

The vigorous GDP growth registered in the first quarter demonstrates the consolidation of the current cycle of expansion of the Brazilian economy. It should be noted that the April stabilization in industrial activity and retail sales is not indicative of change in the growth trend, which should continue, sustained by the favorable trajectories of the labor market and confidence indices of businesses and consumers, and the upswing of credit operations.

Internal activity continues to show the dynamism of domestic demand, pointing to the sharp growth in investments consistent with high levels of confidence in the business community and a scenario of increased capacity utilization. Additionally, the upturn of household consumption continues, boosted by high consumer confidence, recurring increases in payroll, and by the improved conditions in the credit market. The external sector continues to contribute negatively to GDP growth, a performance consistent with the negative impact exerted by the Brazilian trade balance, the significant differential between the pace of recovery of the Brazilian and global economies.

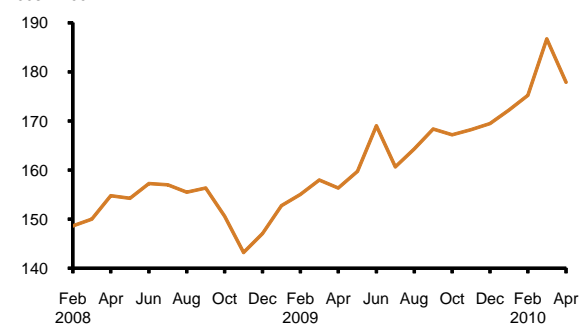
1.1 Retail sales

After registering a sharp rise in the first quarter, commerce indicators settled in the month of April. This movement is largely a reflection of the effects of purchases in anticipation of the end of tax incentives and of Easter, which this year occurred at the beginning of April. The favorable performance of the job market and consumer expectations, and the positive effect of the World Cup suggest a continuing trend of growth in retail business in the coming months.

Extended trade sales increased by 5.9% in the quarter ending in April, in relation to the one that ended in January, considering seasonally adjusted data from the Monthly Retail Trade Survey (PMC), published by the Brazilian Institute

Figure 1.1 – Extended retail sales

Seasonally adjusted data
2003 = 100



Source: IBGE

Table 1.1 – Sales volume index

	% change			
	2010			
	Jan	Feb	Mar	Apr
In the month^{1/}				
Retail sector	2.8	1.4	2.1	-3.0
Fuel and lubricants	0.0	0.7	2.1	-2.0
Supermarkets	1.9	3.2	-1.1	-0.7
Fabrics, apparel and footwear	1.1	3.4	1.7	2.2
Furniture and home appliances	8.9	1.0	-0.3	0.0
Pharmac., medical, orthop. and perfumery articles	2.5	3.4	-0.3	-0.9
Books, newspaper, magazines,	2.8	-2.4	-0.2	-0.2
Office, comp./comunic. equip.	5.8	-0.6	10.9	-10.5
Other art. of personal use	1.8	1.2	0.8	2.5
Broad trade sector	1.6	1.7	6.6	-4.7
Building materials	2.3	2.7	2.6	-0.9
Automobiles, motorcycles, parts and spares	0.4	2.2	12.7	-11.7
3-Month Period/Previous 3-Month Period^{1/}				
Retail sector	2.9	2.9	4.4	3.5
Fuel and lubricants	3.6	2.6	2.1	1.8
Supermarkets	2.2	2.8	3.5	3.3
Fabrics, apparel and footwear	3.1	3.5	4.6	6.4
Furniture and home appliances	6.1	5.6	8.3	5.3
Pharmac., medical, orthop. and perfumery articles	2.5	3.2	4.2	4.2
Books, newspaper, magazines,	2.8	2.7	1.9	-0.3
Office, comp./comunic. equip.	8.5	6.8	10.7	7.0
Other art. of personal use	-0.3	0.3	1.9	3.5
Broad trade sector	2.0	2.6	5.8	5.9
Building materials	4.9	5.5	6.6	6.1
Automobiles, motorcycles, parts and spares	1.1	1.7	7.8	7.7
In the year				
Retail sector	10.4	11.2	12.8	11.8
Fuel and lubricants	4.8	4.8	5.5	5.3
Supermarkets	10.2	10.9	12.4	10.6
Fabrics, apparel and footwear	2.3	6.3	9.5	11.5
Furniture and home appliances	17.7	19.7	21.6	21.8
Pharmac., medical, orthop. and perfumery articles	10.3	12.4	13.3	12.7
Books, newspaper, magazines,	7.0	8.4	8.3	8.4
Office, comp./comunic. equip.	32.2	26.6	30.0	23.2
Other art. of personal use	6.0	5.4	6.3	6.1
Broad trade sector	10.3	11.9	15.6	14.9
Building materials	9.5	12.1	15.0	16.0
Automobiles, motorcycles, parts and spares	10.3	13.1	20.8	20.3

Source: IBGE

^{1/} Seasonally adjusted data.

of Geography and Statistics (IBGE). In the period, positive results were registered in nine of the ten segments surveyed, with emphasis on the marked expansion in sales of vehicles, motorcycles, parts and accessories, 7.7%; equipment and office supplies, computers, and communication, 7%; textiles, clothing, and footwear, 6.4% construction materials, 6.1%; and furniture and appliances, 5.3%.

Retail trade sales, a concept that excludes the segments of vehicles, motorcycles, parts and accessories, and building materials increased 3.5% over the same period, with emphasis on increases observed in the North, 8%, and Northeast, 5.7%.

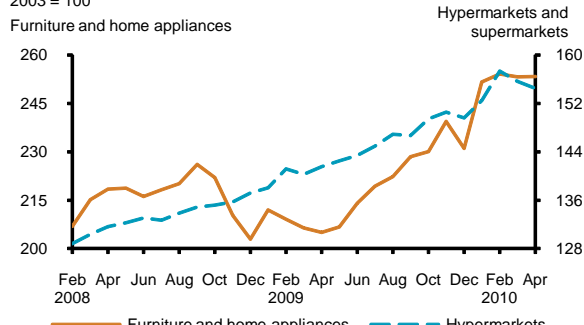
Nominal revenue for the extended market increased 13.2% in April, in relation to the same period in 2009, resulting from increases of 9.1% in sales volume and 3.8% in prices. Nine of the ten segments surveyed showed nominal revenue growth higher than the average variation of 5.3% in the period, registered by the Extended National Consumer Price Index (IPCA) and released by the IBGE, emphasizing the marked increases in the furniture and house appliance segments, 24.2%; construction materials, 23.7%; textiles, clothing, and footwear, 22.7%; and vehicles, motorcycles, parts and accessories, 21%.

The upward trend of retail sales, as evidenced in surveys by the IBGE, is corroborated by the development of other indicators. In this respect, the Serasa Experian Commerce Activity index, of national scope, built from monthly consultations carried out by shops, grew by 2.7% in the quarter ending in May, in relation to the one that ended in February, considering seasonally adjusted data. Sales of automobiles and light commercial vehicles, released by the National Federation of Automotive Vehicle Distributors (Fenabrave) increased 10.7% over the same period, emphasizing that the end of tax incentives for sales in the sector tends to contribute to its stabilization, at a higher level in the months to follow. Conversely, real sales of the supermarket sector, a segment whose weight is approximately 32% of the IBGE's PMC, dropped 1.1% in the quarter ended in May, as compared to the one closed in February, according to seasonally adjusted data from the Brazilian Association of Supermarkets (Abras).

