

Economic activity



Table 1.1 – Sales volume index

	% change			
	2010			
	Jul	Aug	Sep	Oct
In the month^{1/}				
Retail sector	0.9	1.7	0.3	0.4
Fuel and lubricants	0.0	1.5	1.0	-0.2
Supermarkets	0.1	1.2	-0.1	-0.2
Fabrics, apparel and footwear	1.0	2.1	0.1	1.4
Furniture and home appliances	-0.2	3.4	1.5	2.3
Pharmac., medical, orthop. and perfumery articles	2.6	2.6	-0.4	1.7
Books, newspaper, magazines,	4.3	3.8	-0.4	4.7
Office, comp./comunic. equip.	-4.6	1.8	8.0	-10.0
Other art. of personal use	1.1	0.2	2.6	-2.0
Broad trade sector	2.0	2.4	0.2	2.1
Building materials	1.1	1.8	-0.4	0.0
Automobiles, motorcycles, parts and spares	3.8	3.9	1.5	6.8
3-Month Period/Previous 3-Month Period^{1/}				
Retail sector	1.1	2.3	3.4	3.0
Fuel and lubricants	1.0	0.2	1.2	1.7
Supermarkets	1.3	2.4	2.2	1.6
Fabrics, apparel and footwear	-0.1	1.1	2.1	3.8
Furniture and home appliances	-0.1	1.3	2.8	5.2
Pharmac., medical, orthop. and perfumery articles	0.7	2.0	3.8	4.3
Books, newspaper, magazines,	1.9	3.2	6.0	7.4
Office, comp./comunic. equip.	2.4	1.1	2.3	1.9
Other art. of personal use	4.1	6.1	5.3	3.9
Broad trade sector	-1.4	0.4	4.6	4.9
Building materials	1.8	1.0	1.9	1.8
Automobiles, motorcycles, parts and spares	-6.2	-2.6	7.8	10.2
In the year				
Retail sector	11.4	11.3	11.4	11.1
Fuel and lubricants	5.9	6.3	6.8	6.6
Supermarkets	10.5	10.1	10.0	9.6
Fabrics, apparel and footwear	10.5	10.9	11.1	10.9
Furniture and home appliances	19.3	18.9	18.4	18.1
Pharmac., medical, orthop. and perfumery articles	11.6	11.7	11.7	11.5
Books, newspaper, magazines,	8.0	8.6	8.8	9.4
Office, comp./comunic. equip.	24.8	24.8	25.8	24.4
Other art. of personal use	7.0	7.6	8.5	8.7
Broad trade sector	11.9	12.2	11.4	11.4
Building materials	15.8	16.4	16.5	15.6
Automobiles, motorcycles, parts and spares	12.1	13.1	10.7	11.3

Source: IBGE

^{1/} Seasonally adjusted data.

GDP growth in the third quarter and recent results from industrial activity confirm the assessment of the Central Bank, expressed in the last Inflation Report, that growth rates are moving to levels considered to be sustainable. It is noteworthy that, while remaining at a high level, as of April these indicators began to show less pronounced positive interannual variations and relative stability when considering the margin analysis.

There can be seen, however, continuity in the pace of growth of trade sales, driven by the level of consumer confidence, the performance of the labor market and the expansion of credit, emphasizing the importance of foreign trade as an adjustment mechanism between aggregated supply and demand. Moreover in the domestic arena, it is worth mentioning that investment spending continues to show robust growth rates.

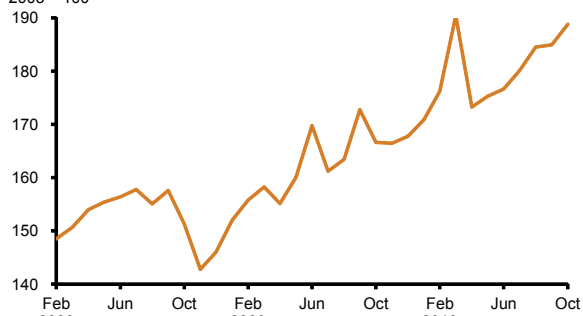
1.1 Retail sales

Expanded trade sales grew 4.9% in the quarter ending October, in relation to that ending July, when they had fallen 1.4%, in this comparison measure, based on seasonally adjusted data from the Monthly Retail Trade Survey (PMC), published by the Brazilian Institute of Geography and Statistics (IBGE). There were increases in sales in all ten sectors surveyed, with emphasis on those relating to vehicles, motorcycles, parts and accessories, 10.2%; books, newspapers, magazines and stationery, 7.4%; and furniture and domestic electrical appliances, 5.2%.

Sales in retail trade, a concept that does not include the segments of vehicles, motorcycles, parts and accessories, or building materials, increased by 3% in the quarter, registering positive results in all regions of the country, highlighting the expansion of 5.4% observed in the North.

