Economic activity

1

In the first quarter of 2009, the Brazilian economy showed signs of recovery from the accentuated deterioration occurred with the intensification of the international financial market crisis. The performance of the industrial sector, especially of those segments more dependent on the dynamics of investments and international trade flows, reflected the slowdown recorded in major developed economies in a scenario of reduced capacity utilization and the need for adjusting inventories. Notwithstanding, the trajectory of GDP in the quarter ended in March and the performance of the latest monthly indicators suggest that the cycle of economic slowdown in the country may be less pronounced than in many other mature and emerging economies.

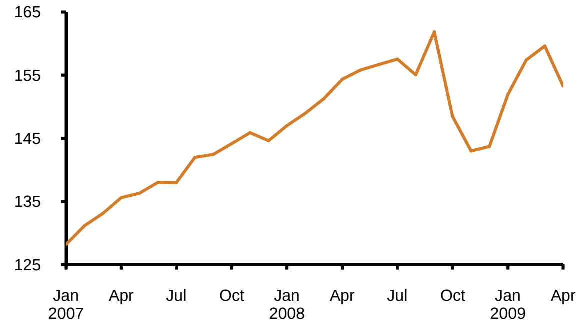
The expansion of investments, which respond more slowly to economic changes, continued to reflect the deterioration of the business environment. Over the coming months, the investment trajectory will depend on the level of uncertainties present in the international scenario. Household consumption, helped by the maintenance of the purchasing power consequent upon the lower inflation rates, the strengthening of cash transfer programs promoted by the government, and real wage gains, as well as by the reduction in credit constraints and the temporary tax relief measures, reported a recovery in recent months.

In this scenario, the degree of recovery of the Brazilian economy in the months ahead will largely depend on the impact of the reduction of uncertainties related to the performance of the global economy on external trade flows and, internally, on investment and consumption decisions.

1.1 Commerce

Retail sales indicators, showing the impact of specific measures aimed to encourage the sector, expressed in reduced taxes and improved access to credit markets, registered a relative recovery in sales at the end of the first and beginning of the second quarters. Even though the indicators related to consumer expectations remained at historically low levels, they have shown some improvement at the margin. The outlook for the sector over the next months is the persistence of the sales recovery, a trajectory in line with the incorporation of the workers' real wage gains.

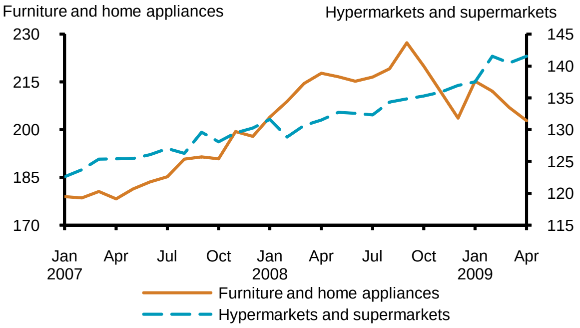
Figure 1.1 – Extended retail sales
Seasonally adjusted data
2003 = 100



Source: IBGE

According to the Monthly Trade Survey (PMC), published by the Brazilian Institute of Geography and Statistics (IBGE), seasonally adjusted expanded retail sales increased 7.2% in the 3-month period ended in April, compared to that ended in January. This result reflected, in particular, the growth of sales of automobiles, motorcycles, parts and spares, 14.8%; other articles of personal and domestic use, 7%; equipment and office supplies, computer and communications, 4.1%, and pharmaceutical, medical, orthopedic and perfumery, 3.3%, in contrast with the accentuated decreases in books, newspapers, magazines and stationery, 3%, and furniture and appliances, 1.4%. In addition, sales related to hypermarkets, supermarkets, food products, beverages and tobacco, a segment with weight exceeding 50% the volume of retail sales, rose 3.2% in the period, the twelfth consecutive positive rate.

Figure 1.2 – Retail sales
Seasonally adjusted data
2003 = 100

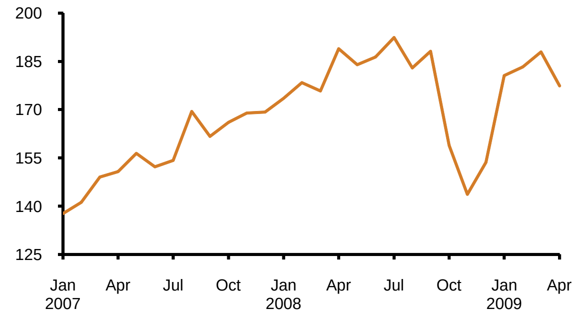


Source: IBGE

Valid until the first fortnight of July 2009, fiscal measures such as the reduction of the Industrialized Products Tax (IPI) levied on civil construction products and electrical appliances, should positively impact the sales of these segments in the coming months.

Other industry-related indicators ratified the favorable performance of sales of automotive vehicles evinced by IBGE surveys. Seasonally adjusted statistics from the National Federation of Vehicle Distributors (Fenabrave) revealed that sales of cars and light commercial vehicles grew by 19.3% in the 3-month period ended in May, compared to the 3-month period ended in February, returning to the level of the months prior to the intensification of the international financial crisis. Similarly, national automobile sales on the domestic market, released by the National Association of Automotive Vehicle Manufacturers (Anfavea), amounted to 25.9% in the period. Over the next months, the trajectory of sales is expected to continue reflecting the incentive measures applied to the sector, as well as the somewhat eased credit scenario.

