



The Brazilian Economy

Activity level

The pace of economic activity registered two distinct periods during 2008. In the first period, corresponding to the first three quarters of the year, the Brazilian economy grew at high rates, driven by sharp expansions in private consumption and private investment. In the fourth quarter, economic performance started to reflect the impacts of the worsened international financial scenario on both credit channels and expectations of economic agents.

In this framework, the seasonally adjusted GDP, in spite of a 3.6% drop in the fourth quarter of the year, as compared to the third quarter, ended the year with a 5.1% high, reflecting the economic activity upturn observed in the first nine months of the year. Under the prism of production, the annual performance of GDP in 2008 led to positive results in all of its components, while, under the prism of demand, maintaining the pattern initiated in 2006, the expansion of domestic demand has exceeded output growth, and the foreign sector continued to give a negative contribution.

Consequently, the domestic demand continued to sustain the growth of economic activity, an evolution consistent with the improvement in credit conditions and the persistent recovery of employment and income observed in the first three quarters of 2008. The annual contribution of 6.8 p.p. to the GDP growth was associated, in particular, to the 13.8% growth recorded by the GFCF – the highest rate since 1994. As regard the external sector, the quantum of exported goods and services fell by 0.6% in the year and that of imports rose 18.5%, determining a negative contribution of 2.3 p.p. to GDP growth in the period.

The labor market, which has a lagged performance in relation to the activity level, continued to register a favorable trajectory until the end of 2008, expressed in the unemployment rate of 6.8% observed in December, the lowest level of the series initiated in 2002. The annual average unemployment rate stood at 7.9%, compared to 9.3% in 2007.

Gross Domestic Product

According to the Brazilian Institute of Geography and Statistics (IBGE), GDP grew 5.1% in 2008, the sixteenth consecutive year of positive economic expansion. This result, which reflected the upturn in activity experienced by the economic activity in the first nine months of the year, was consequent upon the positive contribution of domestic demand, with emphasis on the acceleration of investments observed in the period prior to the intensification of the crisis in the international financial markets. In current values, GDP reached R\$2,889.7 billion at market prices.

Table 1.1 – GDP at market price

Year	At 2008 prices (R\$ million)	Real change (%)	Implicit deflator (%)	At current prices ^{1/} (US\$ million)	Population (million)	Per capita GDP		
						At 2008 prices (R\$)	Real change (%)	At current prices ^{1/} (US\$)
1980	1 452 633	9.2	92.1	237 772	118.6	12 252	7.0	2 005
1981	1 390 896	-4.3	100.5	258 553	121.2	11 475	-6.3	2 133
1982	1 402 441	0.8	101.0	271 252	123.9	11 321	-1.3	2 190
1983	1 361 349	-2.9	131.5	189 459	126.6	10 755	-5.0	1 497
1984	1 434 862	5.4	201.7	189 744	129.3	11 099	3.2	1 468
1985	1 547 485	7.8	248.5	211 092	132.0	11 725	5.6	1 599
1986	1 663 391	7.5	149.2	257 812	134.7	12 353	5.4	1 915
1987	1 722 109	3.5	206.2	282 357	137.3	12 546	1.6	2 057
1988	1 721 076	-0.1	628.0	305 707	139.8	12 309	-1.9	2 186
1989	1 775 462	3.2	1 304.4	415 916	142.3	12 476	1.4	2 923
1990	1 698 229	-4.3	2 737.0	469 318	146.6	11 585	-7.1	3 202
1991	1 715 721	1.0	416.7	405 679	149.1	11 508	-0.7	2 721
1992	1 706 394	-0.5	969.0	387 295	151.5	11 260	-2.2	2 556
1993	1 790 430	4.9	1 996.1	429 685	154.0	11 627	3.3	2 790
1994	1 895 222	5.9	2 240.2	543 087	156.4	12 115	4.2	3 472
1995	1 975 272	4.2	93.9	770 350	158.9	12 433	2.6	4 849
1996	2 017 750	2.2	17.1	840 268	161.3	12 508	0.6	5 209
1997	2 085 856	3.4	7.6	871 274	163.8	12 736	1.8	5 320
1998	2 086 593	0.0	4.2	843 985	166.3	12 551	-1.5	5 077
1999	2 091 894	0.3	8.5	586 777	168.8	12 396	-1.2	3 477
2000	2 181 975	4.3	6.2	644 984	171.3	12 739	2.8	3 766
2001	2 210 627	1.3	9.0	553 771	173.8	12 718	-0.2	3 186
2002	2 269 388	2.7	10.6	504 359	176.4	12 866	1.2	2 859
2003	2 295 409	1.1	13.7	553 603	179.0	12 825	-0.3	3 093
2004	2 426 529	5.7	8.0	663 783	181.6	13 363	4.2	3 655
2005	2 503 200	3.2	7.2	882 439	184.2	13 591	1.7	4 791
2006	2 602 602	4.0	6.1	1 088 911	186.8	13 935	2.5	5 830
2007	2 750 100	5.7	3.7	1 333 818	187.6	14 656	5.2	7 108
2008	2 889 719	5.1	5.9	1 573 321	189.6	15 240	4.0	8 298

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.

The positive performance of GDP resulted from across-the-board expansion in its various components. Crop/livestock output increased 5.8%, driven by the 9.6% growth in the harvest of grains, a result basically explained by the average productivity gains of around 5.3%, consistent with the occurrence of favorable climatic and a positive environment for investments provided by the evolution of marketing prices. The area harvested increased 4.1% in the year.

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

Itemization	2008			
	I	II	III	IV
GDP at market price	1.6	1.6	1.7	-3.6
Crop and livestock sector	-1.3	3.0	1.3	-0.5
Industrial sector	2.4	-0.2	3.6	-7.4
Service sector	1.4	0.9	0.8	-0.4

Source: IBGE

Industrial activity grew 4.3% in 2008, registering positive rates in all subsectors. Civil construction industry, as a result of the increased income level and of the incentives to the sector, increased by 8%, the fifth consecutive positive annual result. The production and distribution of electricity, gas and water, reflecting the economy's performance in the year, grew 4.5% while the mining sector expanded 4.3%. The expansion of 3.2% in the production of the manufacturing industry reflected, in particular, the favorable

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

Itemization	2006	2007	2008
GDP	4.0	5.7	5.1
Crop and livestock sector	4.5	5.9	5.8
Industrial sector	2.3	4.7	4.3
Mineral extraction	4.4	2.8	4.3
Manufacturing	1.1	4.7	3.2
Building	4.7	5.0	8.0
Production and distribution of electricity, gas and water supply	3.5	5.9	4.5
Service sector	4.2	5.4	4.8
Commerce	5.9	7.1	6.1
Transportation, storage and postal services	2.1	5.3	3.2
Information services	1.6	7.0	8.9
Financial intermediation, insurance, complementary pension system and related services	8.4	14.5	9.1
Other services	4.0	2.7	4.5
Real estate activities and rent	3.0	4.1	3.0
Public administration, health and education	3.3	2.4	2.3

Source: IBGE

impacts of the environment of economic stability and improved conditions in credit and job markets on the demand for capital goods and consumer durables.

