

The Brazilian economy's pace of expansion at the beginning of 2008 continues stimulated by the upturn in domestic demand activity, for the eighth consecutive quarter, being the determinant of GDP growth. Domestic demand consolidation as the economy propeller reflects, to a large extent, the investment trend and household consumption, with developments over international trade, taking into account both the increased demand for imported goods and impact over exports due to higher consumption of the domestic production, movements required to guarantee the balance between demand and supply of goods and services.

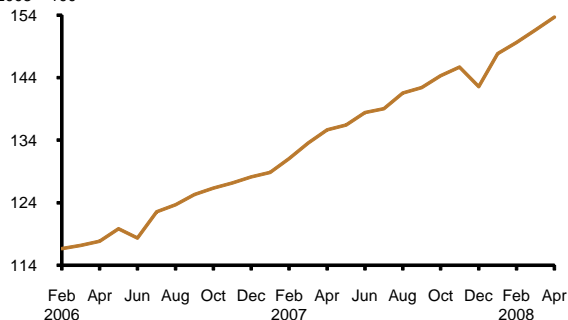
In this scenario, domestic demand and the external sector contributions for the increase of 5.8% registered by the GDP in the first quarter of 2008, in regard to the same period in the previous year, reached 8.5 percentage points (p.p.) and -2.6% p.p., respectively. GDP growth becomes more relevant considering that the result reflects a continued generalized growth in all sectors of the economy, especially in industry, which had been stimulated by the construction industry favored by intensified spending in infrastructure and better credit conditions for the sector.

The upturn in domestic activity continues to reflect significant improvements, both quantitative and qualitative, in the labor market. IBGE's PME shows that unemployment rate follows a declining trajectory since the third quarter of 2007, reaching the lowest level of the seasonally adjusted series in April 2008. One should highlight that this movement results in the generation of new formal job positions in the labor market. In this sense, the number of formal job positions in the private sector increased 8.9% in the four first months of the year, against the same period in 2007, while the number of self-employed decreased 3.2%, in the same period. Additionally, even in a scenario of increased inflation rates, the employment income continues to show real gains.

Figure 1.1 – Extended retail sales

Seasonally adjusted data

2003 = 100



Source: IBGE

1.1 Retail trade

Table 1.1 – Retail sales

	% change			
	2008			
	Jan	Feb	Mar	Apr
In the month^{1/}				
Retail sector	1.9	-0.8	1.5	0.2
Fuel and lubricants	1.2	2.3	1.6	0.5
Supermarkets	0.7	-2.7	2.4	-0.1
Fabrics, apparel and footwear	3.7	-4.7	6.4	0.5
Furniture and home appliances	10.8	1.9	1.7	0.9
Pharmac., medical, orthop. and perfumery articles	2.3	-3.8	2.6	1.8
Office, comp./comunic. equip.	2.7	2.7	-0.6	1.6
Books, newspaper, magazines,	-5.6	14.3	-6.1	2.0
Other art. of personal use	8.3	1.0	-1.2	-1.0
Broad retail sector	3.7	1.2	1.3	1.4
Building materials	2.9	3.0	1.0	1.0
Automobiles, motorcycles, parts and spares	4.0	5.6	0.5	2.7
3-Month Period/Previous 3-Month Period^{1/}				
Retail sector	3.1	2.5	2.6	1.6
Fuel and lubricants	1.3	1.5	3.1	4.1
Supermarkets	1.5	0.7	0.9	-0.2
Fabrics, apparel and footwear	4.0	2.0	2.7	1.6
Furniture and home appliances	2.2	2.9	9.0	8.2
Pharmac., medical, orthop. and perfumery articles	3.2	2.8	2.2	0.6
Office, comp./comunic. equip.	1.7	3.3	4.5	4.6
Books, newspaper, magazines,	4.3	5.9	3.4	7.1
Other art. of personal use	4.2	4.6	6.9	4.0
Broad retail sector	1.8	1.8	3.8	4.3
Building materials	-0.1	-0.7	2.5	4.4
Automobiles, motorcycles, parts and spares	0.8	3.0	6.4	9.1
In the year				
Retail sector	11.8	12.3	11.8	11.0
Fuel and lubricants	3.1	5.1	5.2	6.0
Supermarkets	8.4	8.4	8.4	6.4
Fabrics, apparel and footwear	15.4	14.0	13.3	15.0
Furniture and home appliances	16.0	18.8	17.3	19.8
Pharmac., medical, orthop. and perfumery articles	16.2	15.2	13.2	13.6
Office, comp./comunic. equip.	8.1	12.7	11.5	11.3
Books, newspaper, magazines,	24.7	31.9	29.2	27.6
Other art. of personal use	29.6	28.6	28.3	23.3
Broad retail sector	14.4	16.4	14.8	15.0
Building materials	9.6	13.8	10.9	13.0
Automobiles, motorcycles, parts and spares	20.8	25.4	21.4	23.4

Source: IBGE

^{1/} Seasonally adjusted data.

The trajectory, registered during 2007, of generalized increase in sales of durable, semi and nondurable goods, in all regions of the country, continued in the first months of 2008. This increase, consistent with an economic stability scenario, labor market strengthening and the high level of consumers' expectations, should continue in the coming months.

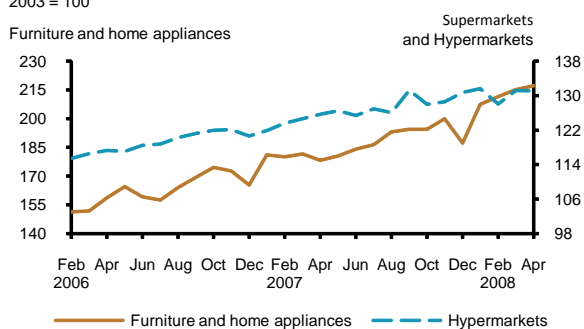
According to the IBGE's Monthly Retail Trade Survey (PMC), retail trade in the expanded concept, released with seasonal adjustments for the first time in February 2008, increased 4.3% in the quarter ended in April, in relation to that ended in January. Increases on sales were registered in 9 out of the 10 segments surveyed, particularly the ones related to vehicles and motorcycles and parts, 9.1%; furniture and appliances, 8.2%; office equipment and supplies, informatics and communications, 7.1%; books, newspapers, magazines and stationery, 4.6%, and construction material, 4.4%. Sales in the segments of hypermarkets, supermarkets, food, beverage and tobacco decreased 0.2% in the period.

Retail trade sales in the restricted concept, which excludes vehicles and motorcycles segments, parts and transportation material, increased 1.6% in the period. The continuity of a more vigorous growth trajectory in the retail sales, in the broad concept, started at the end of 2006, was associated to the upturn in the sales of the automotive sector, which, stimulated by the adoption of longer terms and more competitive interest rates, increased 9.1% in the quarter ended in April 2008, against that ended in January. Sales of construction materials, an additional segment included in the concept of expanded trade grew 4.4% on the same basis of comparison.

Retail sales expanded 15% in the first four months of the year against the same period in the previous year, registering a general increase in all major regions of the country. The largest increases occurred in the Mid-West, 16.4%, and South, 16.3%, followed by those in the Southeast, 15.9% Northeast, 13%, and North, 11.2%. Retail sales, viewed by units of the Federation, also registered widespread increase during the period, with emphasis on the results observed in Espírito Santo, 32.2%, Acre, 28.2%, Goiás, 25.2%, Rio Grande do Norte, 23%, Mato Grosso do Sul, 22.2%, and Mato Grosso, 21.4%.