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



Retail sales rose 2.4% in the 3-month period ended in April, compared to that endend in January. This performance reflected the growth of 3% in the Northeast; 2.9% in the

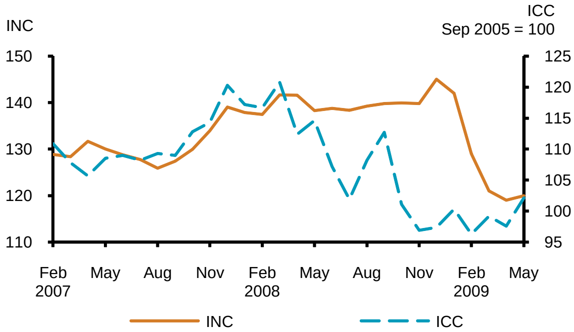
Table 1.1 – Sales volume index

	2009			
% change	Jan	Feb	Mar	Apr
In the month[1/]				
Retail sector	1.7	1.9	-0.5	-0.2
Fuel and lubricants	-1.4	2.9	1.1	-0.8
Supermarkets	0.4	2.9	-0.7	0.8
Fabrics, apparel and footwear	2.3	-1.0	1.8	-1.7
Furniture and home appliances	5.7	-1.5	-2.4	-2.0
Pharmac., medical, orthop. and perfumery articles	1.5	1.7	1.7	-1.0
Books, newspaper, magazines,	9.1	-9.3	1.5	-2.7
Office, comp./comunic. equip.	-10.7	4.9	1.0	8.9
Other art. of personal use	6.1	4.6	0.3	-2.4
Broad trade sector	5.8	3.5	1.4	-4.0
Building materials	-2.5	3.8	1.0	-3.5
Automobiles, motorcycles, parts and spares	17.6	1.5	2.5	-5.6
3-Month Period/Previous 3-Month Period[1/]				
Retail sector	-1.1	0.2	2.1	2.4
Fuel and lubricants	-2.8	-2.0	-0.2	2.1
Supermarkets	1.4	2.4	2.8	3.2
Fabrics, apparel and footwear	-6.9	-3.5	1.1	1.6
Furniture and home appliances	-5.3	-4.3	-0.2	-1.4
Pharmac., medical, orthop. and perfumery articles	1.9	1.2	3.1	3.3
Books, newspaper, magazines,	6.8	6.1	5.0	-3.0
Office, comp./comunic. equip.	-2.2	-1.0	-3.5	4.1
Other art. of personal use	-2.5	0.6	6.4	7.0
Broad trade sector	-5.7	-0.1	7.8	7.2
Building materials	-9.3	-9.5	-5.1	-0.9
Automobiles, motorcycles, parts and spares	-9.8	5.5	21.0	14.8
In the year				
Retail sector	6.0	4.9	3.7	4.5
Fuel and lubricants	3.8	2.3	3.1	3.2
Supermarkets	7.0	6.3	4.0	6.5
Fabrics, apparel and footwear	-4.7	-5.7	-6.6	-7.5
Furniture and home appliances	6.3	2.4	1.3	-1.6
Pharmac., medical, orthop. and perfumery articles	8.9	10.4	12.2	12.0
Books, newspaper, magazines,	23.9	13.1	12.3	9.4
Office, comp./comunic. equip.	15.4	13.2	15.0	18.1
Other art. of personal use	5.0	7.6	6.5	8.3
Broad trade sector	2.8	2.2	3.6	2.5
Building materials	-12.5	-12.6	-9.9	-11.4
Automobiles, motorcycles, parts and spares	-0.3	-0.2	6.0	1.3

Source: IBGE

1/ Seasonally adjusted data.

Figure 1.4 – National Confidence Index (INC – ACSP) and Consumer Confidence Index (ICC – FGV)



Source: ACSP and FGV

North, and 2.3% in the Southeast, followed by 1.9% in the South and 0.8 % in the Central-West. Retail sales were favorable in 23 out of 27 states, with emphasis on the performance observed in Roraima, 9.4%; Maranhão, 5.3%; Alagoas, 5.1%, Ceará, 4.2%, and Rondônia, 3.7%, as opposed to the reduction observed in Mato Grosso do Sul, 3.8%; Acre, 3.4%, and the Federal District, 0.8%.

The nominal revenue of expanded retail sales, reflecting increases of 2.5% in volume and 2.6% in prices, grew 5.2% in the first four months of 2009, in comparison to the same period of the previous year. The most significant results occurred in the following sectors: other articles of personal use and household goods, 17.7%, pharmaceutical, medical, orthopedic and perfumery, 17.6%, hypermarkets, supermarkets, food products, beverages and tobacco, 15.1%; books, newspapers, magazines and stationery, 12.7%, and equipment and office supplies, computer and communications 9.9%, reaching a higher level in comparison to the average growth of 5.7% registered by the IPCA (released by IBGE) in the period. The less dynamic sectors were vehicles, motorcycles, parts and spares, -3.4%; furniture and appliances, -1.6%, and textiles, clothing and footwear, -0.6%.

A relative improvement was observed in the results at the margin of research targeted to assess consumer confidence, especially at the beginning of the second quarter, a trend basically expressed by the more favorable results obtained by the components related to expectations.

The Consumer Confidence Index (ICC) of the Getulio Vargas Foundation (FGV), increased 2.8% in the 3-month period ended in May, compared to that ended in February, reflecting an increase of 6.7% in the Expectations Index (IE) and a decrease of 2.5% in the Current Situation Index (ISP), considering seasonally adjusted data. Despite the recovery at the margin, the indicator reached a level lower than the 14.1% reported in May 2008, reflecting declines of 18.1% in the ISP and 11.7% in IE.