The sector of services grew 4.8% in 2008, registering a general expansion in its subsectors, especially financial intermediation services, insurance, pension funds and related services, 9.1%; information services, 8.9%; commerce, 6.1%; and transportation, storage and postal services, 3.2%, the last two impacted by the performance of primary and secondary sectors. It should also be noted the growth in other services, 4.5%; and real estate activities and rents, 3%; and administration, health and public education, 2.3%.

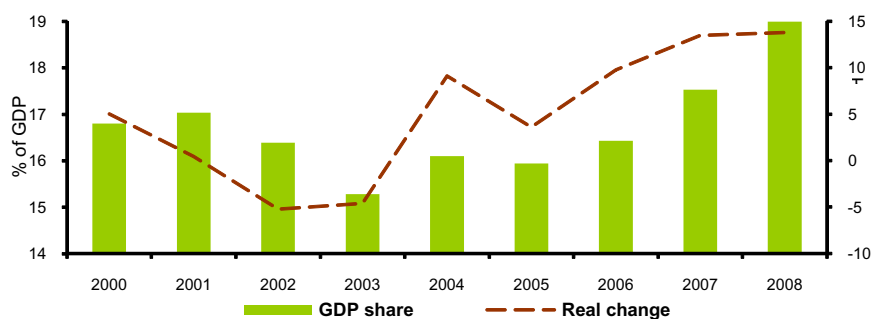
Table 1.4 – GDP real change rates – Under the prism of expenditure

Itemization	2006	2007	2008
GDP	4.0	5.7	5.1
Family consumption	5.2	6.3	5.4
Government consumption	2.6	4.7	5.6
Gross Fixed Capital Formation	9.8	13.5	13.8
Exports of goods and services	5.0	6.7	-0.6
Imports of goods and services	18.4	20.8	18.5

Source: IBGE

The contribution of domestic demand to GDP growth reached 6.8 p.p in 2008. GFCF increased 13.8%, followed by the expansions of government consumption, 5.6%, and household consumption, 5.4%. On the opposite direction, the external sector contributed negatively with 2.3 p.p. to the annual GDP, a result consistent with the impacts of strong domestic demand on foreign flows. Thus, while exports of goods and services fell 0.6% in the year, the total of imports, which are relevant for supplying industrial machinery and for assuring the balance between demand and supply of consumer goods, grew 18.5%.

Graph 1.1
Gross Fixed Capital Formation



Source: IBGE

Table 1.5 – Gross Domestic Product – At current value

In R\$ million				
Itemization	2005	2006	2007	2008
Gross Domestic Product at market prices	2 147 239	2 369 797	2 597 611	2 889 719
Under the prism of product				
Crop and livestock sector	105 163	111 229	133 015	163 536
Industrial sector	539 283	585 602	623 721	682 497
Service sector	1 197 807	1 337 903	1 466 783	1 595 021
Under the prism of expenditure				
Final consumption expenditure	1 721 783	1 903 679	2 096 903	2 337 823
Family consumption	1 294 230	1 428 906	1 579 616	1 753 414
Government consumption	427 553	474 773	517 287	584 408
Gross Capital Formation	347 976	397 340	460 672	547 066
Gross Fixed Capital Formation	342 237	389 328	455 213	548 757
Changes in inventories	5 739	8 012	5 459	-1 690
Exports of goods and services	324 842	340 457	355 399	414 257
Imports of goods and services (-)	247 362	271 679	315 362	409 427

Source: IBGE

The GDP performance in 2008 reflected the favorable evolution of the economy in the first nine months of the year and the trend of slowdown that followed the worsening of the international financial crisis as of October. Thus, basically as a result of the continued growth of real income and employment, seasonally adjusted GDP grew 1.6% in the first quarter of the year, compared to the previous quarter.

This result was due to the 2.4% increase of industry and 1.4% of the sector of services, contrasting with the negative trend of 1.3% in crop/livestock output. Regarding the demand components, it can be emphasized the 2.8% GFCF growth in the period, the seventh quarterly consecutive positive result, and expansions in household consumption, 5%, and government consumption, 4.1%. Exports fell 6.2% and imports, in line with the process of accelerating activity level, increased by 1.3%.

The GDP dynamics continued in the second quarter of the year. Thus, the 1.6% output growth in the period reflected the performance of the crop/livestock sector, stimulated by growth in the crops of soybeans and corn, 3%; and services 0.9%, as opposed to a decrease of 0.2% observed in the industrial sector. Regarding the demand components, it is worth mentioning the persistend GFCF growth in the quarter, which reached 3.4%, while household consumption increased 0.7% and the government consumption decreased 0.2%. Exports rose 3.9% and imports 8.6% in the period.

The GDP continued to expand in the third quarter, 1.7%, representing the twelfth consecutive positive result on that basis of comparison. Crop/livestock increased 1.3%, while industry and services posted respective increases of 3.6% and 0.8%. Under the

prism of demand, seasonally adjusted data revealed an 8.4% expansion on investments, while household consumption increased 2.1% and government consumption, 1.6%. Exports decreased 1.4% and imports rose 6.4%, highlighting the performance of foreign purchases in the period, which expanded for the twelfth consecutive quarter.

In line with the evolution of leading and coincident indicators, GDP fell 3.6% in the last quarter of 2008, interrupting a period of twelve consecutive quarters of growth. Such a performance was particularly consequent upon the 7.4% decrease in the output of the industrial sector, which had to carry out important adjustments in response to the credit shortage caused by the international financial crisis, the deterioration of business expectations, the reduction of foreign demand, and the adequacy of stock levels. In the quarter under analysis, the output of the crop/livestock and service sectors fell, respectively, by 0.5% and 0.4%. From the viewpoint of demand, GFCF and household consumption dropped by 9.8% and 2% in the quarter, as compared to a 0.5% expansion under government consumption. In addition, the negative contribution of the external sector reflected reductions of 2.9% under exports and 8.2% under imports, a result compatible with the new economic environment.