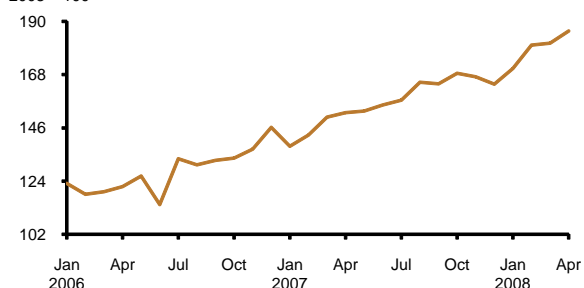
The nominal revenue from expanded retail trade sales rose 19.3% in the first four months of the year, against the same period in the previous year, registering an increase of 15% in

Figure 1.2 – Retail sales
Seasonally adjusted data
2003 = 100



Source: IBGE

Figure 1.3 – Retail sales (automobiles, motorcycles, parts and spares)
Seasonally adjusted data
2003 = 100



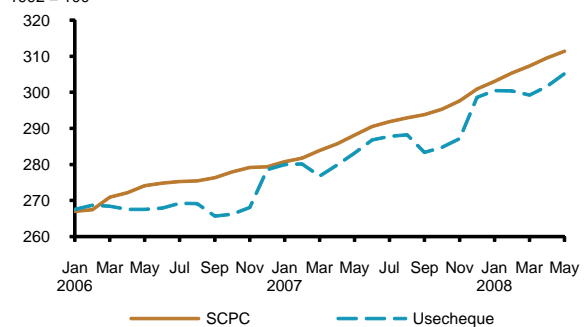
Sources: IBGE and Banco Central do Brasil

Table 1.2 – Retail sales
2008, April

	% accumulated growth in 2008		
	Nominal revenue	Volume	Price
Retail sector	15.8	11.0	4.3
Fuel and lubricants	4.6	6.0	-1.3
Hyper and Supermarkets	16.8	6.4	9.8
Fabrics, apparel and footwear	19.4	15.0	3.8
Furniture and home appliances	14.9	19.8	-4.1
Broad retail sector	19.3	15.0	3.7
Automobiles, motorcycles, parts and spares	26.2	23.4	2.3
Building materials	19.2	13.0	5.5

Source: IBGE

Figure 1.4 – Retail sales indicators
Seasonally adjusted data – Quarterly moving average
1992 = 100



Source: ACSP

sales volume and 3.7% in prices. One should highlight that the nominal revenue related to all the segments surveyed showed higher increase than the variation of 3.9% registered by the Extended National Consumer Price Index (IPCA) in the same period, with emphasis to the expansion in the segments of vehicles, motorcycles and parts, 26.2%; the increase in the sales volume of construction materials, 19.2%, consistent with the upturn in the construction industry; and hypermarkets, supermarkets, food, beverage and tobacco, 16.8%, impacted by the increase in prices of foodstuffs.

The upturn in activity observed in retail trade sales, as confirmed by IBGE assessments, is justified by an increase of indicators in the sector. In this sense, statistics from the National Federation of Automotive Vehicle Distribution (Fenabrave) show that sales of new vehicles increased 14.6% in May against the same period in 2007, expanding 30.4% in the first five months of the year, compared to the same period of the previous year. Additionally, sales of automotive vehicles on the domestic market, released by the National Association of Automotive Vehicle Manufacturers (Anfavea), registered respective increases of 10.7% and 28.1% on the same basis of comparison.

Statistics released by the São Paulo Trade Association (ACSP) on trade performance in the State of São Paulo, suggests the continued expansion both in sales of durable goods, driven by credit conditions, and in those related to nondurable goods, impacted by the employment and income growth. In this sense, the number of consultations to the Credit Protection Service Center (SCPC), an indicator of long-term purchases, grew 2% in the quarter ended in May, compared to the one ended in February, while consultations to the Usecheque, an indicator of cash purchases, increased 1.6% in the period, according to seasonally adjusted data.

The increase in default indicators, at the beginning of 2008, is consistent with the upturn in retail trade. The ratio between the number of checks returned for insufficiency of funds and the total of checks cleared reached 6.1% in May, against 6.6% in the corresponding month of 2007, with emphasis on the rates of 9.2% and 9.1% observed respectively in the North and Northeast regions. On the other hand, ACSP statistics on the State of São Paulo registered net rates of default of 9% and 8%, respectively, in the respective months.

Results of assessments related to consumers' expectations, in the second quarter of the year, revealed a continued upward trajectory of optimism, with emphasis on short-term expectations.

Table 1.3 – Default rates

	2008						%
	Year ^{1/}	Jan	Feb	Mar	Apr	May	
Returned checks ^{2/}							
Brazil	6.2	6.2	6.5	6.3	6.1	6.1	6.2
Northern region	9.6	9.6	9.8	9.4	9.2	9.1	9.4
Northeast region	9.3	8.8	9.6	9.4	9.2	9.2	9.2
Southeast region	5.6	5.5	5.8	5.7	5.6	5.6	5.7
Center-western region	7.1	7.0	7.2	7.0	6.8	6.7	6.9
Southern region	5.9	5.9	6.2	5.9	5.8	5.7	5.9
SCPC (SP) ^{3/}	5.4	5.4	6.4	7.6	8.6	9.0	7.4

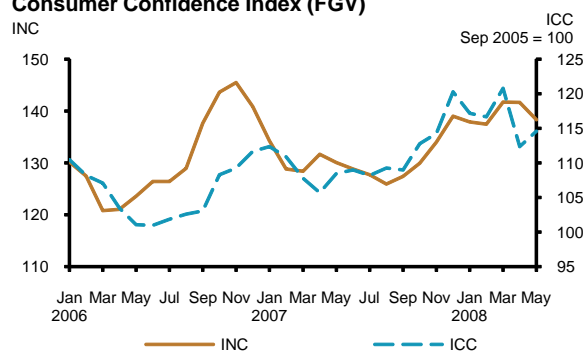
Sources: Banco Central do Brasil and ACSP

1/ Annual average.

2/ Returned checks/cleared checks.

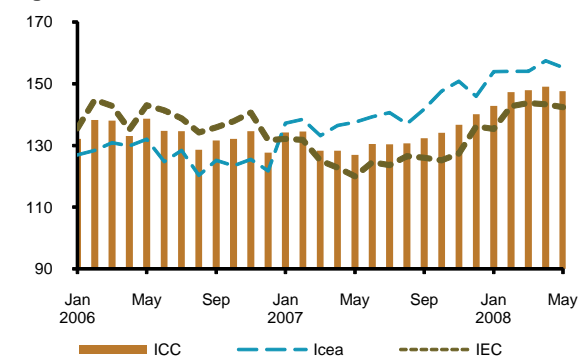
3/ [New registrations (-) registrations cancelled]/[consultations (t-3)].

Figure 1.5 – National Consumer Confidence and Consumer Confidence Index (FGV)



Sources: ACSP and FGV

Figure 1.6 – Consumer Confidence Index



Source: Fecomercio SP

The Getulio Vargas Foundation's (FGV), Consumer Confidence Index (ICC), registered a monthly increase of 2% in May, result of increases of 1.6% in the Expectations index (IE) and of 2.6% in the Current Situation Index (CSI). The indicator increase, which reached, in March, the highest level of the historic series initiated in September 2005, continues to confirm consumers' optimism with regard to the current situation.

The National Confidence Index (INC), measured by the Ipsos Public Affairs (Ipsos) to the ACSP, reached 138.3 points in May, against 141.6 points in April and 130 points in May 2007. The monthly cutback observed in the indicator mirrored, on the one hand, the lower consumer willingness to purchase higher value goods and the increased fear regarding unemployment, while, in turn, the increase in the component measuring confidence in relation to the local economic situation, acted the other way around.