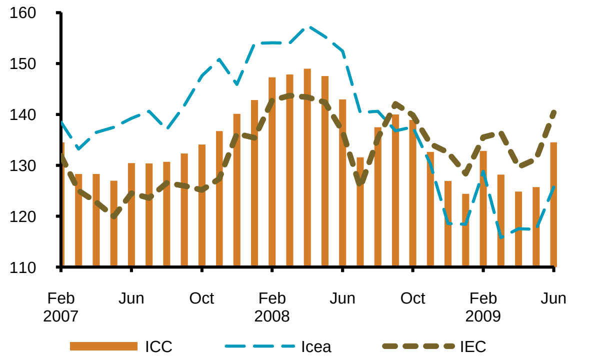
The National Confidence Index (INC), measured by the Ipsos Public Affairs (Ipsos) to the Commercial Association of São Paulo (ACSP), reached 120 points in May, for a 0.8% increase in the month and a 13.2% reduction in comparison to the same period in 2008. The regional analysis shows that consumers are less optimistic in the Northeast, where the INC dropped 21.5% compared to May 2008, followed by

Table 1.2 – Retail sales
2009, April

	% accumulated growth in 2009		
	Nominal revenue	Volume	Price
Retail sector	10.6	4.5	5.8
Fuel and lubricants	4.9	3.2	1.6
Supermarkets	15.1	6.5	8.1
Fabrics, apparel and footwear	-0.6	-7.5	7.5
Furniture and home appliances	-1.6	-1.6	0.0
Pharmac., medical, orthop. and perfumery articles	17.6	12.0	5.0
Office, comp./comunic. equip.	9.9	18.1	-6.9
Books, newspaper, magazines	12.7	9.4	3.0
Other art. of personal use	17.7	8.3	8.7
Broad retail sector	5.2	2.5	2.6
Automobiles, motorcycles, parts and spares	-3.4	1.3	-4.6
Building materials	0.9	-11.4	13.9

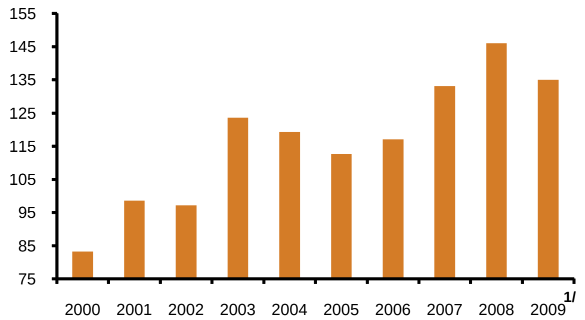
Source: IBGE

Figure 1.5 – Consumer Confidence Index



Source: Fecomercio SP

Figure 1.6 – Grain production
In million tons



Source: IBGE
1/ Estimate.

significant reductions in the North and Central-West,[1] 19.4%, in the South, 17.4%, and in the Southeast, 3.8%.

The National Index of Consumer Expectations (Inec), released quarterly by the National Confederation of Industry (CNI), showed recovery of consumer confidence in the second quarter of the year. In the period from May 29 to June 1, the indicator increased by 3.8% in comparison to the previous quarter and 0.5% in comparison to the same period in 2008. The segmentation of the quarterly Inec change reveals an increase in optimistic expectations regarding inflation and unemployment levels.

The ICC, released by the São Paulo Trade Federation (SP Fecomercio) and restricted to the metropolitan region of Sao Paulo, revealed a monthly increase of 7% in May, reflecting the increases observed in the Index of Current Economic Conditions (Icea) of 7.1%, and the Consumer Expectation Index (IEC) of 6.9%. Despite the positive results at the margin, the ICC reported an accumulated drop of 12.2% in the first six months of the year, a period in which the Icea fell 21.9% and the IEC, 5%.

1.2 Production

Farming

The crop/livestock prroduction fell by 1.6% in the quarter ended in March, compared to the same period in 2008, according to the IBGE Quarterly National Accounts.

Crops

The total grain harvest is expected at 135 million tons in 2009, according to the Systematic Survey of Agricultural Production (LSPA) from the IBGE. The prospect of a 7.5% reduction in relation to the previous harvest reflects the contraction of 7.5% in average productivity, an evolution consistent with the new relationship between the international prices of major commodities and inputs, and with the impact of adverse climatic conditions on the outcome of important crops.

Soybean production, after increasing 3.4% in 2008, is expected to reach 57.2 million tons in 2009. The annual

1/ The INC analyses agreggate statisticss from the North and Center-West regions.

reduction of 4.5% reflects a 6.5% decline in average productivity and growth of 2.1% in the cultivated area.

The corn crop is estimated at 50.9 million tons. The 13.8% reduction for the year includes a 3.7% decline in cultivated area and 10.5% in average productivity. It should be highlighted that the first harvest was affected by the drought recorded in the South as well as by the reduction in the crops of the Southeast and Center-West regions.

The crops os beans and rice are projected at 3.6 million and 12.8 million tons, for repective annual increases of 5.2% and 5.8%. Cultivated areas should grow, respectively, by 9.4% and 1.9%, while respective average productivities are estimated to change by -3.8% and 3.7%.

Sugar cane production is expected to reach 690.4 million tons in 2009. The annual increase of 6.4% is a result of a 5.6% expansion in cultivated area and 0.7% in average productivity.

The coffee harvest, as a consequence of the effect of its characteristic biannual cycle, should decrease by 13.8% in the year. Forecasts project a 2.8% contraction in the cultivated area and 11.2% in average productivity.

Table 1.3 – Farm production

In 1,000 tons

	Production		% change
	2008	2009[1/]	2009/2008
Grain production	145 986	134 984	-7.5
Cotton (seed)	2 422	1 834	-24.3
Rice	12 101	12 797	5.8
Beans	3 460	3 640	5.2
Corn	59 012	50 894	-13.8
Soybean	59 917	57 196	-4.5
Wheat	5 886	5 715	-2.9
Others	3 188	2 909	-8.8

Source: IBGE
1/ Estimate.

Livestock

According to the Quarterly Survey of Animal Slaughter, published by IBGE, beef production totaled 6.6 million tons in 2008, falling 6.1% over the previous year. Using the same basis of comparison, the production of poultry and pigs totaled 10.2 million tons and 2.6 million tons, respectively, for growth rates of 13.2% and 6.2%.

Beef exports totaled 289,900 tons in the first four months of the year, dropping 15.3% over the same period of 2008. In the same period, exports of pork and poultry totaled, in this order, 165,500 tons and 1.1 million tons, for respective expansions of 15.6% and 3.6%.

