



The Brazilian Economy

Activity level

In 2007, for the second consecutive year, the Brazilian economy intensified the pace of growth. The annual result – third best in the last 20 years – revealed the growing dynamics of internal demand, with a sharp upturn in investments and steady expansion of household consumption. At the same time, the characteristics underlying the current cycle of Brazilian economic expansion indicate that it will continue well into the future.

Evolving consumption and investment levels are two of the factors responsible for a reduction in the trade balance surplus. This tendency, which has not resulted in balance of payments financing restrictions, in view of continued inflows of longer term capital driven by growing confidence among international investors as regards the consistency of Brazil's macroeconomic fundamentals, has been powered by rising imports of capital and consumer goods, thus favoring short-term equilibrium between supply and demand, with positive impacts on price stability and, in the medium term, adjustments in utilization of installed industrial capacity.

Growing demand has had positive impacts on labor market conditions. In this context, formal job openings have expanded steadily in various sectors of the economy, while unemployment has dropped to one of its lowest levels since the jobless rate was first calculated and shortages of skilled manpower have already appeared in some economic segments.

Gross Domestic Product (GDP)

According to data released by the Brazilian Institute of Geography and Statistics (IBGE), GDP expanded 5.4% in 2007, representing the highest annual rate since 2004 when product growth closed at 5.7%. It should be added that this was the 15th consecutive year of positive economic growth. Analysis of this result shows a steady process of strengthening internal demand, with emphasis on the sustainability provided by sharp expansion under investments during the period. In current values, GDP reached R\$2,558.8 billion at market prices.

Once again, positive GDP performance resulted from across-the-board expansion in its various components. Crop/livestock output increased 5.3%, driven by 13.6% growth in the grain harvest, mainly as a consequence of 14.1% average productivity gains, made possible by improved climatic conditions and investment incentives generated mainly by marketing prices. The area harvested declined 0.4% in the year.

Industrial activity expanded 4.9% in 2007, with positive growth in all of the various subsectors. Above all else, growth of 5.1% in manufacturing output reflected the effects of economic stability and improved credit and labor market conditions on output of capital goods and consumer durables. Taking advantage of rising income levels and measures adopted to stimulate growth in this sector, the construction industry expanded 5%, registering the fourth consecutive positive annual growth rate. Production and distribution of electricity, gas and water rose 5%, reflecting a process of economic recovery during the year. Parallel to this, mining activity expanded 3%, with increases in petroleum production – crude oil and natural gas liquid (NGL), with 1.3% – and iron ore output, 10.8%.

In 2007, the service sector expanded 4.7%, posting across-the-board growth in the various subsectors, particularly financial intermediation services, 13%; commerce, 7.6%; and transportation, storage and postal services, 4.8%, with the latter two being impacted by the performance of the primary and secondary sectors. One should also note expansion in the segments of information services, 8%; real estate activities and rents, 3.5%; other services, 2.5%; and administration, health and public education services, 0.9%.

The contribution of internal demand to GDP growth reached 6.8 percentage points (p.p.) in 2007. Gross Fixed Capital Formation (GFCF) rose 13.4%, followed by household consumption, 6.5% and government consumption, 3.5%. Moving in the opposite direction, the external sector generated a 1.4 p.p. negative impact on annual GDP growth, a result that is compatible with the increased dynamics of internal demand. In this context, while exports of goods and services expanded 6.6% in the year, imports of importance to development of the industrial structure and preservation of consumer goods supply-demand equilibrium increased 20.7%.

GDP performance in 2007 reflected a succession of positive quarterly results during the period under consideration. In this context, ratifying perceptions of recovery in the pace of economic growth, mainly as a result of steady expansion in real income and employment levels, the excellent performance of the agricultural sector and adoption of a more flexible monetary policy, GDP expanded 1% in the first quarter of the year, compared to the previous quarter, when purged of the seasonal factors.

Using the same basis of comparison, the service sector registered growth of 1.4%, while crop/livestock and industrial output dropped 1.2% and 1.3%, in that order. With regard

Table 1.1 – GDP at market price

Year	At 2007 prices (R\$ million)	Real change (%)	Implicit deflator (%)	At current prices ^{1/} (US\$ million)	Population (million)	Per capita GDP		
						At 2007 prices (R\$)	Real change (%)	At current prices ^{1/} (US\$)
1980	1 357 648	9.2	92.1	237 772	118.6	11 451	7.0	2 005
1981	1 299 948	-4.3	100.5	258 553	121.2	10 724	-6.3	2 133
1982	1 310 737	0.8	101.0	271 252	123.9	10 580	-1.3	2 190
1983	1 272 333	-2.9	131.5	189 459	126.6	10 052	-5.0	1 497
1984	1 341 039	5.4	201.7	189 744	129.3	10 374	3.2	1 468
1985	1 446 297	7.8	248.5	211 092	132.0	10 959	5.6	1 599
1986	1 554 625	7.5	149.2	257 812	134.7	11 545	5.4	1 915
1987	1 609 503	3.5	206.2	282 357	137.3	11 725	1.6	2 057
1988	1 608 537	-0.1	628.0	305 707	139.8	11 504	-1.9	2 186
1989	1 659 367	3.2	1304.4	415 916	142.3	11 660	1.4	2 923
1990	1 587 185	-4.3	2737.0	469 318	146.6	10 827	-7.1	3 202
1991	1 603 533	1.0	416.7	405 679	149.1	10 755	-0.7	2 721
1992	1 594 816	-0.5	969.0	387 295	151.5	10 524	-2.2	2 556
1993	1 673 357	4.9	1996.1	429 685	154.0	10 867	3.3	2 790
1994	1 771 296	5.9	2240.2	543 087	156.4	11 323	4.2	3 472
1995	1 846 112	4.2	93.9	770 350	158.9	11 620	2.6	4 849
1996	1 885 813	2.2	17.1	840 268	161.3	11 690	0.6	5 209
1997	1 949 465	3.4	7.6	871 274	163.8	11 903	1.8	5 320
1998	1 950 154	0.0	4.2	843 985	166.3	11 730	-1.5	5 077
1999	1 955 109	0.3	8.5	586 777	168.8	11 586	-1.2	3 477
2000	2 039 299	4.3	6.2	644 984	171.3	11 906	2.8	3 766
2001	2 066 022	1.3	9.0	553 771	173.8	11 886	-0.2	3 186
2002	2 120 943	2.7	10.6	504 359	176.4	12 024	1.2	2 859
2003	2 145 266	1.1	13.7	553 603	179.0	11 986	-0.3	3 093
2004	2 267 893	5.7	8.0	663 783	181.6	12 489	4.2	3 655
2005	2 339 522	3.2	7.2	882 439	184.2	12 702	1.7	4 791
2006	2 427 371	3.8	4.7	1 071 973	186.8	12 997	2.3	5 740
2007	2 558 821	5.4	4.0	1 313 901	189.3	13 517	4.0	6 941

Source: IBGE

^{1/} Estimates obtained by the Banco Central do Brasil dividing the GDP at current prices by the annual average buying rate of exchange.

to demand components, it is important to stress 2.3% growth in Gross Fixed Capital Formation. Household consumption increased 1.5% and government consumption rose 2.5%, while exports increased 1% and imports expanded 4.3%, reflecting the upturn in the activity level.

Table 1.2 – GDP – Quarterly growth/previous quarter – Seasonally adjusted

Itemization	2007			
	I	II	III	IV
GDP at market price	1.0	1.5	1.8	1.6
Crop and livestock sector	-1.2	1.2	7.1	-0.3
Industrial sector	-1.3	2.9	1.3	1.4
Service sector	1.4	0.9	1.3	1.6

Source: IBGE

In the second quarter of the year, the pace of GDP growth quickened, as is evident in across-the-board expansion of its different components. The 1.5% increase in product in the period under consideration reflected a 2.9% rise in the industrial segment, sustained mainly by the evolution of the construction industry and manufacturing; 1.2% growth in crop/livestock output; and 0.9% under services. With regard to demand components, it is important to stress the continued growth of Gross Fixed Capital Formation, with 4.9%. Household consumption increased 1.6%, while government consumption dropped 0.1%, and exports and imports moved upward at respective rates of 1.1% and 3%.

