

The analysis of the real sector of the Brazilian economy, as presented in the last Inflation Report, indicates that the robust performance, of both the industrial activity and the retail trade sales and of GDP, did not suggest, even in an environment of greater rigidity in the monetary policy management, the occurrence, in the following months, of a sharp downturn in the pace of growth of the activity level.

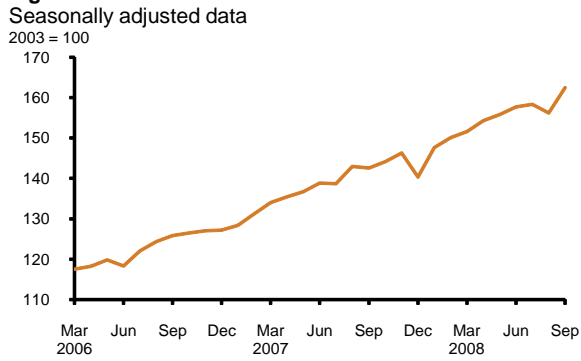
The worsening, since mid-September, of the international financial crisis initiated in the American subprime market, in 2007, incorporated a significant rate of uncertainty concerning the outlook for world's economy growth, expressed in evident signs of recession in mature economies and of downturn in the emerging economies' expansion rate. In this environment, in which the maintenance of the macroeconomic solid foundations observed in the Brazilian economy does not provide a strong basis to prevent the global crisis effects from expanding, even if such a process lessened the prospects related to the evolution of the activity level in the final quarter of 2008 and, in 2009, appear less favorable, enabling, in line with the already observed reductions in optimism levels both of consumers and entrepreneurs, a relative slackening in the pace of industrial growth, retail sales and employment indicators.

One should underscore that, taking into account the period analyzed in this report, the growth of some variables should mirror the new economic environment, only partially, and do not incorporate any possible reversal in its trajectory.

1.1 Retail trade

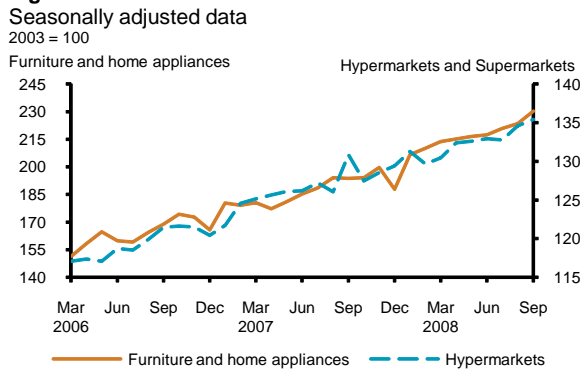
Sales on the retail trade remained, up to the end of the third quarter, in an expansionist trajectory registered in the first quarter of the year, an evolution consistent both with favorable conditions of the credit and labor market, and with the high level of the consumer confidence indices. The first results available for the fourth quarter suggest,

Figure 1.1 – Extended retail sales



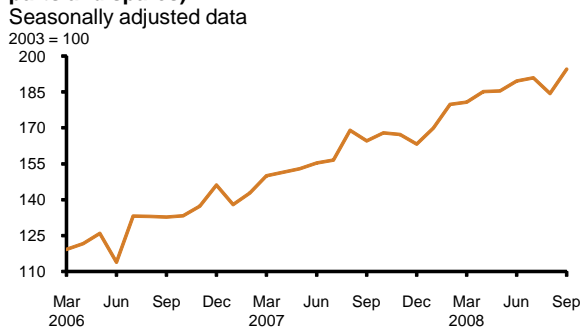
Source: IBGE

Figure 1.2 – Retail sales



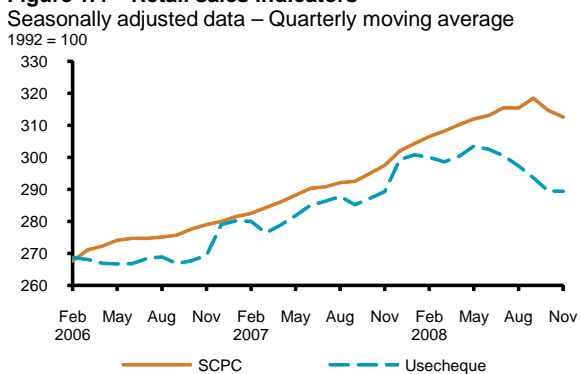
Source: IBGE

Figure 1.3 – Retail sales (automobiles, motorcycles, parts and spares)



Source: IBGE

Figure 1.4 – Retail sales indicators



Source: ACSP

however, that retail indicators have settled. In this sense, the automotive sector's sales registered strong cutback in October and December, a tendency associated to the credit restriction due to the worsening of the international financial crisis, while consumer expectation indicators, though still on a comfortable level, started to mirror the new phase experienced by the world economy.

According to the Monthly Retail Trade Survey (PMC), released by the Brazilian Institute of Geography and Statistics (IBGE), the volume of sales on the expanded retail trade grew by 2% in the quarter ended in September, in relation to the one ended in June, considering seasonally adjusted data. That result corresponds to the sixteenth positive result in a row, using this basis of comparison. One should highlight, in the period, increases in the sales of all retail segments, except for the cutback of 0.9% in fabrics, apparel and footwear, with emphasis on the upturn in the equipment and office material sectors, 11.6%; other articles of personal and domestic use, 5.1%; pharmaceutical, medical, and orthopedic items and perfumes, 4.2%; furniture and home appliances, 3.9%; and construction materials, 2.6%. Sales related to hypermarkets, supermarkets, foodstuffs, beverage and tobacco, weighting about 30% of the survey, grew 1.2% in the period, a performance partly explained by the increase in food prices.

The expanded retail trade sales increased 13.8% in the first nine months of the year, as compared to the corresponding period of 2007. This performance mirrored the occurrence of expansion in all the country's regions, with emphasis on the increases registered in the Center West region, 15.7%; Southwest, 14.8%; and South, 14.4%. The retail sales considered by the Federation's units, equally registered an overall expansion in the period, with emphasis to the results observed in São Paulo, 13.9%; Rio Grande do Norte, 13.2%; Paraíba, 12.9%; Rondônia, 12.9%; and Mato Grosso, 12.3%.