Table 1.4 – Livestock production
Total slaughters

% accumulated growth in the year

Itemization	2008					
	Jul	Aug	Sep	Oct	Nov	Dec
Cattle	-5.5	-5.9	-5.6	-5.3	-5.9	-6.1
Swine	4.8	3.9	4.7	5.0	4.9	6.2
Poultry	17.1	15.4	15.9	15.0	13.7	13.2

Source: IBGE

Industrial production

Industrial production in the first quarter of the year reveals a partial recovery of the sector, which was heavily impacted in the last quarter of 2008 by the deterioration of expectations inherent to the international financial crisis. Industrial revival has been supported by the buoyant segment of consumer durables, favored especially by government measures aimed to stimulate the consumption of goods with higher added value, while the production of capital goods, which led industrial growth up to the first half of 2008, continue to be negatively impacted by the slowdown in demand and the shortage of corporate credit.

Table 1.5 – Industrial production

% change

	2009			
	Jan	Fev	Mar	Abr
Industry (total)				
In the month[1/]	2.1	1.9	0.9	1.1
3-Month Period/Previous 3-Month Period[1/]	-14.8	-15.6	-7.8	-0.4
Same month of the previous year	-17.5	-16.8	-9.7	-14.8
Accumulated in the year	-17.5	-17.2	-14.6	-14.7
Accumulated in 12 months	1.0	-1.0	-1.9	-3.9
Manufacturing industry				
In the month[1/]	2.2	1.4	0.3	1.0
3-Month Period/Previous 3-Month Period[1/]	-13.3	-14.6	-7.3	-1.2
Same month of the previous year	-17.4	-16.7	-2.6	-13.5
Accumulated in the year	-17.4	-17.1	-14.5	-14.7
Accumulated in 12 months	1.0	-1.0	-1.9	-3.9
Mining				
In the month[1/]	3.4	2.0	2.3	1.1
3-Month Period/Previous 3-Month Period[1/]	-17.3	-16.1	-6.9	2.0
Same month of the previous year	-18.4	-18.8	-10.3	-11.5
Accumulated in the year	-18.4	-18.6	-15.8	-14.7
Accumulated in 12 months	1.6	-0.6	-1.8	-3.0

Source: IBGE

1/ Seasonally adjusted data.

The recovery of industrial output has impacted all other industrial activity indicators. Accordingly, the levels of capacity utilization and the indices of business confidence in the industrial sector, both in relation to observed and forecast data, reported a gradual recovery throughout the year, as opposed to the trend of industrial employment, which registered the seventh consecutive monthly decline in April.

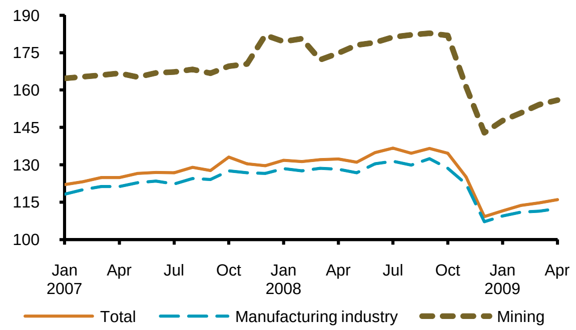
Industrial production, after experiencing a sharp falloff in the fourth quarter of 2008, recorded monthly growth in the first four months of the year, accumulating an expansion of 6.2% compared to December, according to seasonally adjusted data from the Monthly Industrial Survey (PIM-PF) of IBGE. This recovery, however, is not yet evident in the behavior of the quarterly series, which showed an industrial decrease of 0.4% during the 3-month period ending in April, compared to the 3-month period ended in January, reflecting a decrease of 1.2% in manufacturing and a growth of 2% in mining. It should be observed that the quarterly industrial production had retracted 14.8% in the 3-month period ended in January.

The pace of recovery in the manufacturing industry was impacted by the weak performance of the segment of capital goods. Since this segment reflects the trajectory of investment, it tends to react more slowly to unexpected shocks that follow a scenario of continued growth of productive capacity. Thus, the production of capital goods decreased by 14.2% in the 3-month period ended in April, compared to the 3-month period ended in January, when it had fallen by 17%. It should be also highlighted the negative performance of the sectors of machinery and equipment, office machinery and computer equipment, machinery, appliances and equipment, instrumentation equipment medical, hospital and other transportation equipment.

Figure 1.7 – Industrial production

Seasonally adjusted data

2000 = 100



Source: IBGE

The impact of the persistent negative performance in the production of capital goods was largely offsett by the recovery of the segment of durable consumer goods, which, after falling 33.3% in the 3-month period ended January, compared to that ended in October 2008, began to reflect the impact of provisional measures implemented by the government to stimulate the sector, with emphasis on the IPI exemption for the purchase of cars, and somewhat eased credit conditions for individuals. In this new scenario, the

Table 1.6 – Industrial production by category of use

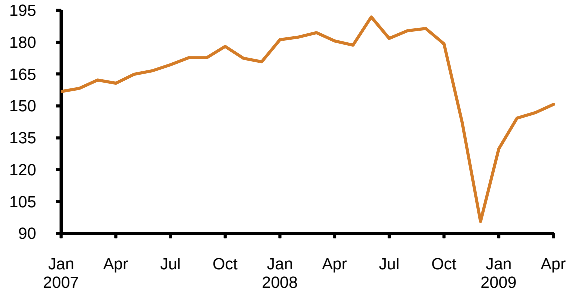
% change

	2009			
	Jan	Feb	Mar	Apr
In the month[1/]				
Industrial production	2.1	1.9	0.9	1.1
Capital goods	5.6	-6.9	-4.6	2.6
Intermediate goods	1.1	1.5	0.4	1.1
Consumer goods	3.6	3.9	1.4	0.9
Durables	35.8	11.2	1.8	2.7
Semi and nondurables	-0.9	2.8	0.8	0.3
Quarter/previous quarter[1/]				
Industrial production	-14.8	-15.6	-7.8	-0.4
Capital goods	-17.0	-24.5	-18.6	-14.2
Intermediate goods	-13.5	-14.6	-7.8	-1.6
Consumer goods	-11.2	-10.1	-1.7	4.2
Durables	-33.3	-27.2	1.0	20.3
Semi and nondurables	-4.8	-5.2	-2.0	1.3
In the year				
Industrial production	-17.5	-17.2	-14.6	-14.7
Capital goods	-14.4	-19.5	-20.2	-22.6
Intermediate goods	-20.4	-20.7	-18.1	-17.5
Consumer goods	-13.9	-11.3	-7.9	-8.2
Durables	-30.9	-27.6	-22.5	-22.2
Semi and nondurables	-8.6	-6.0	-2.9	-3.2