The continued improvement of job market conditions continues to favor the trajectory of default rate indices. The ratio between the number of checks returned for insufficient funds and the total number of checks cleared reached 5.6% in May, against 6.9% in same period of the previous year,

Figure 1.2 – Retail sales

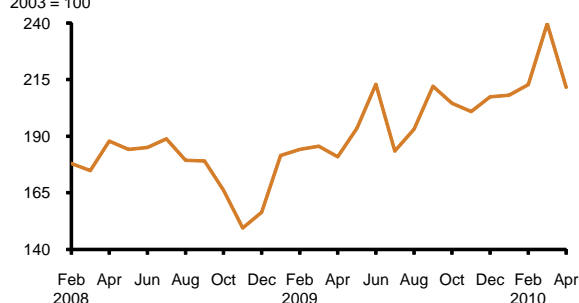
Seasonally adjusted data
2003 = 100



Source: IBGE

Figure 1.3 – Sales volume index (automobiles, motorcycles, parts and spares)

Seasonally adjusted data
2003 = 100



Source: IBGE

Table 1.2 – Retail sales

2010, April

	% accumulated growth in 2010		
	Nominal revenue	Volume	Price
Retail sector	15.0	11.8	2.9
Fuel and lubricants	8.9	5.4	3.3
Supermarkets	14.2	10.6	3.3
Fabrics, apparel and footwear	17.5	11.5	5.4
Furniture and home appliances	21.7	21.8	-0.1
Pharmac., medical, orthop. and perfumery articles	17.3	12.7	4.1
Office, comp./communic. equip.	15.2	23.2	-6.5
Books, newspaper, magazines	13.0	8.4	4.2
Other art. of personal use	14.4	6.1	7.8
Broad retail sector	17.0	14.9	1.8
Automobiles, motorcycles, parts and spares	20.3	20.4	-0.1
Building materials	20.3	16.0	3.7

Source: IBGE

emphasizing that this retraction reflects the occurrence of decreases in all of the country's regions, with emphasis on those with 1.8 p.p. and 1.7 p.p. marked by the Northeast and Central-West regions, respectively.

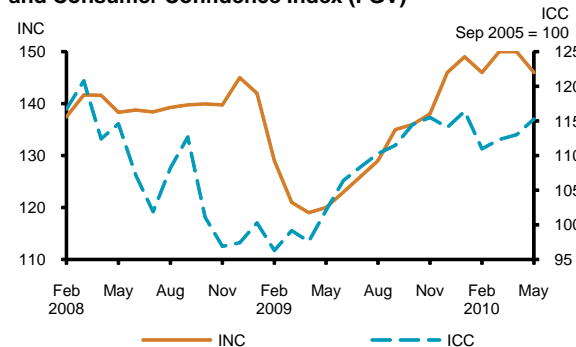
The Serasa Experian Consumer Default Indicator, which includes debt payments overdue by a minimum of 90 days, together with credit companies, credit cards, non financial companies, banks, unpaid obligations, and second return of unpaid checks due to insufficient funds registered a 4.3% increase in May in relation to the previous month and 1.9% compared to the same month in 2009. This high is concentrated in credit card operations, and is consistent with the increase of transactions in this segment. In São Paulo state, defaults, as measured by the Sao Paulo Trade Association (ACSP), reached 6.6% in May, up 9.7% in same period in 2009.

The main indicators for measuring consumer expectations continue at high levels. The Consumer Confidence Index (ICC), by the Getulio Vargas Foundation (FGV), registered a monthly increase of 0.6% in May, seasonally adjusted data considered, and reached 116.1 points, the third highest historical value in the series, which initiated in September 2005. The Current Situation Index (CSI) increased by 2.3% in the period, reaching the record level of 128.4 points, while the Expectations Index (EI) fell 0.4%. The ICC registered an increase of 12.9% compared to May 2009.

The National Consumer Expectations Index (Inec), published monthly since March 2010 by the National Industry Confederation of Industry (CNI), registered monthly changes of -3% in April and 1.8% in May. Worth noting is that this month, all of the indicator's components, except the one that evaluates expected higher value purchases, reported positive results, with emphasis on expectations related to unemployment expectations, personal income, and indebtedness. Although changes in the periodicity to release the indicator moved from three-monthly to monthly, comparisons between periods in 2010 and the previous year are not permitted, and it should be emphasized that Inec lies at a level above its historical average.

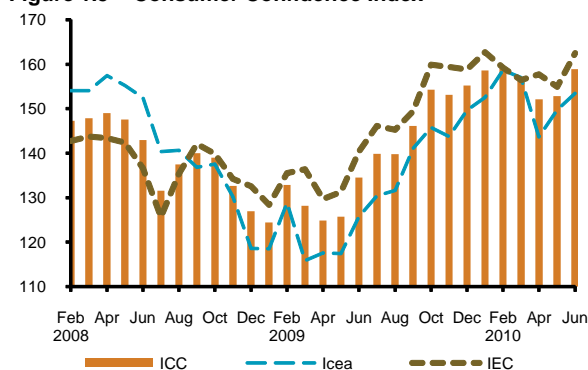
The National Confidence Index (INC), prepared for the ACSP by Ipsos Public Affairs, after reaching a record 150 points in April, showed a monthly decline of 2.7% in May, but remained at a level 21.7% higher than in the same 2009 period. The monthly decline reflected the falloffs recorded in the South, 19.3%, and Northeast, 6.3%, neutralized in part by increases in the Southeast, 5.4%, and North/Central-West, 3%.

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



Sources: ACSP and FGV

Figure 1.5 – Consumer Confidence Index



Source: Fecomercio SP

The inter-annual development of the indicator resulted from widespread regional growth, with emphasis on observed increases in the North/Central-West, 34.4%, and the Northeast, 31.7%.

The ICC, which is released by the São Paulo Trade Federation (Fecomercio SP) and restricted to São Paulo only, attained 159 points in February, a historical record for the series, which was initiated in June of 1994. It went on to register monthly changes of -1.5% in March, -2.9% in April, 0.5% in May, and 4% in June, positioning itself at 158.9 points, the second best result for the historical series. The ICC components showed growth in May, with the Consumer Expectations Index (IEC) varying by 4.9% and the Index of Current Economic Conditions (Icea), 2.5%. The ICC continues at a high level – the indicator’s average in the first six months of the year stands at a level 21.8% higher than in the same period in 2009, a reflection of the expansions observed in the Icea, 26.4%, and the IEC, 18.9%. Similarly, the IEC, as measured by the Rio de Janeiro Trade Federation of the State of Rio de Janeiro (Fecomercio- RJ), after hitting a record 121.4 points in January 2010, fell in the three months that followed and recorded a high of 0.4 % in May, reaching 118.2 points, considering seasonally adjusted data.

1.2 Output

Crop and livestock output

Table 1.3 – Farm production

	In 1,000 tons		
	Production 2009	Production 2010 ^{1/}	% change 2010/2009
Grain production	133 986	145 800	8.8
Cotton (seed)	1 785	1 879	5.3
Rice	12 605	11 249	-10.8
Beans	3 523	3 329	-5.5
Corn	51 232	53 147	3.7
Soybean	56 961	68 131	19.6
Wheat	4 965	5 154	3.8
Others	2 916	2 911	-0.2

Source: IBGE

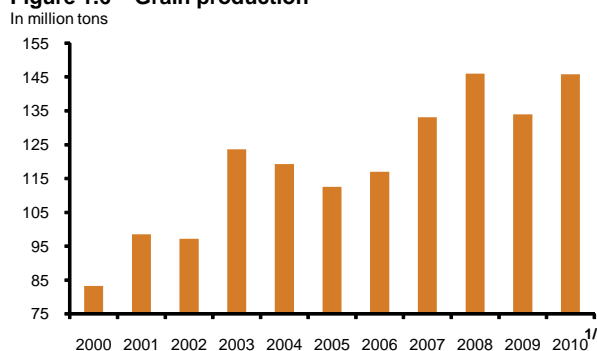
1/ Estimate.