The expanded retail trade's nominal revenue, accumulated in the first nine months of 2008, grew by 19% as compared to the same period of the previous year, in view of increases of 13.8% in the sales volume and 4.6% on prices. One should highlight that all the ten surveyed segments showed growth rates of the normal revenue higher than the growth of 4.4% registered by the Extended National Consumer Price Index (IPCA) in the same period. One should underscore the expansion in the normal revenues related to articles of personal and domestic use, 25.9%; vehicles, motorcycles, parts and spares, 23.8%; construction materials, 20.5%, and hypermarket and supermarket, foodstuffs, beverage

Table 1.1 – Retail sales

	% change			
	2008			
	Jun	Jul	Aug	Sep
In the month^{1/}				
Retail sector	1.1	0.1	1.1	1.2
Fuel and lubricants	1.8	0.3	0.2	0.1
Supermarkets	0.3	-0.1	1.4	0.6
Fabrics, apparel and footwear	1.6	-3.0	0.8	2.8
Furniture and home appliances	0.4	1.5	1.2	3.1
Pharmac., medical, orthop. and perfumery articles	1.1	1.4	1.1	2.9
Books, newspaper, magazines,	1.6	-0.5	-0.6	2.2
Office, comp./communic. equip.	2.0	3.1	3.9	6.9
Other art. of personal use	-0.7	4.0	-1.0	1.9
Broad retail sector	1.2	0.4	-1.3	4.0
Building materials	1.5	1.3	-0.8	1.0
Automobiles, motorcycles, parts and spares	2.2	0.8	-3.4	5.5
3-Month Period/Previous 3-Month Period^{1/}				
Retail sector	2.3	2.7	2.5	2.4
Fuel and lubricants	4.4	4.0	3.5	2.3
Supermarkets	1.7	1.5	1.2	1.2
Fabrics, apparel and footwear	3.0	1.5	-0.6	-0.9
Furniture and home appliances	3.0	2.5	2.5	3.9
Pharmac., medical, orthop. and perfumery articles	3.8	4.7	3.9	4.2
Books, newspaper, magazines,	3.0	2.3	1.9	1.1
Office, comp./communic. equip.	9.2	8.7	10.6	11.6
Other art. of personal use	1.0	4.6	4.5	5.1
Broad retail sector	4.1	3.5	2.3	2.0
Building materials	4.6	3.8	3.4	2.6
Automobiles, motorcycles, parts and spares	5.6	3.7	2.5	1.7
In the year				
Retail sector	10.6	10.7	10.6	10.4
Fuel and lubricants	8.2	9.2	9.6	10.0
Supermarkets	5.9	5.8	6.1	5.5
Fabrics, apparel and footwear	11.6	11.1	10.2	10.1
Furniture and home appliances	18.5	18.6	17.9	18.3
Pharmac., medical, orthop. and perfumery articles	12.7	13.1	12.5	12.9
Books, newspaper, magazines,	11.5	11.3	10.6	10.8
Office, comp./communic. equip.	30.9	30.9	31.3	33.7
Other art. of personal use	21.5	21.6	20.7	20.3
Broad retail sector	14.3	14.6	13.5	13.8
Building materials	11.2	12.5	11.2	11.5
Automobiles, motorcycles, parts and spares	22.3	22.7	19.7	20.7

Source: IBGE

^{1/} Seasonally adjusted data.

and tobacco, 17.4%; noting that the expansion in this last segment mirrored, especially, the growth of 11.3% observed in prices, the greatest among the ten segments.

The automobile trade sales showed, at the beginning of the fourth quarter, a change in the growth tendency in 2008. In this sense, statistics of the National Federation of Automotive Vehicle Distribution (Fenabrave) revealed that the automobile and vans and had a cutback of 26.3% in November, as compared to the corresponding period of 2007, while, according to the National Association of Automotive Vehicle Manufacturers (Anfavea), the sales of national automotive vehicles in the domestic market decreased by 28%, on the same basis of comparison. Despite greater caution by consumers regarding the worsening current scenario of the international financial crisis, the recent decrease in interest rates carried out by the automakers in consumer loans should favor the segment sales' reaction at the end of 2008 and beginning of 2009.

The São Paulo trade indicators also showed the sales downturn in activity at the end of the third quarter and beginning of the fourth quarter. According to the São Paulo Trade Association (ACSP), the number of consultations to the Credit Protection Service Center (SCPC), an indicator related to the sales of durable goods, fell by 0.9% in the quarter ended in November, as compared to the one ended in August, after showing respective variations of -0.3% and 1.7% in the quarters ended in October and September. The consultations to the Usecheque, an indicator of cash purchases and related more directly to nondurable goods, fell by 2.6% in the period, showing the fifth negative result on this basis of comparison.

Default indicators, repeating the performance outlined in previous reports, remained at a level compatible with the level of retail sales and showed stability in relation to the same period of 2007. The ratio between the number of returned cheques due to the lack of funds and the overall total of cheques cleared reached 6%, on average, in the ten months of the year, against 6.3% in the corresponding period of 2007. The highest rates continue occurring in the North, 9.2%, and Northeast, 9.1%; followed by those related to the Central West, 6.8%; South, 5.7%; and Southeast, 5.5%.

The ACSP statistics, referring to São Paulo, indicate that the default in the state reached, about 6.8%, in the early eleven months of the year, against 6.1% in the corresponding period of 2007.

Table 1.2 – Retail sales
2008, September

	% accumulated growth in 2008		
	Nominal revenue	Volume	Price
Retail sector	16.3	10.4	5.3
Fuel and lubricants	9.8	10.0	-0.2
Supermarkets	17.4	5.5	11.3
Fabrics, apparel and footwear	15.6	10.1	5.0
Furniture and home appliances	13.7	18.3	-3.9
Pharmac., medical, orthop. and perfumery articles	15.4	12.9	2.2
Office, comp./comunic. equip.	12.7	10.8	1.7
Books, newspaper, magazines	15.8	33.7	-13.4
Other art. of personal use	25.9	20.3	4.7
Broad retail sector	19.0	13.8	4.6
Automobiles, motorcycles, parts and spares	23.8	20.7	2.6
Building materials	20.5	11.5	8.1

Source: IBGE

Table 1.3 – Default rates

Itemization	2008						Year ^{1/}
	Jun	Jul	Aug	Sep	Oct	Nov	
Returned checks ^{2/}							
Brasil	5.6	5.8	5.6	5.6	6.5	...	6.0
Northern region	8.4	8.7	8.4	9.1	10.4	...	9.2
Northeast region	8.5	8.9	8.5	8.4	10.4	...	9.1
Southeast region	5.1	5.4	5.1	5.0	5.7	...	5.5
Center-western region	6.1	6.4	6.4	6.5	7.7	...	6.8
Southern region	5.2	5.4	5.4	5.4	6.3	...	5.7
SCPC (SP) ^{3/}	5.7	6.3	6.7	5.9	6.4	6.4	6.8

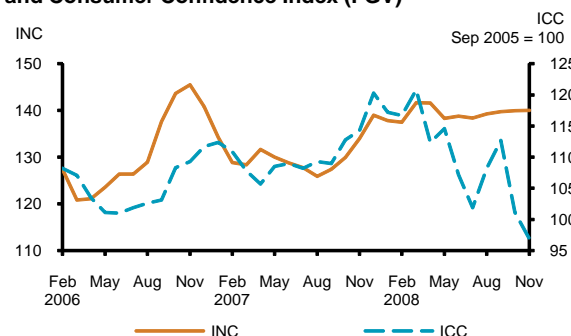
Source: Banco Central do Brasil and ACSP

1/ Annual average.