Quarterly GDP growth continued in the third quarter of the year, closing at 1.8%, representing the eighth consecutive positive quarterly rate using this basis of comparison. Crop/livestock production expanded 7.1%, the highest rate of the last 37 quarters, while industry and services posted increases of 1.3%, respectively, representing the fifth and 10th best results in this type of comparison. From the viewpoint of demand and based only on seasonally adjusted data, the quarter registered strong growth in investments, as reflected in 4.6% expansion under Gross Fixed Capital Formation, while household consumption increased 1.6% and government consumption rose 0.2%. Exports and imports rose at respective rates of 1.4% and 8.8%, as foreign purchases expanded for the 17th consecutive quarter.

Ratifying the evolution of leading and coincident indicators, GDP expanded 1.6% in the fourth quarter of the year, compared to the previous period. This was the ninth consecutive positive result using this type of analysis. Crop/livestock production declined 0.3% in the quarter, following a 7.1% high in the previous quarter.

Viewed in terms of demand, analysis at the margin reveals aspects that suggest the sustainability of this growth process. In more specific terms, these aspects would be the continuity of investments and the qualitative character of the external sector's negative contribution. In this sense, Gross Fixed Capital Formation and household consumption expanded 3.4% and 3.7%, respectively, in the fourth quarter of the year, compared to the previous period, while government consumption remained stable,

raising the contribution of internal demand to the quarterly GDP result to a level of 1.9 p.p. Parallel to this, the negative contribution of the external sector, while totaling only 0.3 p.p., reflected a quarterly rise of 2.6% in exports and 5.6% in imports, a result considered fully consistent with the vigor of internal demand and important to both expanding investments and preservation of price stability.

Table 1.3 – GDP real change rates – Under the prism of production

Percentage			
Itemization	2005	2006	2007
GDP	3.2	3.8	5.4
Crop and livestock sector	0.3	4.2	5.3
Industrial sector	2.1	2.9	4.9
Mineral extraction	9.3	5.7	3.0
Manufacturing	1.2	2.0	5.1
Building	1.8	4.6	5.0
Production and distribution of electricity, gas and water supply	3.0	3.3	5.0
Service sector	3.7	3.8	4.7
Commerce	3.5	5.1	7.6
Transportation, storage and postal services	3.5	3.2	4.8
Information services	4.0	2.5	8.0
Financial intermediation, insurance, complementary pension system and related services	5.3	6.2	13.0
Other services	5.2	3.1	2.3
Real estate activities and rent	4.7	2.3	3.5
Public administration, health and education	1.1	3.7	0.9

Source: IBGE

Table 1.4 – GDP real change rates – Under the prism of expenditure

Percentage			
Itemization	2005	2006	2007
GDP	3.2	3.8	5.4
Family consumption	4.5	4.6	6.5
Government consumption	2.3	2.8	3.1
Gross Fixed Capital Formation	3.6	10.0	13.4
Exports of goods and services	9.3	4.7	6.6
Imports of goods and services	8.5	18.3	20.7

Source: IBGE

Table 1.5 – Gross Domestic Product – At current value

In R\$ million				
Itemization	2004	2005	2006	2007
Gross Domestic Product at market prices	1 941 498	2 147 239	2 332 936	2 558 821
Under the prism of product				
Crop and livestock sector	115 194	105 163	103 228	120 847
Industrial sector	501 771	539 316	602 834	628 915
Service sector	1 049 293	1 197 774	1 295 414	1 441 144
Under the prism of expenditure				
Final consumption expenditure	1 533 895	1 721 783	1 870 947	2 060 853
Family consumption	1 160 611	1 294 230	1 407 940	1 557 544
Government consumption	373 284	427 553	463 007	503 310
Gross Capital Formation	332 333	347 976	393 865	458 856
Gross Fixed Capital Formation	312 516	342 237	385 007	449 558
Changes in inventories	19 817	5 739	8 857	9 298
Exports of goods and services	318 892	324 842	340 457	354 943
Imports of goods and services (-)	243 622	247 362	272 333	315 831

Source: IBGE

Investments

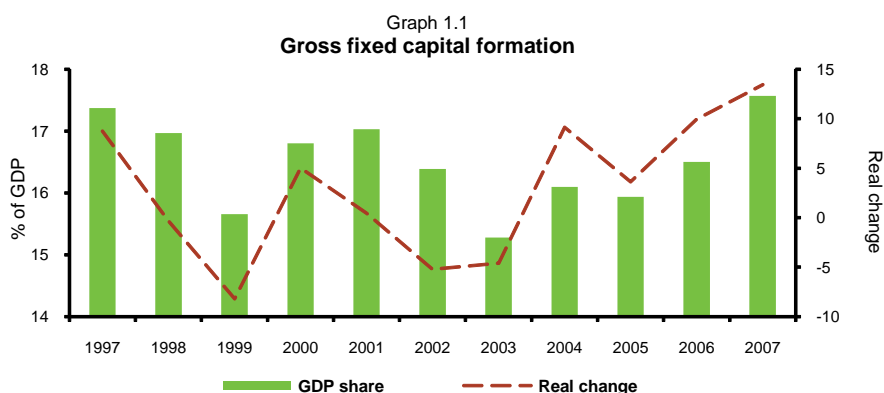
According to IBGE's Quarterly National Accounts, investments – excluding stock variations – expanded 13.4% in 2007, the highest annual rate since 1994 and the fourth successive positive result. This pace of growth, which was substantially higher than GDP expansion, not only reflected business confidence in the continuity of the growth cycle, but also stood as a clear sign that, over the medium term, output capacity would be maintained at a level compatible with internal demand, posting an annual increase of 1.1 p.p. in the ratio between GF CF and GDP (17.6% in 2007).

Building industry inputs expanded at an annual rate of 5.1% in 2007, compared to 4.5% in the previous year. As the pace of activity in this sector intensified over the course of the year, half-yearly growth rates came to 2.3% in the first six months and a 3.7% in the final six months, based on comparisons with the immediately previous period, utilizing seasonally adjusted data.

In much the same way, output of capital goods expanded in 2007, closing with a 19.5% growth as compared to 5.7% in the previous year, mainly as a result of across-the-board increases in the various segments of this industry. However, it is important to stress strong recovery in the income of segments connected to the crop/livestock sector, particularly farm machines and equipment, with 48.4%, and parts for farm machinery, 170.8%. Furthermore, it is important to mention significant increases in the production of capital goods targeted to the sectors of electricity, 26%; construction, 18.7%; and

transportation equipment, 18%. Production of typically industrialized goods expanded 17% in the year, reflecting growth in the segments of assembly-line products, 18.5%, and those turned out on an order basis, 7.4%.

The performance of investments takes on even more significant proportions when one considers the comparison between the relative results for the fourth quarter of 2007 and those of the previous year, revealing growth of 16%. This was the 16th consecutive positive result applying this type of comparison and clearly confirms the longest period of growth in the statistical series since it was first calculated in 1991. Analysis at the margin shows seasonally adjusted growth of 3.4% in fourth quarter investments, compared to the previous period.



Source: IBGE

Table 1.6 – Gross capital formation (GCF)

Percentage

Year	Share in GCF			Changes in inventories	At current prices	
	Gross Fixed Capital Formation (GFCF)				GFCF/GDP	GCF/GDP
	Building	Machines and equipments	Others			
1995	44.5	48.9	8.3	-1.6	18.3	18.0
1996	48.2	43.5	7.3	1.0	16.9	17.0
1997	49.5	43.1	7.0	0.3	17.4	17.4
1998	51.9	40.8	6.9	0.3	17.0	17.0
1999	50.6	37.2	7.8	4.4	15.7	16.4
2000	45.7	39.3	7.1	7.9	16.8	18.3
2001	43.9	43.3	7.3	5.5	17.0	18.0
2002	47.8	44.8	8.5	-1.2	16.4	16.2
2003	42.8	45.3	8.7	3.1	15.3	15.8
2004	41.1	45.0	7.9	6.0	16.1	17.1
2005	41.6	49.0	7.7	1.6	15.9	16.2
2006	...	...	...	...	16.5	16.9
2007	...	...	...	...	17.6	17.9

Source: IBGE

Table 1.7 – Selected capital goods production

Itemization	Percentage change		
	2005	2006	2007
Capital goods	3.6	5.7	19.5
Industrial	-2.2	5.5	17.0
Serial	-2.2	5.2	18.5
Non-serial	10.4	6.9	7.4
Agricultural	-37.7	-16.5	48.4
Agricultural parts	-69.0	-38.9	170.8
Building	32.0	8.2	18.7
Electric energy	28.5	22.2	26.0
Transportation	6.6	-1.6	18.0
Mixed	3.4	11.6	15.4

Source: IBGE

According to the National Bank of Economic and Social Development (BNDES) disbursements of the BNDES system – BNDES, Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – totaled R\$64.9 billion in 2007, for growth of 26.5% over the previous year. It is estimated that disbursements will continue expanding in the coming years, since the volume of projects approved increased 33% in 2007, surpassing disbursements for the third consecutive year. A sectoral analysis shows that the performance of the infrastructure sector dominated in terms of both disbursements and the number of projects approved, posting respective annual growth rates of 62% and 104%.