In this context of sluggish economic activity, the Brazilian government and the Central Bank adopted several counter-cyclical measures, such as foreign currency loans to finance exports and guarantee the market liquidity; tax incentives, by reducing taxes and increasing expenditures, particularly on infrastructure investments, and exemption of compulsory deposits with the objective of increasing the liquidity of the domestic financial system, thus encouraging the expansion of credit operations.

Investments

Investments, excluding stock variation, increased 13.8% in 2008, according to the IBGE's National Quarterly Accounts, the highest annual rate since 1994 and the fifth consecutive positive result. This pace of expansion, significantly higher than that registered by the GDP, reveals, in particular, the entrepreneurs' expectations that the cycle of economic expansion that characterized the first nine months of the year should continue.

Building industry inputs expanded at an annual rate of 8.5% in 2008, compared to 5.1% in the previous year, driven by the favorable performance of credit and labor markets as well as by the impacts of the Growth Incentive Program (PAC) on the sector.

The production of capital goods registered an annual growth of 14.3% in 2008 compared to 19.5% in the previous year, as a result of across-the-board increases in its components, with emphasis on the segments related to crop/livestock, particularly farm machines and equipment, 35.1%, and parts for farm machines, 58.8%. Major increases were also observed in the production of capital goods targeted to transportation equipment,

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	39.6	50.6	7.8	2.0	16.4	16.8
2007	17.5	17.7
2008						

Source: IBGE

31.3%; and electricity, 12%. The production of capital goods targeted to the sector of construction increased 4.8% in the period. Production of typically industrialized goods expanded 4.6% in the year, reflecting increases in the segments of assembly-line products, 2.7%, and those turned out on an order basis, 17.4%.

Disbursements of the BNDES system – National Bank of Economic and Social Development (BNDES), Special Industrial Financing Agency (Finame) and BNDES Participações SA (BNDESpar) – totaled R\$90.9 billion in 2008, rising 40% over the

Table 1.7 – BNDES disbursement^{1/}

In R\$ million			
Itemization	2006	2007	2008
Total	51 318	64 892	90 878
By sector			
Manufacturing industry	25 734	25 395	35 710
Commerce and service	20 704	33 448	46 263
Crop and livestock	3 423	4 998	5 595
Extraction industry	1 458	1 051	3 311

Source: BNDES

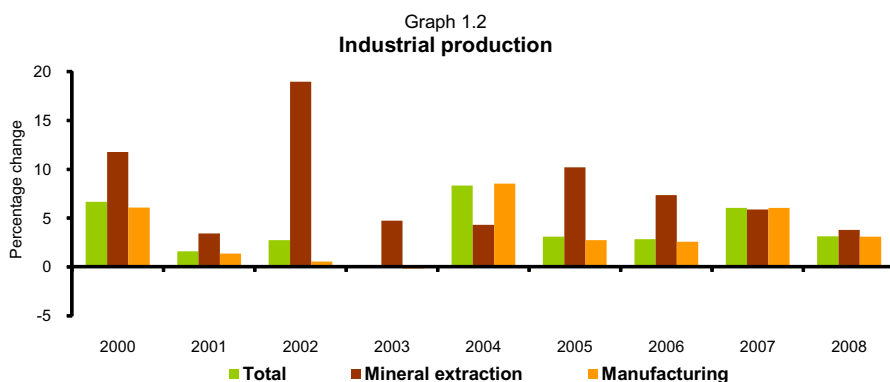
1/ Includes BNDES, Finame and BNDESpar.

previous year. The sectoral analysis reveals that the performance of the infrastructure sector was fundamental for this development, registering an annual rise of 40.6%.

The Long Term Interest Rate (TJLP), used as the indexing factor for loans granted by the BNDES, remained at 6.25% p.y. during 2008, a level maintained since the second quarter of 2007.

Industrial output indicators

Industrial production registered an annual growth rate of 3.1% in 2008, according to the general industry index of physical output released by the Monthly Industrial Survey (PIM) of IBGE, compared to the expansion of 6% in 2007 and 3.4% from 1999 until 2007, the period in which the inflation target system was introduced.



The annual evolution of the industry may be clearly analysed in the pre-crisis and post-crisis periods. Accordingly, the growth rate of the industrial output index, after registering an accumulated growth of 6.4% until the third quarter of 2008, compared to the same period of the previous year, decreased by 6.2% in the fourth quarter, compared to same period in 2007. This performance is ratified by the quarterly changes of the indicator, which reached, in the sequence, 0.4%, 0.8%, 2.5% and -9.4% when compared to the immediately previous quarter.

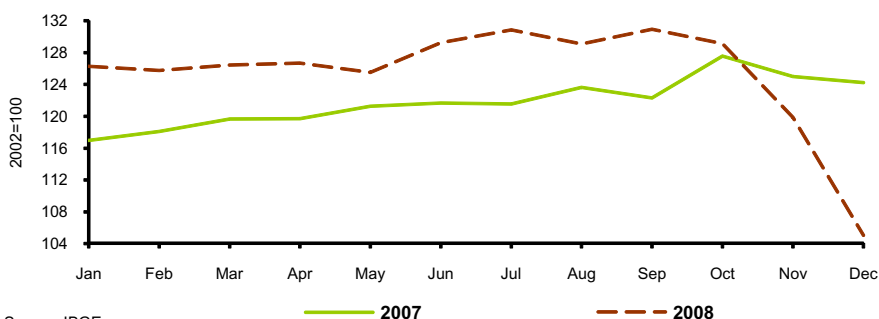
The four use categories surveyed by the IBGE showed distinct behaviors during the year, but all were affected by the slowdown observed in the fourth quarter. Boosted by the lengthening of the planning horizon and the expansion of domestic demand and credit, the interannual growth in the output of capital goods reached 18% in the first three quarters of the year and decreased to 14.4% when the results of the fourth quarter are incorporated. It should be noted that this was the only category to register positive growth rate in the quarter under analysis.

