Economic activity

1

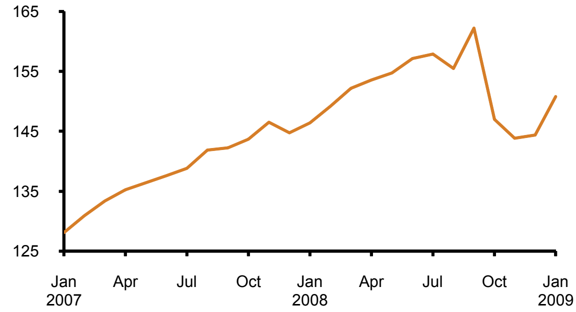
The Gross Domestic Product (GDP) showed a sharp reduction in the quarter ended in December, as compared to the previous quarter, thereby interrupting a cycle of twelve consecutive positive observations, in the same type of comparison. This margin movement, anticipated in the previous inflation report and consistent with the scenario of obstruction of credit channels in the international financial markets, has been associated, to a large extent, to the slowdown of the industrial sector; to the deterioration of entrepreneurs and consumers' expectations; to the reduction of external trade flows; and to the effects, over the productive chain, of the adjustments on the level of stocks.

Just as observed in the leading mature and emerging economies, deterioration of credit conditions and of consumers and entrepreneurs' confidence translated in reduction in the dynamics of domestic demand. In this sense, sales of durable goods of greater aggregated value and, therefore, more sensitive to the credit conditions, were more affected, as indicated in the margin reduction, of 20.2%, in the sales of vehicles, motorcycles, parts and spares in the quarter ended in December 2008, while, in the same direction, investments were cut back by 9.8%, in the same period.

Reduction of the industrial output reflected on the level of utilization of the industry's installed capacity, which was under pressure, up to September, by the expansionist cycleregistered, up to that moment, by the Brazilian economy. Labor market conditions, which tend to react with some delay to the reductions in activity levels, turned to demonstrate some worsening in unemployment rate, followed by significant growth of real earnings, an evolution derived, in part, from inflation reduction. These income gains have been sustained by the retail trade sales, in particular in the segments of semi and nondurable goods, and should favor an upward movement of confidence and growth in the medium term. One should highlight, however, that although some favorable signs can be anticipated in relation to the Brazilian economic growth in the next months, prospects for the GDP growth in 2009 continue to be revised upward.

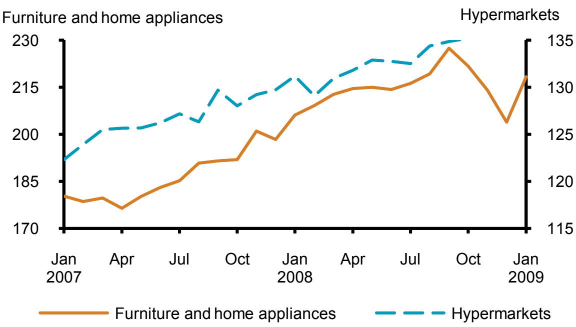
1.1 Trade

Figure 1.1 – Broad trade sales volume index
Seasonally adjusted data
2003 = 100



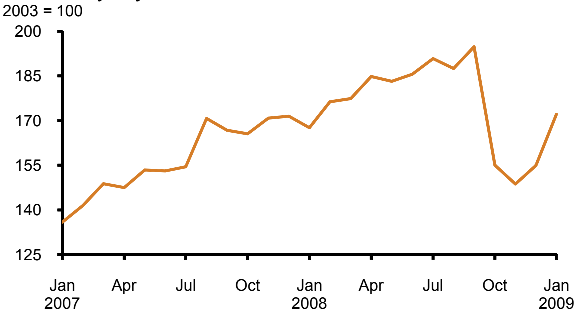
Source: IBGE

Figure 1.2 – Retail sales
Seasonally adjusted data
2003 = 100



Source: IBGE

Figure 1.3 – Sales volume index (automobiles, motorcycles, parts and spares)
Seasonally adjusted data
2003 = 100



Source: IBGE

Expanded trade sales, after showing a marked dynamics in the first nine months of the year, registered a drop of 8.7%, according to the Trade Monthly Survey (PMC) released by the Institute of Geography and Statistics (IBGE), in the quarter ended in December, as compared to that ended in September, considering seasonally adjusted data.

One should highlight that thisfalloff, particularly associated to the negative performance of the segments more sensitive to credit conditions, interrupted a sequence of twenty-eight positive results, in this type of comparison. In the period, sale reductions were registered in six of the ten segments surveyed, with emphasis on those related to automobiles, motorcycles, parts and spares, 20.2%; and construction material, 7%; and books, newspapers, magazines and stationery, 2.9%.

Even with this margin cutback, expanded trade grew 9.9% in the year, a rate only lower than the 13.6% that was registered in 2007. This performance reflected the dynamics shown by the sector in the first nine months of the year, when, in an environment of continued improvement in the labor and credit markets, sales soared by 13.8%, as compared to equivalent period of the previous year.

More recent results reflecting, particularly, the incentives to sales of automobiles and the continuity of gains in overall wages, suggest a recovery of the expanded trade sales. In this sense, accumulated sales in the quarter ended in January dropped 5.5% compared to that ended in October, 3.2 percentage points (p.p.) below that registered, on the same type of comparison, in December. This evolution becomes more significant if considering that the January sales recorded monthly rise of 4.4%, with emphasis on the 11.1% expansion observed in the segment of vehicles, motorcycles, parts and spares.

Segmented by geographical regions and by units of the Federation, retail sales registered generalized annual expansion in 2008. Considered by region, noteworthy are the expansions, above the country's average, observed in the Center-West, 11.35; Southeast, 10.8%; and South, 10%, followed by those registered in the Northeast, 9.2%;

Table 1.1 – Sales volume index

% change

	2008			2009
	Oct	Nov	Dec	Jan
In the month[1/]				
Retail sector	-1.0	-1.1	-0.4	1.4
Fuel and lubricants	-0.8	-1.2	-1.1	-0.7
Supermarkets	0.2	0.3	0.6	0.3
Fabrics, apparel and footwear	-6.0	-5.2	0.9	2.2
Furniture and home appliances	-2.5	-3.5	-4.8	7.1
Pharmac., medical, orthop. and perfumery articles	-1.0	1.6	-0.9	0.8
Books, newspaper, magazines,	-0.1	1.9	2.9	7.6
Office, comp./comunic. equip.	-2.4	-8.3	8.9	-12.5
Other art. of personal use	-1.0	-2.0	-3.5	5.8
Broad trade sector	-9.4	-2.2	0.4	4.4
Building materials	-2.7	-2.7	-5.9	-2.8
Automobiles, motorcycles, parts and spares	-20.4	-4.0	4.2	11.1
3-Month Period/Previous 3-Month Period[1/]				
Retail sector	1.9	0.9	-0.6	-1.1
Fuel and lubricants	0.7	-0.9	-2.0	-2.7
Supermarkets	1.6	1.5	1.4	1.1
Fabrics, apparel and footwear	-1.4	-3.3	-6.8	-6.8
Furniture and home appliances	3.6	2.1	-3.5	-4.8
Pharmac., medical, orthop. and perfumery articles	4.3	4.8	2.6	1.8
Books, newspaper, magazines,	1.0	2.5	3.9	7.6
Office, comp./comunic. equip.	12.4	9.2	2.3	-5.5
Other art. of personal use	1.2	0.0	-3.2	-2.8
Broad trade sector	-1.1	-3.7	-8.5	-5.5
Building materials	-2.2	-4.5	-7.0	-9.0
Automobiles, motorcycles, parts and spares	-4.0	-11.6	-20.0	-11.4
In the year				
Retail sector	10.3	9.8	9.1	6.0
Fuel and lubricants	10.1	9.6	9.3	3.8
Supermarkets	5.7	5.7	5.5	7.0
Fabrics, apparel and footwear	9.1	7.1	4.8	-4.7
Furniture and home appliances	18.0	16.6	15.1	6.3
Pharmac., medical, orthop. and perfumery articles	13.1	13.2	13.3	8.9
Books, newspaper, magazines,	10.7	10.7	11.1	23.9
Office, comp./comunic. equip.	34.7	33.1	33.5	15.4
Other art. of personal use	19.2	17.8	15.6	5.0
Broad trade sector	12.6	11.0	9.9	2.8
Building materials	10.6	8.8	7.8	-12.5
Automobiles, motorcycles, parts and spares	17.4	13.5	11.9	-0.3

Source: IBGE

1/ Seasonally adjusted data.