The National Consumer Expectations Index (Inec), released on a quarterly basis, by the National Confederation of Industry (CNI), based on assessments carried out between March 19 and 23, showed continued expansion in the first quarter of the year, increasing 1.1% compared to December, and 3.1% against the same month of the previous year. This indicator increase, registered in the first quarter is the third highest result in all the series, lower only to the ones registered in September and December 2006, reflected improvement in the components which consider expectations regarding unemployment and income increase as well as greater concerns on assessments related to inflation prospects.

The Consumer Confidence Index (ICC), released by the Trade Federation of the State of São Paulo (Fecomercio SP) and restricted to the metropolitan region of São Paulo, dropped 1% in May, compared to the previous month, rising 16.2% in 12 months. One should highlight that the ICC is at a high level, registering the highest volume of all the series in April 2008. The ICC monthly evolution mirrored cutbacks of 0.7% in the Consumer Expectations Index (IEC) component, which represents 60% of the overall index and 1.4% in the Current Economic Conditions Index (Icea), which accounts for the rest of the index.

1.2 Production

Farm production

The Quarterly National Accounts, released by IBGE, revealed that the crop and livestock production expanded 2.4% in the first quarter of 2008, as compared to the same period in 2007. The agricultural sector, according to the Systematic Farm Production Survey (LSPA) estimates for May, should continue to set out positive results in the current harvest, and sustainable development, especially regarding the performance of corn, rice, beans, coffee beans and sugar cane crops, while the upturn in activity of animal production is associated to the beef and poultry segments.

Crops

The grain harvest shall total 144.3 million tons in 2008. The annual growth of 8.4%, a result which incorporates a 3.7% increase in the harvested area and of 4.5% in average productivity, reflects favorable expectations for the crops of wheat, corn, rice, beans, and soy beans, while, on the other hand, it forecasts a cutback in germination of cotton seed.

Soy bean production, after expanding 10.7% in 2007, is expected to total 59.8 million tons of grains. The annual growth of 3.3% reflects increase forecast of 3.1% in the planted area and of 0.2% in the average yield.

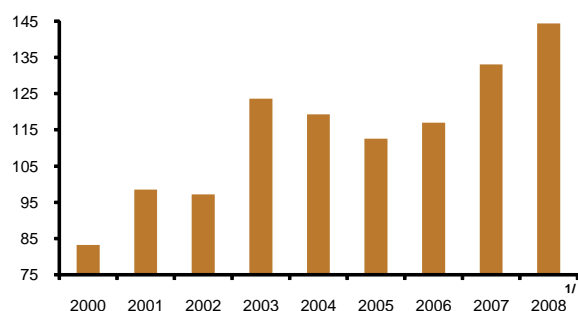
Corn harvest was forecasted at 58.3 millions of tons. Forecasts for annual growth of 12.4%, mirrors increase of 4.6% in the planted area and of 7.5% in average yield, a growth associated to favorable international prices, which encouraged farmers to plant to the maximum tolerated limit in the cropping calendar and to invest in the sector.

The rice and beans harvest should come to 3.5 million and 12.2 million tons, respectively, in 2008, increasing, in the order, 7.9% and 10.2%, by comparison with 2007 figures.

Sugar cane production, in line with the strong international demand for sugar and for alcohol, should reach 585.6 million tons, rising 13.5% against the previous crop. This significant result, following the rise of 13.3% observed in 2007, led to expansions of 12.8% in the area under cultivation and of 0.6% in average yield.

Figure 1.7 – Grain production

In million tons



Source: IBGE
1/ Estimate.

Table 1.4 – Farm production

	Production		% change 2008/2007
	2007	2008 ^{1/}	
Grain production	133 101	144 340	8.4
Cotton (seed)	2 498	2 434	-2.5
Rice	11 048	12 173	10.2
Beans	3 245	3 500	7.9
Corn	51 831	58 280	12.4
Soybean	57 952	59 842	3.3
Wheat	4 089	5 162	26.2
Others	2 438	2 949	20.9

Source: IBGE
1/ Estimate.

Coffee beans harvest, evincing the impact of a positive biannual cycle of this crop, should increase 27% in the year, a result of expansions of 0.7% in the area cultivated and of 26% in the average yield.

Table 1.5 – Livestock production

Total slaughters

Itemization	% accumulated growth in the year						
	2007						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cattle	9.0	7.7	6.1	4.9	3.3	2.4	1.8
Swine	10.7	9.1	8.4	7.4	7.2	7.0	6.0
Poultry	8.0	8.2	8.1	7.7	9.1	9.9	10.1

Source: IBGE

Table 1.6 – Industrial production

	% change			
	2008			
	Jan	Feb	Mar	Apr
Industry (total)				
In the month ^{1/}	1.9	-0.5	0.6	0.2
3-Month Period/Previous 3-Month Period ^{1/}	0.1	0.1	0.6	1.0
Same month of the previous year	8.7	9.7	1.4	10.1
Accumulated in the year	8.7	9.2	6.4	7.3
Accumulated in 12 months	6.3	6.8	6.6	7.0
Manufacturing industry				
In the month ^{1/}	2.0	-0.5	0.8	0.0
3-Month Period/Previous 3-Month Period ^{1/}	0.1	0.0	0.6	1.1
Same month of the previous year	8.8	9.7	1.4	10.4
Accumulated in the year	8.8	9.2	6.4	7.4
Accumulated in 12 months	6.4	6.9	6.7	7.0
Mining				
In the month ^{1/}	-2.3	0.1	-3.2	0.6
3-Month Period/Previous 3-Month Period ^{1/}	4.3	6.0	1.4	-1.1
Same month of the previous year	7.7	9.3	3.0	3.8
Accumulated in the year	7.7	8.5	6.5	5.9
Accumulated in 12 months	6.1	6.3	6.1	5.9

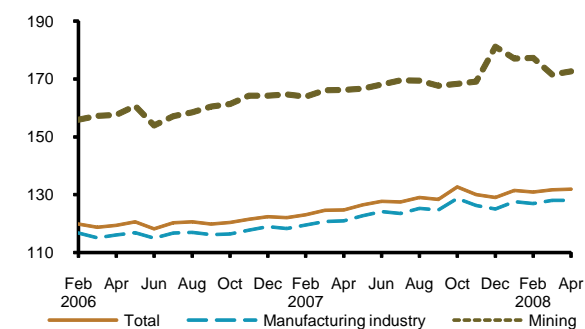
Source: IBGE

1/ Seasonally adjusted data.

Figure 1.8 – Industrial production

Seasonally adjusted data

2000 = 100



Source: IBGE

Livestock

According to the Quarterly Survey on Animal Slaughter, released by IBGE in March 2008, bovine production reached 7 million tons in 2007, rising 1.8% against the previous year. Considering the same comparison basis, the production of poultry and swine reached 9 million and 2.4 million ton, respectively, mirroring increases of 10.1% and 6%.

Exports of beef and pork totaled 342.2 thousand ton in the first quarter of the year, falling 24.8% against the same period of 2007. In the same period, external sales of pork reached 143.1 thousand ton, and the poultry meat, 1 million ton, registering, in order, falls of 12.3% and increase of 8.4% against the four first months of 2007.