Figure 1.1 – Extended retail sales

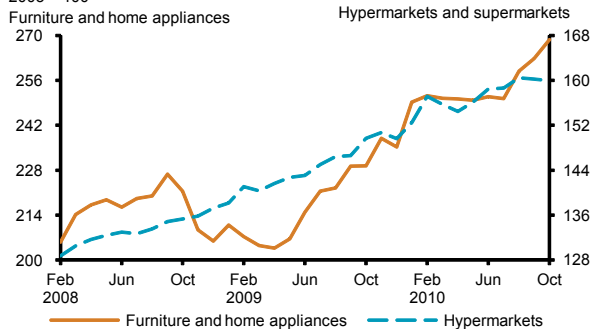
Seasonally adjusted data
2003 = 100



Source: IBGE

Figure 1.2 – Retail sales

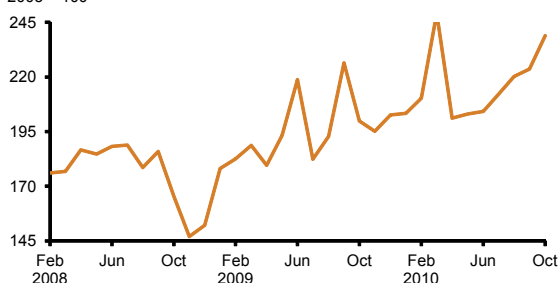
Seasonally adjusted data
2003 = 100



Source: IBGE

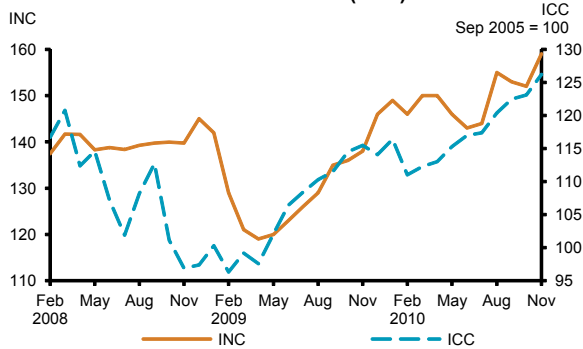
Figure 1.3 – Sales volume index (automobiles, motorcycles, parts and spares)

Seasonally adjusted data
2003 = 100



Source: IBGE

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



Sources: ACSP and FGV

More recent statistics suggest a continued expansion in sales in the close of this year. Thus, considering seasonally adjusted data, real sales of the supermarket sector, a segment which accounts for approximately 32% of the IBGE's PMC, grew 1.7% in the 3-month period ending in October, compared to that ending in July, according to the Brazilian Association of Supermarkets (Abras). Additionally, the Sears Experian Index of Trade Activity, with national coverage, constructed from monthly research conducted by businesses, grew 1.6% on the same comparison base, while sales of cars and light commercial vehicles, announced by the National Federation of Automotive Vehicle Distribution (Fenabrave) increased by 8.8% in the 3-month period ending in November, compared to that ending in August.

The comparison ratio between the number of checks returned for insufficient funds and the total number of checks cleared measured 5.6% in October, the same percentage as July, up 6.4% on the same period in 2009. In the same vein, default in the state of São Paulo, measured by the São Paulo Trade Association (ACSP), and stood at 4.2% in November from 5.8% in August and 4.2% in the same month of 2009.

The Serasa Experian Consumer Default Indicator, which includes negative entries concerning the financial enterprises, credit cards, non-financial companies, banks, protested securities, the second return of checks refused for insufficient funds, in October recorded increases of 1.8% over the previous month and 16.9% in 12 months. These were fundamentally due to the continuing delays registered in the context of financial enterprises, credit cards and non-financial companies, which comprise 36% of the overall indicator. Thus, as in previous months, the other components of the indicator reported falls in the two comparison bases mentioned.

The main indicators designed to assess consumer expectations remained at a high level. Considering seasonally adjusted data, the Consumer Confidence Index (CCI) of the Getulio Vargas Foundation (FGV), registered a monthly increase of 2.7% in November, the ninth consecutive positive result in this comparison measure, reaching 125.4 points, the highest value in the historical series started in September 2005. The Current Situation Index (CSI) component rose 4.5% in the period, registering a record 147.5 points, while the Expectations Index (EI) rose 1.5% to 113.6 points, a level 5.3 points below the series record in December 2007.

The National Confidence Index (INC), calculated by Ipsos Public Affairs for the ACSP, measured 159 points in

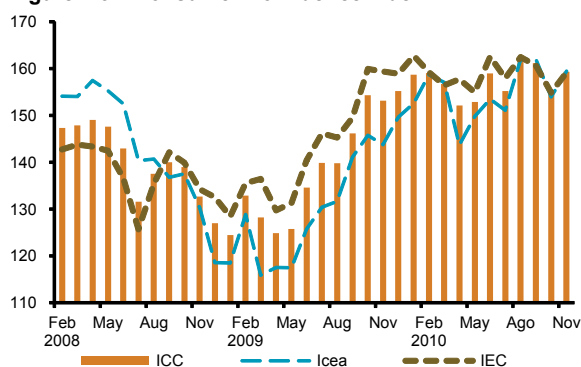
November, a record for the series which started in April 2005, marking growth of 4.6% in the month and 15.2% in twelve months. The monthly result showed increases recorded in the South region, 21.3%, and Southeast region, 6.2%, and falls seen in the North/Central-West region, 8.2%, and the Northeast region, 4.6%.

The National Consumer Expectations Index (Inec), released monthly from March 2010 by the National Confederation of Industry (CNI), reached 119.1 points in November, falling 1.3% compared to October, with emphasis on falloffs registered in consumer expectations regarding inflation and unemployment. It is noteworthy that all components of INEC are at historically high levels.

The ICC, published by the Trade Federation of the State of São Paulo (Fecomercio SP) and restricted to the municipality of São Paulo, reached 159.3 points in November, rising 3.1% in the month and 4% in twelve months. The Current Economic Conditions Index (Icea) reached 159.5 points and the Consumer Expectations Index (IEC), 159.2 points. The Consumer Expectation Index (IEC) calculated by Fecomercio RJ for the region of Metropolitan Rio de Janeiro, reached a record 124.8 points in October, rising 0.6% over the previous month, the fifth consecutive rise in this comparison base, and 3.2% in twelve months.

Another indicator calculated by Fecomercio RJ, the ICC, through research conducted in the State of Rio de Janeiro with approximately 2,450 traders spread over twenty-six sectors, noted, like the consumer targeted research, high optimism among traders in Rio state. Accordingly, in October, the ICC reached the record of the series initiated in July 2003, marking growth of 4.2% over the previous month and of 1% in twelve months.