Table 1.8 – Selected capital goods production

Itemization	Percentage change		
	2006	2007	2008
Capital goods	5.7	19.5	14.4
Industrial	5.5	17.0	4.7
Serial	5.2	18.5	2.8
Non-serial	6.9	7.4	17.4
Agricultural	-16.5	48.4	35.1
Agricultural parts	-38.9	170.8	58.8
Building	8.2	18.7	5.6
Electric energy	22.2	26.0	12.0
Transportation	-1.6	18.0	31.4
Mixed	11.6	15.4	2.5

Source: IBGE

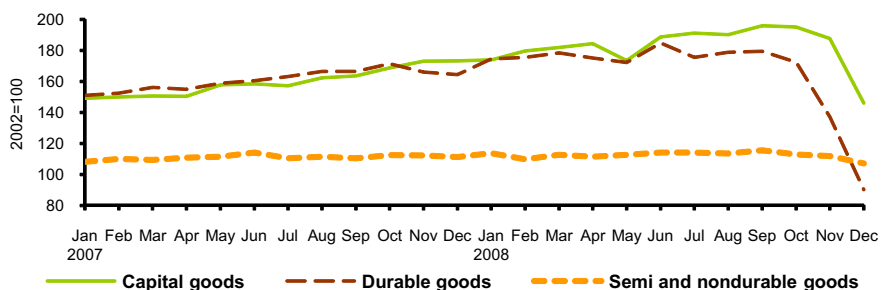
Graph 1.3
Industrial production
Seasonally adjusted data



Source: IBGE

Expansion of employment and income and improvement of consumer confidence strengthened the demand for consumer durables, which was particularly met by domestic production. In this scenario, the production of durable consumer goods, which had increased by 12.1% until the third quarter, closed the year with a 3.7% growth rate,

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



Source: IBGE

reflecting the reduction of 19.5% observed in the fourth quarter, as compared the same 2007 period.

In much the same way, the production of intermediate goods rose 1.6% in the year, registering a favorable performance in the first nine months of the year and slowing down in the last 3 months, as expressed in the respective change rates of 5.3% and -9.2% on the same basis of comparison.

The production of semi-durable and nondurable goods, less sensitive to credit conditions, after increasing 2.3% until the third quarter, a rate lower than that of the overall industry, dropped by 1.2% in the subsequent period, accumulating an annual growth of 1.4%.

Table 1.9 – Industrial production

Itemization	Percentage change		
	2006	2007	2008
Total	2.8	6.0	3.1
By category of use			
Capital goods	5.7	19.5	14.4
Intermediate goods	2.1	4.9	1.6
Consumer goods	3.3	4.7	1.9
Durable	5.8	9.1	3.7
Semi and nondurable	2.7	3.4	1.4

Source: IBGE

Among the sectors surveyed by the IBGE, sixteen turned in positive growth rates and nine negative rates in the year, with emphasis on those related to segments of other transportation equipment, 42.2%; medical hospital instrumentation equipment, 15.7%; and pharmaceutical goods, 12.6%. Conversely, emphasis should be given to the negative performance of the wood sector, 10.2%; office machinery and computer equipment, 9%; tobacco, 7%, and footwear and leather articles, 6.8%.

The two sectors with the greatest weight in general industry – food and automotive vehicles – were significantly impacted by the economic crisis, registering falloffs of 1.2% and 17.5% until the third quarter, for annual expansions of 0.5% and 8.2%, respectively.

In 2008, industrial production expansion was widespread in all the thirteen Brazilian states surveyed, with the exception of the negative result observed in Santa Catarina, as a consequence of the unfavorable performance of the wood and machinery/equipment segments. The states that registered the most accentuated industrial expansion were Goiás, 8.1%, with emphasis on food/ beverage and mining segments, and Paraná, 8.6%,

reflecting the significant impulse given by the sector of automotive vehicles, especially trucks, editing and printing, and pulp and paper activities.

The level of industrial employment grew 2.7% in 2008, considering the average annual rate of Waged Working Population (POA) of the Monthly Industrial Survey – Employment and Wages (Pimes) of IBGE. It should be noted that, at the end of the year, the level of employment was 1.1% below the level of December 2007.

According to the Getulio Vargas Foundation (FGV) Manufacturing Industry Survey (SCIT), the industry’s average level of capacity utilization (Nuci) maintained in 2008 the high level observed at the end of 2007, closing at 85.2%, compared to the record level of 86.7% observed in June 2008. At the margin, the Nuci presented a monthly decline of 4.6 p.p. in December, reaching 80.6%.

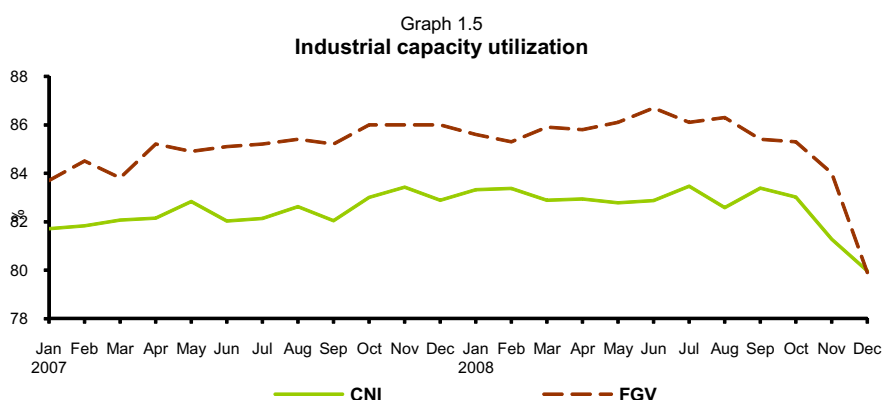


Table 1.10 – Industrial capacity utilization^{1/}

Percentage			
Itemization	2006	2007	2008
Manufacturing industry	83.3	85.1	85.2
Consumer goods	80.1	83.1	84.9
Capital goods	82.0	85.7	87.9
Building material	85.1	84.6	88.4
Intermediate goods	87.3	87.8	86.4

Source: FGV

^{1/} Quarterly survey. Average in the year.

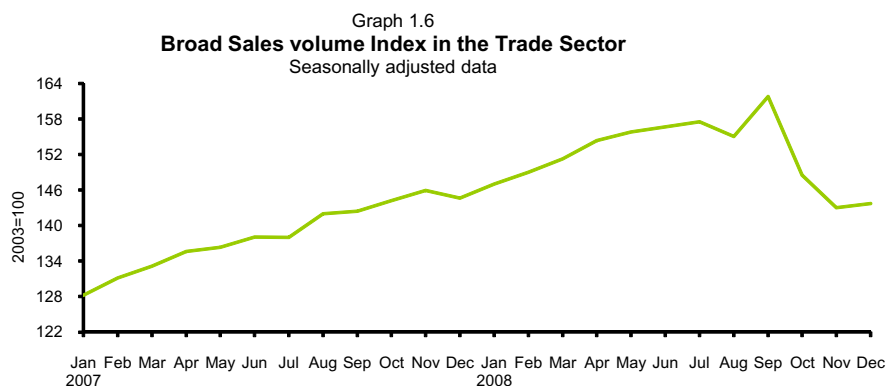
The Industrial Confidence Index (ICI) of the SCIT – FGV fell 46.2 points in the last quarter of 2008, reaching 71.4 points in December, as compared to 120.4 points in August, the second highest value of the series initiated in April 1995.