Production of the crop/livestock sector increased by 5.1% in the first quarter of 2010, in relation to the same period last year, according to the National Quarterly Accounts, released by the IBGE. This performance reflected, in particular, the impact of weather conditions suitable for the production of major crops such as upland cotton, corn, soybean, and coffee.

Grain production estimates total 145.8 million tons in 2010, registering an annual growth of 8.8%, according to the May Systematic Farm Production Survey (LSPA), published by the IBGE. A 0.9% drop is projected for the harvested area and an increase of 9.9% for the average yield.

The soybean crop is expected to grow 19.6% this year, with an emphasis on an 11.6% increase for the average yield, due to suitable weather conditions in the major production regions. Similarly, growth projections are indicated for the production of coffee, 12.9% upland cottonseed, 5.3%, wheat

Figure 1.6 – Grain production



Source: IBGE
1/ Estimate.

Table 1.4 – Livestock production

Itemization	% accumulated growth in the year							
	2009	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Cattle	-7.0	-5.7	-4.6	-3.6	-2.4	-1.2	0.3	
Swine	11.8	13.3	13.5	12.9	12.1	11.7	10.9	
Poultry	-5.2	-4.7	-3.7	-3.1	-3.1	-3.0	-2.7	

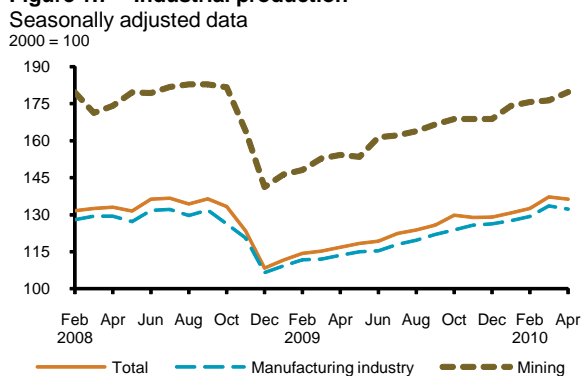
Source: IBGE

Table 1.5 – Industrial production

	3-Month Period/Previous 3-Month Period ^{1/}				%
	2010				
	Jan	Feb	Mar	Apr	
Industry	2.4	2.0	3.2	4.5	
By section					
Mining	2.5	2.8	3.9	3.9	
Manufacturing	3.9	3.1	3.9	4.1	
By category of use					
Capital goods	11.9	6.5	4.5	4.9	
Intermediate goods	5.1	4.2	3.8	2.6	
Consumer goods	1.1	1.2	3.0	4.0	
Durables	-1.6	-1.1	3.0	4.4	
Semi and nondurables	2.2	3.2	3.5	3.5	

Source: IBGE
1/ Seasonally adjusted data.

Figure 1.7 – Industrial production



Source: IBGE

3.8%, corn 3.7%, and sugarcane, 1.1%. Conversely, rice and bean crops should decrease by 10.8% and 5.5% respectively.

According to the Quarterly Survey on Animal Slaughter, published by the IBGE, the production of poultry, cattle, and pork totaled, in order, 9.9 million, 6.6 million, and 2.9 million tons in 2009, registering annual variations of -2.7%, 0.3%, and 10.9% respectively.

Beef exports totaled 300,000 tons in the first three months of the year, increasing 3.5% over the same period in 2009, as compared with respective decreases of 8.5% and 1.2% in external sales of pork and poultry, which amounted to, in order, 151.5 and 1.1 million tons.

Industrial output

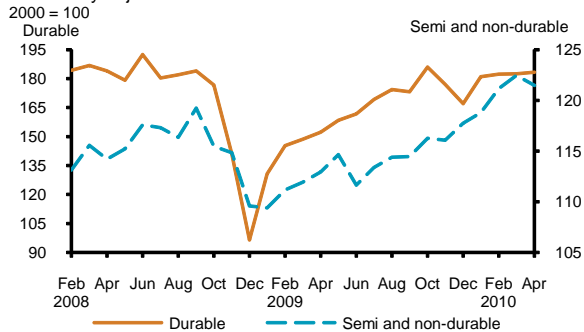
The recovery of industrial activity, facilitated by dynamic domestic demand, has enabled the production of the manufacturing sector to overcome in March, the level registered in the pre-crisis period. Industrial employment, after shrinking in 2009, shows signs of sustainable recovery, while the evolution of business expectations indicates the continuing growth process in the sector, with emphasis on the performance of the capital goods and construction material segments.

Industrial output grew 4.5% in the quarter ended in April, compared to the one ended in January, when it had expanded 2.4% in the same type of comparison, according to seasonally adjusted data from the IBGE's Monthly Industrial Survey – Physical Production (PIM -PF), with the processing industry growing 4.1% and quarrying, 3.9%. It is worth mentioning that the quarterly growth verified in industry reflected the occurrence of positive results in all thirteen federal units surveyed, emphasizing growth reported in Pernambuco, 11.9%, and Goiás, 11.4%.

Analysis of the industrial growth by use categories reveals widespread growth in the period, with emphasis on the expansion of 4.9% in the capital goods segment. The production of durable consumer goods rose 4.4%, followed by the performance of industries of semi-durable and non-durable goods, 3.5%, and intermediate goods, 2.6%.

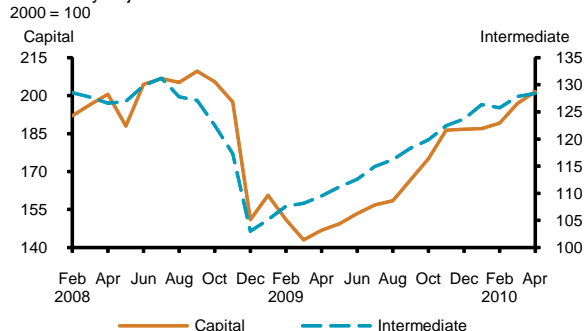
The upswing in the production of capital goods reflected, in part, the quarterly increases registered in the segments of construction goods, 10.8%; mixed-use, 8.6% and electricity, 7.7%, segments.

Figure 1.8 – Industrial production
Durable, semi and non-durable goods
Seasonally adjusted data
2000 = 100



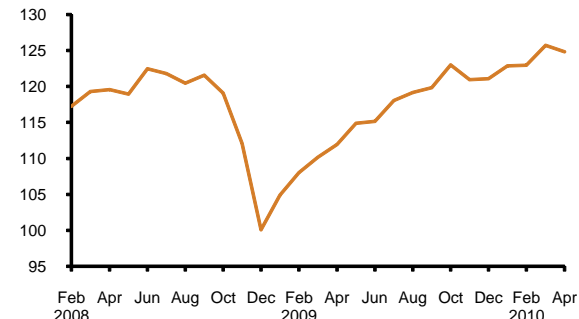
Source: IBGE

Figure 1.9 – Industrial production
Capital and intermediate goods
Seasonally adjusted data
2000 = 100



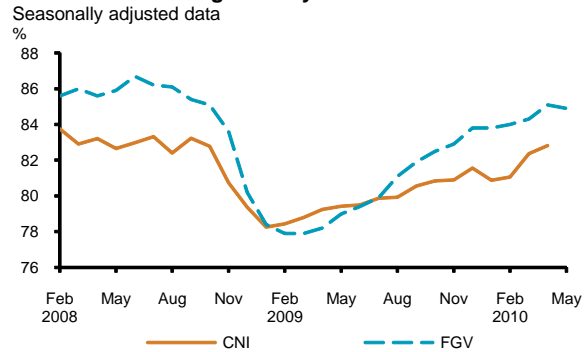
Source: IBGE

Figure 1.10 – Labor productivity
Seasonally adjusted data
2002 = 100



Source: IBGE

Figure 1.11 – Utilization of installed capacity in the manufacturing industry
Seasonally adjusted data
%



Sources: CNI and FGV

The production of automotive vehicles increased 5.8% in the trimester ended in May, compared to the one ended in February, when it had registered an increase of 0.1% in this type of comparison, according to statistics from the National Association of Automotive Vehicle Manufacturers (Anfavea), seasonally adjusted by the Central Bank. The automobile and light commercial vehicle industry grew 5.4% in the period, while production of trucks and buses posted respective expansions of 7.9% and 10.2%. The farm machinery industry increased 10.3% in the quarter, with an emphasis on the increase of 14.7% observed in the production of wheeled tractors.

