Economic activity

1

The Brazilian economy, in a scenario of expanding employment, income and credit, and with high business and consumer confidence levels, registered in 2010 the highest annual growth since 1986. Throughout the second six months of the year, it was registered different growth rates between aggregate supply and aggregate demand, with splitting on the importations level and on the inflation's trajectory, especially in the services sector.

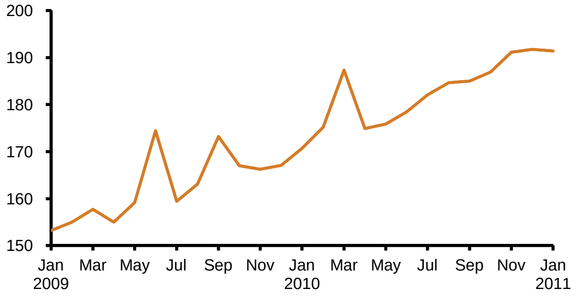
Early year's indicators still reflect fiscal and credit stimuli introduced in the 2010 final quarters. However, such effects are opposed by those of current macroprudential measures and basic interest rises, which tend to reduce the pace of demand expansion. In this scenario, more positive perspectives are outlined so as to maintain the Brazilian economic growth in a sustainable basis.

1.1 Trade

The expanded trade sales turned in strong performance in the second half of 2010 and some leveling off at the beginning of 2011. End-of-year sales performance surpassed the seasonal pattern of the period and helped the sector's annual growth to reach 12.2% according to the Brazilian Institute for Geography and Statistics (IBGE), second best result of the series initiated in 2003. This result reflected the expansion of sales of durable and semidurable goods, which are more sensitive to credit's conditions, and in a smaller scale, the evolution of nondurable goods consumption, mainly conditioned by an improved job market outlook.

Trade indicators continued to show a good performance in the beginning of 2011, consistent with consumers' high confidence level. In this context, expanded trade sales increased 3.2% in the quarter ended January, when compared to that ended October 2010, when they had increased 3.7% on the same comparison basis, considering

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



Source: IBGE

Table 1.1 – Sales volume index

				% change
	2010			2011
	Oct	Nov	Dec	Jan
In the month[1/]				
Retail sector	0.1	0.7	0.2	1.2
Fuel and lubricants	0.0	-0.1	1.3	0.3
Supermarkets	-0.2	0.0	-0.4	1.2
Fabrics, apparel and footwear	1.4	-3.6	3.1	0.5
Furniture and home appliances	2.5	2.4	1.8	2.7
Pharmac., medical, orthop. and perfumery articles	0.6	1.3	1.6	0.5
Books, newspaper, magazines,	2.5	10.1	2.2	-2.3
Office, comp./comunic. equip.	-12.1	11.5	2.8	-5.1
Other art. of personal use	-1.6	0.2	-0.3	-2.5
Broad trade sector	1.0	2.3	0.3	-0.2
Building materials	0.3	1.5	3.2	1.1
Automobiles, motorcycles, parts and spares	8.1	0.9	5.0	-7.1
3-Month Period/Previous 3-Month Period[1/]				
Retail sector	2.9	2.1	1.5	1.5
Fuel and lubricants	1.7	2.0	1.5	1.1
Supermarkets	1.4	0.4	-0.1	-0.1
Fabrics, apparel and footwear	3.6	1.3	0.6	-0.6
Furniture and home appliances	5.5	6.4	7.1	6.8
Pharmac., medical, orthop. and perfumery articles	4.5	3.6	2.9	2.9
Books, newspaper, magazines,	6.2	8.7	11.2	12.6
Office, comp./comunic. equip.	1.2	2.6	1.1	4.9
Other art. of personal use	3.5	1.8	-0.1	-1.3
Broad trade sector	3.7	3.3	3.3	3.2
Building materials	2.0	1.8	2.6	4.0
Automobiles, motorcycles, parts and spares	9.4	9.6	11.8	7.1
In the year				
Retail sector	11.1	11.0	10.9	8.2
Fuel and lubricants	6.6	6.6	6.6	6.3
Supermarkets	9.6	9.3	8.9	4.2
Fabrics, apparel and footwear	11.0	10.8	10.6	9.8
Furniture and home appliances	18.1	18.3	18.3	19.1
Pharmac., medical, orthop. and perfumery articles	11.5	11.6	11.9	12.7
Books, newspaper, magazines,	9.1	10.2	12.0	12.5
Office, comp./comunic. equip.	24.2	23.9	24.3	7.4
Other art. of personal use	8.7	8.9	9.1	4.9
Broad trade sector	11.4	11.9	12.2	11.2
Building materials	15.6	15.6	15.7	16.5
Automobiles, motorcycles, parts and spares	11.2	13.0	14.1	16.4

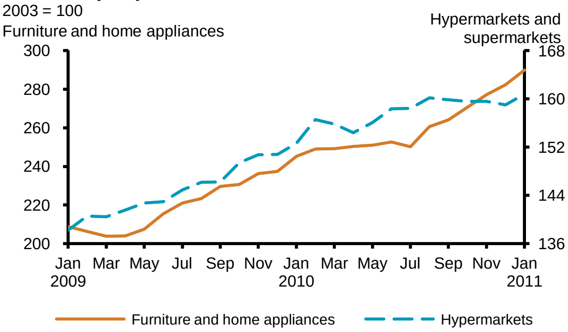
Source: IBGE

1/ Seasonally adjusted data.