Table 1.2 – Retail sales
2008, December

% accumulated growth in 2008

	Nominal revenue	Volume	Price
Retail sector	15.1	9.1	5.5
Fuel and lubricants	9.6	9.3	0.3
Supermarkets	17.2	5.5	11.1
Fabrics, apparel and footwear	10.7	4.9	5.5
Furniture and home appliances	11.3	15.1	-3.3
Pharmac., medical, orthop. and perfumery articles	16.1	13.3	2.5
Office, comp./comunic. equip.	16.2	33.5	-13.0
Books, newspaper, magazines	13.0	11.1	1.7
Other art. of personal use	21.7	15.6	5.3
Broad retail sector	15.1	9.9	4.7
Automobiles, motorcycles, parts and spares	14.3	11.9	2.1
Building materials	18.1	7.8	9.6

Source: IBGE

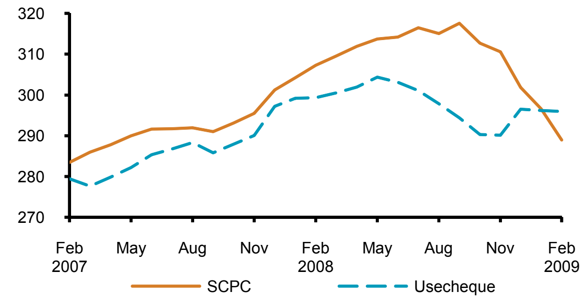
and North, 7.6%. Considering the Federation units, the most outstanding have been expansions in Rondônia, 19%; Espírito Santo, 17.2%; Mato Grosso, 15.2%; Goiás, 14%; and Mato Grosso do Sul, 13.7%, contrasting with the less significant performances registered in Distrito Federal, 0.7%; Pará, 3.1%; and Amazonas, 5.7%.

The nominal revenues from expanded trade registered average annual increase of 15.1% in 2008, result of rises of 9.9% in the volume of sales and of 4.7% in prices, highlighting that, in all of the ten segments considered in the IBGE survey, the nominal revenues growth rates situated on levels superior to the average variation of 4.7% registered by the Extended National Consumer Price Index (IPCA), in the period. The most important rises occurred in the year were in the segments of other items of personal and household usage, 21.7%; construction materials, 18.1%; hypermarkets, supermarkets, foodstuffs, beverages and tobacco, 17%, while that related to the sector of automobiles, motorcycles, parts and spares, after reaching 23.8% in the first nine months of the year, increased by 14.3% in the year, a trajectory in line with the negative result obtained by the sector in the last quarter.

Sales in the automotive vehicles trade, favored by the incentive measures for the sector expressed in the reduction of the Industrialized Products Tax (IPI) and improvement of financing conditions, have shown a relative recovery at the beginning of 2009. In this sense, seasonally adjusted statistics from the National Federation of Automotive Vehicle Distribution (Fenabrave) reveal that sales of automobiles and light-weight commercial vehicles, after growing 39.7% in January, compared to the previous year, increased 4% in February, in the same type of comparison. Additionally, according to the National Association of Automotive Vehicle Manufacturers (Anfavea), sales of national automotive vehicles in the domestic market increased, in the order, 59.7% and 3%, in the considered periods.

At the beginning of 2009, São Paulo State trade indicators signaled the continuity of the cooling off observed in the retail trade sales of the final quarter of 2008. According to seasonally adjusted data from the São Paulo Trade Association (ACSP), the number of consultations to the Credit Protection Service Center (SCPC), an indicator related to sales of durable goods, dropped 7% in the quarter ended in February, compared to that ended in November, while consultations to Usecheque, indicator of cash purchases and therefore related to the performance of sales of nondurable goods, registered rise of 2% in the period.

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



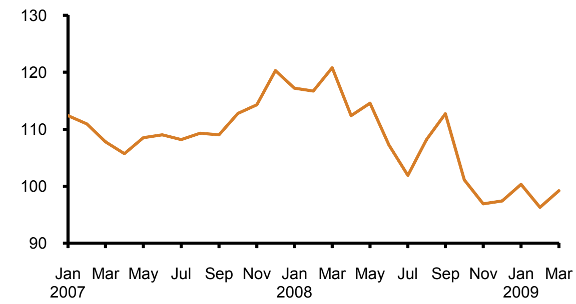
Source: ACSP

Table 1.3 – Default rates

Itemization	2008			2009		%
	Oct	Nov	Dec	Jan	Feb	Year[1/]
Returned checks[2/]						
Brasil	6.5	6.4	6.2	7.0	6.9	7.0
Northern region	10.4	9.3	8.4	9.2	9.2	9.2
Northeast region	10.4	9.6	9.2	9.7	10.0	9.9
Southeast region	5.7	5.7	5.5	6.3	6.2	6.2
Center-western region	7.7	7.8	7.7	8.6	8.3	8.4
Southern region	6.3	6.3	6.0	6.9	7.0	6.9
SCPC (SP)[3/]	6.4	6.4	3.6	7.7	7.8	7.7

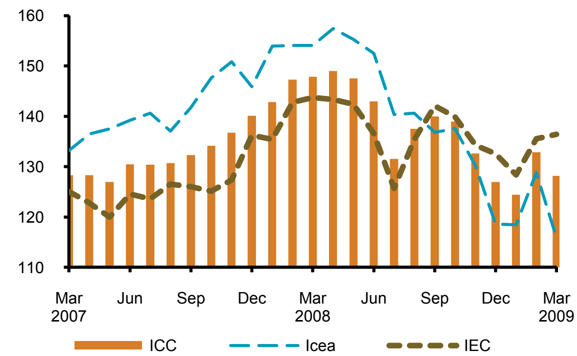
Sources: Banco Central do Brasil and ACSP
1/ Annual average.
2/ Returned checks/cleared checks.
3/ [New registrations (-) registrations cancelled]/[consultations (t-3)].

Figure 1.5 – Consumer Confidence Index (FGV)
ICC
Sep 2005 = 100



Source: FGV

Figure 1.6 – Consumer Confidence Index



Source: Fecomercio SP

Default indicators, translating, in particular, a more restrictive stance of the financial institutions in relation to credit grant and the increase of interest rates, showed a rising trajectory since the final quarter of 2008. In this sense, the ratio between the number of checks returned for lack of funds and the total of checks cleared reached 6.9% in February 2009, against 6.5% in equivalent period of the previous year, with emphasis on the increase of 1.1 p.p., to 8.3%, registered in the Center-West region.

According to ACSP, in the State of São Paulo, default shows a pattern similar to that observed in the national indicators, reaching 7.8% in February, against 6.4% in equivalent period of the previous year.

The surveys aimed at assessing the expectations demonstrate that consumers began considering the developments of the aggravation of the international financial crisis. The Consumer Confidence Index (ICC), of Getulio Vargas Foundation (FGV), closed at, in February, the lowest level of the series initiated in September of 2005, registering drops of 4% in relation to January and of 17.5% compared to the same month of 2008. The monthly drop reflected reductions of 3.2% in the Expectations Index (IE) and of 5.6% in the Current Situation Index (ISP), which registered, in the order, cutbacks of 18.6% and 15.5% in twelve months.