The rate of employed persons released by the IBGE's Monthly Industrial Survey – Employment and Wages (Pimes), shows an ongoing recovery of industrial employment, which, considering seasonally adjusted data, increased 1.2% in the quarter ended in April, as compared to the one ended in January, the third consecutive positive result, in this type of comparison. Similarly, the number of hours paid in production, which had shown respective elevations of 1.6% and 1.3% for the quarters ending in January 2010 and October of the previous year, increased by 2.1%.

Labor productivity, estimated by the ratio between the physical production and number of hours paid indices, registered an average increase of 2.4% in the quarter ended in April, compared to the one ended in January, when it had grown 0.8%, considering seasonally adjusted data.

The Installed Capacity Utilization Level (Nuci) reached 84.9% in May, according to seasonally adjusted statistics from the FGV's Manufacturing Industry Survey (SIT), rising 0.9 percentage points in relation to February and standing 2.6 p.p. above the average for the series, which was initiated in April 1995. Analysis by use categories shows that the construction materials industry Nuci increased by 5 p.p. in the quarter, reaching a record 91.6%, while for the intermediate goods industry, it grew by 2.3 p.p. to 86.5%. Indicators referring to the consumer and capital goods industries registered stability in the quarter, standing in order at 85.4% and 82.8%, and 1.7 p.p. and 6.8 p.p. below their respective maximum values.

The prospect of continuing industrial expansion is corroborated by the development of businesspeople sentiment surveys. The Industrial Business Confidence Index¹ (Icci), released by the CNI, reached 66.3 points in May, compared to 67.8 points in February, with components

1/ Values above 50 points indicate optimism.

Service Sector Survey

Table 1 – GDP composition by sectors^{1/}

Sector	2004	2005	2006	2007	2008	2009
Crop/livestock	5.9	4.9	4.7	4.8	5.0	5.2
Industry	25.8	25.1	24.7	23.9	23.3	21.8
Services	54.1	55.8	56.5	57.3	56.8	58.9
Net taxes	14.2	14.2	14.1	14.0	14.9	14.0

Source: IBGE

1/ Values at current prices.

The growing participation of the service sector in the country's Gross Domestic Product (GDP) – it accounted for 58.9% in 2009, as compared to 54.1% in 2004, as shown in Table 1 – evinces the need for monitoring the short-term trends of this sector's segments. In this context, the Getulio Vargas Foundation, in partnership with the Central Bank, developed the Service Sector Survey.

Among other things, this survey aims to generate indicators to predict economic trends within the sector. It consists of a monthly national survey of over 2,000 companies with one or more employees. The coverage of the service sector activities is similar to that of the Annual Service Survey (PAS) of the Brazilian Institute of Geography and Statistics (IBGE), which covers the entire service sector, with the exception of the government, the health sector, part of educational, financial and trade activities.

Thus, the results are disclosed to the service sector as a whole, divided according to scale (small, medium, and large), and by seven segments:

- household services (housing; food; recreational and cultural activities; personal services and continuing educational activities);
- information services (telecommunications; computer activities; audiovisual services; news agencies and journalism services);
- business services (legal, accounting, and business consultancy activities; architecture and engineering services; materials testing and product quality analysis; advertising, selection, management, and leasing of temporary labor; investigative services; security, surveillance, and transportation of

- valuables; home and building cleaning services and other business services);
- transportation, auxiliary transportation services and mail (rail and subway transport; road transport; water transport; air transport; travel agencies and tour operators; and other mail delivery activities);
- real estate activities and rental of movable and immovable property (incorporation, purchase and selling of real estate; management, brokerage, and real estate rental to third parties; and rental of vehicles, machinery, and personal and household objects);
- maintenance and repair services (vehicle maintenance and repair; maintenance and repair of personal and household objects; and maintenance and repair of office machinery and computers);
- other service activities (ancillary services related to agriculture; trade agents and commercial representation; ancillary; financial; insurance and pension funds; and urban sanitation and sewage services).

These segments were defined according to the IBGE National Classification of Economic Activities, version 1.0 (CNAE 1.0). The result for each segment is obtained by aggregating the estimated proportions for the three scales, weighted according to the total number of persons employed by each company on the basis of data compiled by the Ministry of Labor's Annual List of Social Information (RAIS). The result for the service sector is derived from the aggregation of estimated proportions for 31 segments, according to the segment's value added, based on the IBGE PAS, with the exception of items related to employment, which are weighted by the total number of employed persons disclosed by the PAS.

Answer options for proposed questions are mostly qualitative, thus making it easier to carry out an immediate assessment of the sector's cyclical state. One of the research key attributes is the quickness with which data is collected, processed, and disclosed, without the need for further revisions. Data thus obtained provide for signals in the three to six month time horizon as of the disclosure's reference month.

Assessments on the current scenario refer to the variable's level or situation at the time of research (good, normal or bad situation). Predictions for the future and observations on the recent past are made in a comparative manner (situation expected to improve, remain unchanged, or worsen). Some questions are addressed to the company as a whole, such as the items related to employment standards, factors that limit the business improvement, and credit conditions, while others are related to the level of services offered. When the company supplies more than one relevant line of services, answers are provided for each of these lines. The Survey's questions are related to the following items:

- current state of business: the study seeks to capture the company's sentiment in relation to the general state of business. Typically, when evaluating the state of business, companies take into consideration microeconomic factors, such as profit and revenue margins, and macroeconomic factors that affect their performance, such as interest and exchange rates, as well as tax burden. As for the timeframe, the state of business is evaluated in relation to the moment the survey is being conducted;
- business trends: companies should evaluate, disregarding seasonal effects, if the state of business over the next six months will improve, remain unchanged, or worsen;
- forecast employment: the objective is to prospect for the next three months the company's contingent manpower in relation to the survey's reference month;
- volume of current demand: the purpose is to assess the current level of demand for the company's services at the survey's reference month;
- expected demand: the company should estimate, disregarding seasonal effects, how the volume of demand for its services would evolve over the next three months;
- sales forecast: the objective is to measure the prospects for the next three months in relation to the survey's reference quarter;
- price: evaluates the outlook for the company's prices during the quarter following the survey's reference month;
- credit conditions: seeks to assess the degree of difficulty in acquiring credit in the banking system in the survey's reference month;

- limiting factors to improving the state of business: if they exist, the company should select the most important factors among six suggested factors, or specify a factor not included in the survey.

For each of the survey's items, a summary indicator is created, based on the proportion of favorable responses to the question minus the proportion of unfavorable responses, plus 100. Thus, if the proportion of favorable responses is equal to the proportion of unfavorable responses, the indicator remains at 100 points, denominated the zone of indifference. Values above 100 indicate optimism and values below 100, pessimism.

The Service Confidence Index (ICS), the survey's summary index, represents the arithmetic mean of two indicators: the Current Situation Index (ISA-S) and the Expectations Index (IE-S). The ISA-S is calculated by the arithmetic mean of current state of the business situation and the volume of current demand items. Similarly, the IE-S is equal to the arithmetic mean of the business trends and the expected demand items.