2/ Returned checks/cleared checks.

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

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



Source: ACSP and FGV

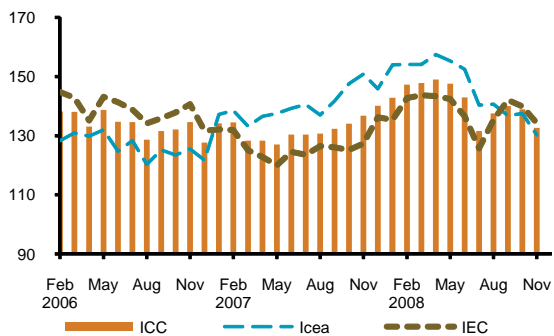
In November, the Consumer Confidence Index (ICC), of the Getulio Vargas Foundation (FGV), reached the lowest level in the historic series, initiated in September 2005, registering falls of 4.2% in relation to the previous month and of 15.2% in November 2007. The monthly result was due to cutbacks of 3.3% in the Expectations Index (EI) and 5.7% in the Current Situation Index (CSI), with emphasis on the deterioration of the local economy situation's component.

The National Confidence Index (INC), measured by the Ipsos Public Affairs (Ipsos), for the ACSP, with interviews carried out between November 20 and 30, reached 139.8 points in November, as compared to 139.9 points in October and 134 points in the corresponding month in 2007. The analysis of the indicator's components shows a downturn in short-term indicators, both in the economic situation at the consumer's household level and in relation to the personal financial situation. By region, the annual result showed the greater optimism by consumers from the South – record high of 18.3% – and a 5.4% decrease in the indicator related to the Southeast.

The National Consumer Expectations Index (Inec), issued on a quarterly basis, released by the National Confederation of Industry (CNI), based on survey carried out between September 19 and 22, increased 5.3% in the quarter ended in September, as compared to the one ended in July, and 4.1% as compared to the same period of 2007. Taking this result into account, the Inec reached the second biggest value of the historical series, initiated in 2001, remaining close to the record observed in September 2006. The quarterly result mirrored growths in all the index's components, with emphasis on the improved expectations concerning inflation and unemployment. One should mention that in this indicator, taking into account the period in which the survey was carried out, did not mirror, however, the effects of the crisis' aggravation on the international financial markets.

The ICC, released by the Trade Federation of the State of São Paulo (Fecomercio) and the register to the metropolitan region of São Paulo, showed, in November, decreases of 4.5% in to October and of 3% against the same month of the previous year, still remaining at an optimistic level. The monthly result showed the cutbacks registered in the Consumer Expectation Index (IEC), 4%, a component which represented 60% of the general index, and in the Current Economic Conditions Index (Icea), 5.3%. Even though it had showed retraction in relation to October, the ICC still stands at an optimistic level.

Figure 1.6 – Consumer Confidence Index



Source: Fecomercio SP

1.2 Production

Crop and livestock

According to the Quarterly National Accounts released by the IBGE, the farming sector's production grew by 6.7% in the first nine months of the year, in relation to the same period of 2007, favored by the robust performance of the crops of rice, corn, beans, soybean, wheat, coffee beans and sugar cane. The livestock, mirroring the lowest exports' dynamics, did not repeat the results registered in 2007.

Crop

According to the Systematic Farm Production Survey (LSPA) carried out by the IBGE, in collaboration with the National Supply Company (Conab), the grain harvest should reach the record of 145.7 million tons in 2008, increasing 9.4% in relation to the previous year, resulting in expansion of 5.1% in the average productivity and 4.1% in the planted area.

The soybean production estimated at 59.9 million tons, 3.4% higher than the one observed in the previous year, when it had grown 10.7%, an expansion linked, exclusively, to the expansion of the planted area.

Corn crop totaled 58.7 million tons. The annual growth of 13.3% translated increases of 8.7% in the average income, in line with the weather conditions favorable to the planting period, and of 4.1% in the cultivated area.

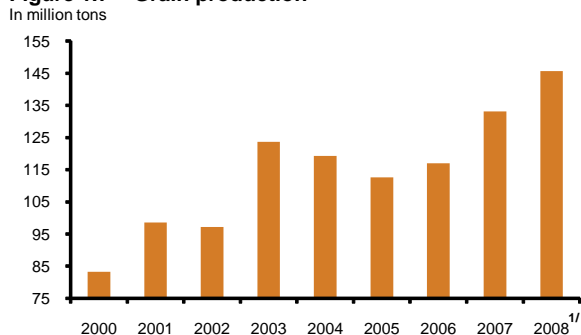
Rice crop should sum 12.1 million tons, registering growth of 9.7% in relation to the previous year. This result, in a reduction scenario of 1.1% on the harvest, evinced the growth if 11% observed in the average crop yield.

Beans harvest increased 6.5% in the year, totaling 3.5 million tons, a result of 7.8% growth in the average yield and a cutback of 1.3% in the area harvested.

The herbaceous cottonseed crop topped 2.4 million tons, decreasing 2.4% in relation to 2007. The planted area fell 5.2% and the average yield grew by 3% in the period.

The wheat harvest is estimated at 5.9 million tons. The annual growth of 43.4% was linked to the expansions in the planted area, 29.6%, and in the average yield, 10.7%. The investments carried out and the greater occupation of arable areas by the plantation translated both the high

Figure 1.7 – Grain production



Source: IBGE
1/ Estimate.

Table 1.4 – Farm production

	In 1,000 tons		
	Production		% change
	2007	2008 ^{1/}	
Grain production	133 101	145 656	9.4
Cotton (seed)	2 498	2 437	-2.4
Rice	11 048	12 122	9.7
Beans	3 245	3 455	6.5
Corn	51 831	58 698	13.3
Soybean	57 952	59 920	3.4
Wheat	4 089	5 865	43.4
Others	2 438	3 159	29.6

Source: IBGE
1/ Estimate.

demand for grain, especially, in the domestic market, and in the high level of the international prices observed during the cultivation period.