Industrial production

The cycle of industrial growth initiated in 2006 accelerated its pace in 2007, stimulated by greater upturn in investment and domestic consumption activities, favored by an environment of stability and improvement in the macroeconomic foundations of the country. Recent results confirmed the continuity, at the beginning 2008, of an expansion trajectory, a movement reflecting businesses high levels of confidence and maintenance of strong growth in production of capital goods, particularly absorbed by domestic demand; this constitutes, therefore, a sign of expansion in medium term production capacity, which should continue throughout the year.

According to seasonally adjusted data from IBGE's Monthly Industrial Survey's (PIM-PF) physical production index, industrial production increased 1% in the quarter ended in April, compared to the one ended in January, when it had expanded 0.1%, on the same comparison basis. In 2007, industrial production turned in an average quarterly increase of 1.8%.

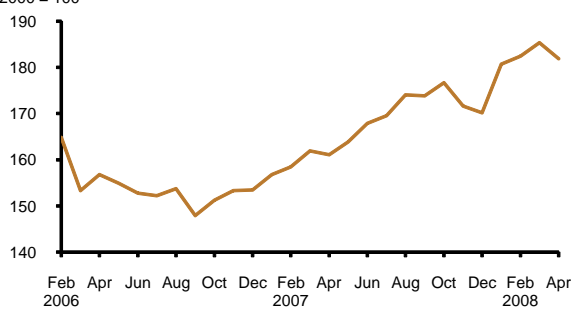
The contraction in the long and medium-term credit and the scenario of consolidation of the stabilization process registered during 2006 had more accentuated impacts on the evolution of capital goods production in 2007 and, more

Table 1.7 – Industrial production by category of use

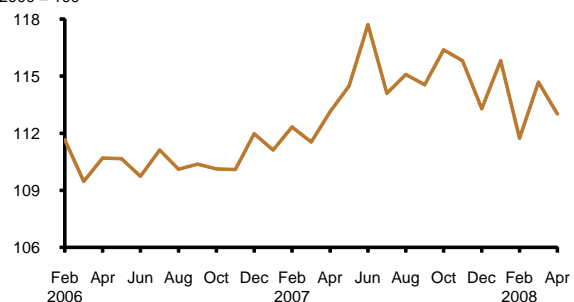
	% change			
	2008			
	Jan	Feb	Mar	Apr
In the month^{1/}				
Industrial production	1.9	-0.5	0.6	0.2
Capital goods	1.0	3.0	1.3	1.6
Intermediate goods	1.5	-0.8	-1.0	-0.2
Consumer goods	3.3	-2.4	2.4	-0.7
Durables	6.2	1.0	1.6	-1.9
Semi and nondurables	2.2	-3.5	2.6	-1.5
Quarter/previous quarter^{1/}				
Industrial production	0.1	0.1	0.6	1.0
Capital goods	3.8	3.3	3.8	5.2
Intermediate goods	1.6	2.1	1.1	-0.1
Consumer goods	-0.4	-1.3	0.3	0.1
Durables	-0.4	2.1	5.8	5.2
Semi and nondurables	-0.3	-1.7	-0.9	-1.6
In the year				
Industrial production	8.7	9.2	6.4	7.3
Capital goods	15.0	19.7	17.3	20.5
Intermediate goods	8.0	9.2	6.0	6.0
Consumer goods	8.0	6.8	4.1	5.5
Durables	15.7	18.1	13.7	15.9
Semi and nondurables	5.9	3.6	1.2	2.2

Source: IBGE

1/ Seasonally adjusted data.

Figure 1.9 – Industrial productionConsumer goods
Seasonally adjusted data
2000 = 100

Source: IBGE

Figure 1.10 – Industrial productionSemi and nondurable goods
Seasonally adjusted data
2000 = 100

Source: IBGE

strongly, at the beginning of 2008. In this sense, considering seasonally adjusted data, the production of these goods increased by 5.2% in the quarter ended in April, compared to the one ended in January, when it expanded 3.8% in the same type of comparison. The average quarterly growth in the production of capital goods came to 5.4% in 2007.

The production of durable consumer goods, highlighting the consolidation of domestic demand, grew 5.2% in the quarter ended in April, compared to the one ended in January, while that of semi and nondurable consumer goods and intermediate goods declined, in the order, 1.6% and 0.1% on the same basis of comparison.

The analysis of the production of capital goods by destination shows a continued upturn in activity of the segments associated to goods targeted to transportation, mixed use and industry. In this sense, the production of capital goods for transportation increased 14.1% in the quarter ended in April, compared to one ended in January, while the one related to capital goods for mixed use increased 3.5%. The production of capital goods channeled to industry grew 3.3%, in the period, as consequence of expansion in the manufacturing of serial capital goods, 4%, and non-serial, 8%.

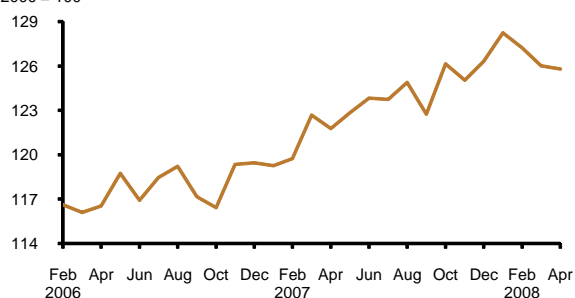
The physical production of 17 out of the 27 industrial activities surveyed by the IBGE showed growth in the quarter ended in April, compared to the one ended in January, with emphasis to other transportation equipment, 28.1%, automotive vehicles, 6.2%, publishing, printing and reproduction of recordings, 4.3%; machines and equipment, 3.5%, and diverse items, 2.9%. On the other hand, noteworthy are the cutbacks registered in activities related to office machines and informatics equipment, 10.9%, pharmaceuticals, 9.4% and beverages, 6.4%.

On the same basis of comparison, the regional production indicators (PIM-PF Regional) shows that physical production expanded more than the national average in nine of the thirteen states surveyed with emphasis on results from Ceará, 4.2%, Paraná, 3.5%; Espírito Santo, 2.7%; Goiás, 2.7%, São Paulo, 2.4% and Pernambuco, 1.8%. One should highlight that those variations, suggesting the broad occurrence of industrial growth in the country, took place in different sectors in each of the country's geographical regions.

The segmentation of industries regarding the use of electric energy revealed that the production in the sector of low intensity played a relevant role in the increase of industrial production in the four first months of the year, against the

Figure 1.11 – Industrial production

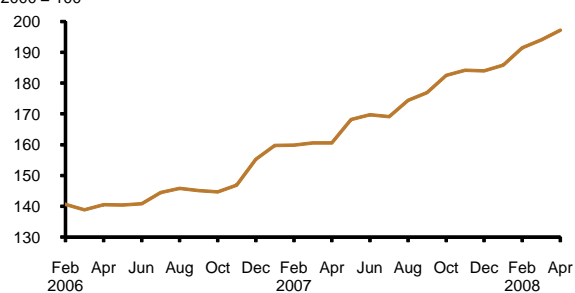
Intermediate goods
Seasonally adjusted data
2000 = 100



Source: IBGE

Figure 1.12 – Industrial production

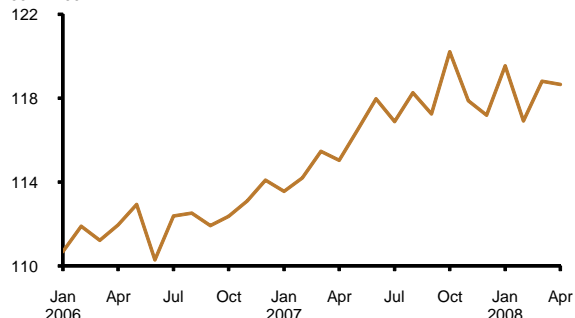
Capital goods
Seasonally adjusted data
2000 = 100



Source: IBGE

Figure 1.13 – Labor productivity^{1/}

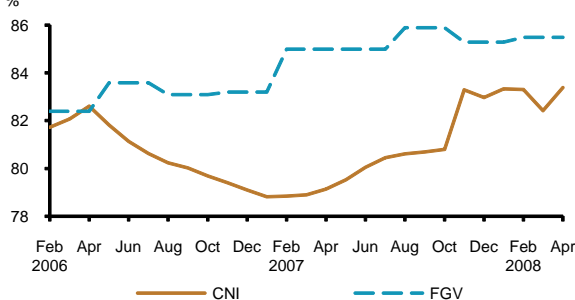
Seasonally adjusted data
2002 = 100



Source: IBGE

Figure 1.14 – Utilization of installed capacity in the manufacturing industry

Seasonally adjusted data
%



Sources: CNI and FGV

same period of the previous year. This segment increased 9.2%, in the period, while the production of industries of medium and high intensity spending of electric energy increased 5.4%.