The ICS trajectory, according to the historical series begun in June 2008, seems consistent with the recent service sector developments. Accordingly, after increasing in the first three months, the ICS started to drop as of August of 2008, reaching the minimum value in January 2009, coinciding with the worsening of the world financial crisis. It is worth highlighting the good adherence of the ICS quarterly average to the GDP service sector indicator released on a quarterly basis by the IBGE, as shown in Figure 1. The ICS mean observed in the early months of the second quarter of 2010 suggests the persistence of service sector activity growth, which shall reflect on the next GDP results.

The analysis at the margin, shown in Figure 2, reveals that the index fell 1.1% in April, in relation to the previous month, reaching 134 points, lower than in the previous month, 135.5 points, and in August 2008, 138.4 points, only. At the margin, ISA-S increased 1.2% in the month, to 119.4 points, the highest value since October 2008, and IE-S, in spite of a 2.9% drop, to 148.6 points, remained at a high level.

Figure 1 – Services Confidence Index (ICS) and GDP services

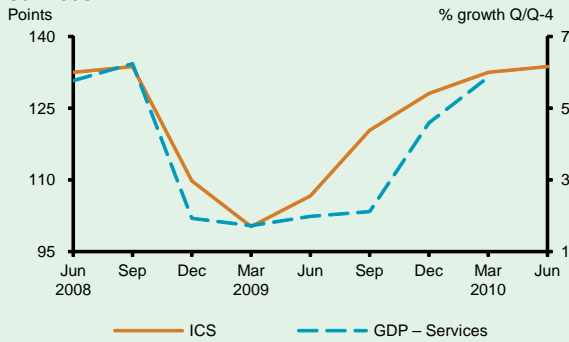


Figure 2 – Service Confidence Index

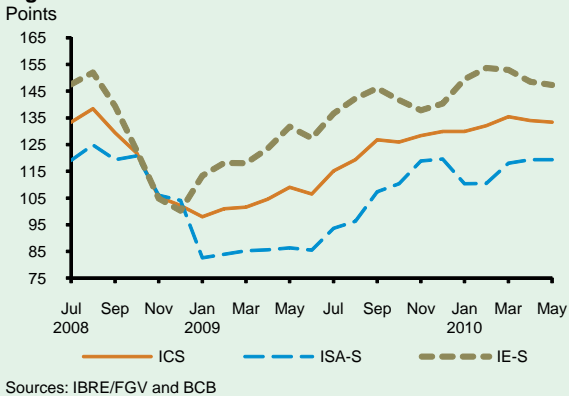


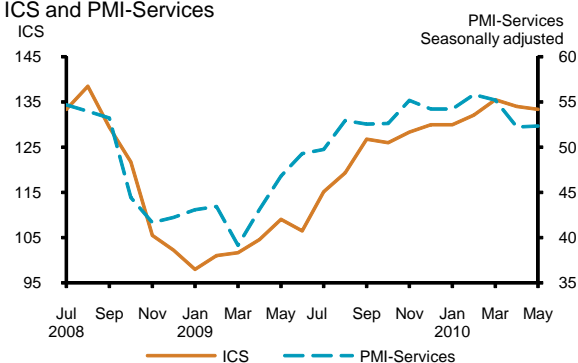
Table 1.6 – Industry Confidence Index^{1/}

	2010				
	Jan	Feb	Mar	Apr	May
Industry Confidence Index	113.6	115.8	116.5	115.3	116.1
By component:					
Current Situation Index	112.6	113.4	117.3	120.0	119.2
Global demand level	114.3	112.3	117.6	119.7	120.8
Inventory level	96.9	99.7	99.4	101.3	100.5
Business situation	123.5	124.9	131.8	136.2	133.3
Expectations Index	114.5	118.3	115.7	110.5	113.0
Business situation	162.2	169.6	163.7	158.7	160.3
Employment	120.8	128.3	125.2	123.0	126.2
Physical production	139.2	137.9	137.2	125.2	129.2

Source: FGV

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

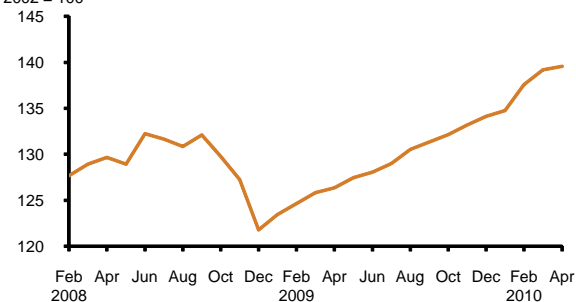
**Figure 1.12 – Services Confidence Index
ICS and PMI-Services**



Sources: FGV and HSBC/Markit

**Figure 1.13 – Central Bank Index of Economic Activity
– Brazil**

Seasonally adjusted data
2002 = 100



Source: IBGE

that assess the current situation and expectations for the next six months, closing at 61 and 69.1 points in the same order. The FGV's Industrial Confidence Index² (ICI), recorded a quarterly increase of 0.3 p.p. and hit 116.1 points, reflecting marked increases in the components of business perception relating to the level of demand, 8.5 points, and current state of businesses, 8.4 points, partly offset by the 5.3 points drop in relation to expectations. By use categories, one should note the 18.6 points quarterly increase observed in the construction materials segment indicator.

The Purchasing Managers Index (PMI), calculated by Markit and published by HSBC Bank Brazil (HSBC), reached 52.4 points in May³, compared with 55.8 points in February, considering seasonally adjusted data. This deceleration resulted from a reduction in all of the index components, with emphasis on the new orders indicator, which fell by 5.4 points to 51.9 in the period.

Services

The Services Confidence Index (ICS), developed by the FGV in partnership with the Central Bank, aims to map the activity level and business expectations of the service sector, the most representative of the Brazilian economy⁴. After reaching 135.5 points in March, the second largest value in the series, which began in June 2008, the indicator recorded monthly variations of -1.1% in April and -0.4% in May, resulting from the stability in the ISA-S and a decrease of 0.8% in IE-S, but remained at a level of optimism. Similarly, the PMI-Services⁵, which is calculated by Markit and released by HSBC, reached 52.3 points in May, down from 55.8 in February, when seasonally adjusted data are considered. The indicator, without seasonal adjustment, reached 54.1 points in May, up from 48.6 points in the same period last year.

Central Bank Index of Economic Activity – Brazil (IBC-Br)

The IBC-Br⁶ registered 2.4% growth in the quarter ended in April, compared to the one closed in January, when it had

2/ Values above 100 points indicate a sentiment of optimism.

3/ The PMI summarizes the monthly development of the indicators for new orders, production, employment, delivery time, and inventory of inputs. Values above 50 represent monthly expansion of activity.

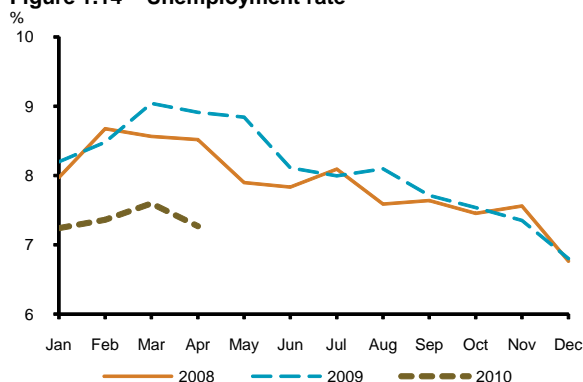
4/ The methodology for calculating the indicator can be found in the Box: Survey of the Service Sector, on page 18 of this Report.