Table 1.8 – BNDES disbursement^{1/}

In R\$ million			
Itemization	2005	2006	2007
Total	46 980	51 318	64 892
By sector			
Manufacturing industry	23 104	25 734	25 395
Commerce and service	19 479	20 704	33 448
Crop and livestock	4 059	3 423	4 998
Extraction industry	338	1 458	1 051

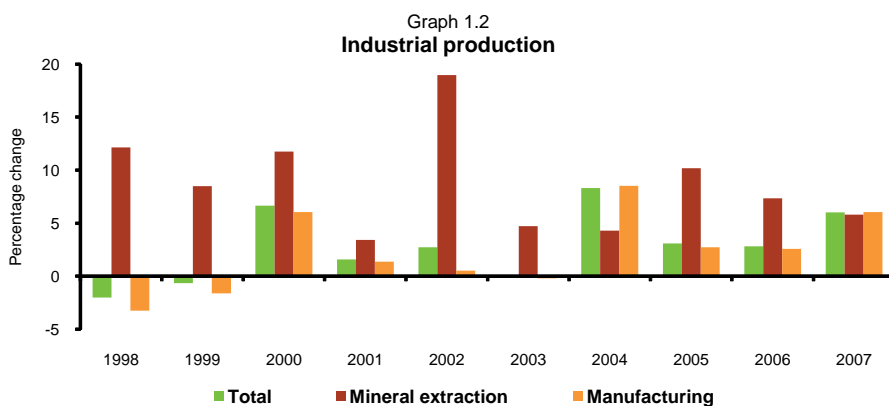
Source: BNDES

^{1/} Includes BNDES, Finame and BNDESpar.

The Long-Term Interest Rate (TJLP), which is utilized as the indexing factor for financing operations contracted with the BNDES system, declined during the year from 6.85% per year at the end of 2006 to 6.5% per year in the first quarter and later to 6.25%, where it remained until the final quarter of 2007. Aside from stimulating further investments, these reductions reflected the environment of Brazilian economic stability.

Industrial output indicators

The physical production of the industrial sector expanded 6% in 2007, according to IBGE's Monthly Industrial Survey (PIM). This result reflected increases of 6% in the manufacturing sector and 5.9% under mining. The 2007 figure followed upon highs of 2.8% in 2006 and 3.1% in 2005, making it the third highest result since the Real Plan was adopted. The only two better results occurred in 1994 and 2004.



Just as occurred in the case of GDP, the annual performance of the industrial sector revealed a sequence of positive quarterly results during the year. Utilizing only seasonally adjusted data, industrial output expanded 1.5% in the first quarter, compared to the previous quarter. Using the same type of comparison, growth in subsequent quarters came to 2.5%, 1.7% and 1.9%, respectively.

Table 1.9 – Industrial production

Itemization	Percentage change		
	2005	2006	2007
Total	3.1	2.8	6.0
By category of use			
Capital goods	3.6	5.7	19.5
Intermediate goods	0.9	2.1	4.9
Consumer goods	6.0	3.3	4.7
Durable	11.4	5.8	9.1
Semi and nondurable	4.6	2.7	3.4

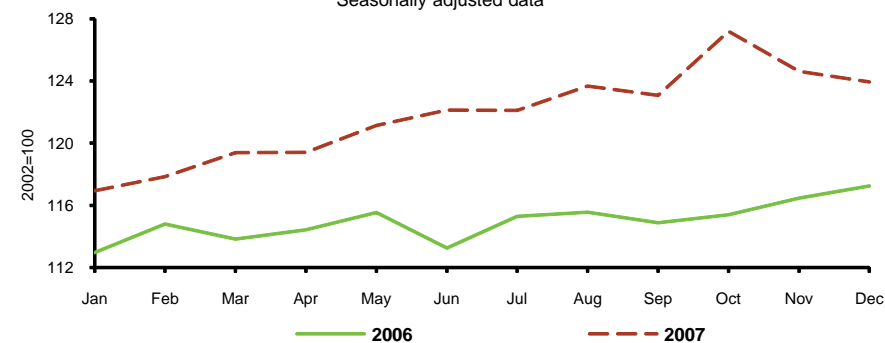
Source: IBGE

Segmentation of the annual result broken down by categories shows across-the-board expansion. Here, stress should be given to the dynamics of capital goods and consumer durables output, both of which kept pace with investment growth and consolidation of internal demand. In this scenario, capital goods production expanded 19.5% in 2007,

the second best result in the historical series that began in 1991. This figure was only surpassed by the 2004 record of 19.7% and was driven by the highly favorable climate generated by rising business confidence in the continuity of the stable macroeconomic situation and the interest rate trajectory, coupled with credit and labor market results.

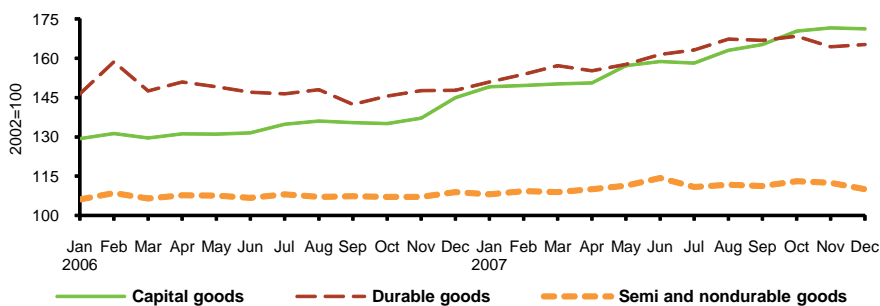
Production of consumer durables expanded 9.1% in 2007, the fourth consecutive annual result above 5%, driven both by greater consumer confidence, evident in the commitment of higher percentages of future income, and by an increased volume of available income, together with improved credit market conditions.

Graph 1.3
Industrial production
Seasonally adjusted data



Source: IBGE

Graph 1.4
Industrial production – By category of use
Seasonally adjusted data



Source: IBGE

In 2007, production of intermediate goods grew 4.9%, the fourth consecutive annual result below the rate for industry as a whole. One should emphasize that this result was consequent upon lesser expansion under the segments of textiles, 3.8%, food products, 2.6%, and oil refining and alcohol, 3.1%.

The results achieved by semi-durable and nondurable consumer goods were the least expressive in 2007. To some extent, annual growth of 3.4% reflected the reduced importance of credit to the sector, coupled with a 2.2% decline in the activities of the

footwear and leather sectors, primarily as a result of lesser participation in external market operations.

In the year under analysis, industrial output expanded in 21 of the 27 activities surveyed. As regards activities that closed with positive results, seven achieved rates higher than the industrial average, mainly including those related to the segment of capital goods, such as machines and equipment, 17.7%; automotive vehicles, 15%; office machinery and computer equipment, 14.4%; and electric machines, apparatuses and equipment, 14%. A breakdown of segments that registered reductions during the year points to four segments of activity: wood, footwear and leather articles, electronic equipment, communications devices and equipment and diverse products. These activities repeated the negative performance of the previous year, suggesting structural changes in the nation's industrial base. Aside from this, the negative results were concentrated under activities related more to the category of semi-durable and nondurable consumer goods, such as tobacco, -8.1%, and footwear and leather, -2.2%.