The Industrial Survey carried out by the National Confederation of Industry (CNI) also demonstrated the deterioration of industrial performance in the last quarter of the year, expressed in the record level of accumulated stocks. Regarding the level of activity in

the quarter, the production index reached 40.8 points, and the employment index, 44 points, the lowest levels since the first quarter of 1999, signaling a quarterly reduction of physical production and employment.

Commerce indicators

According to the Monthly Retail Trade Survey (PMC), released by the IBGE, the Retail Sales Volume Index expanded 9.9% in 2008, the second highest annual rate, surpassed only by the expansion of 13.6% observed in 2007. It is worth mentioning that, from January to September, before the worsening of world economic crisis, the sector accumulated an expansion of 13.8%, as compared to the same period of the previous year. Sales increased in all segments, with emphasis on office machinery and equipments, computer and communications, 33.5%; other articles of personal and domestic use, 15.6%, furniture and appliances, 15.1%; and pharmaceutical, medical, orthopedic and perfumery, 13.3%.



Source: IBGE

Sales in the segment of automobiles, motorcycles, parts and accessories, as well as building materials, which are more dependent on credit operations, registered respective annual growth rates of 11.9% and 7.8%, as compared to expansions of approximately 20.7% and 11.5% observed in the first nine months of the year.

Sales increase in the expanded retail trade sector in 2008 was widespread in the five regions of the country. The highest rate occurred in the Center-West, 11.3%; followed by those relating to the Southeast, 10.8%; South 10%; Northeast, 9.2%; and North, 7.6%. In relation to the federation units, mention should be given to increases in retail sales in Rondonia, 19%; Espírito Santo, 17.2%; Mato Grosso, 15.2%; Goiás, 14%; and Mato Grosso do Sul, 13.7%, as opposed to the more modest performance observed in the Federal District, 0.7%; Pará 3.1%; and Amazonas, 5.7%.

Nominal Sales Revenue of the expanded trade sector expanded 15.1% in 2008, as result of increases of 9.1% in sales volume and 5.5% in prices. All segments registered revenue growth rates above the annual inflation rate of 5.90% measured by the IPCA in the period. Highlights were articles of personal and domestic use, 21.7%; building material, 18.1%; and hypermarkets, supermarkets, food, beverages and tobacco, 17.2%.

Commerce indicators for the state of São Paulo confirm the generalized growth in sales of durable, semi and nondurable goods in 2008. Thus, according to the São Paulo Trade Association (ACSP), the number of consultations to the Credit Protection Service Center (SCPC), an indicator of installment purchases, grew 6.4% in the year, while consultations to the Usecheque, an indicator of cash purchases, rose 4.3% in the period.

Sales of the automotive sector increased 14.6% in 2008, according to the National Federation of Automotive Vehicles Distribution (Fenabrave), after expansion of 27.1% in the first nine months of the year. In the same line, sales of domestic vehicles in the national market, released by the National Association of Automotive Vehicle Manufacturers (Anfavea), registered an annual increase of 11.9% in 2008, after increasing 26.3% through September.

Default indicators have stabilized in recent years. The relationship between the number of checks returned due to insufficient backing and total checks cleared amounted to an average of 6.1% in 2008, compared to 6.2% in 2007. By region, the highest rates continued to occur in the North and Northeast. Delinquency in the São Paulo Metropolitan Region (RMSP), as measured by ACSP, reached on average of 6.5% in 2008, compared to 5.4% the previous year.

National surveys related to consumer expectations revealed a reversal of the growth trend in 2008. After maintaining a high level until the end of the third quarter, consumer confidence was impacted in the fourth quarter by the more severe effects of the international crisis on the Brazilian economy. Accordingly, the FGV Consumer Confidence Index (ICC) fell 1.6% in the year, as a result of reductions of 5.2% in the



Source: Fecomercio SP

Expectations Index (IE) and increase of 5.4% in the Current Situation Index (ISA). It should be highlighted the respective drops of 15% and 9.7% registered by these components in the last quarter of 2008 as compared to the same period in 2007.

Similarly, the quarterly National Consumer Expectations Index (Inec), released by the CNI, reported the deterioration of consumer confidence, falling 1.6% in the last quarter of the year, compared to the same quarter of the previous year. The sharpest declines occurred in consumer expectations related to unemployment, 17.3%, and inflation, 14.4%. Inec registered annual growth of 0.4%.

The ICC, released by the São Paulo Trade Federation (Fecomercio SP) fell 3% in the fourth quarter of 2008 in comparison to the same period in 2007, as a result of 13% reduction in the Index of Current Economic Conditions (Icea) and increase of 4.6% in the Consumer Expectations Index (IEC), which represents 60% of the overall index. The performance of this indicator in the first three quarters of 2008 led to a 6.2% growth in the rate accumulated in the year.

Crop/livestock production indicators

The harvest of grains totaled 145.8 million tons in 2008, according to the Systematic Farm Production Survey (LSPA), released by the IBGE, in collaboration with the

Table 1.11 – Agricultural production – Major crops

Millions of tons		
Products	2007	2008
Grain production	133.1	145.8
Cotton seed	2.5	2.4
Rice (in husk)	11.0	12.1
Beans	3.2	3.4
Corn	51.8	58.7
Soybeans	58.0	59.9
Wheat	4.1	6.0
Others	2.4	3.2
Change in grain production (%)	13.8	9.6
Other crops		
Bananas	7.1	7.2
White potatoes	3.4	3.7
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.2	2.8
Sugarcane	548.0	653.2
Tobacco (in leaf)	0.9	0.9
Oranges	18.5	18.7
Cassava	26.9	26.6
Tomatoes	3.4	3.9

Source: IBGE

National Supply Company (Conab). The annual growth of 9.6% reflected expansions of 4.1% in the harvested area and 5.3% in average productivity, with emphasis on the participation of the Center-West, 34.8%, and South, 42%, where annual production increased, respectively, by 15.5% and 1.9%.