5/ The index is constructed based on monthly responses sent by executives of about 400 private companies in the service sector, with the panel selected to replicate the actual structure of the sector, covering the activities of transportation and communication, financial intermediation, business services, personal services, computer and information technology, and hotels and restaurants. Values above 50 represent growth in activity.

6/ The indicator's methodology may be found in the box "Central Bank Index of Economic Activity" on page 24 of the March 2010 Inflation Report.

risen 2.8% in the same type of comparison, considering seasonally adjusted data. The monthly analysis reveals that the indicator increased 0.3% in April, the sixteenth consecutive increase in this type of comparison. The quarterly moving average of the IBC-Br increased 0.8% in April, compared to 0.9% in March and 0.7% in February, a shift that reinforces the prospects for continuing the cycle of expansion that the economy finds itself in. The index grew 11.8% in April, compared to the same month last year, accumulating a 10.5% expansion on the year and 4.1% in 12 months.

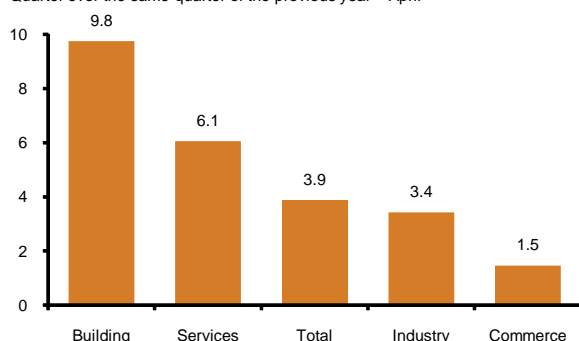
Figure 1.14 – Unemployment rate



Source: IBGE

Figure 1.15 – Occupied people

Quarter over the same-quarter of the previous year – April



Source: IBGE

Table 1.7 – Formal employment

	New jobs – in the year (1,000)				
	2009	2010			
	Year	Jan	Feb	Mar	Apr
Total	995.1	181.4	390.8	657.3	962.3
Manufacturing industry	10.9	68.9	131.9	204.4	287.4
Commerce	297.2	-6.8	3.9	33.3	74.0
Services	500.2	57.9	143.5	249.9	346.5
Building	177.2	54.3	89.1	127.7	166.1
Crop and livestock	-13.6	4.1	8.1	18.5	57.4
Public utilities	5.0	2.5	4.4	6.0	7.8
Others ^{1/}	18.3	0.4	10.0	17.5	23.1

Source: MTE

^{1/} Includes mining, public administration and others.

1.3 Labor market

Employment

Growth in job market indicators has been consistent with the dynamism of economic activity, registering a decline in the unemployment rate and qualitative improvements in the generation of jobs, expressed by the substitution of informal jobs for those with registered documentation. Real labor income, although negatively impacted due to the acceleration of price indices in the recent past, continues to grow.

Considering the IBGE's Monthly Employment Survey (PME) that was conducted in the country's six major metropolitan areas, the unemployment rate reached 7.3% in April, constituting – as observed in the seven previous months – the lowest rate for the month.

Using seasonally adjusted data, the unemployment rate reached an average of 7% in the quarter ended in April, compared to 7.7% in the quarter that ended in January, representing the largest quarterly decline and the lowest level in the historical series, which began in March of 2002. This movement reflected the marked increase in employment, 1.9%, the highest quarterly growth since April 2003, partly offset by the 1.1% expansion registered in the Overall Labor Force (PEA).

The unemployment rate fell 1.4 p.p. in the quarter ended in April, compared to the same period last year, pointing to the 3.9% increase observed in employment, which revealed, in particular, expansions in construction, 9.8%, in services, excluding domestic services, 6.1%, and in industry, 3.4%. Additionally, it should be noted that formal job openings and the number of informal jobs showed respective variations of 6.8% and -0.1% in the quarter ended in April, resulting in an increase of 1.4 p.p. in the ratio of formalization – defined as

Extended Payroll and Available Extended Payroll: improving the concept and recent comparative development

Overall Earnings (MSA)¹ is defined as an aggregate that incorporates overall labor income and security benefits and welfare and social programs of the government. It is worth noting that this concept was often mentioned after the escalation of the global financial crisis, in an environment of reduced liquidity, as well as deterioration of expectations and to a lesser extent, the conditions of the labor market, since its dynamics has contributed to sustain the dynamism of domestic demand². Given the relevance of the MSA concept in better understanding the evolution of private consumption, this Box introduces a methodological improvement, expressed in the creation of the concept of Available Extended Payroll (MSAD).

Income from work considered in the Monthly Employment Survey (PME) and the Household Sampling National Survey (PNAD) of the Brazilian Institute of Geography and Statistics (IBGE), used in calculating the MSA, does not exclude discounts corresponding to social security payments and to income tax levying at source, which can reduce its explanatory power, for example, in times of changing tax and/or social security legislation. Therefore, in this sense, the MSAD calculation uses gross income, but excludes the burden of taxes and social security contributions.

$$\text{MSAD} = \text{MRB} - (\text{IR} + \text{CP}) + \text{BPS} + \text{BP};$$

Where $\text{MRB} = \text{N} \times \text{RMB}$ such that $\text{MRD} = \text{MRB} - (\text{IR} + \text{CP})$.

1/ See Box – Overall Earnings: Concept and Recent Developments, published in the September 2009 Inflation Report.

2/ See Box – Determinants of the Recent Evolution of Private Consumption, published in the September 2009 Inflation Report.

Where:

MRB = Overall gross labor income;

IR = Income tax;

CP = social security contributions;

BPS = social protection benefits;

BP = social security benefits;

N = number of employed personnel in the country;

RMB = average gross income;

It is worth noting that in constructing the MSAD, the methodology adopted in the calculation of the MSA is followed, including additionally the IR component that incorporates the resources from work income³ withheld at the source, and the quota- adjustment declarations of salaried workers, and the CP component that includes contributions to the General Social Security System (RGPS), to the Civil Servant Social Security (RPSP), and to Closed Entities of Complementary Social Security (pension funds)⁴.

Table 1 shows the real variation of MSAD in the five-year period ending in 2009 and the participation of its components that year. The MRB, indicating the positive trajectory of the labor market, expressed as an increase in the formalization rate and in recurrent real gains, registered an average actual increase of 5.6% in the period, while inflows regarding income tax and social security contributions increased 6.8%. The most pronounced average increase of these inflows, when compared to those registered in MRB, was reflected in the performance of the overall income from available work (MRD), which marked an average growth of 5.4% in the five years ending in 2009. It is worth mentioning that the other MSAD components registered an average real growth of 7.9% in the period, with emphasis on the 18.2% increase in spending on the federal government social protection programs.

The participation of MRB in MSA reached 75.1% in 2009, and of the other components (BPS and BP), 24.9%. The introduction of the concept of availability in the overall income from work and in extended

3/ Include revenue from social security benefits.

4/ Contributions to the RGPS include individual payments as well as those carried out by companies and entities alike; those targeted to the RPSP include contributions to maintain the military personnel pensions as well as those channeled to the active civil service personnel, retired civil servants and pensioners.