The activities of the industrial segments that registered the most significant advances and turned in the best results in the 13 states surveyed by the IBGE were basically concentrated among consumer durables, capital goods and typical export products. It should be observed that 8.6% annual growth registered in the State of Minas Gerais was driven by the dynamics of the automotive industry and iron ore mining, followed by the States of Espírito Santo and Rio Grande do Sul, with respective growth rates of 7.5% and 7.4%; Paraná, with 6.7%; and São Paulo, 6.2%. The states that registered performances below the national average were Ceará, 0.3%; Bahia, 2%; Rio de Janeiro, 2.1%; and Goiás, 2.3%.

Personnel occupied in the industrial sector expanded 2.2% in 2007, the highest rate since this index was first calculated in 2001. Here, particular mention should be made of growth in São Paulo, 3.5%, and Paraná, with 3.1%, in contrast to a situation of stability in the State of Rio Grande do Sul. A breakdown by industrial segments shows that absorption of labor was most intense under food products and beverages and transportation equipment, while the sharpest reductions occurred under footwear and leather articles, apparel and wood.

The real payroll of the industrial sector expanded 5.4% in 2007, following a 1.3% rise in the previous year. Particular mention should be made of the 8.3% increase registered in Rio Grande do Sul, though the number of persons employed in this state remained stable. The activities that registered the sharpest payroll growth were mining, with 16.5%, coke, oil refining, nuclear fuels and alcohol, 12.7%; chemical products, 12%; and metal products, excluding machines and equipment, 10%.

According to the Getulio Vargas Foundation (FGV), the level of utilization of installed capacity utilization level (Nuci) trended upward throughout 2007. Demonstrating the

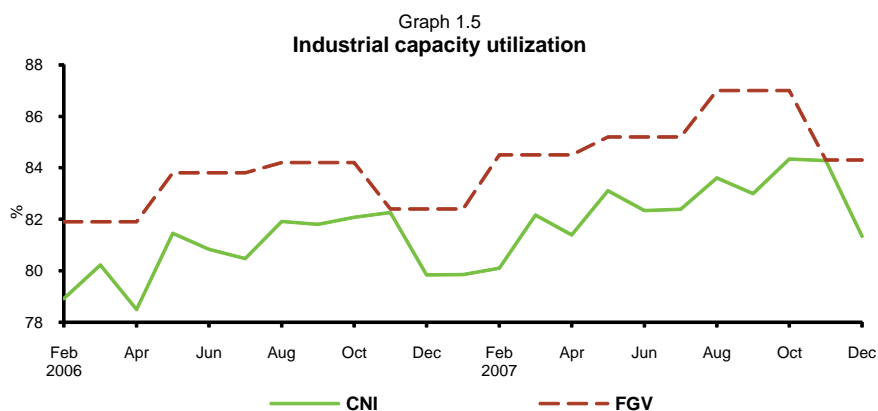
continuity of the industrial growth process, the Nuci reached 86.7% in December, even at a time of increased investments. On average, the 2007 Nuci came to 85.1%, for growth of 1.7 p.p. compared to the previous year.

Table 1.10 – Industrial capacity utilization^{1/}

Itemization	2005	2006	2007
Manufacturing industry	83.5	83.3	85.1
Consumer goods	81.2	80.1	83.1
Capital goods	81.4	82.0	85.7
Building material	81.8	85.1	84.6
Intermediate goods	87.5	87.3	87.8

Source: FGV

1/ Quarterly survey. Average in the year.



According to data revealed by the Industrial Survey carried out by the National Confederation of Industry (CNI) for the third quarter of 2007, the tax load and rate of exchange were the major restrictions faced by industrial companies, while insufficient demand and higher rates of interest became less relevant. One should emphasize growing concern on the part of the business community in relation to the shortage of skilled labor.

The October 2007 FGV Manufacturing Industry Survey showed that, among the interviewees that reported factors that restricted increased output during the year, 27.5% cited the shortage of raw materials as the major limitation, followed by the level of demand, 20%, and a shortage of skilled labor, 17.5%.

The industrial confidence index released by FGV hit 116 points in December 2007, compared to 106.3 points in the same month of 2006. Analysis of its components shows that the current situation index reached 129.3 points, and the expectations index, which was adversely impacted by the uncertainties surrounding the external environment, closed at 102.7 points.

Commerce indicators

The major retail sales indicators showed strong growth rates in 2007, reflecting robust performances both in sectors that depend more on the level of available consumer income and those in which credit conditions play a determining role.

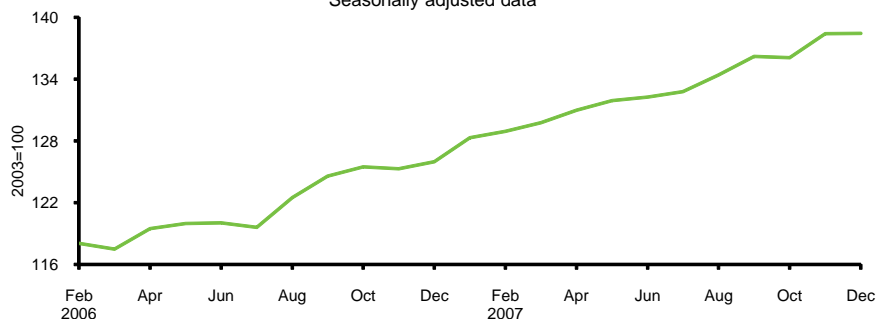
According to IBGE's Monthly Retail Trade Survey (PMC), the Retail Sales Volume Index expanded 9.7% in 2007, the highest annual rate since 2000 when the survey became national in scope. Sales increased in the eight segments included in the general index, with particularly strong expansion under office, computer and communications equipment and material, 29.5%; other personal and home use articles, 22.7%; furniture and home appliances, 15.4%; and fabrics, apparel and footwear, 10.6%. Sales of the expanded retail trade sector, a concept that incorporates the segments of automobiles, motorcycles, parts and spares, as well as building materials, grew 13.6% in the year, with respective rates of 22.6% and 10.8% in the two sectors cited above.

The 2007 increase in retail sales was registered in all of the country's five major regions. The highest growth rate occurred in the Southeast, 10.6%; followed by the Northeast, 10.5%; Central West region, 9.8%; South, 8%; and North, 8.1%. The strong performances registered in the Southeast and the Central West regions were, to some extent, generated by recovery in farm income in those regions. As regards the various states, mention should be made of retail sales increases in the states of Alagoas, 19.2%; Maranhão, 14.3%; Mato Grosso do Sul, 13.4%; São Paulo, 12.6%; and Mato Grosso, 12.2%.

In all regions of the country, growth rates in the sales of the expanded trade sector surpassed those posted in the restricted concept, registering 18.8% in the North region. A breakdown by states indicates strong growth in Rondônia, 28.8%; Acre, 23%; Alagoas, 20.5%; and Amapá, 19.8%.

Nominal Sales Revenues showed expansion of 11.8% in 2007, generated by 9.7% expansion in sales volume and 1.9% price growth. All of the various segments, except fuels and lubricants, registered growth in nominal revenues that surpassed the 4.46% inflation rate, as measured by IBGE's Expanded National Consumer Price Index (IPCA) during the period under consideration. In this case, particular emphasis should be given to the enhanced dynamics of the segments of vehicles, motorcycles, parts and spares, with 23.2%; hypermarkets, supermarkets, food products, beverages and tobacco, 19.1%; and fabrics, apparel and footwear, 19%.

Graph 1.6
Sales volume index in the retail sector
 Seasonally adjusted data



Source: IBGE

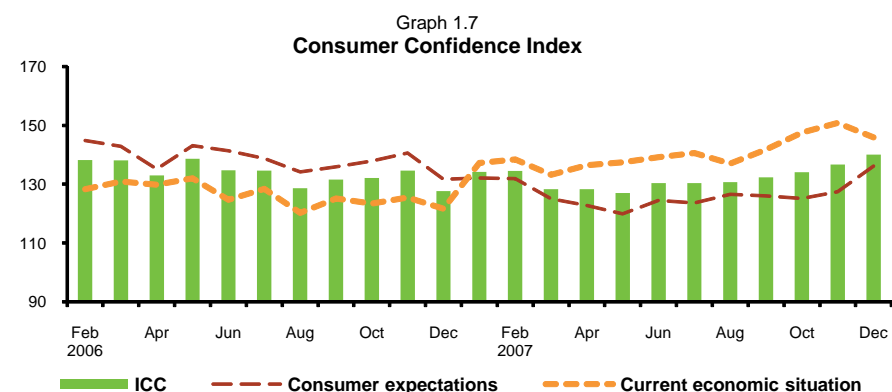
Indicators for the state of São Paulo trade sector clearly ratified across-the-board growth in sales of consumer durables, semi-durables and nondurables in 2007. In this context, data released by the São Paulo Trade Association (ACSP) indicate that the number of consultations with the Credit Protection Service Center (SCPC), which is used for analyzing installment purchases, increased 6.2% in the year, while consultations with the Usecheque system, considered an indicator of sales with immediate payment, rose 6.1% in the period.