Coffee beans production, evincing a growth of 26.6%, in the average yield, linked to a positive biannual cycle of the crop plantation, showed growth of 24.3% against 2007, totaling 2.8 million tons.

The sugar cane harvest reached 651.5 million tons. The annual expansion of 18.9% mirrored increases of 16.2% in the harvested area and 2.3% in the average yield.

According to the second prognosis, carried out by the IBGE in November, the grain crop should total 140.2 million tons in 2009. The annual reduction, forecasted at 3.8% will be conditioned, especially, by the expected contraction of 4.6% in the average yield, counterbalanced, somewhat, by the growth of 0.9% in the planted area. One should highlight that it is forecasted favorable results for crops more intensely directed to the domestic market, contrasting with the less favorable prospects with regard to those directed, especially, to the external market.

Table 1.5 – Livestock production

Total slaughters

Itemization	% accumulated growth in the year						
	2007	2008					
		Jan	Feb	Mar	Apr	May	Jun
Cattle	2.4	-6.6	-6.2	-10.3	-7.0	-7.2	-6.2
Swine	7.9	1.6	3.9	1.5	4.6	3.6	4.3
Poultry	10.1	19.0	21.7	17.5	19.5	16.9	16.4

Source: IBGE

Table 1.6 – Industrial production

	% change			
	2008			
	Jul	Ago	Set	Out
Industry (total)				
In the month ^{1/}	1.4	-1.5	1.5	-1.7
3-Month Period/Previous 3-Month Period ^{1/}	1.8	2.8	2.6	0.8
Same month of the previous year	8.8	1.9	9.6	0.8
Accumulated in the year	6.7	6.0	6.4	5.8
Accumulated in 12 months	6.9	6.4	6.8	5.9
Manufacturing industry				
In the month ^{1/}	1.0	-1.3	1.7	-2.0
3-Month Period/Previous 3-Month Period ^{1/}	1.6	2.7	2.5	0.9
Same month of the previous year	8.8	1.6	9.6	0.4
Accumulated in the year	6.7	6.0	6.4	5.7
Accumulated in 12 months	6.9	6.4	6.8	5.8
Mining				
In the month ^{1/}	1.4	0.6	0.3	-0.3
3-Month Period/Previous 3-Month Period ^{1/}	2.6	4.0	3.2	1.9
Same month of the previous year	8.5	8.5	9.7	7.2
Accumulated in the year	6.9	7.1	7.4	7.4
Accumulated in 12 months	6.4	6.6	7.0	7.3

Source: IBGE

^{1/} Seasonally adjusted data.

Livestock

According to the Quarterly Survey on Animal Slaughter, released by the IBGE, bovine production reached 1.7 million tons in the second quarter of the year, decreasing 2% in relation to the same period of the previous year. On the same base of comparison, poultry and swine production reached 2.6 million and 0.7 million tons, showing respective increases of 15.4% and 7%.

The exports of bovine and swine meat summed up, in the order, 904.6 thousand and 419.3 thousand tons in the first ten months of 2008, decreasing 18.6% and 5.9%, respectively, in relation to the same period of 2007, while those related to poultry meat grew by 13.9% in the period, standing at 2.8 million tons.

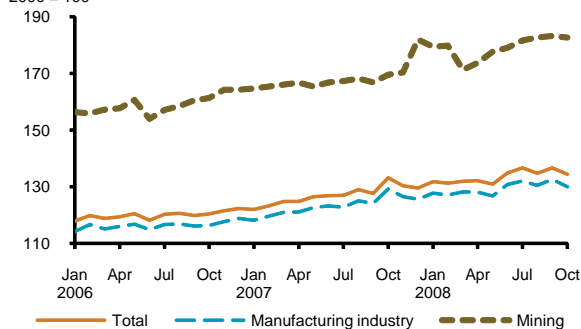
Industrial production

The industrial activity, though showing relative downturn, continued to grow in the quarter ended in October. The expectations index, however, signaled that the deceleration of industrial activity growth should continue in the following months. Contrasting with this environment, the production of

Figure 1.8 – Industrial production

Seasonally adjusted data

2000 = 100



Source: IBGE

Table 1.7 – Industrial production by category of use

	% change			
	2008			
	Jul	Ago	Set	Out
In the month^{1/}				
Industrial production	1.4	-1.5	1.5	-1.7
Capital goods	1.5	-0.5	3.3	-0.5
Intermediate goods	1.5	-2.6	-0.5	-3.0
Consumer goods	-0.2	0.0	2.2	-2.8
Durables	-4.6	1.9	0.3	-4.7
Semi and nondurables	0.1	-0.4	1.7	-2.2
Quarter/previous quarter^{1/}				
Industrial production	1.8	2.8	2.6	0.8
Capital goods	1.8	6.0	6.0	5.4
Intermediate goods	2.2	2.9	1.4	-2.1
Consumer goods	1.9	1.8	1.9	1.1
Durables	0.4	2.3	0.4	-0.5
Semi and nondurables	2.5	1.8	1.7	0.5
In the year				
Industrial production	6.7	6.0	6.4	5.8
Capital goods	19.1	17.9	18.8	18.4
Intermediate goods	5.6	5.0	5.2	4.4
Consumer goods	4.8	4.1	4.6	4.1
Durables	13.3	11.8	12.1	10.5
Semi and nondurables	2.2	1.7	2.3	2.1

Source: IBGE

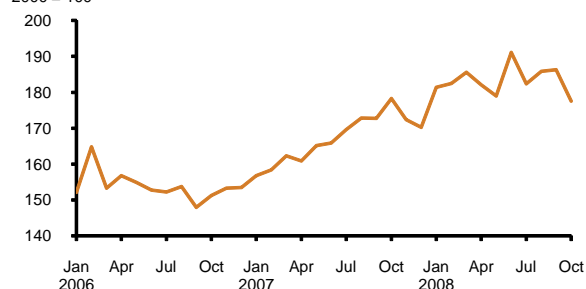
1/ Seasonally adjusted data.

Figure 1.9 – Industrial production

Consumer goods

Seasonally adjusted data

2000 = 100



Source: IBGE

capital goods, especially those directed to farming, continued showing a strong upturn in activity.

According to seasonally adjusted data of the Monthly Industrial Survey – Physical Production (PIM-PF), released by the IBGE, the industrial production grew 0.8% in the quarter ended in October, in relation to the one ended in July, when it grew 1.8% on the same basis of comparison, registering expansion of 1.9% in the extractive industry and 0.9% in the manufacturing one. Considering data observed, industrial production grew 5.8% in the first ten months of the year, in relation to the corresponding period of 2007.