Table 1 – Available overall real earnings

Cumulative data

	Share 2009	2005	2006	2007	2008	2009	% variation	
							Average 2009/2004	2010 (until March)
Gross overall labor earnings (MRB) ^{1/}	100.0	5.5	6.0	5.2	7.8	3.3	5.6	5.7
Income tax and social security contributions ^{2/}	10.2	3.7	13.9	3.7	11.1	1.5	6.8	5.4
IRRF-labor and IR-wage earner	5.4	7.5	7.6	4.8	14.1	-2.3	6.4	4.6
RGPS contributions	3.5	13.3	16.7	9.2	6.8	6.1	10.4	7.1
RPSP contributions	0.8	29.2	14.1	8.0	9.7	8.2	13.8	6.2
Pension funds contributions	0.5	4.4	4.0	3.8	12.5	3.1	5.6	1.9
Disposable overall labor earnings (MRD) ^{3/}	73.0	5.7	5.2	5.3	7.4	3.6	5.4	4.4
Others	27.0	8.7	10.0	8.2	3.3	9.3	7.9	10.1
Social security programs	3.6	25.7	21.5	15.1	9.4	19.0	18.2	10.4
Family allowance	0.9	42.1	28.1	14.4	11.1	11.3	21.4	19.4
Benefits of Continuous Support (BPC)	1.2	22.2	25.2	14.1	12.0	16.5	18.0	16.8
Unemployment insurance and professional qualification	1.4	18.0	13.8	16.5	5.9	26.5	16.1	-1.4
Social security benefits	23.5	7.3	8.7	7.3	2.5	8.0	6.8	10.1
RGPS	16.7	9.9	9.9	7.4	1.1	7.3	7.1	10.0
RPSP	5.1	0.5	6.2	7.9	7.4	8.6	6.1	10.2
Pension funds	1.7	2.0	4.8	4.8	2.3	13.4	5.5	10.9
Available overall real earnings	100.0	6.4	6.4	6.1	6.3	5.1	6.0	5.9

Sources: IBGE, MDS, RFB, STN, MPS and SPC.

1/ Product of the working population by the effective income in the PME. (adjusted by the effective income in the PNAD).

2/ 2009 participation in the total IRRF and salaried IR: 52.8%; RGPS contributions: 34.4%; RPSP contributions: 8.3%; and Pension funds contributions: 4.5%.

3/ Gross overall labor income less income tax and social security contributions.

payroll, excluding inflows related to income tax and social security contributions changed the ratio between components and the aggregate total, with MRBD representing 73% of MSAD.

Figure 1 – Available overall real earnings and selected components

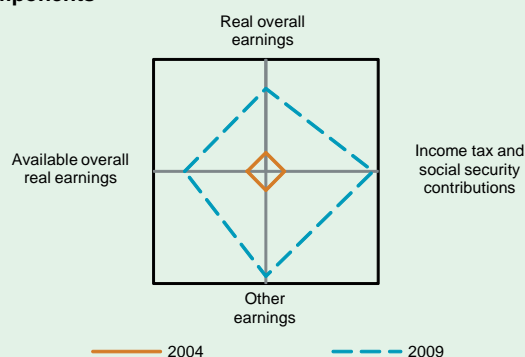
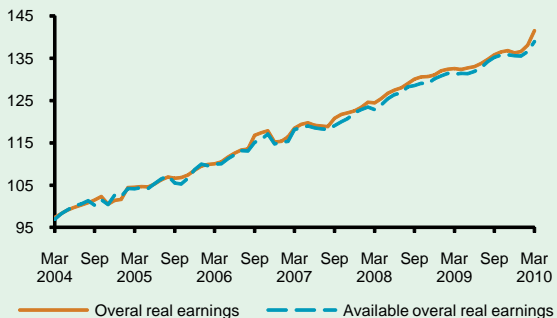


Figure 1 illustrates the development of the payroll concepts covered in this box and the impact of the average real increases indicated in other income and other inflows regarding income tax and social security contributions. In this respect, the diamond, which represents the indices referring to the mentioned variables with base 100 in 2004, becomes asymmetric toward the axis representing income tax and social security contributions and to the one related to other earnings. The real MSA and the real MSAD display uniform standards of development and relatively lower growth in the period.

Figure 2 – Overall real earnings and available overall real earnings

Seasonally adjusted data quarterly moving average

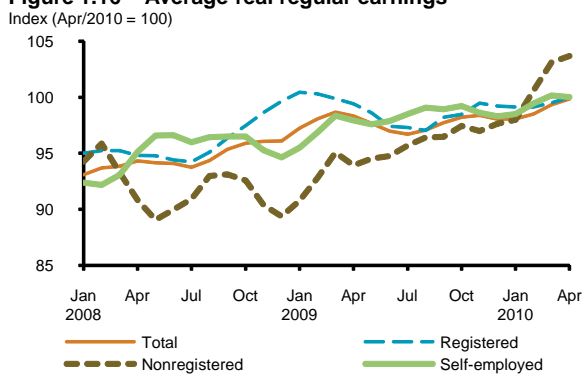
2004 = 100



In fact, the trajectories of the real quarterly moving averages MSA and MSAD, shown in Figure 2, show good adhesion, as expected.

In summary, although the general exclusion of IR and CP does not significantly alter the seasonal and cyclical component of the series, the concept of MSAD is quite useful at specific times. In this respect, it complements the MAS explanatory power.

Figure 1.16 – Average real regular earnings



the ratio between the number of documented workers and the total number of employed people – which hit a record 50.9% in the period.

According to the General Register of the Employed and Unemployed (Caged), from the Ministry of Labor and Employment (MTE), 962.3 thousand formal jobs were created in the first four months of 2010, the most significant result in the period since the series began, in January of 1985. In this four-month period, net formal employment openings were registered in record numbers in all segments of the economy, reaching 346.5 thousand in the service sector, 287.4 thousand in manufacturing, 166.1 thousand in construction, and 74 thousand in commerce.

Income

The average real income commonly earned by employed persons in the six metropolitan areas covered by the PME, increased 1.5% in the quarter ended in April, compared to the same period of the previous year, reaching the highest level for the quarter in the series, which was initiated in March of 2002. Real earnings increased 10.4% in the informal segment and 0.6% in the segment of registered workers, while in relation to the main economic sectors, relevant increases were registered in construction, 12.4%, in commerce 5.1%, and domestic services, 4.4%. Real overall wages, a product of the average real earnings commonly earned by the number of employed, grew by 5.5% in the quarter.

Table 1.8 – Gross Domestic Product

Quarter/previous quarter

Seasonally adjusted

	% growth				
	2009				2010
	I Q	II Q	III Q	IV Q	I Q
GDP at market prices	-1.5	1.5	2.2	2.3	2.7
Crop and livestock	-5.9	1.8	-0.5	0.2	2.7
Industry	-4.5	1.5	3.3	4.0	4.2
Services	0.9	1.4	1.6	0.7	1.9
Household consumption	0.0	2.9	2.5	2.1	1.5
Government consumption	4.5	-0.2	0.5	0.6	0.9
Gross fixed capital formation	-12.0	2.1	7.5	7.1	7.4
Exports	-14.9	9.0	0.0	3.3	1.7
Imports	-17.6	5.8	3.4	13.3	13.1

Source: IBGE

1.4 Gross Domestic Product

The GDP grew 2.7% in the first quarter of 2010, compared to the fourth quarter of the previous year, according to seasonally adjusted data from the IBGE's Quarterly National Accounts, increasing 9% over the same period in 2009. The favorable trends in the job market, real income, investments, and indicators of business and consumer confidence are important signs that the current cycle of the Brazilian economy should be sustainable over the medium-term.

