

Gross Domestic Product – 2009 Forecast Revision

Brazil's Gross Domestic Product (GDP) growth forecast for 2009 was revised from 3.2%, as shown in the last *Inflation Report*, to 1.2%, a cutback consistent with the evolution at the margin of the principal indicators of the Brazilian economy's activity level and with the deteriorating expectations, as registered early this year.

The new forecast considers, from the supply viewpoint, overall reductions in the farming, industrial and service sectors. Farming should drop 0.1% in 2009, against expansion of 2.2% in the previous forecast, a reversal associated, especially, to the impacts expected of the reduced external demand for agricultural commodities and for animal products.

Industrial production, the sector most hit by deteriorating expectations, should grow 0.1%, against 3.6% in the previous forecast, reflecting reduction in growth forecasts in all the industrial segments. The mineral extraction industry should grow 2.4%, against 5.2% in the previous forecast, a cutback associated mainly to the forecasted reduction in the production of iron ore. The manufacturing industry production should register a reduction of 1.6% in 2009, when compared to the 3.1% expansion forecast of the previous report, a movement consistent with the performance observed at the outset of the year, lower than foreseen. Expansion of the construction industry, which should remain favored by the new lines of real estate financing, by the government's program of subsidy to popular housing construction and by investments in the context of the Growth Incentive Program (PAC), is forecasted at 2.7%, a cutback of 1.6 p.p. in relation to the previous forecast. The expansion forecast for the industrial services of public utilities, reflecting the performance of the

Table 1– Gross Domestic Product

	2008	2007	2008				2009 ^{1/}
	Weights	IV Q	I Q	II Q	III Q	IV Q ^{1/}	
Crop and livestock	5.7	5.9	3.8	6.7	6.7	5.8	-0.1
Industry	23.6	4.7	6.9	6.2	6.5	4.3	0.1
Mineral extraction	3.0	2.8	3.6	4.5	5.6	4.3	2.4
Manufacturing	13.5	4.7	7.4	6.2	6.1	3.2	-1.6
Construction	4.3	5.0	8.9	9.3	10.2	8.0	2.7
Public utilities	2.7	5.9	5.4	4.6	4.9	4.5	2.1
Services	55.2	5.4	5.2	5.3	5.5	4.8	1.7
Commerce	10.3	7.1	7.9	8.1	8.6	6.1	-0.4
Transportation	4.6	5.3	4.3	4.7	5.0	3.2	-0.5
Communications	3.0	7.0	8.0	8.1	8.8	8.9	4.9
Financial institutions	5.7	14.5	13.2	11.7	10.7	9.1	3.2
Other services	11.4	2.7	3.3	4.1	4.7	4.5	1.8
Rents	7.3	4.1	3.8	3.5	3.3	3.0	2.1
Public administration	12.9	2.4	1.4	1.7	2.0	2.3	2.6
Value added at basic prices	84.5	5.2	5.6	5.8	5.9	4.7	1.2
Taxes on products	15.5	8.4	9.1	8.6	9.1	7.4	1.5
GDP at market prices	100.0	5.7	6.1	6.2	6.4	5.1	1.2

Sources: IBGE and Banco Central

1/ Estimated.

other segments of the economy, was curtailed from 3.8% to 2.1%.

The expansion forecast for the services sector was revised from 3.1% to 1.7%, with emphasis on the respective cutbacks of 4.6 p.p. and of 3.6 p.p. in the segments of trade and transportation, more intensively impacted by the reduction of total supply of goods and services. The segment of public administration is the only one to register a rise in the expected growth rate in the current forecast, 0.8 p.p.

From the demand perspective, the most important revision occurred in the forecast for Gross Fixed Capital Formation (FBCF), a component more sensitive to the expectations and output evolution, moving from 4.4% to 0.7%. Although it shows a significant cutback, maintenance of the positive variation of this component considers the contribution of PAC's infrastructural works and the government measures aimed at stimulating works in the context of popular housing; of the credit lines from the National Bank of Economic and Social Development (BNDES) to guarantee investment resources; and

continued investments on specific sectors, like petroleum and natural gas prospection.

The expansion forecast of household consumption also a cutback, from 3.9% to 1.6%. This movement, less strong than that registered in the GFCF, incorporates the persistence of a favorable impact in maintaining real income gains stimulated by both the cooling off of inflation and by the increases in the minimum wage and the impact of the federal government's social assistance programs.

The forecast related to the government's consumption expanded from 2.2% to 2.4%, an evolution consistent with the anti-cyclical behavior expected for this year.

The dynamics recently registered by the external trade flows will be impacted by the negative performance of the Brazilian economy and the country's main trading partners. In this environment, sharp reductions in exports and imports, in spite of the likely interruption of the three-year sequence of external sector's positive contribution to GDP, the annual expansion of the Brazilian economy will remain dependent on the dynamics of domestic demand.

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	
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	5.1	5.4	5.6	5.4	13.8	-0.6	18.5	
Contribution (p.p.)		3.3	1.1	4.4	2.4	-0.1	-2.2	
2009 (estimated)	1.2	1.6	2.4	1.8	0.7	-6.6	-6.4	
Contribution (p.p.)		1.0	0.5	1.4	0.1	-1.0	0.9	

Sources: IBGE and Banco Central