Source: IBGE

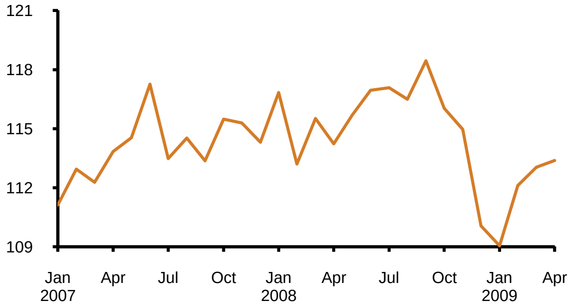
1/ Seasonally adjusted data.

Figure 1.8 – Industrial production
Consumer goods
Seasonally adjusted data
2000 = 100



Source: IBGE

Figure 1.9 – Industrial production
Semi and nondurable goods
Seasonally adjusted data
2000 = 100



Source: IBGE

production of consumer durables registered a seasonally adjusted growth of 20.3% in the 3-month period ended in April, with emphasis on the performance of the segments of furniture and automotive vehicles.

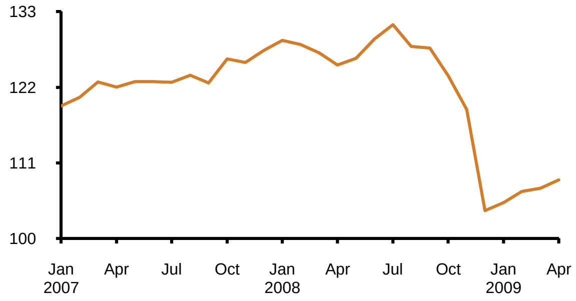
The production of semi and non-durable consumer goods grew 1.3% in the 3-month period ended in April, compared to the previous 3-month period up to January, when it had slipped 4.8% in the same type of comparison. Meanwhile, the segment of intermediate goods decreased by 1.6% and 13.5%, respectively, in the period under analysis. The performance of the segments of consumer and semi and non-nondurable goods was favored by the enhanced dynamics of the food, beverage, publishing, printing, and perfumery and cleansing products, as opposed to the decreases related to the sectors of footwear, apparel and pharmaceuticals.

The analysis of the production of capital goods according to their destination reveals a widespread negative performance in the 3-month period ended in April, compared to the 3-month period ended in January, considering seasonally adjusted data. The decreases were more pronounced in the categories of goods for the sectors of construction (52.6%), electricity (28.2%) and crop/livestock (27.2%), whose investment maturity cycles are longer, while the less significant reduction, 0.7%, occurred in the production of capital goods for mixed use. The production of typical construction inputs fell 2.3% in the period, evincing a relatively moderate decline in this industry, given the reduced demand for capital goods, partly associated to the decline in the sector's exports.

The production of industrial capital goods fell 9% in the period, registering a 4% reduction in the output of goods produced on an order basis, which include capital goods with longer production process, and 10% in the output of goods produced in series. Probably this difference is related to the completion of units that were already at advanced production stage at the time that the international financial crisis begun to intensify.

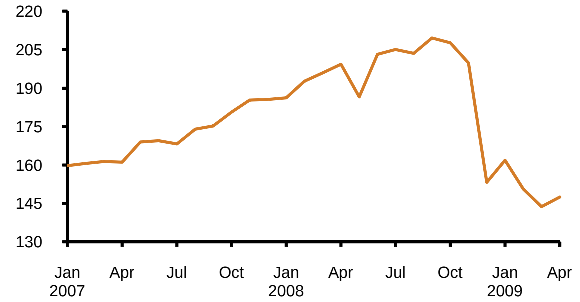
The recovery in the automotive industry was favored by the temporary reduction of the IPI in the sector and improved access to credit. In this scenario, the production of light vehicles rose 40% in the 3-month period ended in May, compared to the 3-month period ended in February, according to seasonally adjusted data from Anfavea.

Figure 1.10 – Industrial production
Intermediate goods
Seasonally adjusted data
2000 = 100



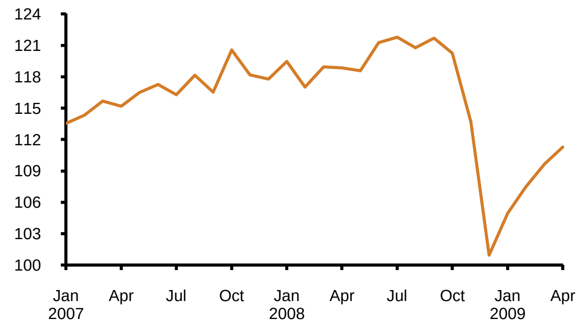
Source: IBGE

Figure 1.11 – Industrial production
Capital goods
Seasonally adjusted data
2000 =100



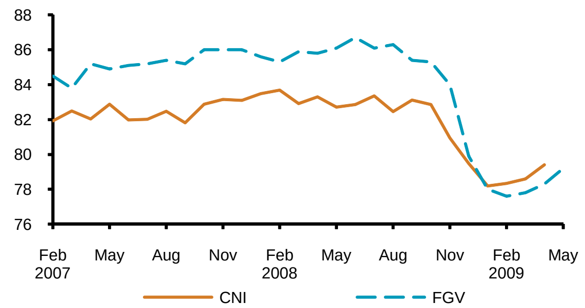
Source: IBGE

Figure 1.12 – Labor productivity
Seasonally adjusted data
2002 = 100



Source: IBGE

Figure 1.13 – Utilization of installed capacity in the manufacturing industry
Seasonally adjusted data
%



Sources: CNI and FGV

Industry continues eliminating jobs, a trajectory ratified by the decrease of 3.6% recorded by the seasonally adjusted index of employed persons from the IBGE Monthly Industrial Survey – Jobs and Wages (Pimes), in the 3-monh period ended in April, compared to the 3-month period ended in January. This was the most intense reduction observed in this type of comparison since the start of the series, in January 2003. In addition, the indices related to the number of hours paid and the total real wages reported respective decreases of 3% and 1.3% in the period.