Figure 1.2 – Retail sales

Seasonally adjusted data

2003 = 100



Source: IBGE

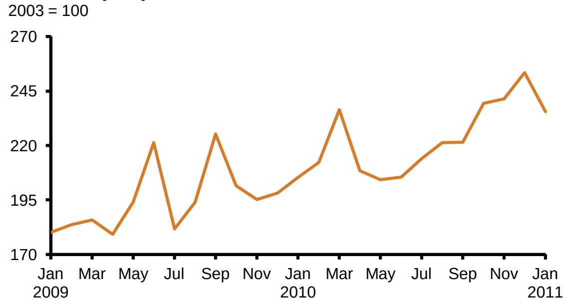
deseasonalized data from IBGE's Monthly Retail Trade Survey (PMC). The monthly data registered a 0.2% drop in January. In a quarterly comparison, it was registered growth in sales of seven of the ten segments surveyed, with emphasis on those related to books, newspapers, magazines and stationary, 12.6%; vehicles, motorcycles, parts and spares, 7.1%; and furniture and electrical appliances, 6.8%. On the other hand, there have been retractions in the segments of other personal and domestic goods, 1.3%; fabrics, clothing and footwear, 0.6%; and hypermarkets, supermarkets, food, beverages and tobacco, 0.1%; this last one was influenced by the rise in food prices, especially at the end of 2010.

Retail trade sales, which exclude the segments vehicles, motorcycles, parts and spares, as well as building material, increased 1.5% in the quarter, registering positive results in all regions of the country, pointing out those observed in the Central-West, 2.7%, and in the Southeast, 2.3%.

The most recent developments of other retail trade indicators also reveal, more moderate sales in segments related to food and a continued growth in the other segments in early 2011. Therefore, considering deseasonalized data, the real sales of the supermarket sector, segment with approximate weight of 32% in the PMC of IBGE and impacted by the recent increase of the food prices, dropped 2.5% in the quarter ended February, when compared to the one ended November, according to the Brazilian Association of Supermarkets (Abras). In addition, the Serasa Experian's Business Activity Index, with nationwide coverage, built from monthly consultations carried out by commercial establishments, increased 4% in the same comparison basis. In the same way, automotives' and light commercial vehicles' sales, published by National Federation of Motor Vehicles Distribution (Fenabrave), increased 1.5% in the quarter ended February compared with that ended November, with 8.5% increase in the same type of analysis, pointing out to growth continuity in the sector's sales.

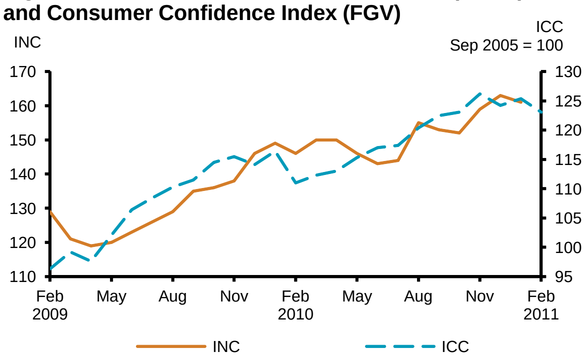
The ratio between the number of checks returned due to lack of funds and the total of checks cashed reached 5.8% in February, against 6% in the same period in the previous year, suggesting continuity of the indicator' steadiness in levels lower than observed in 2010. Default in São Paulo, measured by the São Paulo Trade Association (ACSP), reached 6.9% in February, against 6.3% in the same month in 2010, remaining at level compatible to the State's sales vigor.