The National Consumer Expectation Index (Inec), released on a quarterly basis, by the National Confederation of Industry (CNI), based on a survey carried out between the 5th and 8th of December, dropped 5% in relation to the September index. This result translated in general deterioration of the indicator components, with emphasis on the reductions registered in the expectations related to unemployment, 18.5%, and to inflation, 9%.

The ICC, released by Trade Federation of the State of São Paulo (Fecomercio/SP) and restricted to the metropolitan region of São Paulo, after registering a 6.8% rise in February, which occurred after a sequence of four negative monthly results, turned to fall in March. The monthly contraction of 3.5% observed in the month reflected the impact of the 10.1% reduction registered in the Current Economic Conditions Index (Icea), in part attenuated by the increase of 0.6% registered in the Consumer Expectations Index (IEC), a component representing 60% of the general index. In March, the ICC stood at a level 13.3% lower than registered in the same period of 2008.

1.2 Production

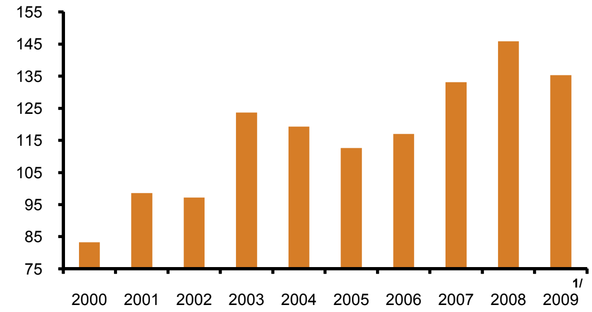
Crop/livestock output

According to the Quarterly National Accounts released by IBGE, crop and livestock output grew 2.2% in the final quarter of 2008, in relation to the same period of 2007, accumulating a 5.8% increase in the year.

Crops

The grain harvest totaled 145.9 million tons in 2008. The annual growth of 9.6%, consequent upon the elevations of 5.3% in productivity and of 4.1% in the harvested area, was favored by the performance of the crops of wheat, with expansion of 47.5%; coffee, 25%; sugar cane, 19.2%;corn, 13.3%; rice, 9.7%; beans, 5%; and soybeans, 3.4%, while, in contrast, registered reduction of 2.4% in the production of herbaceous cotton.

Figure 1.7 – Grain production
In million tons



Source: IBGE
1/ Estimate.

The Systematic Farm Production Survey (LSPA) estimate for the 2009 grain harvest came to 135.3 million tons. The forecasted annual cutback of 7.3% incorporates reduction expectations of 7.6% in the average productivity and growth of 0.3% in the area under cultivation.

Soybean production should total 57.6 million tons in 2009, for a contraction of 3.9% in the year – the first since 2004, when the harvest posted an annual fall of 4.6%. This result, due to the increase of 1.2% in the area under cultivation and decrease of 5% in the average yield, will be impacted by the drought occurred in the South region and in the state of Mato Grosso do Sul, in the periods of crop planting and development.

Corn crop was estimated at 51.3 million tons, a drop of 12.7% in the year. One should highlight the prospect of contraction above 10% in yield of this crop, an evolution consistent both with the occurrence of unfavorable climatic conditions in the principal corn producing regions, and with the combination of high production costs and the low prices of the commodity.

Table 1.4 – Farm production

In 1,000 tons

	Production		% change
	2008	2009 1/	2009/2008
Grain production	145 850	135 261	-7.3
Cotton (seed)	2 436	2 017	-17.2
Rice	12 114	12 558	3.7
Beans	3 408	3 785	11.1
Corn	58 741	51 288	-12.7
Soybean	59 920	57 594	-3.9
Wheat	6 031	5 097	-15.5
Others	3 199	2 922	-8.7

Source: IBGE
1/ Estimate.

Harvests of beans and of herbaceous cottonseed should reach 3.8 million and 2 million tons, respectively, in 2009, registering, in the order, a rise of 11.1% and fall of 17.2%, as compared to the previous year. Additionally, rice production was estimated at 12.6 million tons, 3.7% above that of 2008, registering increases both in average yield, 2.3%, and in planted area, 1.3%, prospects associated, to a large extent, to favorable climatic conditions for the crops of the main producing regions.

Sugar cane production should reach 660.7 million tons, a volume 1.1% higher than the previous harvest. This result, marking the continuity of the significant upturn of 19.2% observed in 2008, incorporates an increase of 2.4% in the area under cultivation and a decrease of 1.2% in average yield.

Coffee harvest, estimated at 2.4 million tons, should post a decrease of 16% in the year, mirroring a falloff of 2.7% in the area under cultivation and of 13.6% in average yield. The annual output reflects both a year of lesser production in the coffee crop biannual cycleand a disincentive of its production, as a result of high prices of agricultural supplies.

Table 1.5 – Livestock production
Total slaughters

% accumulated growth in the year

Itemization	2007	2008					
		Apr	May	Jun	Jul	Aug	Sep
Cattle	2.4	-6.7	-6.9	-5.8	-5.5	-5.9	-5.6
Swine	7.9	-3.9	-4.3	-3.2	-2.8	-3.4	-3.0
Poultry	10.1	7.1	5.7	6.1	6.6	5.5	6.0

Source: IBGE

Livestock

According to the Quarterly Survey on Animal Slaughter, released by IBGE, beef production reached 1.7 million tons in the third quarter of the year, falling 5.4% in relation to the same period of 2007. Using the same basis of comparison, production of poultry and swine reached 2.6 million and 0.7 million tons, for increases of 14.9% and 5.6%, respectively.

Beef and pork exports of totaled, in the order, 1 million and 467.6 thousand tons in 2008, falling 20.5% and 15.3%, respectively, in relation to the previous year, while those related to poultry expanded 8.7%, in the period, standing at 3.3 million tons.

Table 1.6 – Industrial production

% change

	2008			2009
	Oct	Nov	Dec	Jan
Industry (total)				
In the month1/	-1.4	-7.1	-12.7	2.3
3-Month Period/Previous 3-Month Period1/	0.9	-2.4	-9.5	-14.8
Same month of the previous year	1.1	-6.4	-14.8	-17.2
Accumulated in the year	5.8	4.6	3.1	-17.2
Accumulated in 12 months	5.9	4.8	3.1	1.0
Manufacturing industry				
In the month1/	-2.8	-5.0	-12.5	2.2
3-Month Period/Previous 3-Month Period1/	0.6	-2.2	-9.2	-13.5
Same month of the previous year	0.7	-6.5	-14.3	-17.2
Accumulated in the year	5.7	4.5	3.1	-17.2
Accumulated in 12 months	5.9	4.7	3.1	1.0
Mining				
In the month1/	-0.2	-10.9	-11.1	1.4
3-Month Period/Previous 3-Month Period1/	2.0	-2.6	-10.4	-17.1
Same month of the previous year	7.2	-4.6	-21.2	-18.4
Accumulated in the year	7.4	6.2	3.8	-18.4
Accumulated in 12 months	7.3	6.6	3.8	1.5

Source: IBGE
1/ Seasonally adjusted data.

Industrial production

Industrial production, confirming the trajectory followedby the business' expectations indices in the previous *Inflation Report*, declined in the quarter ended in January, as compared to that ended in October. In this environment, high decreases in the levels of utilization of installed capacity and industrial employment, maintenance of the declining trend of confidence indices, and reversal, in relation to the result registered in the quarter ended in October, of the performance of capital goods production, more susceptible to credit conditions and to the planning horizon.