Figure 1.5 – Consumer Confidence Index



Source: Fecomercio SP

Table 1.2 – Industrial production

3-Month Period/Previous 3-Month Period^{1/}

	2010				%
	Jul	Aug	Sep	Oct	
Industry	-0.3	-1.3	-0.4	0.0	
By section					
Mining	1.0	1.1	2.4	3.0	
Manufacturing	-0.7	-1.8	-0.9	-0.7	
By category of use					
Capital goods	1.5	-1.2	-2.2	-2.4	
Intermediate goods	0.6	-0.5	-0.7	-1.3	
Consumer goods	-1.4	-2.0	-0.4	0.2	
Durables	-2.0	-2.8	-1.6	-0.2	
Semi and nondurables	-1.7	-1.8	-0.5	0.1	

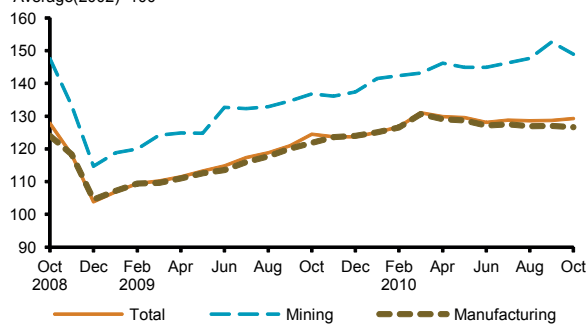
Source: IBGE

1/ Seasonally adjusted data.

Figure 1.6 – Industrial production^{1/}

Total and sections

Average(2002)=100



Source: IBGE

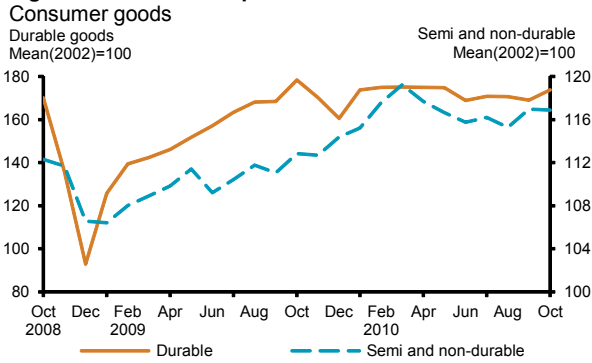
1/ Seasonally adjusted data.

1.2 Output

Industrial output

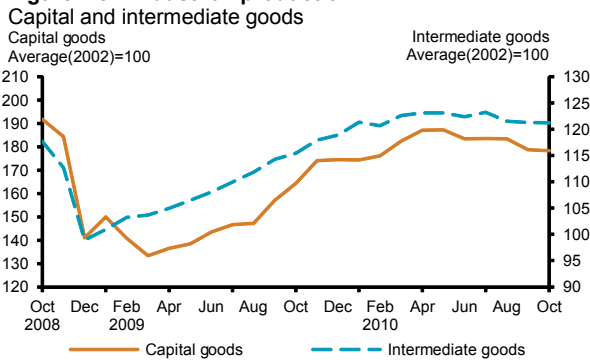
Physical production of industry was stable in the quarter ending October, in relation to that completed in July, when it had fallen 0.3% in the same comparison base, according to seasonally adjusted data from the Monthly Industrial Survey – Physical Production (PIM-PF) of the IBGE. Mining grew by 3% and manufacturing fell by 0.7%, registering significant quarterly declines in the segments of electronic materials and equipment for communications, 14.5%; machinery, appliances and electrical equipment, 6.5%; and

Figure 1.7 – Industrial production^{1/}



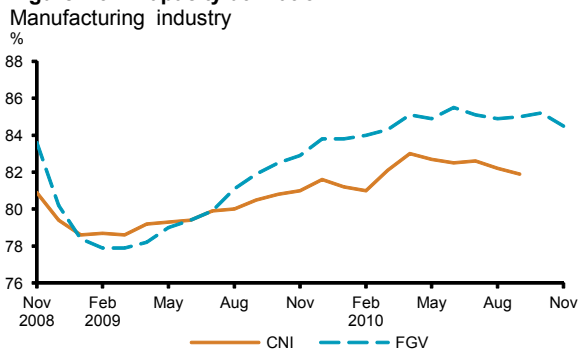
Source: IBGE

Figure 1.8 – Industrial production^{1/}



Source: IRGF

Figure 1.9 – Capacity utilization^{1/}



Sources: CNI and FGV
1/ Seasonally adjusted series.

basic metallurgy, 6.1% and sharp increases in the industries of publishing, printing and reproducing, 8%; and equipment for medical hospital instrumentation, 6.5%.

Analysis by use categories shows that the production of capital goods, impacted by reductions in the sectors of capital goods for mixed use, 6.9% and of serial industrial purposes, 1.9%, registered a quarterly decline of 2.4%. In the same period, the industries of intermediate goods, consumer durables, and semi- and non-durable consumer goods experienced respective variations of -1.3%, -0.2% and 0.1%.

The index of salaried employed persons, seasonally adjusted data drawn from the Monthly Industrial Survey – Employment and Wages (Pimes) of IBGE, grew 0.4% in the quarter ending October, compared to that ending July, when it had grown 1.4% in the same comparison base. The combination of this result with the stability of physical production resulted in a reduction of 0.4% in the productivity of the industrial worker.

