

Revision of the GDP Projection

Table 1 – Gross Domestic Product
Accumulated in the year

	% growth					
	2009				2010	
	I Q	II Q	III Q	IV Q	I Q	IV Q ^{1/}
Crop and livestock	-2.8	-3.7	-5.3	-5.2	5.1	5.4
Industry	-10.4	-9.5	-8.6	-5.5	14.6	11.6
Mining	-2.6	-2.2	-2.1	-0.2	13.6	9.4
Manufacturing	-14.0	-12.3	-10.7	-7.0	17.2	12.3
Construction	-9.6	-9.5	-9.1	-6.3	14.9	13.3
Public utilities	-4.2	-4.0	-3.7	-2.4	8.1	7.4
Services	1.7	1.9	1.9	2.6	5.9	5.3
Commerce	-6.0	-4.9	-4.2	-1.2	15.2	9.0
Transportation	-6.2	-5.8	-4.8	-2.3	12.4	9.4
Communications	6.4	6.6	5.9	4.9	2.6	4.8
Financial institutions	6.2	5.6	5.8	6.5	9.0	6.3
Other services	5.8	6.0	5.6	5.1	2.4	4.8
Rents	1.3	1.4	1.4	1.4	1.8	2.4
Public administration	3.4	3.2	3.2	3.2	2.3	3.0
Value added at basic prices	-1.8	-1.5	-1.4	-0.1	8.0	6.9
Taxes on products	-4.2	-3.8	-3.2	-0.8	14.9	9.8
GDP at market prices	-2.1	-1.9	-1.7	-0.2	9.0	7.3

Source: IBGE

1/ Estimated.

The estimated growth of Gross Domestic Product (GDP) for 2010 was revised from the 5.8% showing in the two last inflation reports to 7.3%. This increase in the projection is in line with results disclosed in the first half-year and reflects general improvement in the activity indicators, whether by the perspective of production or demand.

The crop and livestock sector should grow 5.4%, an increase of 0.1 p.p. compared to the projection made in the March report, consistent with the changes forecasted in the Systematic Farm Production Survey (LSPA), by the Brazilian Institute of Geography and Statistics (IBGE). The increases in yields of soybean, wheat, and coffee crops are estimated at 19.2%, 13.1%, and 10.9% respectively.

The projected expansion of the industrial sector went from 8.3% to 11.6%, with emphasis on the revised estimate, from 10.1% to 13.3%, for the construction industry, which reflects the dynamism of the sector in the early months of the year along with its very favorable outlook for the second half. Growth estimates for the manufacturing industry went from 8.2% to 12.3%; the mining industry, from 6.1% to 9.4%; and the production and distribution of electricity, gas, and water, 7.3% to 7.4%.

The service sector should grow 5.3%, compared to 4.7% in an earlier projection. This increase was mainly determined by the respective expansions of 2.4 p.p. and 2.9 p.p. in the growth estimates for the commerce and transportation subsectors, and the warehousing and postal subsectors, directly influenced by the performance of agriculture and livestock, and industry.

Table 2 – Gross Domestic Product

Accumulated in the year

	% growth					
	2009				2010	
	I Q	II Q	III Q	IV Q	I Q	IV Q ^{1/}
GDP at market prices	-2.1	-1.9	-1.7	-0.2	9.0	7.3
Household						
consumption	1.5	2.3	2.8	4.1	9.3	7.2
Government						
consumption	4.3	4.1	3.3	3.7	2.0	3.2
Gross fixed						
capital formation	-14.2	-15.1	-14.2	-9.9	26.0	17.1
Exports	-15.4	-13.2	-12.1	-10.3	14.5	12.6
Imports	-15.8	-16.2	-16.0	-11.4	39.5	27.8

Source: IBGE

1/ Estimated.

Considering the demand perspective, the estimate for household consumption increased from 6.1% to 7.2%, a consistent evolution with prospects of continued improvement in employment and income; while the estimate for government consumption grew 0.3 p.p. to 3.2%, after adjustments ahead of the last quarterly results. Gross Fixed Capital Formation (FBCF) is expected to grow 17.1% compared to 15.7% in the previous forecast, an increase consistent with the high level of business confidence and increasing capacity utilization. This framework should be strengthened by projects related to the oil sector (sub-salt) and infrastructure, led in large part by the public sector. Furthermore, these projects, along with the execution of events like the World Cup and the Olympics, generate many externalities for the economy as a whole and should encourage the expansion of private investment this year and in the years to come. The contribution of domestic demand to GDP results is expected to reach 9 p.p.

Exports are expected to increase 12.6% and imports, 27.8%, compared to respective increases of 12% and 20.4% in the previous estimate. The prospect of a more intense growth of imports reflects the fact that the economy is going through a new cycle of expansion, driven by domestic demand. On the other hand, the relatively modest performance of exports reflects the unfavorable prospects for growth of some of Brazil's important trading partners. These trajectories should reflect the negative contribution of 1.7 p.p. by the external sector to GDP in 2010.