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



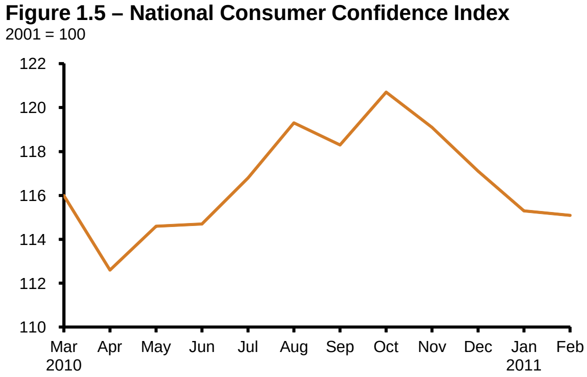
Source: IBGE

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



Sources: ACSP and FGV

Figure 1.5 – National Consumer Confidence Index



Source: CNI

The Serasa Experian's Consumer Default Indicator[1] remained at a high level and registered in February a 2.3% monthly reduction and 25.9% annual rise. It should be emphasized the continuity of important arrears on financial enterprises, credit cards and nonfinancial companies' scope, which hold a participation of 36% in the general indicator.

The indicators targeted to evaluate consumers' expectations, after closing at record levels at the end of 2010, registered relative stability at high level in the beginning of 2011. Considering deseasonalized data, the Consumer Liability Index (ICC), of Getulio Vargas Foundation (FGV), reached 122.6 points in February 2011, a result 1.6 point lower than the record registered in November 2010, registering retreats in components of the Current Situation Index (ISA), 1.8 point, and the Expectations Index (IE), 1.4 points.

The National Confidence Index (INC), released by Ipsos Public Affairs for the ACSP, accounted for 157 points in February, dropping 2.5% compared with January and 3.7% compared with the December 2010 record, but increasing 7.5% compared with January 2011. The monthly result was a consequence of falloffs in the North/ Central-West regions, 15.2%, and Northeast, 8.9%, stability in the Southeast and rises of 4.8% in the South.

The National Consumer Expectation Index (Inec), published monthly as of March 2010 by the National Confederation of Industry (CNI), remained almost flat in February, interrupting the fall movement initiated in November 2010. The 0.2% decline compared with January reflected, especially, the in the components referring to personal income expectation, 2.2%, indebtedness, 2.1% and financial situation, 1.2%. On the opposite sense, one should note the monthly increase in the indices linked to expectations regarding unemployment, 2.5%; purchases of higher-value goods, 1.4% and expectations regarding inflation, 0.4%.

The ICC, published by the Trade Federation of the State of São Paulo (Fecomercio-SP) and restricted to the municipality of São Paulo, reached 162.2 points in February, increasing 1.4% in the month and remaining 2 points below the record registered in December of the previous year. The Consumer Expectations Index (IEC) calculated by the Trade Federation of the State of Rio de Janeiro (Fecomércio-RJ), for the metropolitan region of Rio de Janeiro, reached 120.9 points in February, retreating 2.2% compared with January and 5.2% compared with the record reached in December 2010.

1/ The indicator comprehends negative records from financial enterprises, credit cards, nonfinancial companies, banks, securities claimed and second devolution of checks uncashed due to lack of funds.

1.2 Production

Industrial production

Industry's physical production retreated 0.4% in the quarter ended January, compared with the one ended October 2010, when it had decreased 0.2% in this type of analysis, according to IBGE'S Monthly Industrial Survey – Physical Production (PIM-PF) deseasonalized data. The sharpest retractions occurred in the activities footwear and leather, 4.1%; textile, 3.8%; and foodstuffs, 3.2%, contrasting with the rises in the industries of office machines and informatics equipments, 11.9%; machines, appliances and electric fittings, 6%; and furniture, 6%.

The analysis by use categories shows that the industry of consumer durables expanded 3.3%; capital goods, 2.4%; intermediate goods, 0.5%; while the industry of semidurable and nondurable consumer goods dropped 0.5% in the quarter.

The index for salaried working population, considering deseasonalized data from IBGE's Monthly Industrial Survey – Employment and Salaries (Pimes), remained steady in the quarter ended January, compared with the one ended October, while the worker productivity, following growth in physical production, declined 0.5% within the period. The real payroll decreased 1% in the quarter ended January 2011, compared with the one ended October.

The Installed Capacity Utilization (UCI) of the manufacturing industry reached 84.5% in February in the series with seasonal adjustment, according to the Manufacturing Industry Survey (SIT) of FGV. The average UCI dropped 0.2 p.p. in the quarter ended February, compared with the one ended November 2010, considering deseasonalized data, due to 1.1 p.p. retraction in the consumer durables industry and 0.4 p.p. in the intermediate goods industry, stability in the nondurable consumer goods industry and 0.3 p.p. improvement in the capital goods industry.