The quarterly result mirrored increases in the production of fourteen out of the twenty-seven activities included in the IBGE's survey, with emphasis on the upturn in activity of the sectors of optical hospital-medical instrumentation equipment and others, 12.3%; pharmaceutical, 8.9%; and machinery and equipment, 6.9%, contrasted with cutbacks observed in the segments of other chemical products, 9%; office and informatics equipment, 4.9%; wood, 4.7%; and petroleum and alcohol refining, 4.3%.

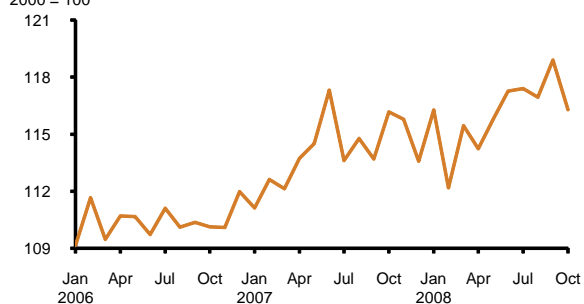
An industrial production breakdown by use categories indicates that the expansion registered in the quarter ended in October, in relation to the one ended in July, mirrored, especially, the increase of 5.4% observed in the category of capital goods. The production of durable consumer durables and semi and nondurable consumer goods registered respective increases of -0.5% and 0.5%, while the one of intermediate goods showed cutback of 2.1% in the period, against expansion of 2.2% in the quarter ended in July.

The segmented analysis of the capital goods production revealed the prevalence of the segments associated to goods channeled to agriculture, construction and transportation equipment, of which growth rates reached 11.6%, 11.6% and 12.2%, respectively, in the quarter ended in October, after posting a significant rise in the quarter ended in July. In the opposite sense, the output of spare farm machinery parts and capital goods for mixed use showed respectively decreases of 8% and 2.4% in the period.

The production of typical inputs for the construction industry, evincing the sector's relative cooling off, grew 0.6% in the quarter ended in October, in sequence to the expansion of 4% in the quarter ended in July, compared to the one ended in April.

Figure 1.10 – Industrial production

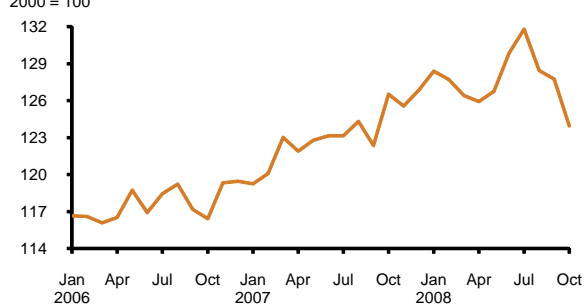
Semi and nondurable goods
Seasonally adjusted data
2000 = 100



Source: IBGE

Figure 1.11 – Industrial production

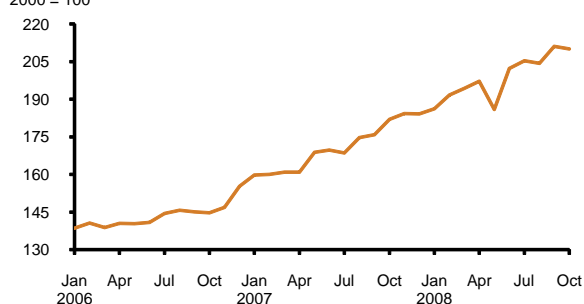
Intermediate goods
Seasonally adjusted data
2000 = 100



Source: IBGE

Figure 1.12 – Industrial production

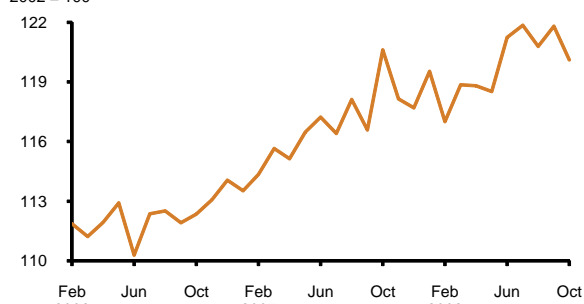
Capital goods
Seasonally adjusted data
2000 = 100



Source: IBGE

Figure 1.13 – Labor productivity

Seasonally adjusted data
2002 = 100



Source: IBGE

The evolution of the industry's physical production by federative unit reveals growth, in the quarter ended in October, compared to the one ended in July, in eight out of the thirteen federation units surveyed, considering seasonally adjusted data. The most significant results occurred in Amazonas, 3.7%; Pará, 3.3%; and Rio Grande do Sul, 3.3%; contrasting with the cutbacks in Goiás, 3.8%; Espírito Santo, 3.2%; and Paraná, 1.4%.

The automotive vehicles production showed a cutback of 13.9% in the quarter ended in November, in relation to the one ended in August, when it grew 0.9%, on the same basis of comparison, considering seasonally adjusted data. This reversal translated the negative result registered in the segment of automobiles and free trade, in which the production of trucks, buses, and tractors continued to grow.

The growth pace of hiring showed a downturn in the quarter ended in October, when the index of occupied personnel in the industrial sector increased 0.6% in relation to the quarter ended in July, when it had registered growth of 0.3%, on this basis of comparison. The number of hours paid by the industry, however, increased 0.5% in the period, against a cutback of 0.2% in the quarter ended in July.

Labor productivity – a ratio between the indices of physical production and the number of hours paid – grew 0.3% in the quarter ended in October, as compared to the one ended in July, when it grew 2%, on the same basis of comparison. The industry's unit labor cost (ULC), estimated by the ratio between the nominal payroll and physical production, has shown a growth trajectory compatible with consumer inflation. In this sense, the average ULC related to the quarter ended in October grew 8.7% compared to the corresponding period of 2007, following the respective increases, on this basis of comparison, of 4% and 7.1%, in the quarters ended in April and July.

The Level of Utilization of Installed Capacity (Nuci), remaining at a high level, reached 85.3% in October, according to seasonally adjusted data released by the FGV, highlighting records registered in the segments of construction materials, 90.4% and consumer goods, 86.2%. Considering observed data, the Nuci reached 85.2% in November, 2 percentage points (p.p.) lower than the one observed in the corresponding period of 2007.

According to seasonally adjusted data released by the CNI, the Nuci of the manufacturing industry showed stability, at a high level, in October, standing at 83.2%.