Labour productivity, defined as the ratio between the indices of physical production and the number of hours paid, increased by 2.8% in the 3-month period ended in April, compared to the previous 3-month period ended in January, when it had fallen 11.9% in the same type of comparison, considering seasonally adjusted data.

The Level of Utilization of Installed Capacity (Nuci) from the manufacturing industry reached 79.2% in May, registering its third consecutive monthly increase, according to seasonally adjusted data from the FGV Manufacturing Industry Survey (SCIT), but keeping at a level 6 percentage points lower than the average of 2008. The analysis by categories of use shows that the growth in the Nuci in the last three months particularly reflected a growth of 5.1 p.p. in the segment of consumer goods and stability in the capital goods industry, a growth consistent with the recent trajectories of these segments.

The Industrial Confidence Index (ICI) reached 59.6 points in May, a growth of 13.4 points in relation to February, according to seasonally adjusted data from the FGV SCIT. With the exception of capital goods, advances were registered in all categories of use in the period. The confidence index of the consumer goods industry, 102.6 points, surpassed the historical average of the respective series, which began in January 1993, by 2 points.

The changes occurred in the ICI in the period under analysis were due to generalized increases in its components. The Current Situation Index (ISA), driven by a growth of 22.9 points observed in the component level of global demand, rose 15.3 points in the period, notwithstanding the performance of the component inventory levels, which indicates the completion of the process of adjustment, had risen by 6.6 points in the period. The IE, reflecting increases in the component forecast physical production, 14.6 points; forecast employment, 13.4 points, and the business situation for the next six months,13.1 points, reached 11.5 points in the period.

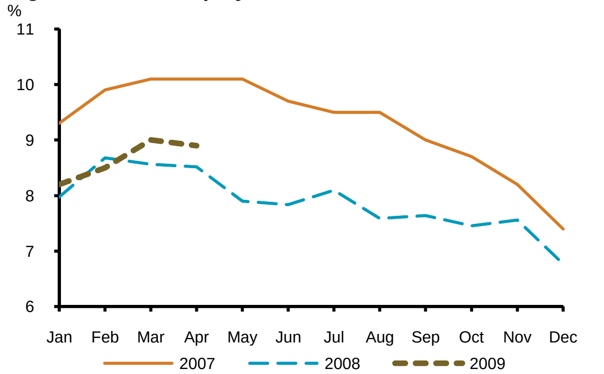
Table 1.7 – Industry Confidence Index[1/]

	2009				
	Jan	Feb	Mar	Apr	May
Industry Confidence Index	75.3	76.2	77.8	84.5	89.6
By component:					
Current Situation Index	78.1	77.8	79.5	86.5	93.1
Global demand level	72.0	67.7	71.8	80.1	90.6
Inventory level	78.2	82.6	83.9	89.4	89.2
Business situation	72.9	71.3	70.8	77.1	86.5
Expectations Index	72.5	74.6	76.1	82.5	86.1
Business situation	77.0	85.7	78.6	89.9	98.8
Employment	82.6	82.4	84.6	94.0	95.8
Physical production	98.3	98.3	107.8	109.8	112.9

Source: FGV

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

Figure 1.14 – Unemployment rate



Source: IBGE

Table 1.8 – Formal employment

In the year

	2008	2009			
	Year	Jan	Feb	Mar	Apr
Total	1 452.2	-101.7	-92.6	-57.8	48.5
Manufacturing industry	178.7	-55.1	-111.6	-147.4	-147.2
Commerce	382.2	-50.8	-61.1	-70.8	-65.1
Services	648.3	2.5	60.0	109.3	168.5
Building	197.9	11.3	14.2	30.3	43.7
Crop and livestock	18.2	-12.1	-11.1	-3.9	18.8
Public utilities	8.0	0.7	1.5	2.0	2.6
Others[1/]	19.0	1.8	15.6	22.7	27.2

Source: MTE

1/ Includes mining, public administration and others.

1.3 Labor market

Employment

The average unemployment rate, measured by the IBGE Monthly Employment Survey (PME), reached 8.8% in the 3-month period ended in April, compared to 7.5% in the 3-month period ended in January and 8.6% in the same period of 2008.

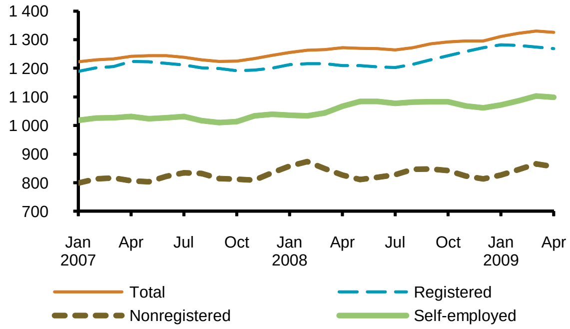
The growth of unemployment, in annual terms, reflected the expansion of 0.8% in the employment level and 1.1% in the economically active population. By categories of occupation, formal employment and unregistered employment in the private sector registered respective rates of 2.6% and -3.3%. The rate of formal employment, defined as the ratio between the number of registered workers in the private sector and the total number of employed persons, reached 45% in April, compared to 44.3% in April 2008.