The Industrial Confidence Index[2] (ICI), considering FGV's deseasonalized data, amounted to 112.5 points in February, above the balance level of one hundred points and indicating, therefore, satisfaction of the sector with the level of businesses and/or optimism regarding the future. This perception is shared by executives of all use categories identified by this research. The manufacturing industry average ICI dropped 0.1 p.p. in the quarter ended February,

Table 1.2 – Industrial production

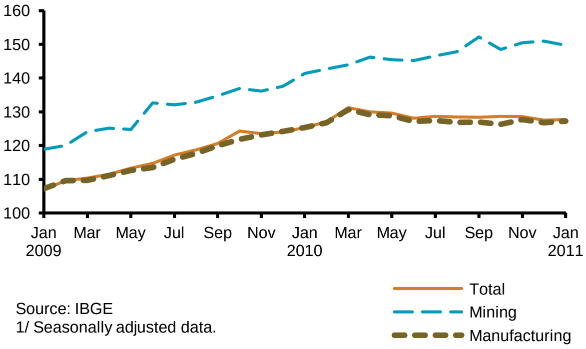
3-Month Period/Previous 3-Month Period[1/]

%

	2010			2011
	Oct	Nov	Dec	Jan
Industry	-0.2	0.1	-0.2	-0.4
By section				
Mining	2.6	2.6	0.7	0.6
Manufacturing	-0.8	-0.1	-0.1	0.4
By category of use				
Capital goods	-2.2	-1.3	0.2	2.4
Intermediate goods	-1.2	-0.6	-0.2	0.5
Consumer goods	0.4	1.2	0.1	0.2
Durables	0.3	1.5	2.2	3.3
Semi and nondurables	-0.1	0.5	-0.2	-0.5

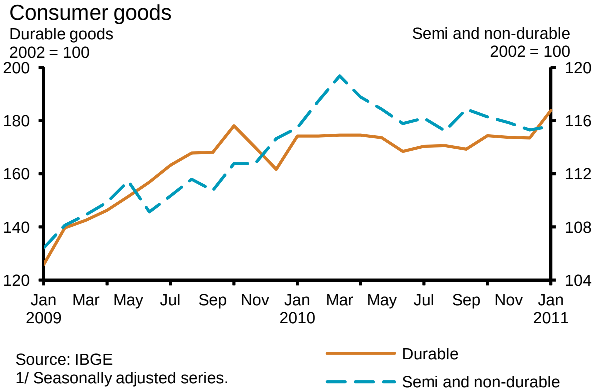
Source: IBGE
1/ Seasonally adjusted data.

Figure 1.6 – Industrial production[1/]
Total and sections



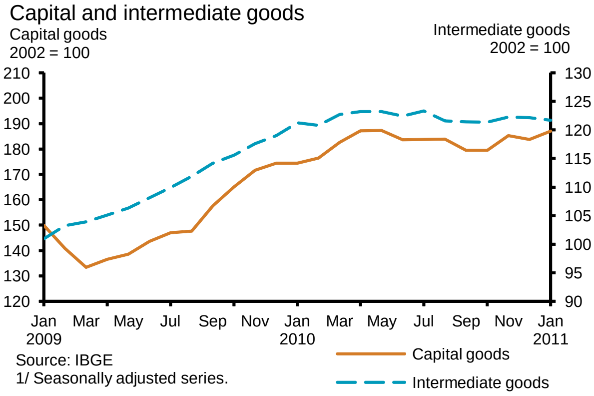
Source: IBGE
1/ Seasonally adjusted data.

Figure 1.7 – Industrial production[1/]
Consumer goods



Source: IBGE
1/ Seasonally adjusted series.

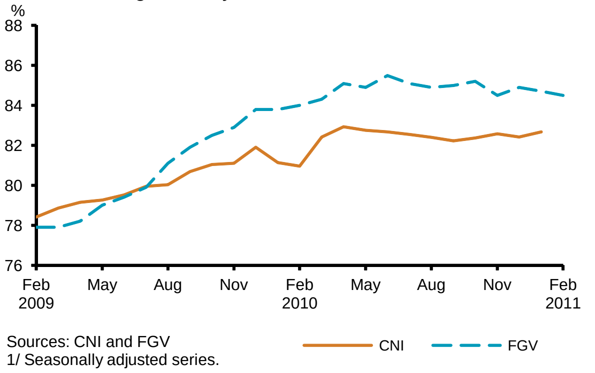
Figure 1.8 – Industrial production[1/]
Capital and intermediate goods



Source: IBGE
1/ Seasonally adjusted series.

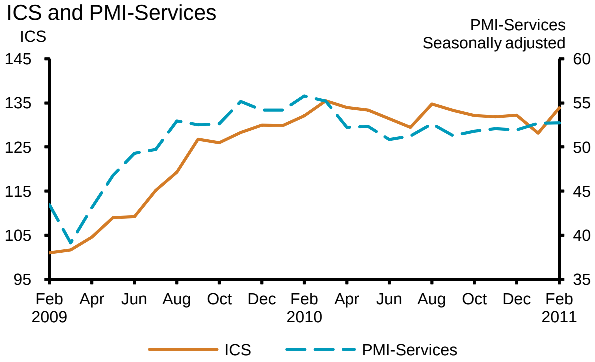
2/ Values above 100 points indicate a sentiment of optimism.