Personnel employed and the number of hours paid in the industry increased by 0.4% and 1.1% respectively in the quarter ended in April, compared to that ended in January, using seasonally adjusted data. Labor productivity, estimated by the ratio between the indices of physical production and the number of hours paid, remained stable in the quarter, showing that the process of greater absorption of capital goods has not yet translated into productivity gains in industry.

The steady growth trend of industry at the beginning of 2008 is reinforced by FGV's and CNI's statistics about the Installed Capacity Utilization Level (Nuci). Considering seasonally adjusted data, this indicator, according to FGV, reached 85.5% in April, only lower than the 85.9% registered in October 2007, standing at a record level in the categories of capital goods, 88.3% and consumer goods, 86%. Breaking down by industrial sectors indicates that the installed capacity utilization level was equally a record one, in April, in the industries of non-metallic minerals, 88.3%; mechanic, 89.6%, transportation material, 92%; and foodstuffs, 85.8%, while in the chemical industries and others it stands at a level lower than the average of the last ten years. According to CNI, Nuci reached a record level of 83.4% in April, increasing 1 p.p. compared to the previous months, considering seasonally adjusted data, and 1.5 p.p with regard to April 2007, regarding the observed series.

Considering FGV data, the Nuci reached 85.6% in May, against 85.1% in April and 84.4% in May 2007, with emphasis on the record levels of occupation with reference to the segments of construction material, 88.8%, and non-metallic minerals, 89.4%.

Industrial entrepreneurs' confidence indicators reveal a steady optimistic perception about the economic environment and the coming future, standing at a high level, despite a small correction on the margin. FGV's Industrial Confidence Index (ICI), considering seasonally adjusted data, released on a quarterly basis, reached 116.4 points in April, against 119.2 points in January. The two components of the indicator registered a drop in the period, especially the Expectations Index (IE), which fell 4.4 points to 108.9 points, while the Current Situation Index (ISA) decreased 1.3 point, to 123.8 points.

1.3 Labor market

Employment

Table 1.8 – Industry Confidence Index^{1/}

	2007		2008	
	Jul	Oct	Jan	Apr
Manufacturing industry	123.4	122.0	119.2	116.4
By category of use:				
Consumer goods	135.0	139.9	130.6	128.0
Capital goods	132.9	138.5	130.1	132.7
Building material	133.4	125.6	122.3	123.9
Intermediate goods	122.3	116.7	117.7	114.5
By component:				
Current Situation Index	129.7	127.1	125.1	123.8
Global demand level	124.3	120.3	118.2	119.5
Inventory level	103.8	103.4	105.3	100.8
Business situation	133.8	130.7	125.1	124.8
Expectations Index	117.0	117.0	113.3	108.9
Business situation	161.4	155.6	147.7	149.2
Employment	122.4	124.2	120.1	116.5
Physical production	133.3	136.3	134.8	121.7

Source: FGV

1/ The average of the last ten years is equal to one hundred. Values above one hundred indicate industrial activity expansion.

Figure 1.15 – Unemployment rate

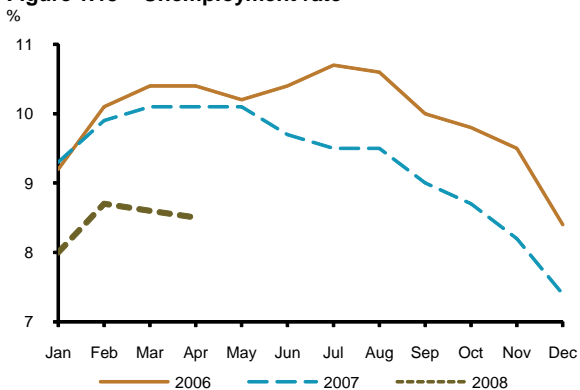
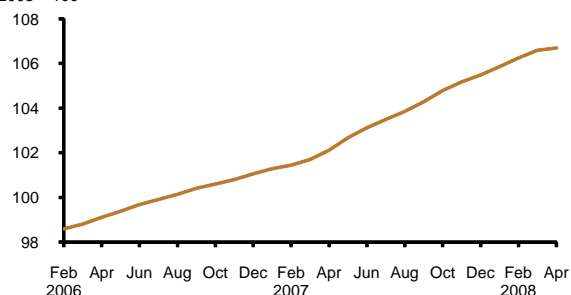


Figure 1.16 – Employment in the manufacturing industry – Quarterly moving average

Seasonally adjusted data

2003 = 100



Source: CNI

The expansion of the labor market in the first months of the year remains consistent with the upturn of economic activity, registering consecutive reductions on unemployment rate, which at its lowest level since the beginning of IBGE's PME, in March 2002. The decline in employment rate occurs in a scenario of increase in the formal employment rate, expressed by replacement of informal with formal employment position, a movement associated, to a large extent, to business confidence in the ongoing economic cycle of expansion. Additionally, the process of labor real earnings continues, an evolution observed even in a scenario of accelerated inflation, since the second half of 2007.

According to the PME, the average unemployment rate registered in the six metropolitan areas covered by the survey reached 8.5% in April, against 10,1% in the corresponding month of the previous year, being the eighth consecutive monthly result in which the rate is at the lowest level of the historical series for the respective month. In the quarter ended in April, the average unemployment rate closed at 1.5 p.p. lower than the one registered in the same period in 2007.

The employment rate increased 3.8% in the quarter ended in April, compared to the same period in 2007, indicating for the first time, since the beginning of 2005, an upward trend in the employment level. It was created 886 thousand of jobs in the area covered by the PME, which confirmed the continuity of the process of growing formalization of the labor market, with 850 thousand formal jobs. The number of informal workers dropped by 3.3% and the one of self-employed grew by 1.8% in the period.

According to the General File of Employed and Unemployed Persons (Caged), of the Ministry of Labor and Employment (MTE), 848.962 formal jobs were created in the four first months of 2008, the most significant result since the beginning of the series, in January 1985, the number of registered workers increased by 6.8% in the period, as a result of widespread expansion in the employment level of the main sectors of the economy, reaching 6.5% in commerce, 6.3% in the manufacturing industry and 5.5% in the service sector. One should highlight that the employment levels in the segments of manufacturing industry and services materialized historical records and the one related to commerce, the second highest level of

the series. Additionally, the accelerated expansion rate of employment in the construction industry persists, reaching 16.3% against the first four months of 2007.

According to CNI survey, considering statistical data from twelve units of the Federation, industrial employment grew 4.7% in 2008, against the same period of the previous year. Margin analysis equally indicates an employment increase in this segment, reaching 0.8% in the quarter ended in April, compared to that ended in January, considering seasonally adjusted data.