Table 1.7 – Industrial production by category of use

% change

	2008			2009
	Oct	Nov	Dec	Jan
In the month[1/]				
Industrial production	-1.4	-7.1	-12.7	2.3
Capital goods	-0.3	-3.9	-23.3	8.4
Intermediate goods	-3.1	-4.0	-12.4	0.8
Consumer goods	-3.5	-5.0	-9.3	3.6
Durables	-4.1	-21.0	-32.9	38.6
Semi and nondurables	-2.3	-1.0	-3.9	-0.6
Quarter/previous quarter[1/]				
Industrial production	0.9	-2.4	-9.5	-14.8
Capital goods	4.9	1.5	-8.7	-16.1
Intermediate goods	-2.1	-4.9	-10.5	-13.6
Consumer goods	0.6	-1.8	-8.1	-11.2
Durables	-0.5	-9.6	-25.3	-33.4
Semi and nondurables	0.2	-0.4	-3.2	-4.7
In the year				
Industrial production	5.8	5.4	3.4	-17.2
Capital goods	18.5	18.6	16.1	-13.3
Intermediate goods	4.4	3.4	1.2	-20.4
Consumer goods	4.2	4.2	2.7	-13.7
Durables	10.6	8.7	3.8	-30.9
Semi and nondurables	2.2	2.8	2.4	-8.3

Source: IBGE

1/ Seasonally adjusted data.

The physical production index of the IBGE´s Monthly Industrial Survey's (PIM-PF) showed reduction of 14.8% in the quarter ended in January, in relation to the one ended in October, when it had expanded 0.9%, on the same comparison basis, considering seasonally adjusted data. In the quarter, reductions of 13.5% in manufacturing industry and of 17.1% in the mineral extraction industry were registered.

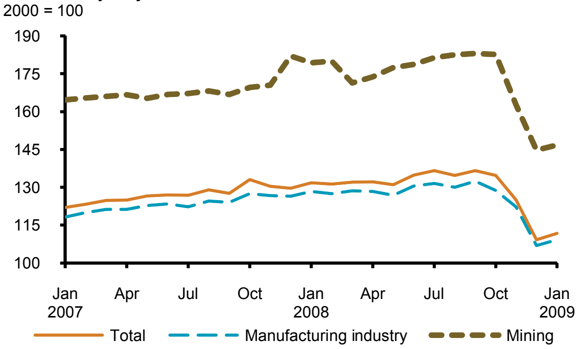
The manufacturing industry's performance reflected the occurrence of falloffs in 21 of the 26 activities included in the IBGE's survey, with emphasis on those registered in the sectors of automotive vehicles, 38%; electronic material, apparatuses and communication equipment, 36.2%; machinery and equipment, 23.9%; iron and steel, 23.6%; and rubber and plastic, 21.9%. Reversely, the production of other transportation equipment, under the impact of the construction and assembly of aircrafts, increased 18.4% in the quarter.

Broken down by use categories, industrial production registered a generalized reduction in the quarter ended in January, in relation to that ended in October, with highlights to cutbacks observed in the categories of consumer durables, 33.4%; and of capital goods, 16.1%. The production of intermediate goods and of semi and nondurable consumer goods registered respectively falls of 13.6% and 4.7%, in the period.

The analysis of the capital goods production by end-use reveals a general negative performance in the segments under analysis. The contraction registered in the quarter ended in January, in relation to that ended in October, occurred in the production of goods targeted to construction, 38%; goods for serial industrial use, 25.6%; agricultural spares, 24.9%; and multipurpose use goods, 23.7%, considering seasonally adjusted data.

Figure 1.8 – Industrial production

Seasonally adjusted data

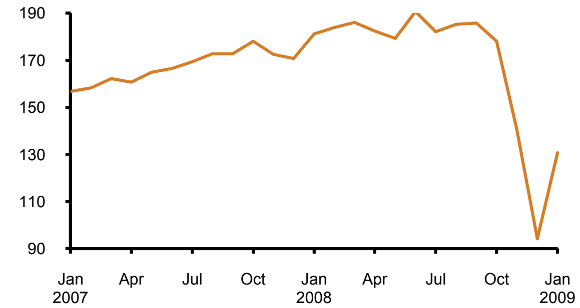


Source: IBGE

The production of typical construction inputs fell by 9.2% in the quarter ended in January, in relation to that ended in October, when it registered fall of 0.4%, in the same type of comparison, according to seasonally adjusted data.

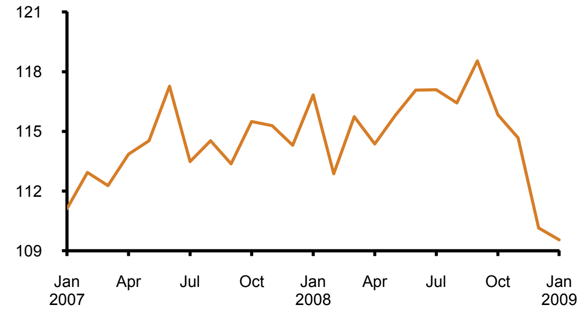
In the quarter ended in January, industrial physical production dropped in the surveyed thirteen units of the Federation, considering seasonally adjusted data, with emphasis in the reductions registered in Espírito Santo, 27.5%; and Minas Gerais, 24.4%. Production of the São Paulo industry, responsible, in 2006, for 39.2% of the Value of Industrial Manufacturing, fell by 13.1% in the period.

Figure 1.9 – Industrial production
Consumer goods
Seasonally adjusted data
2000 = 100



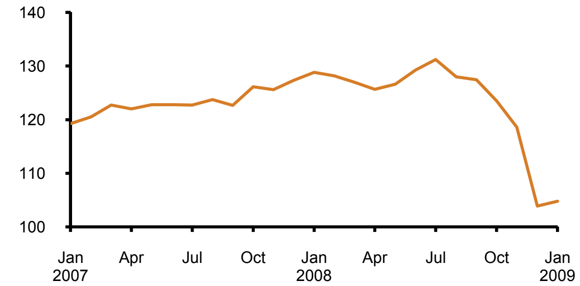
Source: IBGE

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



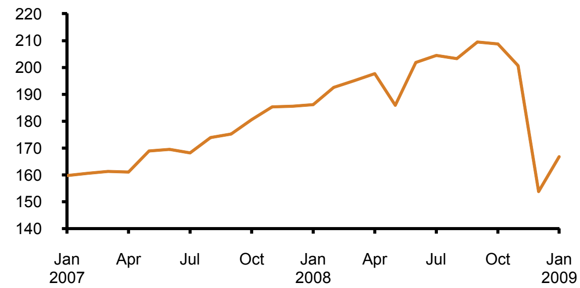
Source: IBGE

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

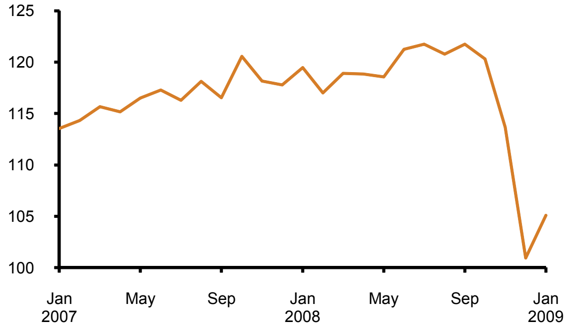
Production of farm machinery decreased 12.7% in the quarter ended in January, compared to the one ended in October, while production of automotive vehicles, demonstrating a significant reduction experienced by the sector in the November-Decembertwo-month period, fell 38.5%, considering seasonally adjusted statistics by Anfavea. One should highlight that the production of automotive vehicles showed a relative recovery in January and February, a movement stimulated by more favorable conditions for retail sales in the sector.

The downturn in industrial activity affected the evolution of employment indicators of the sector. According to seasonally adjusted data of the Monthly Industrial Survey – Employment and Wages (PIMES), of IBGE, the index of personnel occupied in industry fell 2.3% in the quarter ended in January, in relation to the one ended in October – the largest reduction, in this type of comparison, since the inception of the series, in January 2003. In addition, the indices related to the number of hours paid for by the industry and to the Real Payroll (FPR) dropped, in the order, 3.3% and 2.5%, on the same comparison basis.