The manufacturing industry Nuci reached 84.5% in November, dropping 0.7 p.p. in the month, according to seasonally adjusted data from the Manufacturing Industry Survey (SIT) of FGV. Based on quarterly averages, the index reached 84.9% in November, from 84.6% in August, registering a reduction of 1.3 p.p. in the construction materials industry and increases in those relating to capital goods, 0.9 p.p.; consumer goods, 0.5 p.p. and intermediate goods, 0.1 p.p.

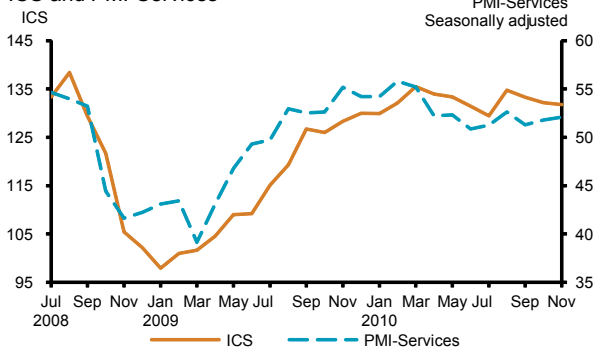
The Industrial Confidence Index¹ (ICI), based on seasonally adjusted data from FGV, reached 112.7 points in November, the lowest level of the last twelve months, dropping 0.2 points compared to August. Although all components of the indicator are at optimistic levels, the period registered significant decreases in the assessment of the current business situation, 5.3 points, and for the next six months, 6 points. The most significant quarterly improvement was reported in the assessment of expectations of physical production, 6.2 points. The Purchasing Managers Index² (PMI), considered the seasonally adjusted series calculated by Markit, reached 49.9 points in November.

1/ Values above 100 points indicate a sense of optimism.

2/ The PMI summarizes the monthly change in the indicators for new orders, production, employment, delivery time and supply of raw materials. Values above 50 represent a monthly growth in activity.

Services

Figure 1.10 – Service Confidence Index
ICS and PMI-Services



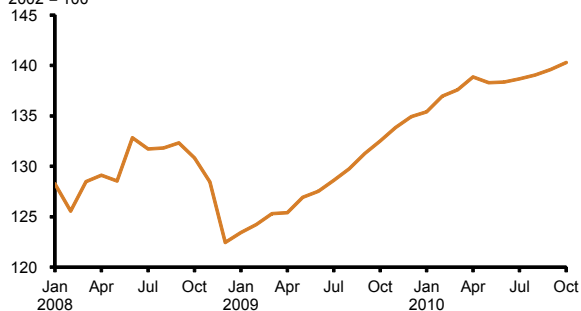
Sources: FGV and HSBC/Markit

Business confidence in the service sector remains at a high level, expressed by the development of the Services Confidence Index (ICS), which reached 132.2 points in October against 133.3 points in September and 126 points in the same month of 2009. The monthly development of the ICS reflected a 3.7% increase recorded in the ISA-S and the 4.6% decline experienced by the IE-S component, while the 4.9% growth recorded in the twelve months resulted from the increase of 13.3% in the ISA-S and the decrease of 1.6% in IE-S.

The PMI-Services³ calculated by Markit and published by HSBC Bank Brazil (HSBC), reached 52.1 points in November, from 51.8 points in October and 51.3 points in September, based on seasonally adjusted data. The indicator, without seasonal adjustment, measured 52.7 points in November from 56.5 points in November 2009 and indicates high activity in the sector, but at slower rate than in the same period of the previous year.

Figure 1.11 – Central Bank Index of Economic Activity – Brazil

Seasonally adjusted data
2002 = 100

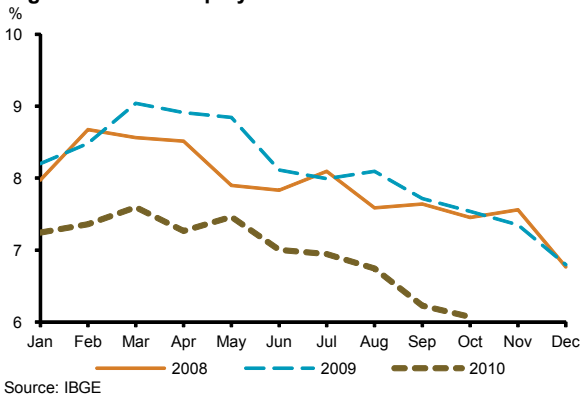


Source: IBGE

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

The IBC-Br registered growth of 0.9% in the quarter ending October, in relation to that ending July, when it had risen 0.5% in the same comparison measure, based on seasonally adjusted data. The monthly analysis indicates the resumption of activity growth in September after four months of relative stability, stressing that this movement, although less than that registered in the early months of the year, seems compatible with the estimated growth of 7.3 % of GDP in 2010.

Figure 1.12 – Unemployment rate



Source: IBGE

1.3 Labor market

Employment

The unemployment rate, based on the Monthly Employment Survey (PME) conducted by the IBGE in the six main metropolitan areas, reached 6.1% in October, the lowest value of the series started in March 2002, falling 0.1 p.p. compared to September and 1.4 p.p. in twelve months. The analysis of seasonally adjusted data shows that the unemployment rate reached, on average, 6.4% in the quarter