Soybean production rose 3.4% in the year, totaling 59.9 million tons, as a result of the expansion of harvested area, given the stability of productivity. Soybeans exports, which had dropped 4.9% in 2007, recovered in the year, expanding by 3.3%.

The corn harvest reached 58.7 million tons, emphasizing that the annual increase of 13.3% reflected growths of 4.1% in the area harvested and 8.9% in productivity. Climatic conditions and high prices were crucial to this performance.

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

Products	Percentage change					
	Production		Area		Average earnings	
	2007	2008	2007	2008	2007	2008
Grain production	13.8	9.6	-0.4	4.1	14.1	5.3
Cotton (seed)	37.5	-2.5	23.1	-5.2	5.0	3.0
Rice (in husk)	-4.0	9.7	-2.5	-1.3	-1.3	11.1
Beans	-5.6	5.0	-4.7	-1.7	0.4	6.7
Corn	21.6	13.3	9.4	4.1	10.5	8.9
Soybeans	10.7	3.4	-6.2	3.4	18.5	0.0
Wheat	64.8	47.5	18.0	30.7	37.5	12.6

Source: IBGE

Table 1.13 – Grain stock – Major crops

Products	Thousands of tons		
	2005/2006	2006/2007	2007/2008
Grain production			
Rice (in husk)			
Beginning of the year	3 532.1	2 879.3	2 021.7
End of the year	2 879.3	2 021.7	1 101.3
Beans			
Beginning of the year	113.6	176.2	81.4
End of the year	176.2	81.4	160.7
Corn			
Beginning of the year	3 135.4	3 268.3	3 300.2
End of the year	3 268.3	3 300.2	11 871.9
Soybeans			
Beginning of the year	2 734.7	2 469.7	3 675.6
End of the year	2 469.7	3 675.6	4 540.1
Wheat			
Beginning of the year	1 112.5	1 992.9	1 753.7
End of the year	1 992.9	1 753.7	1 566.2

Source: Companhia Nacional de Abastecimento (Conab)

The bean output totaled 3.4 million tons. The annual growth of 5% reflected a 6.7% increase in average productivity and a reduction of 1.7% in the area harvested. Favorable climatic conditions and the price level in the sowing season contributed to the good performance of this crop.

The harvest of rice reached 12.1 million tons, rising 9.7% in the year, as a result of a 11.1% increase in the average productivity and a 1.3% reduction in the harvested area. Favorable climatic conditions, especially in the state of Rio Grande do Sul, the major producing state, where cultivated area increased, explain the increase of productivity and harvested area.

The production of wheat totaled 6 million tons, for a 47.5% increase in comparison to the previous crop. The harvested area grew 30.7%, and the average productivity, 12.6%, reflecting the commodity's high international prices because of the heated external demand.

Harvest of herbaceous cotton decreased 2.5%, totaling 2.4 million tons, a contraction of 5.2% in the area harvested and an increase of 3% in the average productivity.

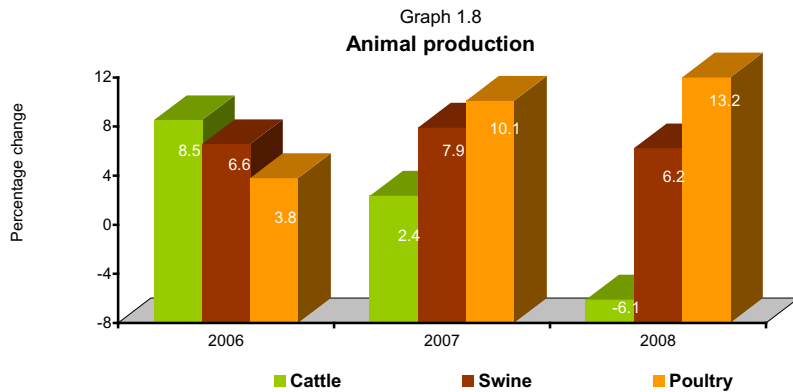
The coffee crop totaled 2.8 million tons, up 25% in the year. This performance is partly explained by the biannual cycle of this crop, expressed in the expansion of 27.2% in average productivity even with the 1.8% reduction in the area harvested.

Sugar cane production totaled 653.2 million tons, for an annual increase of 19.2%, reflecting the expansions observed in the area harvested, 16.5%, and average productivity, 2.3%.

Livestock

According to the Quarterly Survey of Animal Slaughters, released by the IBGE, the production of beef, poultry and pork reached, in the order, 6,619 million, 10,175 million and 2.634,3 million tons, for respective annual rates of -6.1%, 13.2%, and 6.2%.

Exports of beef, poultry and pork totaled, in this order, one million, 3.3 million and 467.6 thousand tons, for annual variations of -20.5%, 8.7%, and -15, 3%



Farm policy

The 2008/2009 crop and livestock plan, released by the Ministry of Agriculture, Livestock and Supply (Mapa) allocated R\$78 billion for rural credit, of which R\$65 billion for commercial agriculture and R\$13 billion for family farming.

In the case of commercial agriculture, R\$55 billion are aimed at funding operational and marketing costs, a volume 12% higher than that available in the previous plan, of which 82.5% granted at regulated interest rates – annual growth of 19.9% – and 17.5% at market interest rates – a contraction of 14.7%. The plan also allocated R\$10 billion for investments, an increase of 12.4% in the year, of which R\$3.5 billion originated in Constitutional Funds.

In the context of the programs financed by the BNDES, R\$6.5 billion is channeled to the segment of loans for investment, with annual increase of 0.8%. Regarding the Program of Modernization of the Farm Tractor Fleet and Like Implements and Harvesters (Moderfrota), the major change consisted in the elimination of the fixed interest rate set at 4% p.y. The Program of Agricultural Modernization and Conservation of Natural Resources (Moderagro) registered an increase in the limit per beneficiary, from R\$50,000 to R\$250,000. With regard to the Rural Employment and Income Generation Program (Proger Rural), R\$500 million is to be provided by the Moderfrota program, at a rate of 7.5% p.y. The program also incorporates an increase in income limits for insertion in the program up to R\$250,000, and in the funding ceiling to R\$150,000.

It should be highlighted the creation of the Program of Incentives for Sustainable Agricultural Production (Produsa), which allocates BNDES funds up to R\$1 billion, aimed not only at encouraging the recovery of degraded areas for the return to the system of production but also the adoption of sustainable systems.