Earnings

In 2008, the average real income usually received by those occupied in the six metropolitan regions encompassed by the PME increased 2.4% in the quarter ended in April, against the same period of 2007, representing the ongoing trajectory of cumulative real earnings observed since that half-year. Considering job category, earnings reached 3.5% in the segment of self-employed, followed by those working in the private sector, unregistered workers, 2.5%, while that of formal employees turned in a decrease of 1.1%.

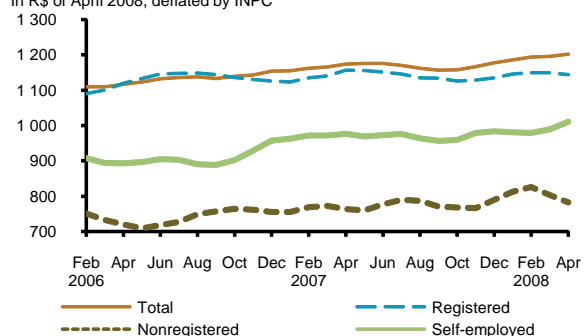
The real overall wages, product of the average real income usually earned by the number of those employed, grew 6.3%, on the same comparisons basis, while the average nominal income reached R\$1,208.10 in April, increasing 8.4% against the same month of the previous year. The acceleration of wage earnings constitutes a demand supporting factor; however it may also become an inflationary fueling factor.

1.4 Gross Domestic Product

The GDP expanded 5.8% in the first quarter of 2008, compared to the same period in 2007, according to IBGE's Quarterly National Accounts System. This result highlighted the consolidation of domestic demand as a determinant of upturn in product activity, responding for 8.5 p.p. of the increase rate, while the external sector was responsible for 2.6 p.p. One should highlight that domestic demand constitutes the sole determinant for cumulative GDP growth in the year, since the first quarter of 2006. Additionally, the positive GDP performance in the beginning of 2008 reflected the positive results in all of its components, from both the production and demand viewpoints, with the exception of exports.

Figure 1.17 – Average real regular earnings^{1/}

In R\$ of April 2008, deflated by INPC



Source: IBGE

1/ Quarterly moving average.

Table 1.9 – Formal employment

	2007	2008		
		Jan/Mar	Apr	Year
Total	1 617.4	554.4	294.5	849.0
Manufacturing industry	394.6	146.2	82.7	229.0
Commerce	405.1	19.3	34.7	54.0
Services	587.1	212.6	97.4	310.0
Building	176.8	99.7	32.1	131.7
Crop and livestock	21.1	48.7	38.6	87.3
Public utilities	7.8	4.1	1.6	5.7
Others ^{1/}	25.0	23.9	7.3	31.2

Source: MTE

1/ Includes mining, public administration and others.

Table 1.10 – Gross Domestic Product
Quarter/previous quarter
 Seasonally adjusted

	% growth				
	2007				2008
	I Q	II Q	III Q	IV Q	I Q
GDP at market prices	1.0	1.5	1.8	1.6	0.7
Crop and livestock	-0.9	0.7	6.8	0.2	-3.5
Industry	-0.4	1.7	1.9	1.1	1.6
Services	1.4	0.9	1.3	1.5	1.0
Households consumption	1.6	1.7	1.6	3.4	0.3
Government consumption	1.9	0.6	0.3	-0.2	4.5
Gross fixed capital formation	2.5	4.8	4.7	3.3	1.3
Exports	2.0	0.5	-0.1	3.9	-5.7
Imports	5.0	2.9	8.6	5.2	0.8

Source: IBGE

Table 1.11 – Gross Domestic Product at market prices

	% growth				
	2007				2008
	I Q	II Q	III Q	IV Q	I Q
Accumulated in the year	4.4	4.9	5.1	5.4	5.8
Accumulated in 4 quarters	3.9	4.8	5.1	5.4	5.8
Quarter/same quarter of the previous year	4.4	5.4	5.6	6.2	5.8
Quarter/previous quarter ^{1/}	1.0	1.5	1.8	1.6	0.7
Crop and livestock	-0.9	0.7	6.8	0.2	-3.5
Industry	-0.4	1.7	1.9	1.1	1.6
Services	1.4	0.9	1.3	1.5	1.0

Source: IBGE

1/ Seasonally adjusted data.

Table 1.12 – Gross Domestic Product

	% growth					
	2007				2008	
	I Q	II Q	III Q	IV Q	I Q	Year ^{1/}
GDP at market prices	4.4	4.9	5.1	5.4	5.8	4.8
Households consumption	5.7	5.7	5.8	6.5	6.6	6.6
Government consumption	3.7	3.5	3.4	3.1	5.8	4.3
Gross fixed capital formation	8.8	11.4	12.5	13.4	15.2	11.8
Exports	6.0	9.7	6.7	6.6	-2.1	3.3
Imports	19.8	19.2	19.6	20.7	18.9	21.3

Source: IBGE

1/ Estimated.

The performance of the domestic demand continues favored by the conditions of the credit market and by the level of confidence of business and consumers, which stimulate the levels of household consumption and investment decisions. In this environment, household consumption, which is also impacted by the trajectory of real wages and employment, increased 6.6% in the period, the eighteenth consecutive increase, on this basis of comparison. The Gross Fixed Capital Formation (GFCF), in line with the construction industry performance and with the strengthened production of capital goods, increased 15.2% in the period, while government consumption increased 5.8%. The external sector's negative contribution to GDP growth, consistent with the process of strengthening of domestic demand, reflects a 2.1% drop in exports of goods and services and increase of 18.9% under imports.

From the production perspective, GDP performance in the first quarter of 2008, in relation to the same period of the previous year, was associated to the expansion in the production of the industrial sector, 6.9%; in services, 5% and in farming, 2.4%.

The increase in industry reflected an 8.8% expansion registered by the construction industry, consistent with the increased resources related to real estate financing and with the intensification of infrastructural works in the context of the Growth Incentive Program (PAC), and in manufacturing industry, 7.3% in the period. One should highlight the performance of farming defensive segments, 67.9%; tractors, machinery, farming equipment and parts and accessories, 47.4%; aircraft building and assembling, including fixing, 32.2%; and trucks and buses, including engines, 31.8%. With reference to the mineral extraction activity, a 3.3% growth was observed, driven by expansion in the iron ore segment, 10.8%, while production of electricity, gas and water, increased 5.5%.

The service sector, evincing the strengthening of domestic demand, expanded 5% in the quarter, with emphasis on the performance of the financial intermediation segments, insurance, complementary social security segments and services alike, 15.2%, information services, 9.5%; commerce, 7.7%, transportation, storage and postal services, 3.7%.

The crop and livestock sector grew 2.4% in the first quarter of 2008; result associated to the performance of representative crops in the first quarter of the year, such as cotton, corn and soybeans. The increase of the sector during the year should

Table 1.13 – Gross Domestic Product

	% growth					
	2007				2008	
	I Q	II Q	III Q	IV Q	I Q	Year ^{1/}
Crop and livestock	3.7	2.3	4.5	5.3	2.4	5.0
Industry	3.2	5.1	5.0	4.9	6.9	5.3
Mining	4.0	5.0	3.9	3.0	3.3	6.7
Manufacturing	3.1	5.3	5.5	5.1	7.3	4.7
Construction	2.3	4.3	4.6	5.0	8.8	6.9
Public utilities	3.8	4.9	4.5	5.0	5.5	5.1
Services	4.5	4.5	4.5	4.7	5.0	4.4
Commerce	6.1	7.1	7.2	7.6	7.7	7.1
Transportation	3.8	4.9	4.8	4.8	3.7	5.3
Communications	7.3	7.1	7.6	8.0	9.5	6.0
Financial institutions	9.3	9.4	10.7	13.0	15.2	9.8
Other services	3.5	2.9	2.5	2.3	2.6	2.4
Rents	4.5	4.2	3.9	3.5	2.1	1.9
Public administration	1.5	1.1	1.1	0.9	1.1	2.2
Value added at basic prices	4.0	4.4	4.6	4.8	5.5	4.7
Taxes on products	6.9	8.1	8.3	9.1	8.0	5.7
GDP at market prices	4.4	4.9	5.1	5.4	5.8	4.8

Source: IBGE

1/ Estimated.

become more intense while grain crops, with more positive perspectives for the year, are harvested.