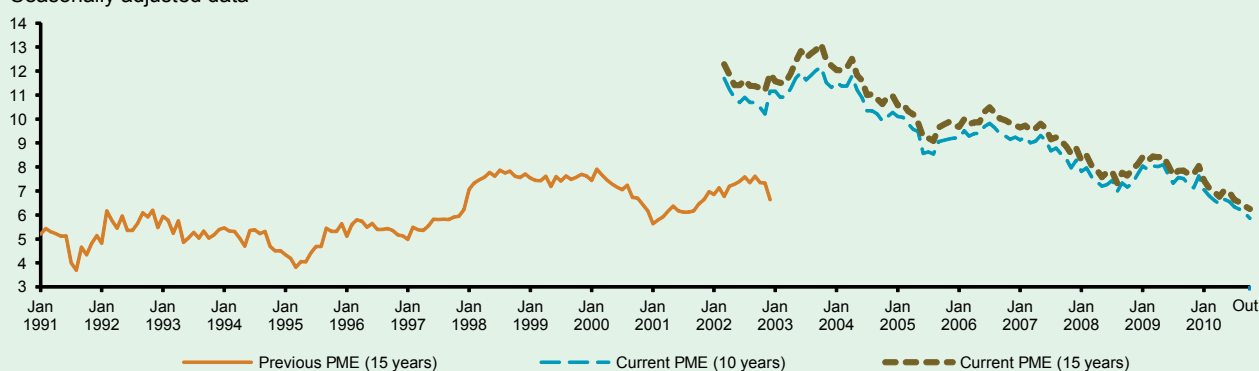
3/ The indicator is constructed based on monthly replies sent to executives of some 400 private businesses in the services sector, with the panel selected in order to replicate the actual structure of the industry, covering the activities of transportation and communication, financial intermediation, business services, personal services, computing and information technology, and hotels and restaurants. Values above 50 represent growth in activity.

Open Unemployment in Brazil: contributions of supply and demand for labor

The open unemployment rate (OUR)¹ has trended downward since mid-2004 in response to the cycle of economic expansion experienced by the Brazilian economy since late 2003. This process cooled in the period following the aggravation of the international financial crisis (seen in Figure 1), which shows the OUR trajectory as from January 1991, considering the seasonally adjusted series of former and current and current adjusted population² methodologies.

The series showed a growth tendency in the OUR, particularly in the 90's, and a reversal of this process in the current decade. As expected, there is a good adhesion between the development of OURs calculated using the current methodology and actual adjusted population.

Figure 1 – Open unemployment rate
Seasonally adjusted data



1/ The indicator is released by the Monthly Employment Survey of the Brazilian Institute of Geography and Statistics (PME/IBGE), covering the formal and informal sectors of the metropolitan areas of Recife, Salvador, Belo Horizonte, Rio de Janeiro, Sao Paulo and Porto Alegre.

2/ The methodology for calculating the unemployment rate was changed from the beginning of 2002, and the series using the old methodology is available until early 2003. Considering that one of the amendments to the current methodology consisted of the incorporation of individuals from 10 to 14 years of age in the population target of research, an alternative series has been created – called the current population-adjusted methodology – which counts in the calculation, from the current methodology, of only the population of persons aged equal to or more than 15 years, pursuant the former methodology.

The behavior of the OUR can be better understood as of the segmentation of the impacts of the contributions of changes in the demand for labor corresponding to the level of employment, and of the labor supply corresponding to the workforce. The exercise uses the current series and breaks down the change in the OUR from two components: (i) the labor supply effect, understood as the impact on the OUR for the change in the Overall Labor Force (PEA), keeping the employed population (EP) constant; (ii) the demand for labor effect, defined as the contribution to the OUR variation resulting from changes in EP, with the EAP unchanged.

Considering,

$$u_t = \frac{PEA_t - EP_t}{PEA_t};$$

$$o_t = \frac{EP_t}{PEA_t};$$

$$s_t = \frac{PEA_t}{PEA_{t-1}};$$

$$d_t = \frac{EP_t}{EP_{t-1}};$$

Where:

u = open unemployment rate;

o = occupation rate;

s = growth rate of PEA; and

d = growth rate of EP.

The breakdown of the OUR can be expressed through:

$$\Delta u_t = \Delta s_t - \Delta d_t + r_t$$

$$\Delta u_t = \underbrace{o_{t-1} \left(\frac{s_t - 1}{s_t} \right)}_{\text{labor supply variation}} - \underbrace{o_{t-1} (d_t - 1)}_{\text{demand for labor variation}} + \underbrace{o_{t-1} \left(\frac{s_t d_t - s_t - d_t + 1}{s_t} \right)}_{\text{residual variation}}$$

Table 1 – Breakdown of annualized variations of the Open Unemployment Rate

Outlook	Period	Δu	Δs	Δd	r	p.p.
Downward trend	Nov/2003-Aug/2005	-1.97	0.86	2.89	0.06	
Bullish labor market	Sep/2005-Jul/2006	1.41	3.10	1.68	-0.01	
Downward trend	Aug/2006-Aug/2008	-1.36	1.47	2.86	0.04	
International crisis	Sep/2008-May/2009	1.49	1.54	0.05	0.01	
Downward trend	Jun/2009-Oct/2010	-1.58	1.62	3.26	0.06	

Table 1 shows the annual variations of the OUR in percentage points for five periods. In the first, from November 2003 to August 2005, the average annualized contraction of the OUR reached 1.97 percentage points, with an emphasis on the impact of 2.89 percentage points inherent to the expansion of a demand for labor.

The second period considered, from September 2005 to July 2006, is characterized by a reversal of the downward movement of the OUR, a change fundamentally associated to a significant annualized increase of 3.1 p.p. recorded in the labor supply. This largely reflected the stimulation of the rising income of labor, as discussed in the Box titled Recent Developments in Employment and Unemployment: Metropolitan Areas and Interior released in the September 2006 Inflation Report. Similarly, when the effects of the international financial crisis was most intense from September 2008 to May 2009, the OUR posted an average annualized increase of 1.5 percentage points, highlighting the weak growth of 0.05 p.p. in labor demand.

The third period, from August 2006 to August 2008, and the fifth period, from June 2009 to October 2010, characterized by the retraction of the OUR, registered in both average rates a major expansion in the demand and supply of labor, with a predominance of the former.