The strength of automobile sales in 2007 was supported by statistics published by the National Federation of Automotive Vehicle Distribution (Fenabrave), reflecting an annual increase of 27.8% in sales of automobiles, light commercial vehicles, trucks and buses through factory authorized outlets. This was the best result since 1995.

Despite upward movement in commerce sector sales, default indicators remained stable over the last three years, as the ratio between the number of checks returned due to insufficient backing and total checks cleared moved to an average of 6.2% in 2007, against 6% in 2005 and 6.4% in 2006. Broken down by region, the highest rates were registered in the North and Northeast. Defaults in the Metropolitan Region of São Paulo, as measured by the ACSP, also remained stable, moving from an average of 5.3% in 2006 to 5.4% in 2007.

National surveys of consumer expectations registered highly divergent results in 2007. The National Confidence Index (INC), released by the ACSP, reached 130.5 points on average, reflecting a drop of 0.4% compared to the previous year. This result reflected worsening under components dealing with the local economic situation and improvement in areas related to personal short-term finances. Analyzed by region, the INC showed declines during the year in the Northeast, 1.4%; North and Central West, 1.7%; and South, 9.5%; coupled with an increase of 3.5% in the Southeast region. FGV's consumer confidence index (ICC) expanded 4.7% in the year, as a result of increases of 5.6% in the Expectations Index (IE) and 3.6% under the Current Situation Index (ISA).

The ICC, which is released by the State of São Paulo Trade Federation (Fecomercio SP), declined to 1.1% in 2007, clearly reflecting the 8.5% drop under the Consumer Expectations Index (IEC), which represents 60% of the general index, and 11.1% upward movement in the Current Economic Conditions Index (Icea).



Source: Fecomercio SP

Crop/livestock output indicators

The 2007 grain harvest set a record of 132.9 million tons, for an annual growth of 13.6% that reflected a 14.1% rise in productivity, coupled with a 0.4% drop in the area

Table 1.11 – Agricultural production – Major crops

Millions of tons		
Products	2006	2007
Grain production	117.0	132.9
Cotton seed	1.8	2.3
Rice (in husk)	11.5	11.1
Beans	3.4	3.3
Corn	42.6	51.5
Soybeans	52.4	58.2
Wheat	2.5	4.0
Others	2.8	2.4
Change in grain production (%)	3.9	13.6
Other crops		
Bananas	7.1	7.0
White potatoes	3.1	3.4
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.6	2.2
Sugarcane	455.3	515.3
Tobacco (in leaf)	0.9	0.9
Oranges	18.1	18.3
Cassava	26.7	26.8
Tomatoes	3.3	3.4

Source: IBGE

harvested. The year's final result was positively impacted by the wheat, herbaceous cotton, corn and soybean crops, while production under the rice and bean crops had the opposite effect.

Particular mention should be made of performances in the South and Central West harvests, clearly the country's most important regions. These two areas registered positive growth of 23.3% and 10.8%, respectively, accounting for 45.1% and 33.1% of national agricultural output.

Soybean production closed 2007 with a total of 58.2 million tons. Annual growth of 11.1% reflected expansion of 18.5% in average crop yields, mainly as a result of adequate climatic conditions and a 6.2% reduction in the area harvested. The reduction in the area harvested reflected migration toward more profitable crops, such as corn and sugarcane.

The corn harvest totaled 51.5 million tons, a 20.9% rise compared to the previous year. Average crop productivity increased 10.5%, while the area cultivated expanded 9.4%. These results were driven by favorable climatic conditions during the planting season and the incentive of price growth, keeping pace with rising American demand for ethanol.

Table 1.12 – Agricultural production, harvested area and average earnings – Major crops

Products	Percentage change					
	Production		Area		Average earnings	
	2006	2007	2006	2007	2006	2007
Grain production	3.9	13.6	-2.7	-0.4	6.9	14.1
Cotton (seed)	-21.3	29.2	-28.8	23.1	11.4	5.0
Rice (in husk)	-13.0	-3.7	-24.0	-2.5	14.8	-1.3
Beans	14.1	-4.4	7.2	-4.7	6.2	0.4
Corn	21.4	20.9	9.1	9.4	11.3	10.5
Soybeans	2.4	11.1	-4.1	-6.2	6.7	18.5
Wheat	-46.7	62.3	-34.0	18.0	-19.3	37.5

Source: IBGE

Bean production closed 2007 with 3.3 million tons. The annual reduction of 4.4% reflected a 4.7% drop in the area under cultivation, coupled with 0.4% growth in productivity. The first harvest, which corresponded to 54% of the year's total output, expanded 13% to a level of 1.8 million tons, reflecting growth in harvested area, 5.6%, and average yield, 7.1%. The second harvest was negatively impacted by poor weather and the absence of technology investments, while producer prices were far from attractive. The result was a 23% drop compared to the previous year.

Just as in the case of the bean crop, the price level discouraged cultivation of rice. Production of this crop totaled 11.1 million tons, an annual falloff of 3.7% caused by a 2.5% reduction in the area harvested and a 1.3% cutback in average yield.

The wheat harvest totaled 4 million tons. Annual growth of 62.3% reflected increases in the area harvested, 18%, and in average productivity, 37.5%.

Cottonseed output rose 29.2% in 2007, reaching a total of 2.3 million tons. The area harvested expanded 23.1%, while average productivity rose 5%.

The result for the coffee crop was heavily influenced by the biannual downward cycle in the production of this grain, resulting in a 15% reduction in 2007 harvest productivity. The area harvested diminished 2% and contributed to the 16.7% decline in annual coffee production, which closed at 2.2 million tons.

Sugarcane production reached 515.3 million tons, an increase of 13.2% in the year. The area cultivated increased 9% and average productivity rose 3.9%.

Table 1.13 – Grain stock – Major crops

Thousands of tons			
Products	2004/2005	2005/2006	2006/2007
Grain production			
Rice (in husk)			
Beginning of the year	2 728.4	3 532.1	2 879.3
End of the year	3 532.1	2 879.3	1 745.2
Beans			
Beginning of the year	169.7	113.6	353.3
End of the year	113.6	353.3	381.0
Corn			
Beginning of the year	7 801.7	3 135.4	5 568.3
End of the year	3 135.4	5 568.3	6 638.2
Soybeans			
Beginning of the year	4 522.2	2 734.7	2 469.7
End of the year	2 734.7	2 469.7	3 636.1
Wheat			
Beginning of the year	390.4	1 112.5	575.8
End of the year	1 112.5	575.8	143.4

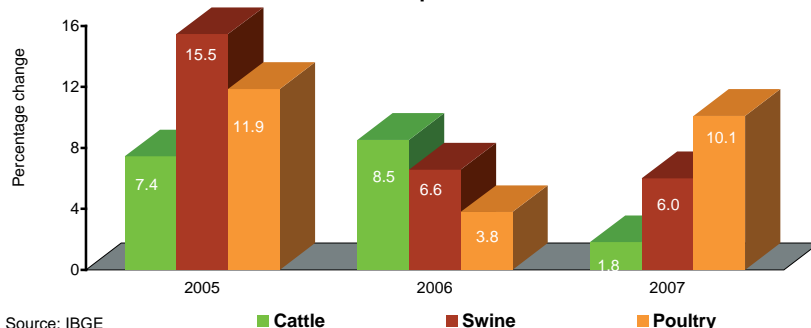
Source: Companhia Nacional de Abastecimento (Conab)

Livestock

According to the Quarterly Survey of Animal Slaughters, released by the IBGE, production of beef cattle reached 7 million tons in 2007, a 1.8% increase over the previous year. Poultry and swine production closed at 9 million and 2.4 million tons, for respective increases of 10.1% and 6%.