Figure 1.9 – Capacity utilization 1/
Manufacturing industry



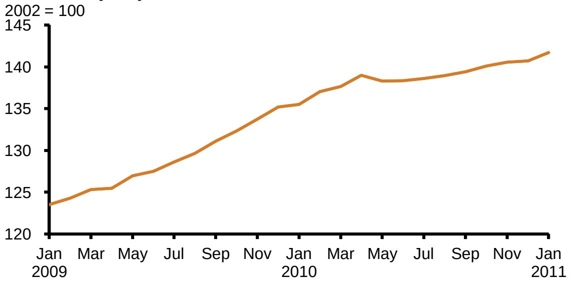
Sources: CNI and FGV
1/ Seasonally adjusted series.

Figure 1.10 – Service Confidence Index
ICS and PMI-Services



Sources: FGV and Markit

Figure 1.11 – Central Bank Index of Economic Activity – Brazil (IBC-Br)
Seasonally adjusted data



Source: IBGE

compared with the one ended November 2010, registering rise of 2 p.p. in the industry of nondurable consumer goods and reduction in those related to consumer durables, 4.9 per cent; capital goods, 2.5 p.p.; and intermediate goods, 1.8 per cent. The perception of the industrial businessmen with respect to economy is more optimistic under the point of view of Purchasing Managers' Index[3] (PMI) of Markit, which reached 54.6 points in February, the highest level since March of last year.

Service

The Services Confidence Index (ICS), portraying the continued business confidence of the service sector in a historically high level, reached 133.9 points in February, against 128.2 points in January and 132.1 points in the corresponding month of 2010. The ICS monthly evolution reflected the respective rises of 6.3% and 3% registered in the Current Situation Index (ISA-S) and the Expectations Index (IE-S).

The Purchasing Managers' Index (PMI-Services)[4], calculated by Markit and published by Hong Kong and Shanghai Banking Corporation (HSBC), suggesting the continued improving trend of the sector, reached 52.7 points in February, the highest level since April 2010, considering deseasonalized data.

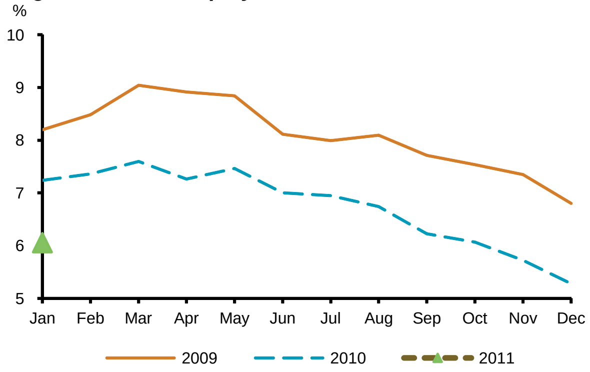
Central Bank Index of Economic Activity – Brazil (IBC-Br)

The Central Bank Index of Economic Activity – Brazil (IBC-Br), after 7.8% growth in 2010, registered a 1.1% rise in the quarter ended January, compared with the one ended October, when it increased 0.8% in the same type of comparison, considering deseasonalized data. In January the indicator registered monthly rise of 0.7%, reflecting the combination of positive temporary influences in the month, mostly originated from the primary sector.

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 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.

Figure 1.12 – Unemployment rate



Source: IBGE

Table 1.3 – Formal employment

New jobs – In the year (1,000)

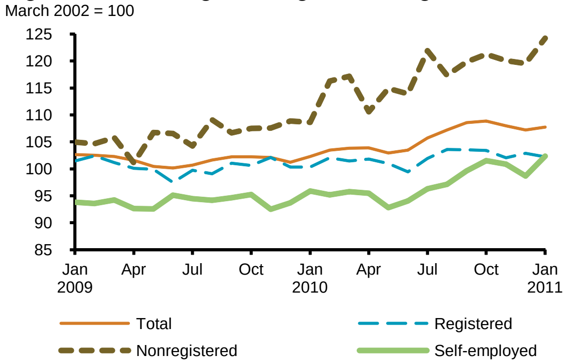
	2010			2011
	I H	II H	Year	Jan
Total	1473.3	663.6	2136.9	152.1
Manufacturing industry	394.1	90.9	485.0	53.2
Commerce	144.1	375.5	519.6	-18.1
Services	490.0	374.2	864.3	73.2
Building	230.0	24.2	254.2	33.4
Crop and livestock	175.1	-201.0	-25.9	8.3
Public utilities	9.9	8.0	17.9	1.6
Others[1/]	30.1	-8.1	22.0	0.5

Source: MTE

1/ Includes mining, public administration and others.