Productivity

The productivity of the industrial labor, defined as the ratio between the index of the sector's physical production and the index of the number of hours paid to personnel employed in manufacturing production, both released by the IBGE, grew 1.1% in 2008, after a 4.1% increase in the previous year. This performance reflected the 2.2% manufacturing productivity increase, as opposed to the 1.9% drop observed in the mining industry. Among the sectors surveyed, the greatest variations occurred in the activities of apparel and clothing, 10.1%, and tobacco, 7.7%. There was a significant reduction in the productivity of the sectors of coke, petroleum refining and alcohol, 10%, and machinery and electrical appliances, precision electronic devices and communication, 8.2%.

The productivity of the industrial labor increased in eight out of ten federal units surveyed by the IBGE, especially in Paraná, 7.2%, Espírito Santo, 6.6%, and Pernambuco, 6.5%, while in Minas Gerais and Bahia the indicator declined by 3% and 1%, respectively.

The average productivity of the crop/livestock sector, defined as the ratio between grain production and the area harvested increased to 5.3% in the year. The production of agricultural fertilizers, according to the National Association for Fertilizers Dissemination (Anda), posted an annual decline of 9.6%, while imports fell 12.1%, resulting in a 8.9% cutback in total demand. Sales of farm machinery expanded 42% in the year, according to Anfavea, registering expanded sales of harvesters, 87.5%; wheeled tractors, 38.7%; and coppers, 18,3%.

Energy

Oil production, including liquified natural gas, grew 3.4% in the year, compared to 1.3% in 2007, considering data from the National Petroleum Agency (ANP). In average terms,

Table 1.14 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2006	2007	2008
Petroleum	1 368	1 423	1 485
Fuel oil	88	95	89
Gasoline	326	318	324
Diesel oil	672	716	769
Liquid gas	203	207	211
Other derivatives	79	86	91
Fuel alcohol	194	262	336
Anhydrous	88	101	108
Hydrated	107	161	228

Source: ANP

the year ended with 1,896 thousand barrels/day, as compared to 1,833 thousand barrels/day in the previous year. The highest level was observed in September, 1,946 thousand barrels/day, and the lowest in March, 1,835 thousand barrels/day. The production of natural gas rose 18.6% in 2008, reaching an average of 371 thousand barrels/day.

Total oil processed at refineries remained almost stable when compared to the previous year, decreasing by 0.1% to 1.742 thousand barrels/day. The participation of national petroleum remained stable at 77%, while oil imports fell by 1.6% in the year, reaching 394 thousand barrels/day. Exports posted an increase of 2.8%, closing at 433 thousand barrels/day.

The consumption of petroleum derivatives increased 4.4% in the domestic market in 2008, with emphasis on the segments of aviation kerosene, 11.1%; diesel oil, 7.5%; jet fuel, 6.6%; and other oil products, 6.5%. The demand for automotive gasoline and liquefied petroleum gas rose 1.9% and 1.6%, respectively. Reductions were observed in the consumption of kerosene for lighting purposes, 21%; and fuel oil, 6.6%. Alcohol consumption increased 28.5%, reflecting the growth sales of cars with bifuel technology. Thus, sales of hydrated alcohol expanded 41.6%, and of anhydrous ethanol, 7.5%.

The national consumption of electricity expanded 3.6% in 2008, according to the Energy Research Company (EPE), a federal public company linked to the Ministry of Mines and Energy (MME). Expansions occurred in the commercial sector, 5.5%; residential, 5%; and industrial 2.3%. The consumption of other sectors not listed, including public lighting, services and government and rural sector registered an annual increase of 3.1%.

Table 1.15 – Electric energy consumption^{1/}

GWh			
Itemization	2006	2007	2008
Total	358 095	378 551	392 014
By sectors			
Commercial	55 474	58 739	61 963
Residential	86 071	90 300	94 856
Industrial	164 775	175 423	179 434
Other	51 775	54 089	55 761

Source: EPE

^{1/} Self-producers not included.

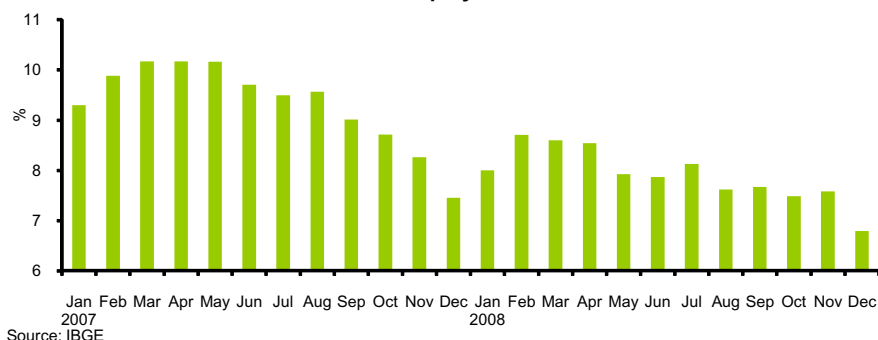
The analysis by region revealed an annual growth of electricity consumption in the Center-West, 5.8%; Southeast, 4.6%; South, 4.4%; North, 4.3%; and Northeast, 3.4%.

Employment indicators

The performance of economic activity in 2008 reflected positively on the labor market both in terms of quantity and quality, despite the negative impacts of the external crisis occurred in the last quarter of the year.

According to the IBGE Monthly Employment Survey (PME), the average unemployment rate in the six major metropolitan areas reached 7.9% in 2008, for a 1.4 p.p. decrease when compared to 2007. This movement was particularly a result of the 3.4% expansion observed in occupation, equivalent to the creation of 625,000 jobs in the area surveyed, 98% of which with formal contracts. In the same period, the number of unregistered employees decreased 0.4%, while the number of self-employed persons increased by 0.4%.