Beef exports totaled 1.3 million tons in 2007, an increase of 4.9% compared to the previous year, while poultry and pork exports expanded at rates of 16.3% and 14% in that order, closing at 3 million and 552.2 thousand tons.

Graph 1.8
Animal production



Source: IBGE

Farm policy

As released in June 2007, the Agriculture and Livestock Plan (PAP) for the 2007/2008 harvest, calls for injection of R\$58 billion, corresponding to growth of 16% over the previous year.

Of this total, R\$49.1 billion will be targeted to current expenditure and marketing operations and R\$8.9 billion to investments, for annual increases of 18.6% and 3.5%, in that order.

Of total resources to be channeled to current expenditures and marketing operations, R\$37.9 billion are earmarked resources and are subject to controlled rates of interest. These rates, held to 8.75% per year since the 1998/1999 plan, were reduced 2 p.p., thus contributing to a reduction in the financial cost of farming activities.

In order to ensure that the largest possible number of producers will have access to funding, rural credit legislation defines limits for each group of borrowers. According to the current plan, which is designed to accompany increased costs and stimulate production, these limits were broadened for several crops, particularly those of importance to internal market supply, such as rice, beans, manioc, sorghum, wheat and corn. Animal production has also benefited from the introduction of higher financing limits, particularly in the segments of poultry and pig farming.

The resources available in investment credit programs totaled R\$8.9 billion, a 3.5% rise compared to the previous harvest. The major modifications were interest rate reductions from 8.75% per year to 6.75% per year for all programs, except the Program of Modernization of the Farm Tractor and Associated Implements and Harvester Fleet (Moderfrota); and the interest rate reduction from 8.75% per year to 7.5% per year in operations in the framework of Moderfrota, which was extended to a larger universe of machines apt for financing. Seeking to improve their operational aspects, the Program

of Agricultural Modernization and Natural Resources Conservation (Moderagro), the Agribusiness Development Program (Prodeagro) and the Program of Development of Fruit Farming (Prodefruta) were unified into a single program, denominated Moderagro II.

At the same time, the current PAP introduced alterations into the Rural Employment and Income Generation Program (Proger Rural). In this context, the income limit for classification within the program was increased from R\$100 thousand to R\$220 thousand; interest rates were cut by 1.75 p.p. to 8%; and available funding was increased from R\$700 million to R\$2.2 billion.

Productivity

Repeating the trajectory observed in the recent past, productivity indicators in the primary and secondary sectors of the economy showed positive growth in 2007. The productivity of industrial labor, defined as the ratio between the sector's physical production index and the indicator of the number of hours paid to salary-earning personnel in manufacturing production, both of which are published by the IBGE, expanded 4.1% in 2007, following a 2.5% high in the previous year. In this context, particular mention should be made of increases registered in the mining sector, 3.5%, and manufacturing, 4.1%, mainly the increases posted in the segments of machines and equipment (excluding electric and electronic equipment, precision machinery and communications equipment), 10.4%, and apparel, 10.3%.

The productivity of industrial labor registered generalized growth in the 10 states surveyed by IBGE, with the best performances in Minas Gerais, 8.1%; Rio Grande do Sul, 8%; Espírito Santo, 7.4%; Pernambuco, 4.6%; and Santa Catarina, with 3.9%.

Average productivity of the farm sector, defined as the ratio between grain production and the area harvested, expanded 14.1% in 2007, a figure consistent with growth in overall demand for fertilizers. According to the National Association for Fertilizer Dissemination (Anda), this demand reached 17.3% in the year, revealing increases of 11.9% in national output and 44.8% under imports. In the same sense, internal sales of farm machinery expanded 49.4% compared to 2006, according to Anfavea data, led by sales of wheel-based tractors, 52.4%, and harvesters, 127.9%, coupled with a reduction under planters, 16.6%.

Energy

According to the National Petroleum Agency (ANP), oil output, including natural gas liquid, increased 1.3% in 2007, following growth of 5.6% in the previous year. In average terms, the year ended with 1,833 thousand barrels/day. The greatest daily

average production occurred in December, 1,894 thousand barrels, and the smallest in October, 1,772 thousand barrels. Natural gas production expanded 2,5% in 2007, closing at /313 thousand barrels day.

Total oil processed at national refineries averaged 1,744 thousand barrels/day, 2.3% more than in 2006. The participation of national oil dropped 2 p.p. to a level of 77%, while imports expanded 9.8% in the year, closing at 401.5 thousand barrels/day. Reflecting the increased production of heavy oil to a level beyond the nation's internal refining capacity, oil exports expanded 14.8% in 2007, closing at 420.9 thousand barrels/day.

Sales of oil derivatives on the internal market increased 8.5% in 2007, reflecting increases in the segments of fuel oils, 84.5%; aviation kerosene, 9.5%; diesel oil, 6.4%; aviation gasoline, 4.8%; and liquefied petroleum gas (GLP), with 0.2%. In the opposite direction, sales of kerosene for lighting purposes dropped 27.4%, while automotive gasoline declined 2.5%. With the evolution of dual fuel automobile sales, alcohol consumption expanded 34.5%, as a consequence of increased sales of both hydrated alcohol, 50.7%, and anhydrous alcohol, 14.7%.

Table 1.14 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2005	2006	2007
Petroleum	1 348	1 371	1 488
Fuel oil	90	88	163
Gasoline	304	326	318
Diesel oil	675	672	715
Liquid gas	200	206	206
Other derivatives	78	79	86
Fuel alcohol	182	194	261
Anhydrous	101	88	101
Hydrated	80	107	161

Source: ANP

According to the Energy Research Company (EPE), which is subordinated to the Ministry of Mines and Energy (MME), national consumption of electrical energy expanded 5.4% in 2007, for growth in the commercial segment, 6.6%; residential segment, 6%, and industrial segment, 5%. Other segments, like public lightening, public service and rural sector, registered an expansion of 4.5% in the year. The sharpest rise was registered in the Central West region, with 6.4%, followed by the Northeast, 6.2%; North, 5.4%; South, 5.3%; and Southeast, 5%.

Table 1.15 – Electric energy consumption^{1/}

GWh			
Itemization	2005	2006	2007
Total	335 909	357 529	376 905
By sectors			
Commercial	52 979	55 224	58 875
Residential	82 722	85 784	90 940
Industrial	150 243	164 725	172 948
Other	49 961	51 796	54 143

Source: EPE

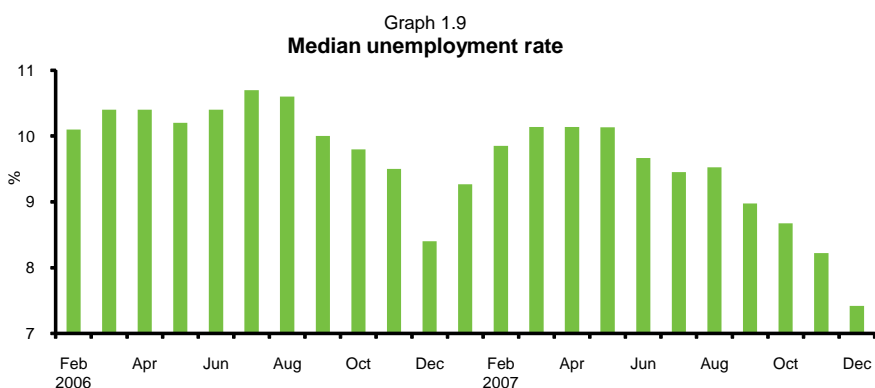
^{1/} Self-producers not included.

Employment indicators

The growing dynamics of economic activity have generated positive impacts on labor market conditions, in both quantitative and qualitative terms.

According to IBGE's Monthly Employment Survey (PME), unemployment in the six major metropolitan regions of the country reached an average of 9.5% in 2007, against 10% in 2006.

The employment rate rose 3% in the year, corresponding to creation of 623,000 jobs in the area covered by the survey. By incorporating 617,000 formal jobs, this result ratified the continuity of the process of growth in the formal labor market in recent periods. Parallel to this, the number of unregistered workers dropped 1.5%, while the number of the self-employed expanded 4.2%.