The GDP expanded 0.7% in the first quarter of 2008, in relation to the fourth quarter of the previous year, according to seasonally adjusted data. GDP growth on the margin continued to evince the major upturn in domestic demand, reflected both on the significant acceleration of investments and on the maintenance of household consumption growth. The support pattern of the current cycle of expansion of the Brazilian economy continues, therefore, with positive characteristics of its maintenance, mostly impacted by the steady growth in real income and employment and by the performance of the farming sector.

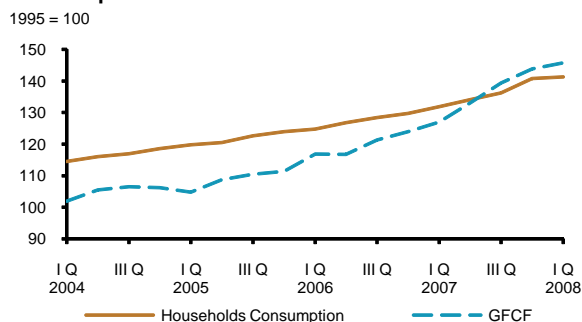
The GDP growth on the margin reflected industrial expansion of 1.6%, and 1% in the service sector and a 3.5% decline in farm production. Regarding the demand components, one should highlight that, in the period, the FBCF's continued growth of 1.3%, while household and government consumption expanded, respectively, 0.3% and 4.5%. Exports declined 5.7% and imports, increased 0.8%, the tenth consecutive quarterly positive result, considering seasonally adjusted data.

The forecast of 4.8% for the annual GDP growth, registered in the last "Inflation Report", was maintained, taking into account the economic performance in the first quarter of the year and its prospects, central in the recent increase of leading and coincident indicators, as regards the continuity of the Brazilian economy's expansion cycle during the year.

1.5 Investments

The consolidation of domestic demand as driving force of the expansion cycle of the Brazilian economy continues fundamentally associated to the strong investment performance, with positive effects on the productive capacity in the medium term. According to IBGE's Quarterly National Accounts, with the exception of stock variation, investments increased by 15.2% in the first quarter of 2008, in relation to the same period of 2007. This corresponded to the seventeenth consecutive expansion on this basis of comparison. The margin analysis continues to confirm the upturn in investment activity, which increased 1.3% in the period, as compared to the same period of 2007, considering seasonally adjusted data.

Figure 1.18 – Households Consumption and Gross Fixed Capital Formation^{1/}



Source: IBGE
1/ Seasonally adjusted data.

The strong growth in investments during the first quarter of the year had been anticipated by the trajectory of the GFCF monthly indicators. In this sense, the construction industry inputs increased 9.6% in relation to the first quarter of 2007, while production, imports, and exports of capital goods increased, in that order, 17.3%, 34% and 6.8% determining an increase of 23.5% in absorption of this product category.

The increased production of capital goods reflected a general expansion in the sector, with emphasis to the performance of goods designed to the farming sector, 53.8%; transportation equipment, 29%; goods targeted to the electric energy sector, 15.2%; and manufactured goods, 12.1%. It is worth mentioning that the upturn in activity in the segment associated to the farming sector should persist during the year, in line with forecasts of continued farming income recovery.

The recent performance of construction inputs production, as well as the production and import of capital goods, suggest steady strong investments. In this sense, these indicators, considering seasonally adjusted data, registered increases of 3.7%, 3.8% and 7% respectively, in the first quarter of the year, while exports decreased 1.7% on the same basis of comparison.

Disbursements from the National Bank of Economic and Social Development (BNDES) system totaled R\$16.4 billion in the first quarter of 2008, a 45.4% increase over the same period of 2007. It should be highlight the increases in resources for the manufacturing industry, 50.7%, trade and services, 61.3%, and the farming sector, 14.9%, which represent, respectively, 45.5%; 46% and 7.8% of the total provided by the Bank.

1.6 Conclusion

The upturn in household consumption and, particularly, in investments, continues to demonstrate the importance of consolidating the process of strengthening the domestic demand for the continuous expansion cycle of the Brazilian economy. In this environment – in which both the country’s economy has proved itself capable of facing the turmoil in the external financial markets, and risk rating agencies have confirmed the improved quality of domestic macroeconomic underpinnings – the conditions are in place to favor investment expansion at a level which guarantees, in the medium term, the balance between demand and supply of

goods and services with no need for external accounts to suffer inappropriate pressures.

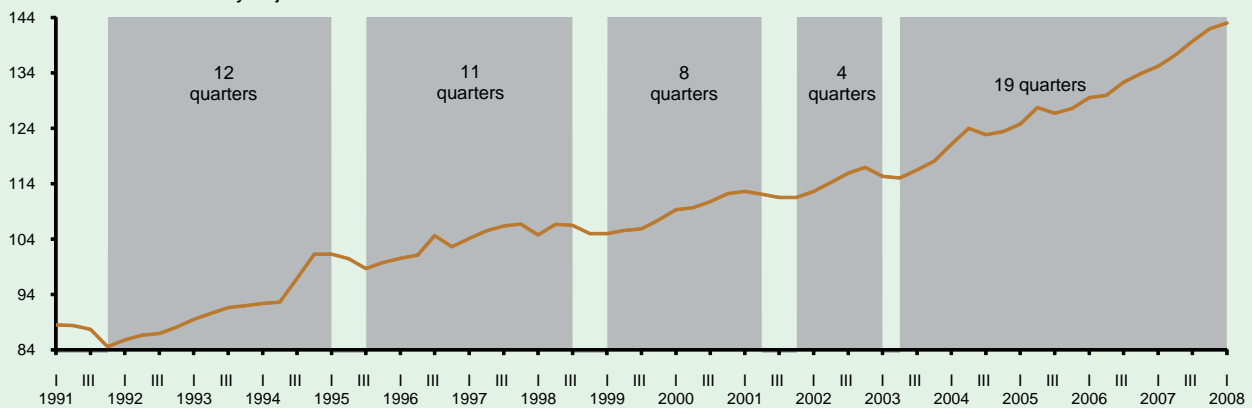
GDP growth remains, as a result of generalized expansions in its components, both from the viewpoints of production and demand. One should highlight, as in previous reports, that the prospects for expanding this cycle finds support in the optimism shown by consumers and entrepreneurs in diverse outlook surveys.

One should highlight that, in the medium term, growth in investments should be favored by the scenario of greater inflow of external resources, associated to the upgrading of the Brazilian economy to the investment grade. Meanwhile, the intensification of household consumption will continue to reflect, to a great extent, the qualitative and quantitative improvements in the labor market and in credit market conditions.