Labor productivity – ratio between the physical production indices and the number of hours paid – decreased 11.9% in the quarter ended in January, compared to that ended in October, when it had increased 0.4% on the same type of comparison. The Unit Labor Cost (ULC) of industry, estimated by the ratio between the nominal payroll and physical production, has registered expansion rates above that of industrial prices, compressing, therefore, the sector's profit margin. Average CUT related to the quarter ended in January rose 26.2%, as compared to the corresponding period of 2008, for respective increases, on the same type of comparison, of 6.9% and 8.5% in the quarters ended in July and October.

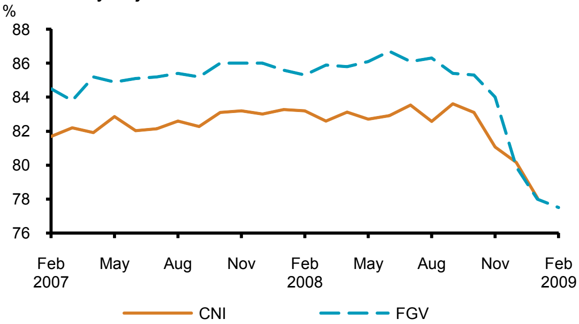
The Installed Capacity Utilization Level (Nuci) in industry reached 77.5% in February, the lowest since 1995, against 84% in November, according to the FGV'seasonally adjusted data. Manufacturing Industry Survey (SCIT). The 6.5 p.p. reduction registered in the period reflected the occurrence of cutbacks in Nuci related to all use categories, with emphasis on the falloffs observed in the capital goods industries, 13.5 p.p., and of consumer goods, 10.7 p.p. The level of occupation in the category of intermediate goods reached 77%, smallest value of the series, initiated in April 1995. Seasonally adjusted CNI data indicates, equally, reduction in the level of installed capacity utilization, which reached, on average, 79.6% in the quarter ended in January, against 82.7%, in the one ended in October.

Figure 1.13 – Labor productivity
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

Table 1.8 – Industry Confidence Index[1/]

	2008			2009	
	Feb	Nov	Dec	Jan	Feb
Industry Confidence Index	113.7	83.9	74.7	75.3	76.3
By component:					
Current Situation Index	117.0	85.3	76.1	78.1	77.4
Global demand level	115.7	75.2	66.6	72.0	67.7
Inventory level	97.6	84.3	80.4	78.2	81.6
Business situation	123.3	84.5	69.9	72.9	71.3
Expectations Index	110.5	82.5	73.3	72.5	75.2
Business situation	149.7	95.6	87.7	77.0	85.7
Employment	118.4	95.6	83.0	82.6	83.4
Physical production	129.3	102.7	90.9	98.3	99.3

Source: FGV

1/ The average of the last ten years is equal to one hundred. Seasonally adjusted

The Industrial Confidence Index (ICI) reached 76.3 points in February, falling 7.6 points in relation to November, according to FGV's SCIT seasonally adjusted data, with emphasis on the reductions registered in the categories of capital goods, 33.3 points, and intermediate goods, 18.7 points.

The ICI quarterly growth translated generalized reductions in its components. In this sense, the Current Situation Index (ISA) decreased 7.9 points in the period, with highlights on the falloffs observed in the headings current business situation, 13.2 points, and global demand level, 7.5 points, while the IE, situation at the smallest level of the series, started in April 1995, came down 7.3 points, a movement determined by the reduction of 9.9 points in the heading foreseen physical production, which reached, equally, the lowest level of the series.

The capital goods industry, which had shown sharp activity in the quarter ended in October, started to reflect, in the latest months, the new economic environment. The international financial crisis, as anticipated in the previous report, has been imposing heterogeneous effects over the performance of the Brazilian industry, taking into account that the uncertainties underlying this process and the reduced credit supply tend to impact more strongly the categories of consumer durables and capital goods, favored, in the recent scenario, by the expansion of the planning horizon and by the improvement of credit conditions. The reversal of this environment and the intensification of business uncertainties in relation to the demand level in the coming monthscaused, therefore, the reduction of investments by companies and, as a consequence, in a contractive demand for machinery and equipment.

The automotive sector production, a relevant segment of the country's industrial structure, turned in a sharp reduction in December, during which the majority of the vehicle assembling plants granted employees group holidays, aiming at readjusting their respective stocks. This movement had a negative impact on the production of sectors representing the categories of durable and intermediate consumer goods. It should be highlighted that the recent increase of stock levels reflects, in particular, the inconsistency amidst the investments carried out in 2008, aiming at expanding the installed capacity, and the process of reducing domestic and external demand.

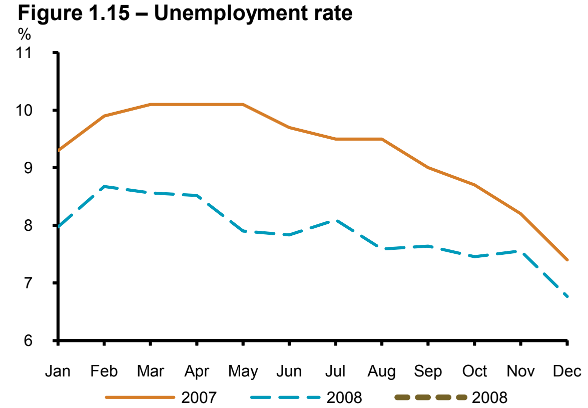
1.3 Labor market

Employment

The lesser dynamics of economic activity has been reflecting, on margin, the job market indicators. The average unemployment rate, measured by IBGE's Monthly Employment Survey (PME), reached 7.5% in the quarter ended in January, the lower level for that period, since the beginning of the survey, as against 7.6% in the quarter ended in October and 7.9% in the same period of 2008. At the margin, however, the indicator turned to demonstrate the impact of reduction in the activity level, standing at 8.2% in January, against 8% in equivalent period of 2008, emphasizing that since January 2007 there had not been any increase in employment in this type of comparison.

The increase of 0.2 p.p. registered by the unemployment rate, in the annual comparison, reflected expansions of 1.9% in the level of occupation and of 2.1% in the Overall Labor Force (PEA), representing growth of 4.6% in the number of the unemployed.

Figure 1.15 – Unemployment rate



A breakdown in unemployment rate by job categories reveals that the slowdown registered at the beginning of the year translated similar growth in the segments considered. In this sense, after respective annual variations of 7.4% and -0.4% in 2008, formal and unregistered employment, in the order, posted variations of 4.5% and -3.2% in January, compared to equal period of 2008. In this scenario, the rate of employment formalization, defined as the ratio between the number of registered workers in the private sector and the total number of occupied persons, reached 44.9% in January, the highest percentage of the series initiated in March 2002.

Table 1.9 – Formal employment

	2008				2009
	Jan/Jun	Jul/Sep	Oct/Dec	Year	Jan
Total	1 361.4	725.2	-634.4	1 452.2	-101.7
Manufacturing industry	317.9	206.1	-345.3	178.7	-55.1
Commerce	132.1	132.7	117.4	382.2	-50.8
Services	438.8	251.1	-41.7	648.3	2.5
Building	197.2	103.7	-103.0	197.9	11.3
Crop and livestock	227.0	14.6	-223.4	18.2	-12.1
Public utilities	7.3	3.3	-2.6	8.0	0.7
Others[1/]	41.1	13.6	-35.7	19.0	1.8

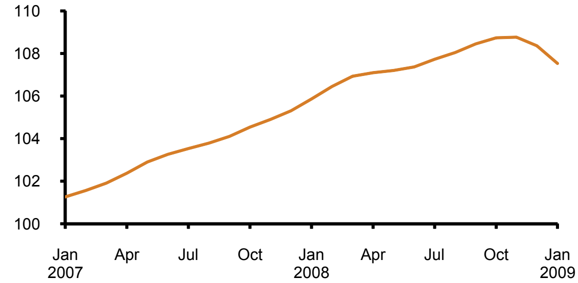
Source: MTE

1/ Includes mining, public administration and others.