According to the General File of Employed and Unemployed Persons (Caged), which is calculated by the Ministry of Labor and Employment (MTE), 1,617,392 jobs were created in the formal sector of the economy in 2007. This was clearly the best result obtained since this statistical series was first calculated in January 1985. The number

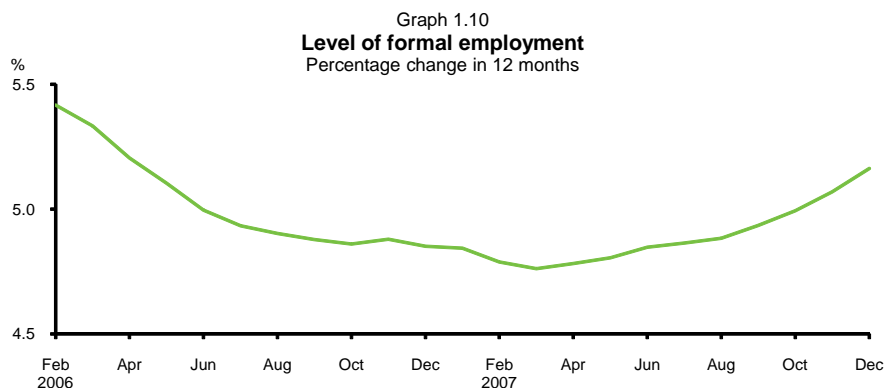
of registered workers increased 5.2% in the year, as a result of across-the-board growth in employment levels in the major sectors of the economy, with 6.1% under commerce, 5.3% for manufacturing and 4.8% in the service sector. It should be stressed that employment levels in the segments of commerce and services set new records, while the result for the manufacturing sector was the second highest in the historical series. At the same time, employment in the building sector remained on the upward trajectory that began in 2005, registering growth of 8.3% in 2007.

Table 1.16 – Formal employment – New jobs openings

1,000 employees			
Itemization	2005	2006	2007
Total	1 254.0	1 228.7	1 617.4
By sectors			
Manufacturing industry	177.5	250.2	394.6
Commerce	389.8	336.8	405.1
Services	569.7	521.6	587.1
Building	85.1	85.8	176.8
Crop and livestock	-12.9	6.6	21.1
Public utilities	13.5	7.4	7.8
Others ^{1/}	31.2	20.3	25.0

Source: Ministério do Trabalho e Emprego (MTE)

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



Wage and earnings indicators

The average earnings habitually received by persons employed in the six metropolitan regions covered by the PME reached R\$1,143.73 in 2007, rising 3.2% compared to the previous year. This result reflected increases in the earnings of the self-employed, 6.6%; nonregistered workers, 5%; and registered workers, 1%. It should be stressed that the

pace of growth in earnings slowed somewhat in the second half of the year, registering an increase of 2% compared to the same period of 2006, following a rise of 4.4% in the previous half-year period, using the same type of comparison. Real overall wages, the product of real average earnings habitually received multiplied by the number of persons employed, expanded 6.3% in 2007.

Table 1.17 – Average earnings of occupied people – 2007

Percentage change		
Itemization	Nominal	Real ^{1/}
Total	7.4	3.2
Job position		
Registered	5.0	1.0
Unregistered	9.3	5.0
Self-employed	10.9	6.6
By sector		
Private sector	6.5	2.3
Public sector	10.4	6.2

Source: IBGE

1/ Deflated by the INPC. Includes the metropolitan regions of Recife, Salvador, Belo Horizonte, Rio de Janeiro, São Paulo and Porto Alegre.



Source: IBGE

Price indicators

Acceleration in 2007 inflation rates, compared to the previous year, was impacted by the behavior of market prices which, in turn, reflected intensification of the pace of economic activity and higher food prices. IPCA variation, which is calculated by the IBGE, came to 4.46%, well within the parameters stipulated as the target by the National Monetary Council (CMN), in the framework of the inflation targeting system.

General price indices

The General Price Index (IGP-DI), which is calculated by the FGV, aggregates the Wholesale Price Index (IPA-DI), the Consumer Price Index – Brazil (INPC-Br) and the National Cost of Construction Index (INCC), with respective weights of 60%, 30% and 10%, registered growth of 7.89% in 2007, against 3.79% in the previous year.

Annual growth in the three IGP-DI components quickened in 2007. Reflecting the behavior of wholesale prices in response to the high in farm products prices, the IPA-DI increased 9.44% in the year, against 4.29% in 2006, as the prices of farm products increased 24.82%, and those of industrial products rose 4.42%, against 6.92% and 3.46%, respectively, in 2006. The IPC-Br rose 4.60%, and the INCC increased 6.15%, against 2.05% and 5.04% in 2006, in the same order.

Consumer price indices

As released by the IBGE, the IPCA increased 4.46% in 2007, registering growth of 1.65% in the prices of goods and services subject to regulated prices¹ and 5.73% under market prices, compared to 4.27% and 2.57%, respectively, in the previous year.

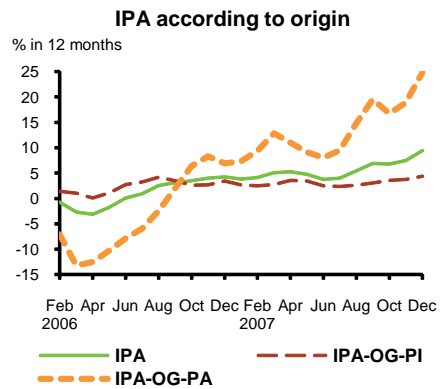
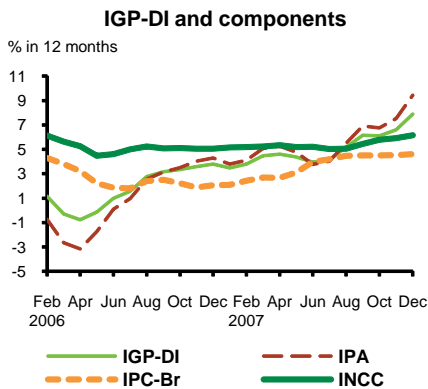
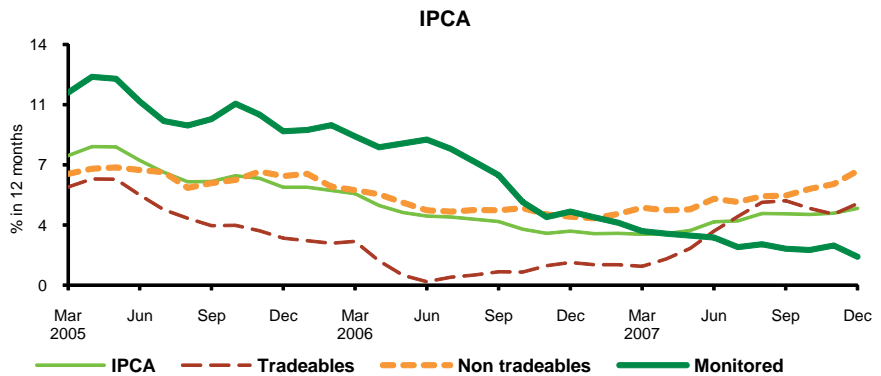
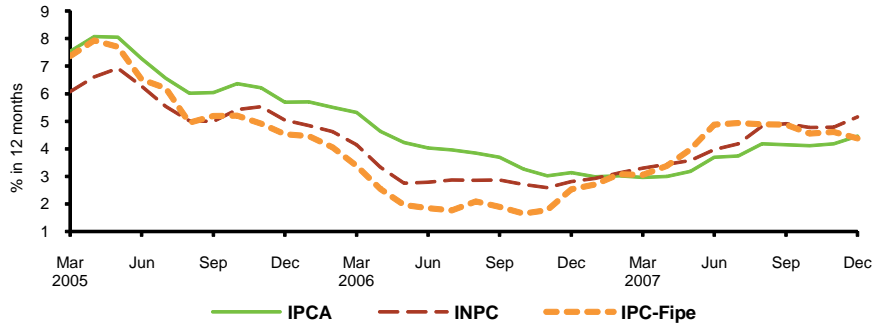
Growth in the IPCA, which considers the products included in the basket of basic consumption products for households with monthly earnings between 1 and 40 minimum monthly wages, reached 4.46% in 2007, the third lowest annual rate since the Index was first announced in 1980, compared to 3.14% in the previous year. It should be stressed that the increase in the annual rate of this indicator followed four consecutive declines, as evident in the rates registered from 2002 to 2005: 12.53%, 9.30%, 7.60% and 5.69%, respectively.