Figure 1.13 – Average real regular earnings

March 2002 = 100



Source: IBGE

1.3 Labor market

Employment

The unemployment rate, after remaining at 5.3% in December 2010, lowest level of the series initiated on March 2002, reached 6.1% in January, against 7.2% in the same period of the previous year, according to the Monthly Employment Survey (PME), performed by the IBGE in the six major metropolitan regions of the country. The average rate regarding the quarter ended January accounted for 5.7%, against 7.1% in the corresponding period of 2010. Considering deseasonalized data, the average unemployment rate reached 6.1% in the period, against 6.5% in the quarter ended October 2010, result of 0.3% increase in the working population and stability in the Overall labor Force (PEA).

According to the General File of Employed and Unemployed Persons (Caged), of the Ministry of Labor and Employment (MTE), 2,136.9 thousand jobs were created in 2010, the highest amount since the beginning of the series in 1985. Emphasizing the seasonality of the period, 117.2 thousand formal jobs were eliminated in the quarter ended January, with emphasis in the net dismissals registered in the rural sector, 141.6 thousand; manufacturing industry, 109 thousand; and in construction, 54.1 thousand. On the other hand, there were net declines in commerce, 127.6 thousand, as well as in the service sector, 77.2 thousand.

The real average income normally received by the main job, estimated by the PME in the six major metropolitan regions, increased 5.7% in the quarter ended January, compared with the corresponding period in the previous year, with emphasis in the 11.9% expansion registered in the segment of private-sector unregistered workers. By activity sector, the most expressive gains happened in the construction industry, 9.1%, and in the domestic help, 7.5%. The real overall wages expanded 8.8% during the period.

1.4 Gross Domestic Product

Gross Domestic Product (GDP) increased 7.5% in 2010, according to IBGE's Quarterly National Accounts, being registered, in the scope of demand, contributions of 10.3 p.p. from the domestic component and -2.8 p.p. from the external sector. From the supply side, there were annual rises in the added value of the three sectors of economy, amounting to

Table 1.4 – Gross Domestic Product
Accumulated in the year

% growth

	2009	2010			
	IV Q	I Q	II Q	III Q	IV Q
Crop and livestock	-4.6	5.4	8.1	7.8	6.5
Industry	-6.4	15.1	14.5	12.3	10.1
Mineral extraction	-1.1	14.7	15.6	16.0	15.7
Manufacturing	-8.2	17.3	15.6	12.5	9.7
Construction	-6.3	15.1	15.9	13.6	11.6
Public utilities	-2.6	8.4	9.2	8.8	7.8
Services	2.2	6.2	6.1	5.7	5.4
Commerce	-1.8	15.3	13.6	12.0	10.7
Transportation	-2.5	12.5	11.8	10.3	8.9
Communications	3.8	2.9	3.2	3.5	3.8
Financial institutions	7.1	9.6	9.9	10.4	10.7
Other services	3.5	3.4	3.8	3.5	3.6
Rents	1.9	1.6	1.7	1.6	1.7
Public administration	3.3	2.5	2.7	2.6	2.3
Value added at basic prices	-0.6	8.4	8.4	7.5	6.7
Taxes on products	-0.9	14.7	14.0	13.3	12.5
GDP at market prices	-0.6	9.3	9.2	8.4	7.5

Source: IBGE

Table 1.5 – Gross Domestic Product
Accumulated in the year

% growth

	2009	2010			
	IV Q	I Q	II Q	III Q	IV Q
GDP at market prices	-0.6	9.3	9.2	8.4	7.5
Households consumption	4.2	8.4	7.4	6.9	7.0
Government consumption	3.9	2.7	4.2	4.1	3.3
Gross fixed capital formation	-10.3	28.4	28.2	25.6	21.8
Exports	-10.2	14.7	10.6	10.8	11.5
Imports	-11.5	39.6	39.2	39.8	36.2

Source: IBGE

Table 1.6 – Gross Domestic Product
Quarter/previous quarter
Seasonally adjusted

% growth

	2009	2010			
	IV Q	I Q	II Q	III Q	IV Q
GDP at market prices	2.5	2.2	1.6	0.4	0.7
Crop and livestock	5.1	2.6	1.4	-1.6	-0.8
Industry	3.8	1.7	3.6	-0.6	-0.3
Services	1.3	1.4	1.1	0.9	1.0
Households consumption	1.1	1.8	1.1	1.8	2.5
Government consumption	2.4	-0.2	1.8	-0.1	-0.3
Gross fixed capital formation	8.6	4.0	3.9	3.1	0.7
Exports	2.9	3.4	1.2	4.2	3.6
Imports	15.1	8.1	5.7	7.1	3.9

Source: IBGE

10.1% in the secondary sector, 6.5% in the primary sector and 5.4% in the service sector.