In general terms, the labor supply, to the extent that it reflects the expansion of the EAP, has grown in all analyzed periods and has thereby contributed to growth in the OUR, highlighting the more intense impact during “labor exuberance” due to the stimulus provided by rising wage gains in that period (impetus effect). In turn, the contributions of labor demand for a reduction of OUR were recurring, except for the “international crisis” period.

It bears emphasizing that the continuity of the current process of economic growth tends to increase the demand for labor, with likely developments on the levels of OUR. In contrast, the possible existence of hidden unemployment tends to favor an increase in labor supply, a process that would be stimulated by investments in human capital and the incentives represented by increases in earnings and formalization.

Table 1.3 – Formal employment

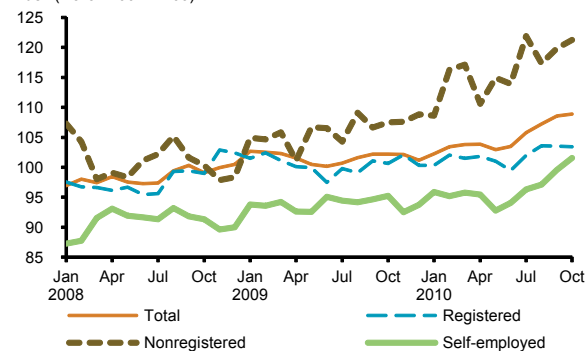
	New jobs – In the year (1,000)			
	2009	2010		
	Year	I H	III Q	Oct
Total	995.1	1 473.3	728.1	2 406.2
Manufacturing industry	10.9	394.1	206.1	647.2
Commerce	297.2	144.1	148.4	373.9
Services	500.2	490.0	284.0	860.3
Building	177.2	230.0	100.2	341.6
Crop and livestock	-13.6	175.1	-26.4	124.0
Public utilities	5.0	9.9	4.9	16.1
Others ^{1/}	18.3	30.1	10.8	43.1

Source: MTE

1/ Includes mining, public administration and others.

Figure 1.13 – Average real regular earnings

Index (March 2002 = 100)



Source: IBGE

Table 1.4 – Gross Domestic Product

Accumulated in the year

	% growth				
	2009		2010		
	III Q	IV Q	I Q	II Q	III Q
Crop and livestock	-5.3	-4.6	5.4	8.1	7.8
Industry	-9.8	-6.4	15.1	14.5	12.3
Mining	-3.4	-1.1	14.7	15.6	16.0
Manufacturing	-12.4	-8.2	17.3	15.6	12.5
Construction	-9.2	-6.3	15.1	15.9	13.6
Public utilities	-3.6	-2.6	8.4	9.2	8.8
Services	1.1	2.2	6.2	6.1	5.7
Commerce	-4.9	-1.8	15.3	13.6	12.0
Transportation	-5.0	-2.5	12.5	11.8	10.3
Communications	4.8	3.8	2.9	3.2	3.5
Financial institutions	6.0	7.1	9.6	9.9	10.4
Other services	2.8	3.5	3.4	3.8	3.5
Rents	1.5	1.9	1.6	1.7	1.6
Public administration	3.1	3.3	2.5	2.7	2.6
Value added at basic prices	-2.4	-0.6	8.4	8.4	7.5
Taxes on products	-3.3	-0.9	14.7	14.0	13.3
GDP at market prices	-2.5	-0.6	9.3	9.2	8.4

Source: IBGE

ending October, from 6.9% in that ending July, the result of the stability of the Overall Labor Force (PEA) and the rise of 0.5% in the number of employed.

According to the General File of Employed and Unemployed Persons (Caged), of the Ministry of Labor and Employment (MTE), 24,062,000 formal jobs were created in the first ten months of the year, the highest result for the period since the series began in 1985. Of note, in the period, the net hiring registered in the services sector, 8,603,000; in the manufacturing sector, 6,472,000; in trade, 3,739,000, and in construction, 3,416,000.

Income

According to the PME, the average real earnings typically received in the main job, in the six major metropolitan regions, increased 6.1% in the quarter ending October when compared to the same period in 2009, recording real gains of 10.9% and 3.2% respectively in the segments of unregistered and registered private sector employees. Among the main sectors of activity, the biggest gains were seen in household services, 9.1% and in construction, 8.8%. Real overall wages, a product of the number of employed and the typical average real income grew 9.9% in the period.

1.4 Gross Domestic Product

According to the Quarterly National Accounts of the IBGE, the GDP grew 6.7% in the third quarter of 2010 compared to same period of the previous year, using the same comparison measure, respective rises of 9.3% and 9.2% for the quarters ending in March and June.

Considering the supply side, agriculture and livestock grew 7% in the period, from 10.4% in the quarter ending June, a result associated with the modest performance of those crops with greater weight in the third quarter, such as beans, cassava and orange. The industrial sector expanded 8.3%, compared to 14.1% in the second quarter of the year, highlighting the deceleration in growth rates of the manufacturing industries, from 14.1% to 7.1% and construction, from 16.6% to 9.6%. The expansion of the service sector fell by 1.1 p.p. to 4.9%, a change which, in part, reflects the impact of the performance of agriculture and livestock and industry on the trade and transportation segments.

GDP Estimates: 2010 and 2011

The estimated growth of Gross Domestic Product (GDP) for 2010 remains at 7.3%, the same as shared in the last two Inflation Reports. Adjustments have been introduced, at the margin, in the growth rates of the components of supply and demand, consistent with the revised results for 2009, with data from the first three quarters of 2010 and with the outlook for the remainder of this year.