The Industrial Confidence Index (ICI) topped 104.4 points in October, against 117.9 points in July, according to seasonally adjusted data of the Manufacturing Industry Survey carried out by the FGV. The cutback registered by the indicator translated the reduction linked to both their components, reaching 14.2 points in the ISA and 12.8 points in the EI. Segmented by use categories, the ICI related to the construction materials industry showed both the highest value, 121.2 points and the strongest quarterly cutback, 27.2 points.

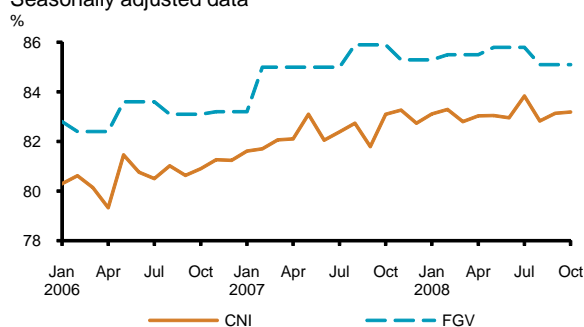
The ISA evolution was linked, to a large extent, to the cutback of 18.3 points in the global demand's level, impact by the respective cutbacks of 23.7 points and 31.2 points reached by the indices in the sectors of construction materials and intermediate goods, respectively.

The EI component performance was impacted, especially, by the negative evolution of the item unemployment level, while the heading of forecasted production volume, though showing relative cutback in July, continued at a high level, sustained by the performance of indices related to the categories of capital goods and construction materials, the most sensitive to the greater credit restriction environment.

The industry confidence indices, evincing the impact of the international financial crisis worsening on the textile activity, showed strong deterioration in November. The ICI decreased by 20.3 points in relation to October, the biggest monthly decline since the beginning of the 0seasonally adjusted series, in April 1995, standing at 84.1 points, the second lowest value of the past ten years. All the indicator's components moved to the negative side, below 100 points, with the exception of those which evaluates the volume of forecasted physical production, which topped 102.7 points. The Business Situation Indicator for a six-month period registered 95.6 points, coming close to its lowest level, of 92.1 points.

The international financial crisis should exert heterogeneous impacts on the Brazilian industry performance in 2009. Uncertainties inherent in this process and the credit supply contraction should impact more sharply, in the short term, the categories of consumer durables and capital goods, which had, in the recent past, benefited from the scenario of expansion of the planning horizon and improving credit conditions. One should highlight that these effects may be attenuated, however, by the sustained pace propitiated by the demand for vehicles and by the housing sector arising from the introduction of specific sectoral lines of credit. The

Figure 1.14 – Utilization of installed capacity in the manufacturing industry
Seasonally adjusted data



Source: CNI and FGV

Table 1.8 – Industry Confidence Index^{1/}

	2007		2008		
	Oct	Apr	Apr	Jul	Oct
Industry Confidence Index	119.8	119.2	115.0	104.4	84.1
By component:					
Current Situation Index	123.7	122.6	118.8	109.7	85.3
Global demand level	120.2	126.6	116.6	105.4	75.2
Inventory level	100.9	100.1	98.5	95.0	84.3
Business situation	135.5	126.0	126.9	115.1	84.5
Expectations Index	115.9	115.8	111.3	99.2	82.8
Business situation	154.6	156.0	151.8	127.1	95.6
Employment	123.6	121.9	115.1	108.9	96.6
Physical production	138.7	138.8	134.2	119.5	102.7

Source: FGV

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

categories of intermediate goods and semi and nondurable consumer goods, less vulnerable to credit, must continue benefiting from the employment and income conditions.

1.3 Labor market

Employment

Labor market conditions do not significantly evince, up to October, the crisis deepening effects on the international financial markets; the reduction trajectories of unemployment rate, substitution of informal jobs with formal ones and the continuity of real gains incorporation to the earnings persist.

According to the Monthly Employment Survey (PME), released by the IBGE, which covers six metropolitan regions, employment rate remained, in the whole year, at the lowest level of the historic series, initiated in March 2002. The rate reached, on average, 7.6% in the quarter ended in October, decreasing 0.4 p.p. as compared to the one ended in July and 1.5 p.p. against the same period of 2007.

The unemployment rate registered a cutback of 1.6 p.p. in the first ten months of the year, compared to the same period of 2007, reflecting expansion of 3.9% in the occupation level and 2.2% in the Overall Labor Force (PEA), indicating a cutback of 14.5% in the unemployment rate.

Growth in formal jobs, even showing relative decline in the year, topped 6.4% in the quarter ended in October, against expansion of 3.5% in the informal segment. The number of formal workers grew 8.1% in the first ten months of the year, compared to the corresponding period of 2007 and the proportion of unregistered workers in the private sector remained stable. In this scenario, the job formalization, defined as the ratio between the number of registered workers in the private sector and the total number of the working population, reached 44.4% in October, the highest percentage of the series initiated in March 2002.

The labor market's formality is ratified by the statistics of the General File of Employed and Unemployed Persons (Caged), released by the Ministry of Labor and Employment (MTE), which registered growth of 6.5% in the formal employment level in the first ten months of the year, as compared to the corresponding period of the previous year. In the year, 2.148 thousand formal job positions were created, a record 18.5% higher than the one registered in the same period of 2007, when 726.1 thousand in the services sector;

Figure 1.15 – Unemployment rate

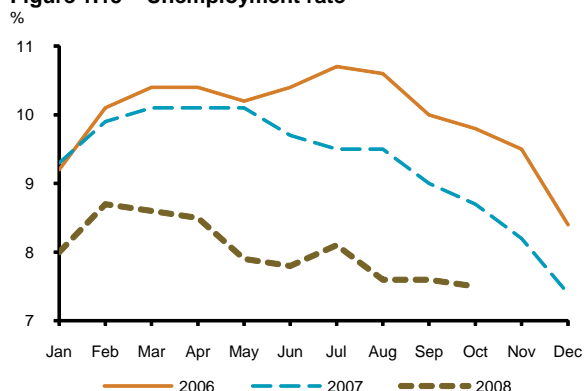


Table 1.9 – Formal employment

	2008				
	Jan/Mar	Apr/Jun	Jul/Sep	Oct	Year
Total	554.4	806.9	725.2	61.4	2 148.0
Manufacturing industry	146.2	171.7	206.1	8.7	532.7
Commerce	19.3	112.9	132.7	54.6	319.4
Services	212.6	226.2	251.1	36.1	726.1
Building	99.7	97.5	103.7	2.1	303.0
Crop and livestock	48.7	178.3	14.6	-38.4	203.2
Public utilities	4.1	3.2	3.3	-0.7	9.9
Others ^{1/}	23.9	17.2	13.6	-1.1	53.6

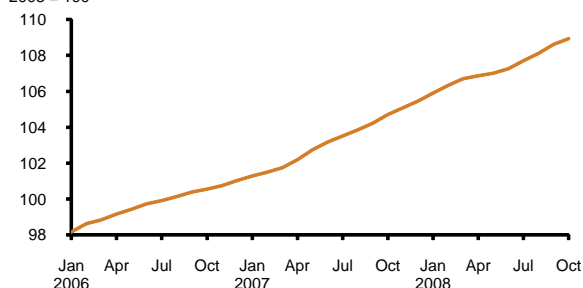
Source: MTE

^{1/} Includes mining, public administration and others.