The rural sector result is consistent with the annual expansion of 11.6% of the grain harvest and with the respective rises of 8.5% and 3.8% in the slaughter of cattle, poultry and pork, within the first nine months of 2010, compared with the corresponding period of the previous year. The industrial sector's performance reflected, specially, increases in the mineral extraction industry, 15.7%; construction, 11.6%; and manufacturing industry, 9.7%. The services sector annual growth was mainly supported by the vigor of the segments commerce, 10.7%; transportation, storage and mailing, 8.9%; and financial intermediation, insurances, social security and related services, 10.7%, where the first two are related to the results of the industrial and farm sectors.

Considering the demand side, investments, in line with the performance of construction and purchase of capital goods, increased 21.8% in 2010, while the household consumption, reflecting the overall wages and credit operations increase, grew by 7%. The external sector negative contribution represented the annual rises registered in imports, 36.2%, and exports, 11.5%, a differential regarding the distinctive pace of growth of both international and Brazilian economies.

The analysis at the margin, considering deseasonalized data, reveals that GDP growth slowed down in the second half of 2010, when growth rates of 0.4% and 0.7% were registered in the third and fourth quarter of the year, respectively, against expansions of 2.2% in the quarter ended March and 1.6% in that ended June.

The aggregate's performance in the quarter ended December reflected the 1% growth observed in the service sector and farming and industry retractions of 0.8% and 0.3%, respectively. On the demand side, the household consumption grew by 2.5% in the quarter, while the gross fixed capital formation (FBCF), slowed down to 0.7%, but it still corresponded to the seventh positive result since the second quarter of 2009.

The GDP growth forecast for 2011 was reviewed from 4.5% to 4%, and is detailed in the box "Revision of GDP Forecast for 2011", on page 20 of this Report.

1.5 Investments

Investments, excluding stocks variations, increased 21.8% in 2010, according to the Quarterly National Accounts of IBGE, emphasizing that the average growth rate of this variable in the biennium ended 2010 reached 4.5%, against GDP's average rise of 3.3%, pointing out expansion of the economy's supply capacity within the period.

At the margin, investments increased 0.7% in the quarter ended December, compared with that ended September, considering deseasonalized data. Such rise, the seventh in a row, represented a fall in this variable's growth, which had been 3.1% in the previous quarter. In the same type of comparison, investments' performance had been anticipated by GFCF monthly indicators trajectory. Thus, the construction inputs production registered a 2.4% rise in the quarter ended December, compared with that ended September, while the production, imports and exports of capital goods registered respective variations of 0.2%, -7.6% and 2.5%, determining a quarterly decline of 2.6% in the purchase of these goods.

Table 1.7 – Industrial production

% change over the same period in previous year

	2010				2011
	I Q	II Q	III Q	IV Q	Jan
Building inputs	15.2	17.0	9.7	6.6	6.5
Capital goods	25.9	33.2	21.2	7.0	9.1
Typically industrialized	23.7	33.4	20.6	12.7	6.4
Agricultural	43.0	59.6	44.7	-3.4	-5.4
Agricultural parts	21.3	6.7	3.0	38.5	5.3
Building	212.4	169.1	92.1	27.6	23.6
Electricity	-3.3	0.9	2.4	-13.3	-2.8
Transportation equipment	19.4	33.2	35.4	17.4	8.3
Mixed	30.0	31.0	5.2	-2.9	9.8

Source: IBGE

The disbursements of BNDES – National Bank for Economic and Social Development (BNDES), Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – accounted for R$168.4 billion in 2010, increasing 23.5% when compared with the previous year. The resources channeled to crop and livestock, manufacturing industry and to the commerce and service sector increased, respectively, 47.7%, 28.1% and 20.5%, while those targeted to the mineral extraction industry declined 53%.

Construction industry input production and capital goods purchases registered respective rises of 9.8% and 14.5% in January, compared with the same month in 2010, being registered respective variations of 9.1%, 25.3% and -4.6% in the production, imports and exports of capital goods. In addition, the production of trucks, farm machines and buses turned in respective variations of 13.2%, 8.1% and -5.6% in February, compared with the corresponding month in 2010, according to the National Association of Automotive Vehicle Manufacturers (Anfavea).

1.6 Conclusion

The country's current economic expansion cycle, as shown in the seven consecutive positive results of quarterly GDP, registered a relative slowdown in the last two quarters of 2010. Prospectively, the economic activity stabilizing trend must persist in the following months, reflecting the monetary policy and macro prudential measures, as well as the highest comparison basis after the strong recovery registered throughout 2010, constituting, therefore, a favorable scenario for sustainable growth.