The behavior of the IPCA in 2007 reflected more rapid growth in market prices, which increased 5.73% in the year, compared to 2.58% in 2006. This shift was caused by intensification of the pace of economic activity and the behavior of food prices, particularly chicken, meat, milk, soybean oil, beans and perishable products. Regulated prices increased 1.65% in the year, against 4.27% in 2006.

Growth in the National Consumer Price Index (INPC), which is also calculated by the IBGE, accelerated at a more rapid pace than the IPCA, moving from 2.81% in 2006 to 5.16% in 2007. The difference between the behavior of these indicators is found in the 27.78% level of participation of food and beverages in the INPC, against just

1/ Regulated prices are those directly or indirectly defined by the federal, state or local governments. In some cases, price readjustments are set through contracts between producers/suppliers and the corresponding regulating agencies, as for instance in the cases of electric energy and fixed telephone system.

Graph 1.12
Consumer price indices



Source: IBGE, Fipe and FGV

20.94% in the IPCA. The reason for this is that the INPC considers the basket of basic products consumed by families with monthly earnings from 1 to 6 times the minimum monthly wage, considering that the percentage of income committed to outlays on food for these families is relatively greater.

Table 1.18 – IPCA items share in 2007

Percentage change

Groups	IPCA				
	Weight ^{1/}	Accumulated	Accumulated	Accumulated	Index share ^{2/}
		change in 2006	change in 2007	share in 2007	
IPCA	100.0	3.1	4.5	4.5	100.0
Meats	1.9	0.7	22.1	0.4	8.4
Beans	0.4	-13.0	109.0	0.3	6.4
Meals	3.8	4.6	7.8	0.3	6.3
Domestic services	3.1	10.7	9.5	0.3	6.1
Health insurance	3.4	12.3	8.1	0.3	5.8
Apparel	6.5	5.1	3.8	0.2	5.4
Tuition, school fees and childcare	4.9	6.8	5.0	0.2	5.4
Sugar (crystal)	0.1	16.5	-28.7	-0.1	-1.2
Sugar (refined)	0.2	15.8	-22.7	-0.1	-1.3
Motor vehicle insurance	0.4	1.5	-14.9	-0.1	-1.5
Electric household equipment	1.9	-5.3	-4.7	-0.1	-2.1
Electricity	3.5	0.3	-6.2	-0.2	-5.2

Source: IBGE

1/ Average weight in 2007.

2/ It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

Table 1.19 – IPCA items share in 2007

Percentage change

Groups	IPCA				
	Weight ^{1/}	Accumulated	Accumulated	Accumulated	Index share ^{2/}
		change in 2006	change in 2007	share in 2007	
IPCA	100.0	3.14	4.46	4.46	100.0
Foodstuffs and beverages	20.9	1.23	10.77	2.18	49.7
Housing	13.5	3.07	1.76	0.23	5.3
Housing products	4.6	-2.71	-2.48	-0.11	-2.6
Apparel	6.5	5.07	3.78	0.24	5.5
Transportation	20.6	3.02	2.08	0.43	9.7
Health and personal care	10.8	6.01	4.47	0.47	10.8
Personal outlays	9.6	7.26	6.54	0.61	14.0
Education	7.1	6.24	4.16	0.29	6.6
Communication	6.3	-0.24	0.69	0.04	1.0

Source: IBGE

1/ Average weight in 2007.

2/ It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

The Consumer Price Index (IPC), which is calculated by the Economic Research Institute Foundation (Fipe)² expanded 4.38% in 2007, against 2.54% in the previous year, also reflecting the pace of activity and the rise in food prices.

Regulated prices

Regulated prices increased 1.65% in 2007, accounting for 0.51 p.p. of the total IPCA variation in the year. The sharpest positive shifts occurred under health plans, 8.13%; water and sewage rates, 4.82%; and urban bus fares, 4.69%; while residential electricity, 6.16%, and gasoline prices, 0.68%, moved in the opposite direction. Regulated prices expanded more intensely in Salvador, 5.64%, and in Belo Horizonte, 4.4%, while they dropped 0.03% in São Paulo. Parallel to this, these prices rose 0.52% in Goiânia, 0.57% in Fortaleza and 0.95% in Porto Alegre.

Table 1.20 – Major items included in the IPCA during 2007

Itemization	Percentage change			
	Weight ^{1/}	IPCA		
		Accumulated change in 2006	Accumulated change in 2007	Accumulated share in 2007
Index (A)	100.0	3.14	4.46	4.46
Non-monitored prices	69.1	2.57	5.73	3.96
Monitored prices	30.9	4.27	1.65	0.51
Selected monitored items				
Health care	3.3	12.29	8.13	0.26
Urban transportation	3.8	8.12	4.69	0.18
Water and sewage fees	1.6	4.99	4.82	0.08
Medicine	0.8	1.22	8.52	0.06
Telephone	1.2	8.87	4.20	0.05
Air ticket	1.5	5.61	2.92	0.04
Domestic gas	0.1	0.69	-0.42	-0.00
Gasoline	4.5	2.94	-0.68	-0.03
Electric energy	3.6	0.27	-6.16	-0.23

Source: IBGE

^{1/} Average weight in 2007.

Payments of health plans, which are regulated by the National Supplementary Health Agency (ANS), increased 8.13% in 2007, generating an impact of 0.26 p.p. on the IPCA, with variations of 7.7% in the metropolitan region of Fortaleza and 8.97% in Brasília. Urban bus fares increased 4.69% in 2007, accounting for 0.18 p.p. of the IPCA. In this case, the sharpest fare increases occurred in Salvador, 17.64%; Belém,

^{2/} For families with an income bracket between one and twenty minimum wages in the city of São Paulo.

11.12%; and Porto Alegre and Belo Horizonte, both with 8.11%. Variations in water and sewage rates represented 0.08 p.p. of the IPCA increase, with upward movement of 13.24% in Salvador and 9.11% in Fortaleza.

Adjustments in fixed telephone rates, which are authorized annually by the National Telecommunications Agency (Anatel) on the basis of changes in the impact of a basket of price indices on the rates charged for services, came to an average of 0.34% in 2007.

Average adjustments in electricity rates, which declined in 7 of the 11 regions covered by the IPCA, closed at -6.16%, with variations from 6.23% in Brasília, to -15.54% in São Paulo. Gasoline prices dropped 0.68% in 2007, compared to a 2.94% high in the previous year. At the same time, the price of bottled kitchen gas increased 0.11% and 7.49%, respectively, in the two years under consideration. Medicine prices and intermunicipal bus fares increased 0.54% and 4.20%, respectively, compared to 4.62% and 8.87% in 2006.

Cores

Inflation cores calculated by the Central Bank registered 2007 growth lower than the IPCA. Cores by exclusion and nonsmoothed trimmed means posted higher growth than in 2006, while inflation measured on the basis of smoothed trimmed means moved downward.

The core by exclusion increased 4.11% in 2007, against 3.56% in the previous year, while the core by nonsmoothed trimmed means turned in respective variations of 3.62% and 2.76%.

Growth in the smoothed trimmed means core decelerated in 2007, increasing just 4.04% against 4.63% in the previous years. It should be stressed that, since the month

Table 1.21 – Consumer prices and core inflation in 2007

Itemization	Percentage change			
	2006	2007		
		1 H	2 H	In the year
IPCA	3.14	2.08	2.33	4.46
Exclusion	3.56	2.02	2.05	4.11
Trimmed means				
Smoothed	4.63	1.86	2.14	4.04
Non smoothed	2.76	1.63	1.96	3.62
IPC-Br	2.05	2.51	2.04	4.60
Core IPC-Br	2.82	1.66	1.62	3.31

Source: IBGE and FGV

of July, cumulative 12-month growth in the indicator has remained below IPCA growth. This had not occurred since May 2005 and, to some extent, reflected the calculation methodology, which considers the 12-month ahead distribution (smoothing) of items for which price variations are concentrated in specific periods of the year.³

Changes in the IPC-Br core, calculated by the FGV using the smoothed trimmed means method shifted from 2.82% in 2006 to 3.31% in 2007, closing at a level below the 4.60% posted by the IPC-Br.

^{3/} Smoothed items, according to the new IPCA structure, introduced in July 2006, fuel (domestic), household electric energy, public transportation, fuel (vehicles), personal services, tobacco, courses, diverse courses and communication.