The Brazilian Economy – Growth Cycles and Constraints

The Brazilian Economy's current growth cycle, estimated by the Gross Domestic Product's (GDP) trajectory quarter series, released in the National Accounts of the Brazilian Institute of Geography and Statistics (IBGE), is the longest one since the beginning of the historical series, in 1991. Considering seasonally adjusted data, it is possible to identify, as illustrated on Graph 1, five well characterized periods of the Brazilian economy expansion, initiated in the first quarter of 1992, in the fourth quarter of 1995, in the second quarter of 1999, and in the first quarter of 2002, and in the current cycle, initiated in the third quarter of 2003.¹

Figure 1 – Evolution of GDP
1995 = 100 – Seasonally adjusted series



Besides being the longest, with 19 months up to the current moment, the current cycle registers cumulative GDP expansion of 24.3%, the highest rate amid the mentioned periods. Considering quarterly average rates, as illustrated on Table 1, GDP growth in the latest cycle increased by 1.2%, only lower than

1/ In this box, the interruption of an expansion cycle as of the occurrence of two consecutive reductions in the seasonally adjusted series of the quarterly GDP.

the average rate of 1.5% which marked the cycle following the introduction of the Real Plan.

In this context, this box aims to examine the constraints both to expansion and intensity of the current period of the Brazil's economic growth, with emphasis on strengthening the external accounts and the upturn in the activity level of domestic demand, especially referring to the investments trajectory.

Table 1 – Expansion cycles – Duration and growth rates

	Expansion periods				
	From III Q 1992 to I Q 1994	From IV Q 1995 to II Q 1998	From I Q 1999 to I Q 2001	From I Q 2002 to IV Q 2002	From III Q 2003
Number of quarters	12	11	8	4	19
Total growth (%)	19.7	8.1	7.3	4.9	24.3
Average growth (%)	1.5	0.7	0.9	1.2	1.2

Source: IBGE

The growth of external accounts, translating a sequence of five positive results in the balance of payments' current account, helped build a significant stock of international reserves and decrease in external liabilities, especially of the public sector, with effects on the perception, by external investors, of the risks involving the country's economy. In this environment, which enabled the adoption of macroeconomic policies appropriate to gains inherent to the stabilization process, enhanced the country's recognition, both by the markets and by risk classification agencies, resulting in adequate allocation of investments.

Improvements in fundamentals concerning the external accounts gain a more important feature when considering that, except for the expansion period ended in 2001, due to the rationing of electric energy, the other cycles were interrupted by shocks particularly associated to external vulnerability, as illustrated on Graph 2. In this sense, the end of the cycle initiated in the first quarter of 1992 was consequent upon the outbreak of the crisis in Mexico, from the outset of 1995, while the interruption of the growth period initiated at the end of 1995 mirrored the consecutive crises in Asia, in 1997, and in Russia, in the second half of 1998. The shortest expansion period, in 1992, reflected external financing difficulties linked to the crisis of the international investors' confidence. This was partly associated to uncertainties prevailing during the presidential succession period.

During all these episodes, the dynamics of spreading the shocks mirrored the external sector's vulnerability and demanded the prompt reaction of the monetary policy with the aim of adjusting the country's macroeconomic environment. In the period prior to the floating exchange rate, the shocks caused, at the

Figure 2 – International reserves and exchange rate



initial moment, high variations of the level of the reserves. After 1999, the impact started to initially occur on the foreign exchange rate, later causing inflationary pressures.

The prospects of continuity of the current expansion cycle are founded, however, on the greater soundness of the external accounts, as compared to the previous cycles.² In this sense, it should be pointed out, for example, that the participation of international reserves in the total external debt increased from 19.9%, in the beginning of 1999, to 93.2%, at the end of 2007, while the representativeness of the exchange-indexed debt in the total of the real estate debt decreased from 28.2%, also at the beginning of 1999, to 0.8%, at the beginning of 2008. Additionally, even in an external scenario of major financial markets, volatility the Brazil risk, measured by the Emerging Markets Bond Index Plus (Embi+), continued at a reduced level, while the two major risk-rating agencies raised the country's rating to investment grade.

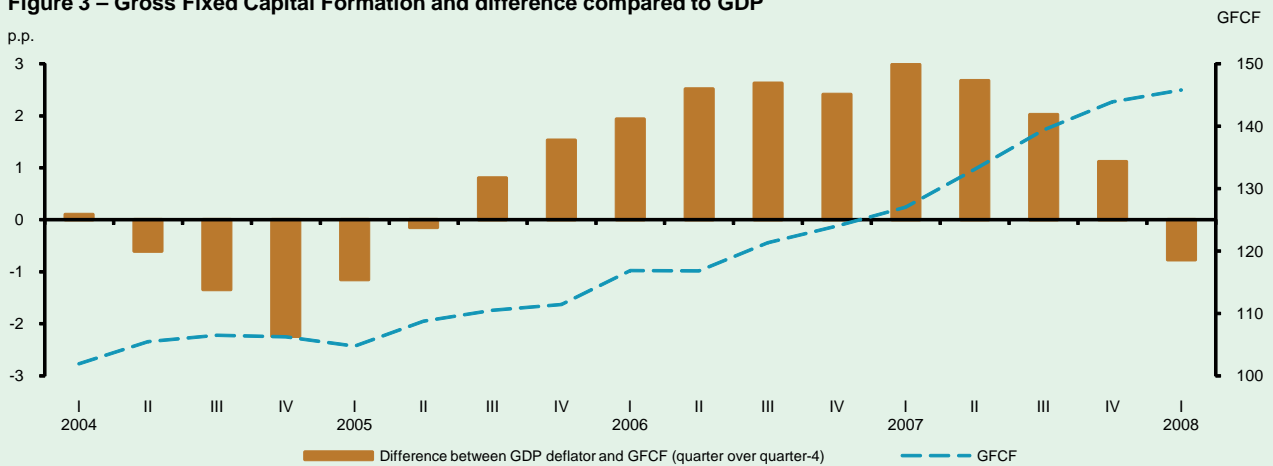
The evolution to investment level is an indicator of the soundness of the cycles of economic expansion. Although – excepting to the short-term cycle registered in the four quarters of 2002, when the investors' confidence still reflected the restriction imposed by the energy rationing, – in all the cycles considered there was an expansion of investments – currently, this process has proved to be sharper. In this sense, the Gross Formation of Fixed Capital (FBCF) accumulates expansion of 58.1% since the beginning of the current

2/ The recent evolution of the fundamentals related to the external sector of the Brazilian economy may be better understood after reading section 5.5 - External Sustainability Indicators, which is part of this Report.

cycle of economic growth, with emphasis both to the growth rates registered on the margin and to the recent increase of leading indicators, which equally suggest the maintenance of an upward trajectory of investments in the coming quarters.

Another incentive factor to the continued expansion in investments refers to the positive moment experienced by relative prices in this segment. According to Graph 3, from the third quarter of 2005 to the fourth quarter of 2007 the GDP deflator stood at a level higher than the FBCF deflator, despite the high demand for investments partly supplied by capital goods imports, in which case the expansion accumulated in the latest four years is twice as high as that of GDP.

Figure 3 – Gross Fixed Capital Formation and difference compared to GDP



This evolution, which has a favorable impact on the continuity of investments' upward trajectory in the same period, becomes one of the elements in the consolidation of the domestic demand as a predominant factor in the maintenance of the current cycle of economic expansion, in parallel with the trajectories of credit, employment and real overall wages. However, in the opposite sense, it is associated to risks to the maintenance of the current economic growth pace, the downturn of the world's economy, the increase in international prices of foodstuffs and other commodities, and its effects on domestic inflation and, finally, the impacts on inflation through the domestic demand performance.