

## Revision of the GDP Projection for 2009

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Estimated growth of the Gross Domestic Product (GDP) for 2009 was revised from 1.2%, in the Inflation Report of March, to 0.8%. Even in a scenario in which the results of GDP for the first quarter of the year suggest that the economic slowdown that followed the intensification of international crisis, this change might be less intense than the initially expected, reflecting in particular the impact of fewer favorable projections compared to the industrial performance.

Considered from the perspective of production, one should highlight the less optimistic prospects about the performance of primary and secondary sectors, contrasting with the more favorable estimate for the tertiary sector. The projection related to farm production indicates that the sector should undergo an annual decline of 0.8% against 0.1% contraction expected in the previous report, a move consistent with the incorporation of the effects of both bad weather drought in the south and excessive rains in the north and northeast – on the crops, and the recession environment on the external demand for livestock products.

The industrial activity, which is the sector most affected by the deterioration of expectations, is expected to drop 2.2% in 2009 compared to an increase of 0.1% predicted in the previous report. This reversal reflects the downturn in the projections for the performance of the entire sector's segments, except for the mining industry, which, driven by oil production, should grow 2.9% this year, against a previous projection of 2.4%. The decline of the manufacturing industry is expected to reach 4.2%, compared to a previous estimate of 1.6%, a move consistent with the pace of recovery presented by the

segment at the beginning of the year. The construction activity is expected to record a decrease of 0.5% in 2009, in contrast with the projected growth of 2.7% indicated in the previous report. The new projection, although incorporating the perspective of recovery in the sector as of the second quarter – consistent with the introduction of new real estate credit lines and the effects of the governmental program for housing construction and investments in the Growth Incentive Program (PAC) – reflects, in particular the decrease of 9.8% recorded in construction in the first quarter of the year, compared to the same period in 2008.

The projection on the variation of production and distribution of electricity, gas and water was reduced from 2.1% to -1.2%, reversal due to both the incorporation of a 4.2% decline shown by the segment in the first quarter, and the intensification of the estimated annual decline of the manufacturing industry, accounting for approximately 45% of electricity consumption.

The annual performance of the services sector was estimated from 1.7% to 2.1%. This evolution

**Table 1 – Gross Domestic Product**

	Cumulative annual variation						
	2008	2008				2009	
	Weights	I Q	II Q	III Q	IV Q	I Q	IV Q <sup>1/</sup>
Crop and livestock	5.7	3.8	6.7	6.7	5.8	-1.6	-0.8
Industry	23.6	6.9	6.2	6.5	4.3	-9.3	-2.2
Mineral extraction	3.0	3.6	4.5	5.6	4.3	-1.1	2.9
Manufacturing	13.5	7.4	6.2	6.1	3.2	-12.6	-4.2
Construction	4.3	8.9	9.3	10.2	8.0	-9.8	-0.5
Public utilities	2.7	5.4	4.6	4.9	4.5	-4.2	-1.2
Services	55.2	5.2	5.3	5.5	4.8	1.7	2.1
Commerce	10.3	7.9	8.1	8.6	6.1	-6.0	-0.9
Transportation	4.6	4.3	4.7	5.0	3.2	-5.6	-1.3
Communications	3.0	8.0	8.1	8.8	8.9	5.4	5.0
Financial institutions <sup>2/</sup>	5.7	13.2	11.7	10.7	9.1	5.8	4.2
Other services	11.4	3.3	4.1	4.7	4.5	7.0	3.5
Rents	7.3	3.8	3.5	3.3	3.0	1.6	2.9
Public administration	12.9	1.4	1.7	2.0	2.3	3.1	2.5
Value added at basic prices	84.5	5.6	5.8	5.9	4.7	-1.5	0.7
Taxes on products	15.5	9.1	8.6	9.1	7.4	-3.3	1.0
GDP at market prices	100.0	6.1	6.2	6.4	5.1	-1.8	0.8

Source: IBGE and Banco Central

1/ Estimated.

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

is associated, in particular, to the performance observed in the first quarter. Positive revisions have been performed in all subsectors, except for marked reductions in estimates regarding trade, from -0.4% to -0.9%, and transportation, from -0.5% to -1.3%, which are segments particularly impacted by a supply reduction represented by the performance of industry and imports.

Considering the demand side, the main setting in the projection was related to the performance of the Gross Fixed Capital Formation, which moved from an annual growth of 0.7% to a drop of 5.1%. The review of this component, which is the most sensitive to changes in expectations and in the product, was largely associated to the interannual decrease of 14% observed in the first quarter of the year and to the limited prospects for recovery of investments in an environment of idleness in the domestic level of capacity utilization and an incipient recovery of more developed economies. An estimate for household consumption reached 1.5% against 1.6% in the previous report, while the one regarding the government consumption, reflecting in part a counter-cyclical spending policy of the federal government, increased from 2.4% to 2.8%. The projected decline in imports increased 1.4 p.p. to 7.8%, while the falloff regarding exports decreased on 0.9 p.p. to 5.7%, thus enhancing the prospects for a positive contribution of the external sector to the GDP.

**Table 2 – Gross Domestic Product – Demand side**

Period	GDP at market price	Private consumption	Government consumption	Total consumption	Gross Fixed Capital Formation	Exports	Imports	%
<b>2002</b>	2.7	1.9	4.7	2.6	-5.2	7.4	-11.8	
<b>2003</b>	1.1	-0.8	1.2	-0.3	-4.6	10.4	-1.6	
<b>2004</b>	5.7	3.8	4.1	3.9	9.1	15.3	13.3	
<b>2005</b>	3.2	4.5	2.3	3.9	3.6	9.3	8.5	
<b>2006</b>	4.0	5.2	2.6	4.5	9.8	5.0	18.4	
<b>2007</b>	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	
<b>2008</b>	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	
<b>2009 (estimated)</b>	0.8	1.5	2.8	1.8	-5.1	-5.7	-7.8	
Contribution (p.p.)		0.9	0.6	1.5	-1.0	-0.8	1.1	

Source: IBGE and Banco Central