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

Seasonally adjusted data

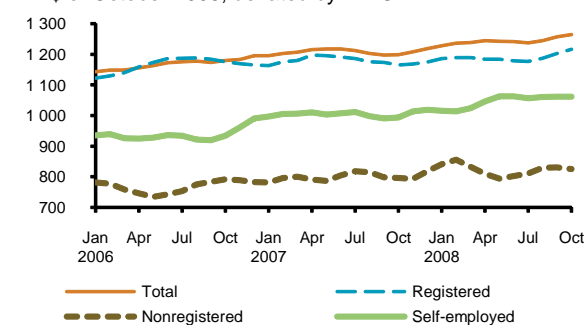
2003 = 100



Source: CNI

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

In R\$ of October 2008, deflated by INPC



Source: IBGE

1/ Quarterly moving average.

Table 1.10 – Gross Domestic Product at market prices

	% growth				
	2007		2008		
	III Q	IV Q	I Q	II Q	III Q
Accumulated in the year	5.5	5.7	6.1	6.2	6.4
Accumulated in 4 quarters	5.3	5.7	5.9	6.0	6.3
Quarter/same quarter					
of the previous year	5.4	6.1	6.1	6.2	6.8
Quarter/previous quarter ^{1/}	1.2	1.7	1.7	1.6	1.8
Crop and livestock	7.3	1.3	-0.7	3.4	1.5
Industry	1.3	0.7	2.7	1.1	2.6
Services	0.8	1.8	1.6	1.1	1.4

Source: IBGE

1/ Seasonally adjusted data.

532.7 thousand in the manufacturing industry; 319.4 thousand in the commerce; and 303 thousand in the construction industry. One should note that 61.4 thousand jobs were created in October, the worst result for the period since 2002, against monthly average of 231.8 thousand positions in the first nine months of the year, evincing the adoption of a cautious posture by the employers against the international financial crisis intensification.

CNI statistics, related to twelve states of the federation, showed that the working population in the industrial sector grew 4.3% in the first ten months of the year, in relation to the corresponding period of 2007, while the analysis at the margin, suggesting these movement's continuity, registered expansion of 1.1% in employment in the quarter ended in October, as compared to the one ended in July.

Earnings

The real average earnings usually received by the working population in the six metropolitan regions covered by the PME increased 5.5% in the quarter ended in October, in relation to the same period of 2007, consolidating the trajectory of real gains accumulation observed since the middle of last year.

The overall real wages, product of the real average income usually received by the number of employed persons, increased 9.4% in the same period, showing an upward trend in relation to the results registered in previous quarters. One should underscore that this evolution, linked, especially, to the growth in wages, still did not mirror the potential effects of the downturn registered in the world economy in the labor market in the country and should contribute to sustain the aggregated outlay in the months ahead.

1.4 Gross Domestic Product

According to the Quarterly National Accounts released by the IBGE, the GDP grew by 6.4% in the first nine months of the year, in relation to the corresponding period of 2007. The result showed to be, once more, generalized among the product components, while from the demand's viewpoint, the contribution of 8.1 p.p. of the domestic demand pitted against the negative impact of 2.5 p.p. caused by the external sector.

The importance of the domestic demand for sustaining the economic activity growth continues, mirroring the

Table 1.11 – Gross Domestic Product

	% growth				
	2007		2008		
	III Q	IV Q	I Q	II Q	III Q
GDP at market prices	5.5	5.7	6.1	6.2	6.4
Households consumption	6.0	6.3	6.3	6.1	6.5
Government consumption	5.2	4.7	6.5	5.3	5.7
Gross fixed capital formation	12.6	13.5	15.4	16.0	17.3
Exports	6.9	6.7	-2.3	1.4	1.6
Imports	19.8	20.8	18.8	22.5	22.6

Source: IBGE

1/ Estimated.

improvements in credit conditions, the recovery of real earnings and employment, as well as the governmental transfer growth. In this scenario, household consumption grew 6.5% in the first nine months of 2008, compared to the corresponding period of the previous year, representing the nineteenth positive result when considered accumulated flows in the years t and t-1. The Gross Fixed Capital Formation (GFCF) increased by 17.3% in the period, the most expressive result, on this basis of comparison, since 1995, while the government consumption grew by 5.7%.

The external sector's accumulated result in the year, a negative contribution to GDP, translated the significant growth of 22.6% experienced by imports, against growth of 1.6% in exports, determining the respective impacts of -2.7 p.p. and 0.2 p.p. in the aggregate. One should highlight that the imports, carried out at a moment the foreign exchange rate level stimulated the intensification of productive investments, were chiefly targeted, to build the Brazilian industrial base.

Table 1.12 – Gross Domestic Product

	% growth				
	2007		2008		
	III Q	IV Q	I Q	II Q	III Q
Crop and livestock	4.9	5.9	3.8	6.7	6.7
Industry	5.1	4.7	6.9	6.2	6.5
Mining	3.7	2.8	3.6	4.5	5.6
Manufacturing	5.3	4.7	7.4	6.2	6.1
Construction	4.6	5.0	8.9	9.3	10.2
Public utilities	5.8	5.9	5.4	4.6	4.9
Services	5.2	5.4	5.2	5.3	5.5
Commerce	6.5	7.1	7.9	8.1	8.6
Transportation	5.2	5.3	4.3	4.7	5.0
Communications	6.5	7.0	8.0	8.1	8.8
Financial institutions	11.8	14.5	13.2	11.7	10.7
Other services	3.5	2.7	3.3	4.1	4.7
Rents	4.4	4.1	3.8	3.5	3.3
Public administration	2.5	2.4	1.4	1.7	2.0
Value added at basic prices	5.1	5.2	5.6	5.8	5.9
Taxes on products	8.0	8.4	9.1	8.6	9.1
GDP at market prices	5.5	5.7	6.1	6.2	6.4

Source: IBGE

Considering the production's viewpoint, GDP's accumulated growth in 2008, up to September, was particularly sustained by the expansion of 6.7% experienced by the farm sector, in relation to the corresponding period of 2007, followed by the results of the sectors of industry, 6.5%, and services, 5.5%.