The growth of agriculture and livestock is expected to come to 7.5%, rising 1.5 p.p. from the estimate of the previous report, highlighting the impact of the increase of 7.8% for the sector, up to the third quarter. Besides, one should note the favorable adjustments in the estimates of the Systematic Farm Production Survey (LSPA), conducted by the Brazilian Institute of Geography and Statistics (IBGE), for important crops in 2010, such as coffee, from 14.8% to 18.6%, wheat from 8.1% to 15.3%, and sugar cane, from 1.4% to 6%.

Industry is predicted to grow 10.2%, a projection 0.8 p.p. lower than that made in September, reflecting the revision from 11% to 9.8% for the expansion of the manufacturing industry, motivated as much by the results presented up to October, as by the prospects for the remainder of the year.

For the service sector there is a projected high of 5.4%, from 5.2%, including the 2.1 p.p. rises in the estimated growth of the segment of financial intermediation, insurance, complementary pensions and related services, owing to the performance of the sector up to the third quarter, benefiting from the strong credit expansion. It may safely be said that the recently announced macro-prudential measures are bound to impact the segment throughout 2011.

Table 1 – Gross Domestic Product
Accumulated in the year

	% growth					
	2009	2010				2011
	IV Q	I Q	II Q	III Q	IV Q ^{1/}	IV Q ^{1/}
Crop and livestock	-4.6	5.4	8.1	7.8	7.5	0.5
Industry	-6.4	15.1	14.5	12.3	10.2	5.4
Mineral extration	-1.1	14.7	15.6	16.0	14.6	7.8
Manufacturing	-8.2	17.3	15.6	12.5	9.8	4.9
Construction	-6.3	15.1	15.9	13.6	11.5	6.6
Public utilities	-2.6	8.4	9.2	8.8	8.0	5.2
Services	2.2	6.2	6.1	5.7	5.4	4.2
Commerce	-1.8	15.3	13.6	12.0	10.3	5.0
Transportation	-2.5	12.5	11.8	10.3	8.8	5.2
Communications	3.8	2.9	3.2	3.5	4.1	7.9
Financial institutions	7.1	9.6	9.9	10.4	10.4	6.1
Other services	3.5	3.4	3.8	3.5	3.5	4.9
Real estate and rent	1.9	1.6	1.7	1.6	1.5	2.3
Public administration, health and education	3.3	2.5	2.7	2.6	2.6	2.2
Value added to basic prices	-0.6	8.4	8.4	7.5	6.7	4.3
Taxes on products	-0.9	14.7	14.0	13.3	11.3	5.2
GDP at market prices	-0.6	9.3	9.2	8.4	7.3	4.5

Sources: IBGE and Banco Central

1/ Estimate.

From the demand perspective, it should be noted a 3.4 p.p. increase in the growth estimate of the gross fixed capital formation, which, due to the performance of investment in the third quarter, is expected to rise to 20.9% in 2010, higher than previously projected. Thus, the contribution of domestic demand is estimated at 10.1 p.p. of annual GDP growth in 2010, from 9.8 p.p. in the previous estimate, in contrast to the negative impact of 2.7 p.p. exerted by the external sector.

First GDP estimate for 2011

The estimate for GDP growth in 2011 totaled 4.5%, underpinned by the performance of domestic demand. As in 2010, it predicts an overall expansion in all the sectors of the economy.

The crop and livestock sector should grow 0.5%, a development consistent with the prospect of an annual fall of 2.5% for the grain harvest, according to the IBGE's forecast, in collaboration with the National Supply Company (Conab), offset by expansion of other crops and livestock production, this helped by the market expansion and by attractive prices.

Regarding the industrial sector, expansion of 5.4% is forecasted, highlighting the increase of 7.8% in the mining industry, driven in particular by increased oil production. The construction industry is expected to grow by 6.6%, helped by the continuation of government works, such as the Growth Incentive Program (PAC), and the continued expansion of real estate credit. The production and distribution of electricity, gas and water is expected to increase 5.2% across the year, and the manufacturing industry, 4.9%.

For the service sector, the forecast is for growth of 4.2%, highlighting the growth forecast for information services, 7.9%, helped mainly by improved access for classes "D" and "E" to mobile and internet services; financial intermediation, insurance, complementary pensions and related services, 6.1%, lower than the rate recorded in the past five years, reflecting in part the effects of the macro-prudential measures on credit; transportation, storage and postal services, 5.2%; and trade, 5%, the latter two directly influenced

Table 2 – Gross Domestic Product

Accumulated in the year

	% growth					
	2009	2010			2011	
	IV Q	I Q	II Q	III Q	IV Q ^{1/}	IV Q ^{1/}
GDP at market prices	-0.6	9.3	9.2	8.4	7.3	4.5
Households						
consumption	4.2	8.4	7.4	6.9	6.8	4.8
Government						
consumption	3.9	2.7	4.2	4.1	3.9	2.4
Gross fixed						
capital formation	-10.3	28.4	28.2	25.6	20.9	7.4
Exports	-10.2	14.7	10.6	10.8	10.3	8.3
Imports	-11.5	39.6	39.2	39.8	34.3	11.9

Sources: IBGE and Banco Central

1/ Estimated.

by the performance of crop and livestock and industrial activities. Standing out among other sectors are the forecasts related to other services, 4.9%; real estate and rent, 2.3%; and administration, health and education, 2.2%.

In relation to demand indicators, there are projected increases of 4.8% and 2.4% respectively for household consumption and government consumption, whilst gross fixed capital formation is expected to increase by 7.4%. The development of domestic demand is expected to continue reflecting the favorable development of the credit and labor markets, such that its contribution to GDP growth in 2011 is estimated at 4.9 p.p.