According to the General Register of Employed and Unemployed Persons (Caged) from the Ministry of Labor and Employment (MTE), 48,500 formal jobs were created in the first four months of the year, compared to 849,000 in the same period of 2008, the less significant result for the period since 1999. Considering the major economic sectors, employment decreased by 0.9% in the manufacturing industry in the period, the worst result in ten years, while the segments of trade, services, and construction recorded respective increases of 4.7%, 4.8% and 8.4%.

Earnings

The average real income usually earned in the six metropolitan areas covered by the PME, after increasing 4.5% in the 3-month period ended in January, compared to the same period in 2008, grew 4.3% in the 3-month period ended in April, on the same comparison basis. The real wages, the product of average real income usually earned by the number of employed persons, increased by 5.1%, compared to 7% in the 3-month period ended in January, a slowdown consistent with the recent retreat recorded in the level of employment. The average income reached R$1,318.40 (per month) in April, the highest figure recorded for the month since the series began in March 2002.

Figure 1.15 – Average real regular earnings[1/]
In R$ of April 2009, deflated by INPC



Source: IBGE
1/ Quarterly moving average.

Table 1.9 – Gross Domestic Product at market prices

% growth

	2008				2009
	I Q	II Q	III Q	IV Q	I Q
Accumulated in the year	6.1	6.2	6.4	5.1	-1.8
Accumulated in 4 quarters	5.9	6.0	6.3	5.1	3.1
Quarter/same quarter of the previous year	6.1	6.2	6.8	1.3	-1.8
Quarter/previous quarter[1/]	1.9	1.6	1.4	-3.6	-0.8
Crop and livestock	1.4	1.6	-0.2	-1.0	-0.5
Industry	3.6	1.2	1.6	-8.2	-3.1
Services	1.4	0.8	0.8	-0.4	0.8

Source: IBGE
1/ Seasonally adjusted data.

Table 1.10 – Gross Domestic Product
Accumulated in the year

% growth

	2008				2009
	I Q	II Q	III Q	IV Q	I Q
GDP at market prices	6.1	6.2	6.4	5.1	-1.8
Households consumption	6.3	6.1	6.5	5.4	1.3
Government consumption	6.5	5.3	5.7	5.6	2.7
Gross fixed capital formation	15.4	16.0	17.3	13.8	-14.0
Exports	-2.3	1.4	1.6	-0.6	-15.2
Imports	18.8	22.5	22.6	18.5	-16.0

Source: IBGE
1/ Estimated.

1.4 Gross Domestic Product

GDP fell 1.8% in the first quarter of 2009 over the same period of last year, according to the Quarterly National Accounts from IBGE. This performance reflected the occurrence of negative results in all product components, except the sector of services. Under the prism of of demand, in contrast with the behavior started in 2006, the contribution of domestic demand reached -1.9 p.p., while the external sector contributed with 0.1 percentage points, although exports have exerted a negative impact of 2.2 percentage points. In the first quarter of 2008, the contributions of domestic demand and external sector for the 6.1% expansion of GDP were, respectively, of 8.7 p.p. and -2.6 pp.

The contribution of domestic demand reflected in particular the accentuated reduction of investments, expressed in a decrease of 14% recorded in the Gross Fixed Capital Formation (GFCF), contrasting with the significant increases in household and government consumption, 1.3% and 2.7%, respectively. The persistent deterioration of foreign trade flows, in line with the recessive environment of major developed economies, resulted in reductions of 15.2% in exports and 16% in imports in the quarter.

The analysis of the annual decrease of GDP from the perspective of production reveals the persistent loss of industrial dynamism. Industry fell by 9.3% over the first quarter of 2008, a decrease associated to reductions in the manufacturing industry, 12.6%, impacted by the negative results of the segments of machinery and equipment, metallurgy, automobiles, furniture, and clothing and footwear, as well as in construction industry, 9.8%. Moreover, it should be highlighted the reduction of 4.2% in the production and distribution of electricity, gas and water, and 1.1% of the mining industry, the latter as a result of the impact of a more pronounced decrease of 38.1% observed in the production of iron ore, compared to a 6.5% increase in oil and natural gas.

The sector of services increased by 1.7% in the same basis of comparison, a growth consistent with the positive results registered in the segments related to the domestic market, with emphasis on other services, 7%, financial intermediation, insurance, pension funds and related services, 5.8%, and information services, 5.4%. Conversely, as a consequence of the impact of the slowdown in economic activity experienced by primary and secondary sectors, the segments of trade and transportation, storage and postal services decreased by 6% and 5.6%, respectively.

Revision of the GDP Projection for 2009

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' 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[1/]
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[2/]	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 sevices.

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
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)	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

Table 1.11 – Gross Domestic Product
Accumulated in the year

% growth

	2008				2009
	I Q	II Q	III Q	IV Q	I Q
Crop and livestock	3.8	6.7	6.7	5.8	-1.6
Industry	6.9	6.2	6.5	4.3	-9.3
Mining	3.6	4.5	5.6	4.3	-1.1
Manufacturing	7.4	6.2	6.1	3.2	-12.6
Construction	8.9	9.3	10.2	8.0	-9.8
Public utilities	5.4	4.6	4.9	4.5	-4.2
Services	5.2	5.3	5.5	4.8	1.7
Commerce	7.9	8.1	8.6	6.1	-6.0
Transportation	4.3	4.7	5.0	3.2	-5.6
Communications	8.0	8.1	8.8	8.9	5.4
Financial institutions	13.2	11.7	10.7	9.1	5.8
Other services	3.3	4.1	4.7	4.5	7.0
Rents	3.8	3.5	3.3	3.0	1.6
Public administration	1.4	1.7	2.0	2.3	3.1
Value added at basic prices	5.6	5.8	5.9	4.7	-1.5
Taxes on products	9.1	8.6	9.1	7.4	-3.3
GDP at market prices	6.1	6.2	6.4	5.1	-1.8