According to the General File of Employed and Unemployed Persons (Caged), of the Ministry of Labor and Employment (MTE), 1,452 thousand new job positions were created in 2008, a result only smaller than that registered in 2007, when 1,617 thousand new formal job positions were created. The annual increase of 6.4% in the number of registered workers translated the respective expansions of 6.7%, 6% and 5.6% recorded in the segments of trade, services and manufacturing industry. In the construction industry, where high rates have been registered since 2005, the annual increase reached 17.4%.

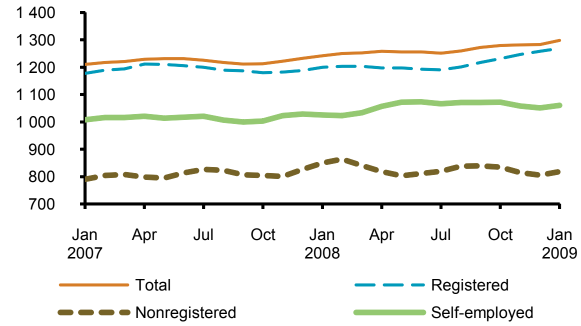
As of November, Caged statistics turned to incorporate the developments of the international financial crisis, registering, in the quarter ended in January, the elimination of 798

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 January 2009, deflated by INPC



Source: IBGE
1/ Quarterly moving average.

thousand job positions, of which 51% in the manufacturing industry. In the corresponding 2008 period, 52 thousand formal job positions had been eliminated.

According to CNI, considering statistics related to twelve units of the Federation, industrial employment grew 4% in 2008. One should point out that in the first ten months of the year the accumulated expansion had reached 4.3%, contrasting with the increase of 2.4% registered in the final two-month period of the year, an evolution which showed, just as did other surveys, the deterioration of the job market conditions at the margin.

Income

The average real income usually received by occupied persons in the six metropolitan regions encompassed by PME increased 3.4% in 2008, with emphasis to the acceleration observed in the second half of the year, when expansion reached 4.5% in relation to equal period of 2007. The average earnings reached R$1,318.70 in January 2009, the highest value of the series, initiated in March 2002. For this month, a rise of 5.9% in relation to the same period of 2008, a movement which, in an environment of elimination of job positions, suggests the occurrence of cutbacks in the lower salary bracket. The overall wages, a product of the average real income habitually received by the number of those employed, after rising 6.9% in 2008, expanded 7.8% in January, as compared to January 2007.

1.4 Gross Domestic Product

In spite of showing a reduction, at the margin, GDP registered a cumulative 5.1% growth in the final quarter of 2008. This result, which reflected, in particular, the dynamics experienced by the economic activity in the first nine months of the year, translated, once again, the positive contribution of domestic demand, with emphasis in investment acceleration registered in the period prior to the intensification of the crisis in the international financial markets.

GDP fell by 3.6% in the quarter ended in December, as compared to the one ended in September, according to seasonally adjusted date from the Quarterly National Accounts System, of IBGE. This movement, representing the interruption of a cycle of 12 sequential positive results, in this type of comparison, was associated, in particular, to the developments of deteriorating expectations of credit

Table 1.10 – Gross Domestic Product at market prices

% growth

	2007	2008			
	IV Q	I Q	II Q	III Q	IV Q
Accumulated in the year	5.7	6.1	6.2	6.4	5.1
Accumulated in 4 quarters	5.7	5.9	6.0	6.3	5.1
Quarter/same quarter of the previous year	6.1	6.1	6.2	6.8	1.3
Quarter/previous quarter1/	1.8	1.6	1.6	1.7	-3.6
Crop and livestock	2.4	-1.3	3.0	1.3	-0.5
Industry	1.4	2.4	-0.2	3.6	-7.4
Services	2.7	1.4	0.9	0.8	-0.4

Source: IBGE
1/ Seasonally adjusted data.

Table 1.11 – Gross Domestic Product

% growth

	2007	2008			
	IV Q	I Q	II Q	III Q	IV Q
GDP at market prices	5.7	6.1	6.2	6.4	5.1
Households consumption	6.3	6.3	6.1	6.5	5.4
Government consumption	4.7	6.5	5.3	5.7	5.6
Gross fixed capital formation	13.5	15.4	16.0	17.3	13.8
Exports	6.7	-2.3	1.4	1.6	-0.6
Imports	20.8	18.8	22.5	22.6	18.5

Source: IBGE
1/ Estimated.

Table 1.12 – Gross Domestic Product

% growth

	2007	2008			
	IV Q	I Q	II Q	III Q	IV Q
Crop and livestock	5.9	3.8	6.7	6.7	5.8
Industry	4.7	6.9	6.2	6.5	4.3
Mining	2.8	3.6	4.5	5.6	4.3
Manufacturing	4.7	7.4	6.2	6.1	3.2
Construction	5.0	8.9	9.3	10.2	8.0
Public utilities	5.9	5.4	4.6	4.9	4.5
Services	5.4	5.2	5.3	5.5	4.8
Commerce	7.1	7.9	8.1	8.6	6.1
Transportation	5.3	4.3	4.7	5.0	3.2
Communications	7.0	8.0	8.1	8.8	8.9
Financial institutions	14.5	13.2	11.7	10.7	9.1
Other services	2.7	3.3	4.1	4.7	4.5
Rents	4.1	3.8	3.5	3.3	3.0
Public administration	2.4	1.4	1.7	2.0	2.3
Value added at basic prices	5.2	5.6	5.8	5.9	4.7
Taxes on products	8.4	9.1	8.6	9.1	7.4
GDP at market prices	5.7	6.1	6.2	6.4	5.1

Source: IBGE

conditions over the performance of industry, which carried out a strong reduction of stocks and of investments.

The analysis of GDP growth at the margin, from the production perspective, reveals a reduction of 7.4% in industrial production, following the cutbacks registered in the sectors ofcrop and livestock, 0.5%, and services, 0.4%, demonstrating the lesser dynamics of the segments of trade and transportation. In relation to the demand components, one should highlight the quarterly fall of 9.8% in the Gross of Fixed Capital Formation (FBCF). Additionally, government consumption expanded 0.5% on margin, while the imports, exports and household consumption fell off, in the order, 8.2%, 2.9% and 2%.

GDP performance in 2008 reflected, from the production perspective, the occurrence of positive results in all of the output components, while from the demand perspective, repeating the pattern initiated in 2006, the dynamics of domestic demand offset the negative contribution exerted by the external sector.

The domestic demand, therefore, continued sustaining the process of growth of economic activity. The annual contribution of 6.8 p.p. for GDP growth was associated, in particular, to the growth of 13.8% registered by the GFCF – the highest rate since 1995, followed by the performances of government consumption, 5.6%, and of households, 5.4%.

As far as the external sector is concerned, exports dropped 0.6% in the year and imports, 18.5%, determining a negative contribution of 2.3 p.p. to the GDP growth in the period. This result, which reflects, to a great extent, the dynamics of domestic demand in the period prior to the aggravation of the international crisis, favored the process of expansion of the industrial capacity.

Viewed from the production perspective, annual expansions of 5.8% in farming, 4.8% in services and 4.3% in industry, were registered. The increase of the crop and livestock output translated, in particular, the annual rise of 9.6% in grain harvest, boosted by the respective increases of 47.5%, 13.3% and 9.7% observed in the harvests of wheat, corn and rice. It was also verified expansions of 25% in coffee harvest, favored by the biannual nature of the crop, and of 19.2% in the sugar cane. harvest. The crops, favored by adequate climatic conditions, have shown, on average, yield gains of 5.4%. In relation to animal raising, according to IBGE's Quarterly Survey on Animal Slaughter, production of bovines fell off 5.6% in the first nine months of 2008,

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

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

% growth

	2007	2008			
	IV Q	I Q	II Q	III Q	IV Q
GDP at market prices	1.8	1.6	1.6	1.7	-3.6
Crop and livestock	2.4	-1.3	3.0	1.3	-0.5
Industry	1.4	2.4	-0.2	3.6	-7.4
Services	2.7	1.4	0.9	0.8	-0.4
Households consumption	2.7	1.5	0.7	2.1	-2.0
Government consumption	0.6	4.1	-0.2	1.6	0.5
Gross fixed capital formation	3.8	2.8	3.4	8.4	-9.8
Exports	6.1	-6.2	3.9	-1.4	-2.9
Imports	5.5	1.3	8.6	6.4	-8.2

Source: IBGE

against the same period of 2007, while that related to swine and poultry registered respective increases of 15.9% and 4.7%, in the period.

