

GDP – Revised forecasts for 2008 and forecasts for 2009

Brazilian Gross Domestic Product (GDP) growth estimate for 2008 was revised from 5%, as contained in the last “Inflation Report”, to 5.6%, summed up to results of the third quarter, of the revision carried out by the Brazilian Institute of Geography and Statistics (IBGE) to data of the first half-year and of expectations related to its evolution in the fourth quarter. One should mention that the significant result shown in the third quarter of the year did not mirror the impacts of the aggravating crisis in the financial market on the credit conditions and on the businesses and consumers’ skepticism level, an environment which should indicate the economic activity deceleration in the last quarter of the year.

The farming sector should grow by 6.7% in 2008, a forecast 1.2% higher than the one contained in the September Inflation Report. This adjustment, which represented the highest, when viewing the production side, mirrors, mainly, the revision, from 5.2% to 6.7%, carried out by the IBGE, of the sector’s growth in the first half of the year.

The industrial sector annual growth forecast fell from 5.5% to 5.4%. This sector’s production, which grasps the variations inherent to the economic cycles more intense way, should be stronger impacted in the fourth quarter.

The service sector forecasts grew from 4.5% to 5%, in line with its performance in the third quarter, more positive than the previous forecast, and with the prospect of a smaller downturn in the fourth quarter than the one registered by the industrial sector. Such a perspective is consistent with the dynamics of the sector’s adjustment, which is slower than the one observed in other sectors.

The reassessment of the GDP annual growth rate in 2008, considering the demand viewpoint, evinces the importance of domestic outlays in sustaining the activity level. In this sense, the domestic demand contribution to annual GDP growth rate in 2008 topped 7.9 p.p., as compared to the previous estimate of 7.2 p.p., an increase consistent with the evolution of the Gross Formation of Fixed Capital (GFCF) and of household's and government's consumption, in the third quarter. The forecast related to the external sector's negative contribution remained relatively stable, reaching 2.3 p.p., against 2.2 p.p. as stated in the previous report, in a scenario of declining external trade flows.

The forecast for GDP growth in 2009 reached 3.2%, a performance which should be sustained, for the fourth consecutive year, only by domestic demand. The forecast for GDP annual expansion considers the occurrence of positive developments in all the economy's sectors, but for an outlook of generalized slowdown of the respective growth rates, in relation to 2008 and 2007.

The farm sector's annual growth rate is forecasted at 0.2%, interrupting the growth trajectory registered in the triennium 2006-2008, when the sector grew, on average, 5.74%. This decrease is consistent with a declining world demand for farm commodities, in line with the income and world trade downturn, as well as with the slump forecasted to important crops, affected by weather diversity, especially in the South Region, and by the negative biannual cycle of the coffee crop. In this scenario, according to the IBGE, the decrease of 3.7% expected in the grain production in 2009 will be linked to a drop in the crops of wheat, 12.9%; maize, 2.6%, and soybean, 0.2%, while the rice and beans crops have forecasted growths of 5.6% and 1.3%, respectively.

In 2009, growth in industrial production was estimated at 3.6%, sustained by the dynamics of the mineral extraction industries, 5.2%; and the construction industry, 4.3%, favored by the new real estate credit lines and investments, especially by the government, in the context of the Growth Incentive Program (PAC). The manufacturing industry and the public utility industrial services should register

respective growth rates of 3.1% and of 3.8%, in the year, showing a stronger recovery in the second half.

The deceleration registered in the services sector should be weaker than in other sectors. The annual growth for this segment, forecasted at 3.1%, incorporates favorable performances, especially, in the subsectors of financial institutions, trade and transportation.

The domestic demand's performance will continue in 2009, as observed from 2006 to 2008, sustaining the economic activity level, forecasting that its contribution to GDP growth, in the year, reaches 3.7 p.p., corresponding to expansions of 4.4% in the GFCF, of 3.9% in household consumption, and of 2.2% in the government consumption.

The external sector's contribution, although negative, will be less intense than in 2008, standing at 0.5 p.p. This reduction mirrors the adjustment prospect in external trade flows in 2009, showing a 1.8% falloff in exports and 2.3% growth in imports.