Projection for the 2011 GDP

Gross Domestic Product (GDP) growth projection in 2011 was revised from 4.5%, in the last Inflation Report, to 4% mainly due to incorporation of preliminary data for the first quarter and updating of macroeconomic scenario for the following.

The supply analysis (Table 1) reveals that the crop and livestock sector may increase 1.9% in the year. This expansion, 1.4 p.p. higher than the previous estimate, reflects the projection, published by the Brazilian Institute of Geography and Statistics (IBGE), of 1.2% annual increase for the grain crop in 2011, against 2.5% drop considered in the last *Inflation Report*. In addition, the perspectives for cattle farming are still positive, supported by demand expansion and attractive prices for production.

It is estimated a 4.2% rise for the industrial sector in 2011, a result 1.2 p.p. lower than the previous projection. Mining industry may grow 5.6%, boosted by petroleum production, emphasizing that the 2.2 p.p. reduction, when compared to the previous estimate, reflects the preliminary results for the first quarter of the year. For the construction industry it is estimated 5.2% annual growth, against 6.6% in the previous report. This reevaluation comprehends, among others, reduction perspectives of governmental expenses, due to fiscal adjustment promoted by the federal government. Production and distribution of electricity, gas and water and the manufacturing industry may increase, respectively, 4.5% and 3.6%, against 5.2% and 4.9% in the previous forecast.

The service sector's output may increase 3.8% in the year, a projection 0.4 p.p. lower than the previous one, with emphasis on the reductions forecast for the segments of commerce and transportation, 0.8 p.p.,

Table 1 – Gross Domestic Product
Accumulated in the year

% growth

	2009	2010				2011
	IV Q	I Q	II Q	III Q	IV Q	IV Q[1/]
Crop and livestock	-4.6	5.4	8.1	7.8	6.5	1.9
Industry	-6.4	15.1	14.5	12.3	10.1	4.2
Mining	-1.1	14.7	15.6	16.0	15.7	5.6
Manufacturing	-8.2	17.3	15.6	12.5	9.7	3.6
Construction	-6.3	15.1	15.9	13.6	11.6	5.2
Public utilities	-2.6	8.4	9.2	8.8	7.8	4.5
Services	2.2	6.2	6.1	5.7	5.4	3.8
Commerce	-1.8	15.3	13.6	12.0	10.7	4.2
Transportation	-2.5	12.5	11.8	10.3	8.9	4.3
Communications	3.8	2.9	3.2	3.5	3.8	6.2
Financial institutions	7.1	9.6	9.9	10.4	10.7	6.1
Other services	3.5	3.4	3.8	3.5	3.6	4.9
Rents	1.9	1.6	1.7	1.6	1.7	2.3
Public administration	3.3	2.5	2.7	2.6	2.3	1.6
Value added at basic prices	-0.6	8.4	8.4	7.5	6.7	3.8
Taxes on products	-0.9	14.7	14.0	13.3	12.5	4.8
GDP at market prices	-0.6	9.3	9.2	8.4	7.5	4.0

Sources: IBGE and Banco Central
1/ Estimated.

and warehousing and mail, 0.9 p.p., which mainly reflect a drop in the industrial sector growth estimate. Growth estimates for the public administration, health and education segments, in response to the fiscal adjustment carried out by the federal government for 2011, dropped from 2.2% to 1.6%.

In the framework of demand (Table 2), the estimates related to household consumption, government consumption and to Gross fixed capital formation dropped 0.7 p.p., 0.5 p.p. and 1.0 p.p., respectively, in relation to the ones existing in the December report. These reductions reflect the impacts of the macroprudential measures carried out by the Central Bank, a new level of interest rates and the current fiscal consolidation. Once the rise in the estimate of stocks variation is incorporated, the domestic demand's contribution to the GDP reaches 5.1 p.p.

Annual exports and imports of goods and services may increase 9.6% and 18.2%, respectively, against 8.3% and 11.9% in the previous projection. The external sector, an adjustment factor between domestic demand and supply, may bring a negative contribution of 1.1 p.p. to GDP's variation in 2011.

Table 2 – Gross Domestic Product

Accumulated in the year

% growth

	2009	2010				2011
	IV Q	I Q	II Q	III Q	IV Q	IV Q 1/
GDP at market prices	-0.6	9.3	9.2	8.4	7.5	4.0
Households consumption	4.2	8.4	7.4	6.9	7.0	4.1
Government consumption	3.9	2.7	4.2	4.1	3.3	1.9
Gross fixed capital formation	-10.3	28.4	28.2	25.6	21.8	6.4
Exports	-10.2	14.7	10.6	10.8	11.5	9.6
Imports	-11.5	39.6	39.2	39.8	36.2	18.2

Sources: IBGE and Banco Central

1/ Estimated.