The annual increase of 4.8% experienced by the services sector, in 2008, reflected the occurrence of generally positive results in its components, with emphasis on the performance of the segments of financial intermediation, insurances, complementary social security and related services, 9.1%; information services, 8.9%; and trade, 6.1%.

The expansion of industrial activity mirrored, in part, the increases registered in the activity of construction, 8%, a result consistent with the increased destination of resources to real estate financing and with the intensification of infrastructural works in the context of the Growth Incentive Program (PAC); and in production and distribution of electricity, gas and water, 4.5%. The mineral extraction industry, translating increases in the productions of petroleum (crude oil and Liquefied Natural Gas (LGN), 3.8%, and of iron ore, 1.9%, expanded 4.3% in the year, while the manufacturing industry, favored by the dynamics of the segments other transportation equipment, 42.2%, and automotive vehicles, 8.1%, registered expansion of 3.2%.

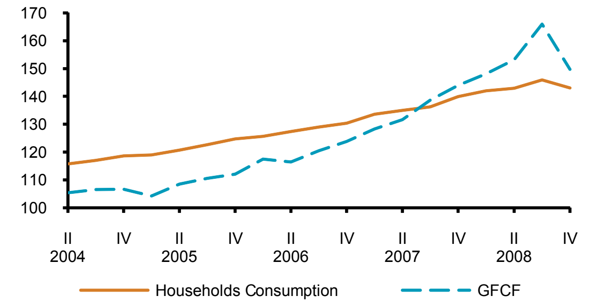
Estimates for the GDP growth in 2009 are explained in the Box Revised Forecasts for GDP 2009 (page 23).

1.5 Investments

According to IBGE's Quarterly National Accounts System, investments, excluding the stock variations, increased 13.8% in 2008, the greatest annual variation since 1995. The GFCF increased 3.8% in the fourth quarter of 2008, as compared to the same period in 2007, by contrast to the reduction of 9.8% registered in relation to the quarter ended in September, considering seasonally adjusted data.

Reduction of investments at the margin, interrupting a sequence of nine positive results, in this type of comparison, was signaled by the evolution of leading GFCF monthly indicators. In this sense, the production of inputs for construction showed contraction of 6.7% in the period, while the production and imports of capital goods registered respective decreases of 8.7% and 4.7%, which determined a reduction of 5.8% in the absorption of this category of goods.

Figure 1.18 – Households Consumption and Gross Fixed Capital Formation[1/]
1995 = 100



Source: IBGE
1/ Seasonally adjusted data.

The margin analysis of the evolution in the segments of capital goods production demonstrates a general reduction in the components of this industry, highlighting the contraction observed in the segments of farm machinery parts, 27.4%; typically manufactured capital good, 16.5%; and multiuse capital goods, 16.4%.

1.6 Conclusion

In this scenario of declining activity, improvement in inflation prospects allowed the Central Bank to initiate a process of monetary easing, which, coupled with other government policies, will have anticyclical results. Thus, one should highlight, besides the process of reduction in the economy's basic interest rate, the introduction of mechanisms aimed at guaranteeing the dynamics of exports and the normalization of foreign currency liquidity, as well as the increase of expenses, in particular, those related to investments in infrastructure. Also noteworthy are measures aimed at releasing resources to increase liquidity of the national financial system, in a way as to foster growth in domestic financing. Although there is the persistent issue of the scope of the mentioned measures and the effective extent of the worldwide crisis, recent results show a relative recovery, at the margin, of the Brazilian economy.

Stocks and Economic Cycle

The impact of the intensification of the international financial markets crisis on credit supply and on the deterioration of consumers' expectations reflected on sharp reduction of sales and, at a second moment, on the interruption of purchase orders and, as a consequence, on accumulation of stocks. This Box aims to assess the recent behavior of stocks in the Brazilian industry and the significance of their fluctuations in periods of alternating economic cycles. The analysis will consider theoretical aspects related to the formation and maintenance of stocks and the evolution of specific indicators related to the country's industry.

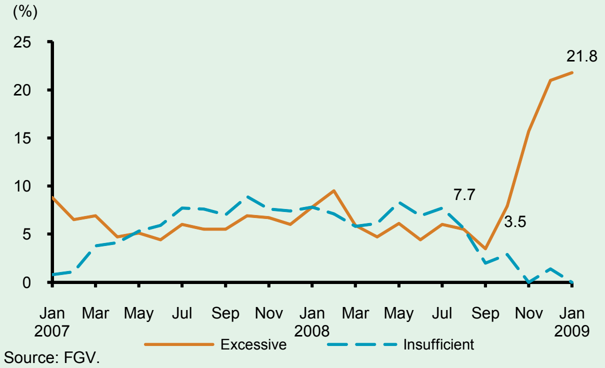
The concern with the impact of stocks over the cycles of production, sales and employment is not unheard of. During the 1940's, Metzler (1941) demonstrated the pro-cyclical role of stocks in Keynesian models. Abramovitz (1950) registered the relevant role of stock variations in the variation of gross domestic product. More recently, Blinder and Maccini (1991) argued that in a typical recession the stock reduction represents the most important part of the gross domestic product reduction.

Horstein (1998) established some stylized facts of the stocks accumulation and its relation with the economic cycle using data from the United States in the period from 1960 to 1995. The gross domestic product was subdivided into final sales and investment on stocks and each of these variables was submitted to a breakdown into a cyclical component and an irregular component. Horstein (1998) registered that the variance of stocks represented 28.6% of the total variance of the domestic product in the period. This participation, however, depended strongly on which series components have been used. When cyclical components of the three series have been considered, the participation of the variance of stocks in the variance of the domestic product restricted to only 5.8%; when irregular components have been considered, this participation reached 48.1%. Apparently, the investment on stocks is more important for the short-term fluctuations than for variances of domestic product during the economic cycle. In this sense, sharp falls and rises in the stocks may hold little information about the cycle stage in which the economy stands.

Another important aspect of the behavior of stocks is their relation with the final sales. Investments in stocks and final sales are not, in principle, correlated. When considered their cyclical and irregular components, however, the situation is different. One may examine that investments in stock are positively correlated to the final sales when the respective cyclical components are considered. Conversely, investment in stocks and final sales are negatively correlated when their irregular components are considered. Thus, apparently, during the economic cycle there is a relatively stable ratio of proportion between sales and stocks, which tend to be maintained at a higher level in periods of more significant sales, whereas, in the opposite sense, the irregular component translates unexpected stock variations.

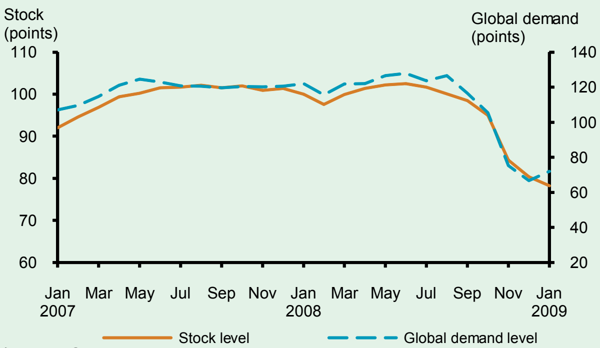
Just as released for the American economy, there are no quantitative and comprehensive statistics on stocks for the Brazilian economy, which hinders, for example, to ascertain if the stylized facts registered by Horstein (1998) for the American economy are observed or not in Brazil. There is, however, qualitative evidence. The Getulio Vargas Foundation (FGV) Manufacturing Industry Survey (SCIT) verifies whether a number of companies in the manufacturing industry have, in a given month, excessive, normal or insufficient stocks, based on an analysis of a sample of businessmen interviewed. The stock level indicator consists in the difference (percentage points) between the participation of companies that stated having insufficient stocks and of those which stated having excessive stocks added by 100. Thus, the indicator may vary from 200, in the extreme case that all of the companies consider that they have insufficient stocks, to zero, situation in which all the companies assess their stocks as excessive.