Table 1 – Gross Domestic Product

| | 2006 | 2007 | | 2008 | | | | 2009 ^{1/} |
|--------------------------------------|---------|-------|------|------|------|-------|--------------------|--------------------|
| | Weights | III Q | IV Q | I Q | II Q | III Q | IV Q ^{1/} | |
| Crop and livestock | 5.1 | 4.9 | 5.9 | 3.8 | 6.7 | 6.7 | 6.7 | 0.2 |
| Industry | 24.0 | 5.1 | 4.7 | 6.9 | 6.2 | 6.5 | 5.4 | 3.6 |
| Mineral extraction | 1.9 | 3.7 | 2.8 | 3.6 | 4.5 | 5.6 | 5.8 | 5.2 |
| Manufacturing | 14.9 | 5.3 | 4.7 | 7.4 | 6.2 | 6.1 | 4.4 | 3.1 |
| Construction | 4.1 | 4.6 | 5.0 | 8.9 | 9.3 | 10.2 | 9.2 | 4.3 |
| Public utilities | 3.1 | 5.8 | 5.9 | 5.4 | 4.6 | 4.9 | 5.1 | 3.8 |
| Services | 56.5 | 5.2 | 5.4 | 5.2 | 5.3 | 5.5 | 5.0 | 3.1 |
| Commerce | 9.9 | 6.5 | 7.1 | 7.9 | 8.1 | 8.6 | 7.5 | 4.2 |
| Transportation | 4.5 | 5.2 | 5.3 | 4.3 | 4.7 | 5.0 | 4.1 | 3.1 |
| Communications | 3.0 | 6.5 | 7.0 | 8.0 | 8.1 | 8.8 | 8.4 | 5.3 |
| Financial institutions ^{2/} | 6.7 | 11.8 | 14.5 | 13.2 | 11.7 | 10.7 | 9.1 | 4.1 |
| Other services | 12.1 | 3.5 | 2.7 | 3.3 | 4.1 | 4.7 | 4.6 | 2.8 |
| Rents | 7.4 | 4.4 | 4.1 | 3.8 | 3.5 | 3.3 | 3.0 | 2.2 |
| Public administration | 12.9 | 2.5 | 2.4 | 1.4 | 1.7 | 2.0 | 2.1 | 1.8 |
| Value added at basic prices | 85.6 | 5.1 | 5.2 | 5.6 | 5.8 | 5.9 | 5.2 | 3.0 |
| Taxes on products | 14.4 | 8.0 | 8.4 | 9.1 | 8.6 | 9.1 | 7.8 | 3.9 |
| GDP at market prices | 100.0 | 5.5 | 5.7 | 6.1 | 6.2 | 6.4 | 5.6 | 3.2 |

Source: IBGE and Banco Central

1/ Estimated.

2/ Includes insurance, complementary social security and related services.

Table 2 – Gross Domestic Product – Demand side

| Period | GDP at market price | Private consumption | Government consumption | Total consumption | Gross Fixed Capital Formation | Exports | Imports | % |
|-------------------------|---------------------|---------------------|------------------------|-------------------|-------------------------------|---------|---------|-------|
| 2002 | | 2.7 | 1.9 | 4.7 | 2.6 | -5.2 | 7.4 | -11.8 |
| 2003 | | 1.1 | -0.8 | 1.2 | -0.3 | -4.6 | 10.4 | -1.6 |
| 2004 | | 5.7 | 3.8 | 4.1 | 3.9 | 9.1 | 15.3 | 13.3 |
| 2005 | | 3.2 | 4.5 | 2.3 | 3.9 | 3.6 | 9.3 | 8.5 |
| 2006 | | 4.0 | 5.2 | 2.6 | 4.5 | 9.8 | 5.0 | 18.4 |
| Contribution (p.p.) | | | 3.1 | 0.5 | 3.6 | 1.6 | 0.8 | -2.1 |
| 2007 | | 5.7 | 6.3 | 4.7 | 5.9 | 13.5 | 6.7 | 20.8 |
| Contribution (p.p.) | | | 3.8 | 0.9 | 4.7 | 2.2 | 1.0 | -2.4 |
| 2008 (estimated) | | 5.6 | 6.2 | 5.1 | 5.9 | 16.2 | 1.1 | 20.4 |
| Contribution (p.p.) | | | 3.8 | 1.0 | 4.8 | 2.8 | 0.1 | -2.5 |
| 2009 (estimated) | | 3.2 | 3.9 | 2.2 | 3.5 | 4.4 | -1.8 | 2.3 |
| Contribution (p.p.) | | | 2.4 | 0.4 | 2.8 | 0.8 | -0.2 | -0.3 |

Source: IBGE and Banco Central