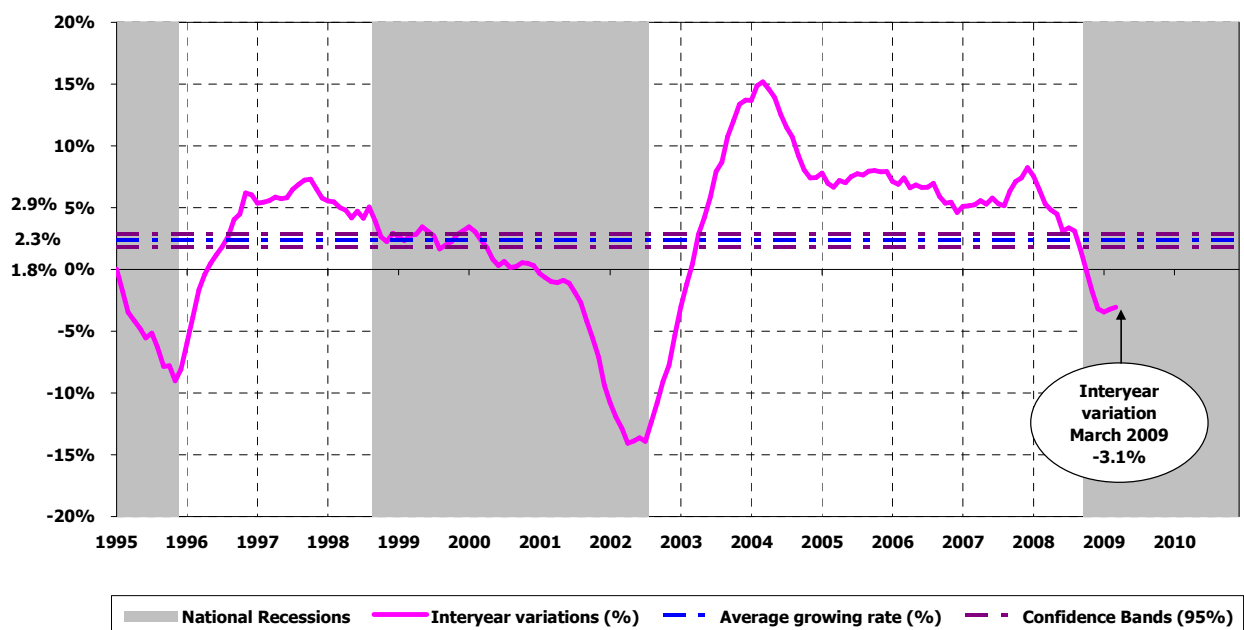
Base 1994=100. Data: from January 1994 to March 2009.

Source: Research and Services Center, Santa Fe's Chamber of Commerce.

Graph 2. Monthly Composite Index of the province of Santa Fe.
Inter-year variations. Data: from January 1995 to March 2009.

Source: Research and Services Center, Santa Fe's Chamber of Commerce.

Interpreting confidence bands: ICASFe's Interyear variations, the comparison between the monthly variation's present value and its corresponding measure on the same month from one year before, bring information about the trend related to economic activity's evolution. At the same time, confidence bands can be consider as reliable tools proper to evaluate these rates since they represent statistical values which signal the mean of the economic activity's long term glowing rate. Whenever the interyear variations are located between the two bands, it means that the economy is growing on a long term speed and when they are upon the highest band its growing rate is showing a faster expansion than the average. Instead, when they fall under the lowest band we have a strong signal of deceleration on the province's economic activity.

In order to download our statistical database as well as methodological documents and other related publications, please visit our websites in: http://ces.bcsf.com.ar