Figure 1 – Stock level Indicator[1/]



Source: FGV.
1/ Seasonally adjusted series.

Figure 2 – Stock level and Global demand[1/]



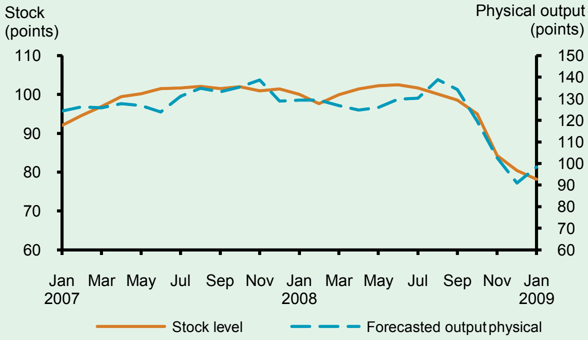
Source: FGV.
1/ Seasonally adjusted series.

The recent behavior of this indicator, registered in Figure 1, reveals that the number of companies which demonstrated having insufficient stocks in relation to the universe of companies surveyed remained between 5% and 10% from May 2007 to August 2008, period characterized by expansion of sales and production. With the aggravation of the international economic crisis, in September, this figure was reduced to 2%, until it reached zero in November, and, again, in January. The participation of a number of companies which reported excessive stocks, after remaining below 10% in the period of November 2006 to October 2008, reached 15.7% in November and 21.8% in January 2009.

Between April 2007 and September 2008, the balance between the number of companies with insufficient and with excessive stocks was known by the permanence of the indicator of stock level around the equilibrium level of 100 points, suggesting that the trajectory of expansion of sales and of production occurred at a pace which made it possible to adequately adjust the stocks. The same did not occur in the last quarter of the year, when the aggravation of the world crisis, as of September, was not anticipated by the companies and manifested itself in sharp reduction of industry's sales and in accumulation of excessive stocks. This process is shown on Figure 2, where one may observe that while global demand remained stable, the stocks were balanced and that after their non-anticipated, sharp decline, stocks piled in a similar proportion.

The relevance of the stock level as a determinant of physical production may be understood by the analysis of Figure 3, which shows that the indicator of physical production volume foreseen for the next three months, also contained in the FGV's Survey, remained above 120 points in the period from November 2006 to September 2009, revealing that there were more companies planning to expand production than the other way around. One should highlight that, in line with the trajectory of gradual expansion of production in this period, the stock indicator remained near the equilibrium. The sudden reduction of demand and the consequent accumulation of excessive stocks in the last quarter of 2008 led to a similar reduction in the volume of physical production foreseen for the three following

Figure 3 – Stock level and physical output[1/]



Sources: IBGE and FGV.
1/ Seasonally adjusted series.

months. The foreseen physical production indicator reduced from 134.2 points, in September, to 90.9 points, in December – the lowest value since April 1995. Again, it is observed that, if on the one hand, the stock level indicator was not helpful to signal the stage of the economic cycle, it unambiguously indicated an unforeseen shock on sales and on foreseen physical production.

SCIT statistics also allow the analysis of the manufacturing industry's stock level evolution broken down by use categories and segments. The monthly evolution of the aggregated stock level indicator, as registered on Figure 1, translated similar movements in three of the use categories and nine of the considered segments (Table 1), evincing, therefore, the widespread 0stock growth in the latest months.

It should be highlighted that the prospect of possible shortage of raw materials observed in the period prior to September 2008 has been an additional important element in the recent process of stock accumulation. In this sense, companies that accumulated excessive stocks of intermediate products and, especially, of raw materials in order to guarantee the continuity of their activities under the risk of supply exhaustion of these products became overstocked, subjecting their suppliers to more intensive stock expansions. It is worth noting that this type of defensive behavior, leading to the monopolization of stocks of raw materials and intermediate products, was not restricted to Brazil, but was observed in other mature and emerging economies as well, like China.

The recent expansion of stocks in the manufacturing industry occurred with sharp intensity in the automobile sector, which after registering relevant and constant rises in domestic sales and in production, began to reflect restrictions to credit and consumers' deteriorating expectations.

According to data from the National Association of Automotive Vehicle Manufacturers (Anfavea), the stock of vehicles at the assembling lines and at the car dealerships reached 305 thousand units in November, after registering average of 174 thousand units from January 2007 to October 2008. This movement, intuitively classified as an irregular component, translated into generalized interruption

Table 1 – Stock level[1/]

Itemization	2008				2009	Difference between Jan/2009 and		
	Sep	Oct	Nov	Dec	Jan	Dec/2008	Sep/2008	Average[2]
Manufacturing industry	98.5	95.0	84.3	80.4	78.2	-2.2	-20.3	-10.3
By use categories								
Consumer goods	99.1	99.8	84.1	81.1	75.5	-5.6	-23.6	-9.1
Capital goods	107.1	96.8	84.1	80.1	83.5	3.4	-23.6	4.9
Building material	97.4	94.4	92.8	90.2	81.3	-8.9	-16.1	-8.3
Intermediate goods	99.9	97.6	91.2	79.6	78.8	-0.8	-21.1	-14.5
By type								
Non-metallic minerals	86.9	90.1	81.8	70.9	60.1	-10.8	-26.8	-21.5
Metallurgy	100.1	92.3	86.4	73.0	69.3	-3.7	-30.8	-25.7
Mechanic	106.5	99.3	80.3	72.0	73.7	1.7	-32.8	-12.7
Electric fittings	100.0	101.2	88.4	66.1	63.9	-2.2	-36.1	-19.2
Transportation material	100.0	99.8	72.5	60.7	67.5	6.8	-32.5	-11.1
Furniture	90.4	84.2	86.2	85.5	77.5	-8.0	-12.9	-9.6
Cellulose and paper	99.5	90.5	87.8	72.6	72.5	-0.1	-27.0	-13.6
Chemical	101.5	99.2	97.1	86.3	92.9	6.6	-8.6	-4.5
Pharmaceutical	86.9	86.7	93.5	77.0	87.2	10.2	0.3	1.1
Plastics	90.4	93.5	87.8	85.9	91.4	5.5	1.0	3.0
Textiles	87.6	87.4	82.0	95.4	71.4	-24.0	-16.2	-5.5
Apparel and footwear	93.7	96.5	83.2	75.4	72.3	-3.1	-21.4	-8.2
Food products	98.9	93.8	92.5	94.1	90.0	-4.1	-8.9	-3.1
Other products	98.7	99.1	97.2	91.5	82.0	-9.5	-16.7	-13.6

Source: FGV / Manufacturing Industry Survey (SCIT).

1/ Segment of respondents which described their stocks as insufficient deducted from the segment which described them as excessive; measured in percentage points; seasonally adjusted series.

2/ Average of the series since April 1995.

of activities of the sector, with negative effects on distinct segments of the productive chain. In this scenario, and considering the unpredictable nature of this stock movement, the Federal Government opted for reducing the Industrialized Products Tax (IPI) levied upon the sales of automobiles, favoring the resumption of sales and production both in the sector and in the principal links of this productive chain.

As a result, there was rapid reduction of the stock level in the sector, to some 27 days of sales, below the historical average of 34 days.