The evolution of GDP at margin, which corresponds to the fourth consecutive aggregate increase in this type of comparison, reflected increases in industry, 4.2%, agriculture and livestock, 2.7%, and the service sector, 1.9%. In relation to demand components, continued growth in Gross Fixed Capital Formation (GFCF) was emphasized, at 7.4%, while household and government consumption increased by 1.5%

Table 1.9 – Gross Domestic Product at market prices

	% growth				
	2009				2010
	I Q	II Q	III Q	IV Q	I Q
Accumulated in the year	-2.1	-1.9	-1.7	-0.2	9.0
Accumulated in 4 quarters	3.0	1.0	-1.0	-0.2	2.4
Quarter/same quarter of the previous year	-2.1	-1.6	-1.2	4.3	9.0
Quarter/previous quarter ^{1/}	-1.5	1.5	2.2	2.3	2.7
Crop and livestock	-5.9	1.8	-0.5	0.2	2.7
Industry	-4.5	1.5	3.3	4.0	4.2
Services	0.9	1.4	1.6	0.7	1.9

Source: IBGE

1/ Seasonally adjusted data.

Table 1.10 – Gross Domestic Product

Quarter/same quarter of the previous year

	% growth				
	2009				2010
	I Q	II Q	III Q	IV Q	I Q
GDP at market prices	-2.1	-1.6	-1.2	4.3	9.0
Households consumption	1.5	3.0	3.9	7.7	9.3
Government consumption	4.3	3.9	1.6	4.9	2.0
Gross fixed capital formation	-14.2	-16.0	-12.5	3.6	26.0
Exports	-15.4	-11.4	-10.1	-4.5	14.5
Imports	-15.8	-16.5	-15.8	2.5	39.5

Source: IBGE

1/ Estimated.

Table 1.11 – Gross Domestic Product

Quarter/same quarter of the previous year

	% growth				
	2009				2010
	I Q	II Q	III Q	IV Q	I Q
Crop and livestock	-2.8	-4.4	-9.0	-4.6	5.1
Industry	-10.4	-8.6	-6.9	4.0	14.6
Mining	-2.6	-1.8	-2.0	5.6	13.6
Manufacturing	-14.0	-10.8	-7.9	4.7	17.2
Construction	-9.6	-9.3	-8.4	2.5	14.9
Public utilities	-4.2	-3.8	-3.3	1.4	8.1
Services	1.7	2.0	2.1	4.6	5.9
Commerce	-6.0	-3.8	-2.8	8.1	15.2
Transportation	-6.2	-5.4	-2.9	5.4	12.4
Communications	6.4	6.8	4.5	2.1	2.6
Financial institutions	6.2	5.0	6.1	8.5	9.0
Other services	5.8	6.2	4.9	3.5	2.4
Rents	1.3	1.4	1.4	1.5	1.8
Public administration	3.4	2.9	3.2	3.2	2.3
Value added at basic prices	-1.8	-1.3	-1.1	3.9	8.0
Taxes on products	-4.2	-3.5	-2.0	6.2	14.9
GDP at market prices	-2.1	-1.6	-1.2	4.3	9.0

Source: IBGE

and 0.9% respectively in the period. Exports grew by 1.7% and imports, in line with growth of domestic demand, expanded 13.1%.

GDP performance over the first quarter of 2009 showed the consolidation of buoyant domestic demand, accounting for the 11.8 p.p. growth during the quarter, compared with the contribution of -2.9 percentage points of the external sector.

Considering the demand perspective in a scenario of increased real payroll, employment and credit and steady consumer confidence at a high level, household consumption increased 9.3% in the period, representing the twentieth-sixth positive result in this type of comparison. The GFCF, reflecting the trajectory of the indexes of business confidence and performance of the construction and capital goods industries, increased 26% in the period, while government consumption expanded by 2%. The negative contribution of the external sector, consistent with the soundness of domestic demand and the less buoyant global economy, reflected increases in exports, 14.5%, and imports, 39.5%.

Concerning the supply components, the inter-annual performance of GDP reflected increases in production in the industrial, 14.6%, services, 5.9%, and agriculture and livestock, 5.1%, sectors.

The industry's overall performance was boosted by a strong manufacturing sector, 17.2%, and construction, 14.9%, the latter favored by the increase in resources targeted to mortgages and infrastructure works in the PAC framework. Electricity output and distribution of electricity, gas, and water increased 8.1% in the period, while mining activity, with emphasis on the performance of the iron ore segment, grew 13.6%.

The agriculture and livestock sector grew by 5.1% in the first quarter of 2010, in comparison with the same period of the previous year, with emphasis on results of cotton, corn, and soybean crops.

Highlighting the stronger domestic demand, the service sector grew by 5.9% in the period, highlighting the expansion of the commerce, 15.2%, and the transport, warehouse, and postal service, 12.4%, segments, reflecting in part, the performance of the agriculture, livestock and industrial sectors. The financial intermediation sector, insurance, complementary social security, and related services grew by 9%, followed by expansions recorded in the information

services, 2.6%; other services, 2.4%; administration, public health and education, 2.3%; and the segments of real estate and rent, 1.8%.

GDP growth forecasts for 2010 are detailed in the Box: GDP Projection for 2010, on page 30 of this report.

1.5 Investments

Investments, excluding variations in stocks, increased by 26% in the first quarter of 2010, in relation to the same period in 2009, according to the Quarterly National Accounts, released by the IBGE. Margin analysis, considering seasonally adjusted data, confirms the upward trend of investments, which increased 7.4% in relation to the fourth quarter of 2009, and is an important signal that the current cycle of economic expansion will be sustainable.

The performance of investments at margin had been anticipated by the trend of the monthly indicators of GFCF. Following the same line, the production of inputs for construction registered a 3.9% expansion in the first quarter of 2010, compared to the quarter ended in the last December, while production, import, and export of capital goods reported respective increases of 4.5%, 13.1%, and 2.9%, resulting in growth of 5.9% in the consumption of these goods.

Growth in production of capital goods reflected a widespread sectoral expansion, with emphasis on the performance in the segments of goods for agricultural parts, 33.2%, industrialized goods, 13.6%, goods produced for the agricultural sector, 7.4%, transportation equipment, 7.3%; goods for the construction industry, 5%, and goods for the electricity sector, 3.3%.

Disbursements from the BNDES system, – BNDES the Special Agency for Industrial Financing (Finame), and BNDES Participações S.A. (BNDESpar) totaled R\$25.5 billion in the first quarter of 2010, rising 42.5% over the same period in 2009. Resources intended for agriculture and livestock grew 129.9% and those intended for the commerce and services sectors, 70.5%. Disbursements for the processing industry, representing 29.4% of the resources provided by BNDES in the quarter, fell by 2.7% over the same period in 2009.

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.

Statistics for April reinforces the investment growth trajectory. In this respect, production, imports, and exports of capital goods increased, in order, by 2.6%, 0.9%, and 3.4% compared to March, resulting in expansion of 2.2% in the consumption of these goods, while the production of inputs for construction indicated a 1.4% monthly increase.

1.6 Conclusion

The economy is undergoing a new cycle of expansion, as shown by the national accounts concerning the first quarter of 2010, an impressive result in quantitative terms – the quarterly GDP grew 9% in relation to the same period last year – and, especially in qualitative terms, in view of the significant contribution of investments.

Domestic demand remains the essential fuel for the pace of economic growth, with emphasis on investment recovery, which confirms the scenario of sustainable, in the medium term, of economic expansion. This view gains additional support in the evolution of reliable of business and consumer confidence indicators; of the credit market conditions, which recorded an increase in the volume of loans and declining interest rates, spreads, and defaults; and in the job market, expressed in real salary gains and the increase in the rate of formal employment.

Household consumption should continue to be driven by the willingness of workers to commit future income in a scenario of high confidence and credit availability, while the recovery of investments, indicating the favorable expectations of business, the increase of capacity utilization, and the behavior of the construction industry tend to consolidate.

The favorable outlook regarding the development of economic activity in the coming quarters should incorporate, however, the negative impact of the effect of anticipated purchases in the first quarter of the year, in response to the end of tax relief programs in the segments of automobiles and other durable goods, which occurred in the early months of the second quarter.