The industrial performance mirrored, to a large extent, the 6.1% expansion registered by the manufacturing industry, accounting for about 62% of the sector's production. In this same sense, the construction industry grew 10.2% in the year, a result consistent with the greater destination of resources to real estate financing and with the intensification of infrastructure works in the context of the Growth Incentive Program (PAC), while the segment of production and electricity distribution, water and gas reached a 4.9 % Growth. The mineral extractive production grew by 5.6%, with emphasis on the 19.3% growth in natural gas production.

The growth registered in services translated, just as observed in the industry, the across the board expansion in all subsectors, with emphasis on increases related to the segments financial intermediation, insurance, complementary social security and relative services, 10.7%, information services, 8.8%; trade, 8.6%; transportation, storage and post, 5%.

The farming sector's production increased by 6.7% in relation to the first nine months of 2007, sustained by the grain production's performance, which, according to the LSPA released by the IBGE, should grow 9.4% in 2008.

Table 1.13 – Gross Domestic Product
Quarter/previous quarter
 Seasonally adjusted

	% growth				
	2007		2008		
	III Q	IV Q	I Q	II Q	III Q
GDP at market prices	1.2	1.7	1.7	1.6	1.8
Crop and livestock	7.3	1.3	-0.7	3.4	1.5
Industry	1.3	0.7	2.7	1.1	2.6
Services	0.8	1.8	1.6	1.1	1.4
Households consumption	1.0	2.4	1.5	0.4	2.8
Government consumption	-0.5	0.6	4.2	-0.2	1.5
Gross fixed capital formation	3.7	3.2	3.5	5.4	6.7
Exports	0.7	2.0	-4.3	5.3	-0.6
Imports	8.4	5.5	1.3	8.6	6.4

Source: IBGE

The livestock, however, highlighting the lower upturn in activity of beef exports, did not repeat the results displayed in previous periods.

The analysis on the margin, considering seasonally adjusted data, shows that GDP increased 1.8% in the quarter ended in September, in relation to the one ended in July, being the twelfth sequential positive result on this basis of comparison. From an output's viewpoint, GDP's industrial performance, 2.6%; farming, 1.5%; and services, 1.4%, while the analysis of the demand's components ratifies the domestic demand's upturn in activity, expressed in 6.7% expansion on the GFCF, the ninth consecutive quarterly growth; of 2.8% on the household consumption, and of 1.5% in government outlays. Additionally, exports fell by 0.6% and imports grew by 6.4%, in the period.

Prospects related to the GDP growth in the final quarter of the year and in 2009 are detailed in the box GDP Forecasts in 2008 and 2009, in the page 25 of this report.

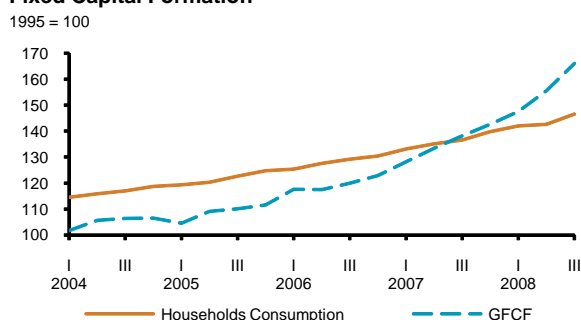
1.5 Investments

According to the IBGE's Quarterly National Accounts, investments, when stock growth is excluded, increased by 17.3% in the first nine months of 2008, compared to the corresponding period in 2007, representing, just as observed with household consumption, the nineteenth consecutive positive result, when considering the accumulated flows in subsequent years. On the margin, GFCF increased by 6.7% in the quarter ended in September, in relation to the one ended in June, according to seasonally adjusted data.

Investment performance in the year had been anticipated by the evolution of GFCF monthly indicators. The production of inputs to the building industry, in line with the upturn in activity showed by the sector in the latest quarters, increased 10.9% in the first nine months of the year, in comparison to the corresponding period of 2007, while the production, imports and exports of capital goods posted respective increases of 18.8%, 40.2% and 7.3%, determining growth of 22.2% for these in the absorption of these categories of goods.

One should highlight that growth in the production of capital goods translated overall increases in this industry's segments, with emphasis on the performance of goods directed to the agricultural sector, 43.2%; transportation equipment, 29.6%; and non-serial industrial goods, 19.2%. Besides that, the industry of goods channeled to the sectors of electric

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



Source: IBGE
 1/ Seasonally adjusted data.

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

energy and capital goods of mixed use registered respective expansions of 14.7% and 11%, during the period.

Leading indicators suggest, however, a relative accommodation of the industry's expansion in the coming quarters. In this sense, the construction industry's input production grew by 7.7% in October, in relation to the same period of the previous year. On the same basis of comparison, there were increases of 11.4% in April and 15.1% in July; while the domestic inflow of capital goods grew 26.7% in the period, against expansion of 31.9% in April and 29.3% in July. This expansion reflected respective increases of 15.7%, 41.2% and -7.6% in production, imports and exports of these goods. In this sense, according to statistics released by Anfavea, the production of farming machines, trucks, and buses showed respective annual increases of 18.5%, 14.8% and -8.5% in November, results lower than the ones observed, on this basis of comparison, in recent months.

The disbursements of the National Bank of Economic and Social Development (BNDES) system summed up R\$70.2 billion in the first ten months of the year, increasing 43.7% in relation to the corresponding period of 2007. Thus, the highlights were the increases in the resources channeled to the trade and service, 48.6%; manufacturing industry, 32.4%; and farming, 8.6%.

1.6 Conclusion

The growth in economic activity remained at a high level in the quarter ended in September, sustained by the upturn in domestic demand, an evolution expressed by the indicators linked to the output level, as well as those demonstrating the demand behavior, such as retail sales. In this environment, where expectations remained equally at a high level, employment indicators continued pointing to the quantitative and qualitative improvements registered in the labor market.

The first results related to the fourth quarter, capturing, partially, the impacts of the new international environment on domestic economy, started to show a downturn in industrial production, in investment levels and, with lower intensity, in labor market indicators, which respond to stress situation with greater delay.

This trajectory, consistent with the uncertain moments experienced by the world economy, characterized by the marked growth of wariness to risk and consequent credit

restriction, will be associated to the extension and intensity of the crisis in the international financial markets. This should impact with greater intensity the segments most sensitive to credit conditions and the levels of the foreign exchange rate. On the other hand, activities more sensitive to the market and employment income evolution, as well as to the public sector transfers, should demonstrate greater resilience.