Exports and imports of goods and services are expected to increase 8.3% and 11.9% respectively in 2011. This trajectory, whilst implicit in the 0.4 p.p. negative contribution of the external sector to GDP in 2011, constituted a significant factor for the balance between aggregated supply and demand.

Table 1.5 – Gross Domestic Product

Accumulated in the year

	% growth				
	2009		2010		
	III Q	IV Q	I Q	II Q	III Q
GDP at market prices	-2.5	-0.6	9.3	9.2	8.4
Households					
consumption	3.2	4.2	8.4	7.4	6.9
Government					
consumption	2.9	3.9	2.7	4.2	4.1
Gross fixed					
capital formation	-15.3	-10.3	28.4	28.2	25.6
Exports	-11.9	-10.2	14.7	10.6	10.8
Imports	-16.3	-11.5	39.6	39.2	39.8

Source: IBGE

From the demand perspective, the growth rate of Gross Fixed Capital Formation (GFCF), although slowing 6.9 p.p., reached 21.2% in the quarter. Household consumption and government consumption increased 5.9% and 4.1% respectively, compared with growth of 6.4% and 5.6% in the quarter ending June, whilst exports and imports reported respective rises of 11.3% and 40.9%. In this scenario, domestic demand and the external sector made contributions of 10.1 p.p. and -3.4 p.p. for the 6.7% increase registered by GDP in the third quarter of 2010.

The GDP grew 0.5% in relation to the second quarter, when it had expanded 1.8% in the same comparison measure, based on seasonally adjusted data. The deceleration registered at the margin reflected respective decreases of 1.5% and 1.3% seen in agriculture and livestock and industry and a 1% increase in the service sector, compared with variations of 2.1%, 2% and 1.2% in the quarter ending in June. The negative result of agriculture and livestock was linked in part to the high comparison basis in the second quarter, when there was a good performance of the soybean crop, whilst the industrial sector's loss of dynamism in the third quarter was evidenced by a contraction in the manufacturing industry. Analysis by domestic demand components reveals rises in household consumption, 1.6% and GFCF, 3.9%, and stability in government consumption, while in the external sector there were increases of 2.4% in exports and 7.4% in imports.

GDP registered growth of 8.4% in the first three quarters of the year, changes consistent with the annual growth forecast of 7.3% for the aggregate in 2010. The first forecast for GDP in 2011, detailed in a specific section in this report, is 4.5%.

Table 1.6 – Gross Domestic Product

Quarter/previous quarter

Seasonally adjusted

	% growth				
	2009		2010		
	III Q	IV Q	I Q	II Q	III Q
GDP at market prices	2.6	2.1	2.3	1.8	0.5
Crop and livestock	0.3	3.8	3.2	2.1	-1.5
Industry	3.8	3.9	3.6	2.0	-1.3
Services	2.0	1.2	1.5	1.2	1.0
Household consumption	2.1	1.7	1.6	0.9	1.6
Government consumption	1.1	2.1	0.0	1.9	0.0
Gross fixed					
capital formation	10.1	7.5	4.0	4.3	3.9
Exports	-1.5	1.4	6.9	0.1	2.4
Imports	5.6	14.1	8.8	5.8	7.4

Source: IBGE

1.5 Investments

GFCF, defined as investments minus changes in stocks, rose 21.2% in the third quarter according to the Quarterly National Reports, compared to the corresponding period in 2009, from, by the same comparison measure, respective expansions of 28.4% and 28.1% in the quarters ending June and March. At the margin, the GFCF increased by 3.9% in relation to the second quarter, this being the sixth consecutive positive growth.

The production of raw materials for construction increased 9.7% in the third quarter, compared to the same period of 2009, while the absorption of capital goods,

Table 1.7 – Industrial production

	% change over the same period in previous year			
	2010			
	I Q	II Q	III Q	Oct
Building inputs	15.4	17.2	9.7	5.2
Capital goods	25.9	33.2	21.2	6.0
Typically industrialized	23.7	33.4	20.6	25.3
Agricultural	43.0	59.6	44.7	19.4
Agricultural parts	21.3	6.7	3.0	17.6
Building	212.4	169.1	92.1	29.0
Electricity	-3.3	0.9	2.4	-25.3
Transportation equipment	19.4	33.2	35.4	15.8
Mixed	30.0	31.0	5.1	-6.5

Source: IBGE

showing respective increases of 21.2%, 75.8% and 27.3% in production, exports and imports of these goods, rose 34%. Segmentation of the production of capital goods showed widespread growth in the quarter, highlighting the increases in the industries of goods targeted to construction, 92.1%; at the agricultural sector, 44.7%; at transportation equipment, 35.4%; and serial industrial goods, 24.2%, according to the IBGE.

According to October statistics, production of raw materials for construction and the absorption of capital goods recorded respective increases of 5.2% and 9.6% compared to the same month in 2009. By the same comparison base, manufacturing of buses, trucks and agricultural machinery increased 32.1%, 24.6% and 16.3% respectively, according to the National Association of Automotive Vehicle Manufacturers (Anfavea).

Disbursements from the BNDES system – Brazilian Development Bank (BNDES), Special Industrial Financing Agency (Finame) and BNDES Participacoes SA (BNDESpa) – totaled R\$140.9 billion in the first ten months of the year, increasing 32.3% in relation to the same period in 2009. Funding for agriculture and livestock, the manufacturing industry and the trade and services sector increased, in order, 50.4%, 35.8% and 29.6%, while that for mining decreased by 39.6%.

1.6 Conclusion

As expected, the Brazilian economy registered, in the third quarter of 2010, some cooling, especially in the industrial sector. Conversely, favorable changes in the labor and credit market continued to drive household consumption, whilst the favorable business expectations regarding continuing economic growth and increased agricultural income should ensure the sustainability of the current investment cycle.