Source: IBGE

Table 1.12 – Gross Domestic Product
Quarter/previous quarter
Seasonally adjusted

% growth

	2008				2009
	I Q	II Q	III Q	IV Q	I Q
GDP at market prices	1.9	1.6	1.4	-3.6	-0.8
Crop and livestock	1.4	1.6	-0.2	-1.0	-0.5
Industry	3.6	1.2	1.6	-8.2	-3.1
Services	1.4	0.8	0.8	-0.4	0.8
Households consumption	1.5	0.7	1.8	-1.8	0.7
Government consumption	4.2	-0.2	1.5	0.5	0.6
Gross fixed capital formation	5.0	4.3	4.3	-9.3	-12.6
Exports	-7.6	6.8	-2.4	-3.2	-16.0
Imports	5.5	6.8	1.9	-6.6	-16.8

Source: IBGE

Agricultural production fell by 1.6% in the first quarter of 2009 over the same period of last year, as a result of negative performances associated to crops with relevant weight in the production of the period. Accordingly, in accordance with the April LSPA, it should be highlighted the falloff in the crops of cotton, 19.7%, corn, 13.2%, soybean, 3.9%, and tobacco, 1.2%, compared with an increase of 6.2% observed in the production of rice.

According to seasonally adjusted data, GDP fell by 0.8% in the quarter ended in March, compared to the quarter ended in December, a result that suggests the start of a recovery process after the decrease observed in the previous quarter, 3.6%, interrupting a cycle of twelve consecutive positive results. This improvement at the margin reflected, in particular, the less significant impact of the deterioration of expectations and constraints in the credit market on the performance of the industry, which carried out an expressive adjustment in the level of stocks and investments.

The analysis of GDP at the margin, from the prism of production, shows an overall improvement in the performance of all segments. Thus, the decline of industry reached 3.1%, against 8.2% in the previous quarter, while the changes recorded in the sector of services and agriculture reached, respectively, 0.8% and -0.5%, compared to -0.4% and -1%, respectively, in the last quarter of 2008.

As for the demand, it should be highlighted the intensification of the quarterly decline of 9.3% in the quarter ended in December to 12.6% in the quarter ended in March in the GFCF, and the reversal of the decline of 1.8% to an increase of 0.7% in household consumption. Government consumption rose 0.6% in the quarter, while imports and exports recorded respective reductions of 16% and 16.8%.

1.5 Investments

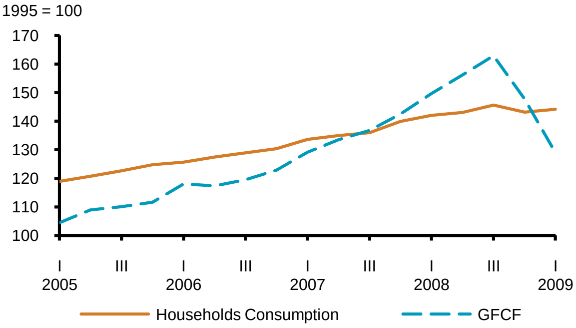
According to the IBGE Quarterly National Accounts, investments, excluding changes in inventories, fell 14% in the quarter ended in March, compared to the same period of last year, the first decline observed in twenty quarters. The 12-month investment growth rate continue to follow a significant downward trend, from 17% in the quarter ended in September 2008 to 13.8% at the end of that year, and 6.3% in the first quarter of 2009.

Analysis at the margin shows the persistent decline in investments. After falling 9.3% in the quarter ending in

December 2008, compared to September of that year, investments decreased by 12.6% in the first quarter of 2009, a movement anticipated by the performance of leading indicators. Accordingly, utilizing the same basis of comparison, production of construction inputs decreased by 6.3%. In addition, production, exports and imports of capital goods decreased, respectively, by 19.3%, 38.9% and 11.9%, resulting in a falloff of 20.1% in the absorption of this category of goods in the period under analysis.

Although most recent indicators related to April point to an accentuated reduction of investment in comparison to the same month of last year, they register monthly recovery. Thus, production, exports and imports of capital goods varied by respectively rates of 2.6%, -3%, and -0.9%, compared to March, resulting in a monthly expansion of 5.1% in the absorption of this category of goods, while the seasonally adjusted production of construction inputs rose 0.2% on the same basis of comparison.

Figure 1.16 – Households Consumption and Gross Fixed Capital Formation1/



Source: IBGE
1/ Seasonally adjusted data.

The total disbursements of the BNDES system, which constitutes a relevant indicator of the trajectory of investments, increased by 3.6% in the first four months of the year over the same period of 2008, representing a significant reduction compared to annual growth of 44.2% recorded in 2008. This movement reflected, in particular, a decrease of 3.6% observed in disbursements directed to the manufacturing industry, which had increased 29.4% in 2008. Disbursements related to agricultural activity recorded changes of -6.3% and 13.1% in the period under analyss.

1.6 Conclusion

The less intense decline in GDP observed in the first quarter of 2009 compared to the end of 2008 reflected the lowered impact of the deterioration of expectations and constraints in the credit market crisis associated with the international crisis on the level of domestic activity. This recovery trend was confirmed by sectoral results of industrial production, trade and investment expenditures in the month of April. It should be observed that this movement was supported by the performance of domestic demand, driven by ad hoc measures and the maintenance of macroeconomic stability, while external demand, notwithstanding the improvement in the exports of basic products, continued to show contraction.

The resumption of a sustained economic activity expansion over the coming months, as well as its intensity, will be therefore subject to the persistence of the recovery in domestic and foreign markets expectations. This movement could be benefited by the maintenance of the trend of reduction of stress in international financial markets, evinced by the less restrictive credit access, return of foreign capital flows to the country with the perspective of companies to regain access to capital markets, as well as the lagged and cumulative effects of the monetary easing in place since January.

The resumption of a sustained economic activity expansion over the coming months, as well as its intensity, will be therefore subject to the persistence of the recovery in domestic and foreign markets expectations. This movement could be benefited by the maintenance of the trend of reduction of stress in international financial markets, evinced by the less restrictive credit access, return of foreign capital flows to the country with the perspective of companies to regain access to capital markets, as well as the lagged and cumulative effects of the monetary easing in place since January.