Graph 1.9
Median unemployment rate



According to the General File of Employed and Unemployed Persons (Caged), from the Ministry of Labor and Employment (MTE), 1,452,200 jobs were created with formal contracts in 2008, the third best result since the beginning of the research in January 1985. The number of registered workers increased 6.4% in the year, as a result of a widespread employment expansion in major economic sectors, reaching 6.7% in

Graph 1.10
Level of formal employment
Percentage change in 12 months

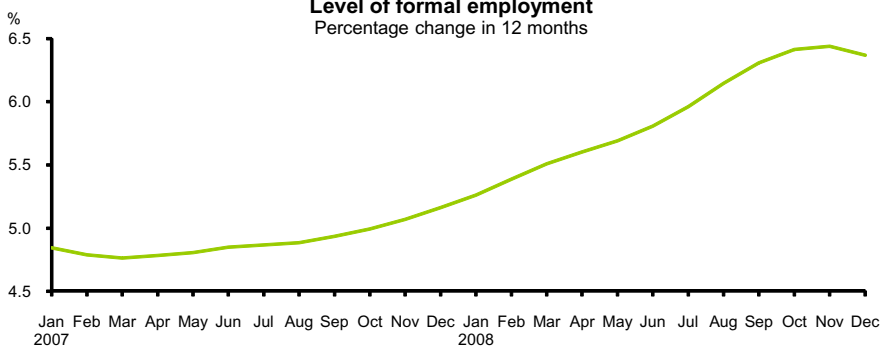


Table 1.16 – Formal employment – New jobs openings

1,000 employees			
Itemization	2006	2007	2008
Total	1 228.7	1 617.4	1 452.2
By sectors			
Manufacturing industry	250.2	394.6	178.7
Commerce	336.8	405.1	382.2
Services	521.6	587.1	648.3
Building	85.8	176.8	197.9
Crop and livestock	6.6	21.1	18.2
Public utilities	7.4	7.8	8.0
Others ^{1/}	20.3	25.0	19.0

Source: Ministério do Trabalho e Emprego (MTE)

1/ Includes mineral extraction, public administration and others.

commerce, 6% in services, and 5.6% in manufacturing industry. It is worth mentioning the performance of civil construction, which, for the third consecutive year, registered a growth rate above the average, up 17.4% in the year.

Wage and earnings indicators

The average annual real earnings habitually received by the working population in the six major metropolitan regions covered by the PME reached R\$1,260.08, calculated at December 2008 prices, up 3.4% in the year, reaching the highest level since 2003. It should be noted that the pace of expansion accelerated in the second half of the year, when it grew 4.5% when compared to the same period in 2007, following a 2.3% increase in the previous half-year period, on the same basis of comparison. Real wages, the product of the average real income habitually received by the number of employed persons, grew by 6.9% in 2008.

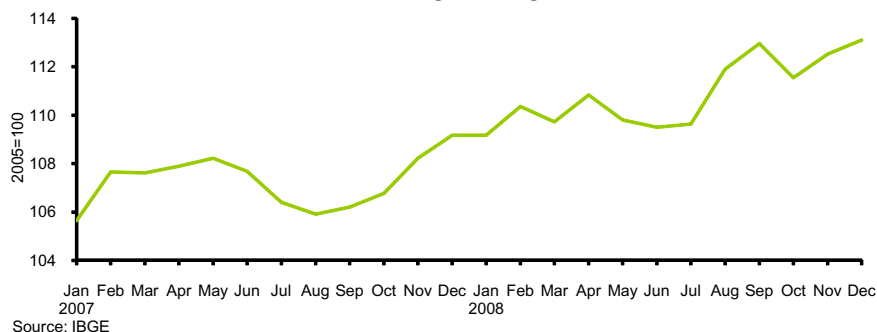
Table 1.17 – Average earnings of occupied people – 2008

Percentage change		
Itemization	Nominal	Real ^{1/}
Total	9.9	3.4
Job position		
Registered	8.5	2.0
Unregistered	7.6	1.3
Self-employed	10.7	4.1
By sector		
Private sector	8.9	2.4
Public sector	10.7	4.1

Source: IBGE

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

Graph 1.11
Real average earnings



Price indicators

The acceleration of inflation rates in 2008, as compared to the previous year, was influenced by the behavior of market prices, which reflected the pace of economic activity expansion as well as the upward trend observed for food and regulated prices. The IPCA, calculated by the IBGE, reached 5.90%, within the target set by the CMN in the framework of the inflation targeting system.

General price indices

The General Price Index (IGP-DI), calculated by the FGV, which aggregates the Wholesale Price Index (IPA-DI), the Consumer Price Index – Brazil (IPC-Br) and the National Cost of Construction Index (INCC), with respective weights of 60%, 30% and 10%, registered growth of 9.10% in 2008 compared to 7.89% in the previous year.

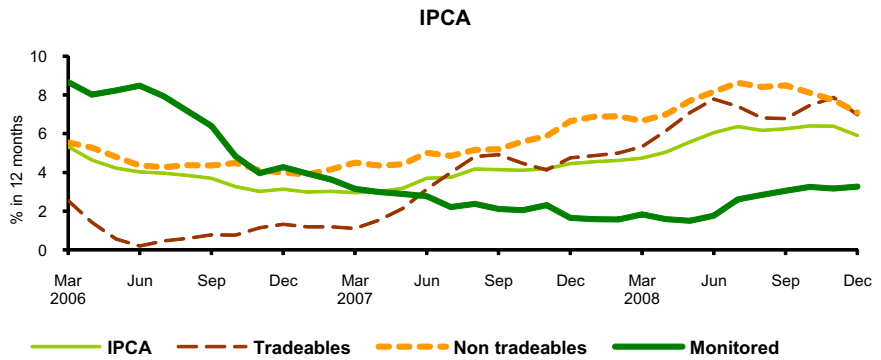
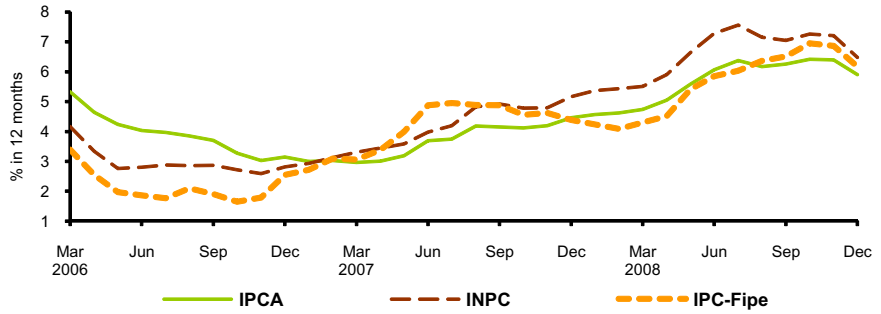
Annual variations of the three components of the IGP-DI accelerated in 2008. IPA-DI, which shows the behavior of prices in the wholesale trade, as a consequence of an upward trend for prices of industrial products, grew 9.80% in the year, compared to 9.44% in 2007. Prices of industrial products rose by 12.96% and prices of agricultural products, 1.64%, as compared to 4.42% and 24.82%, respectively, in 2007. The IPC-Br increased 6.07% and the INCC, 11.87%, compared to 4.60% and 6.15% in 2007, respectively.

Consumer price indices

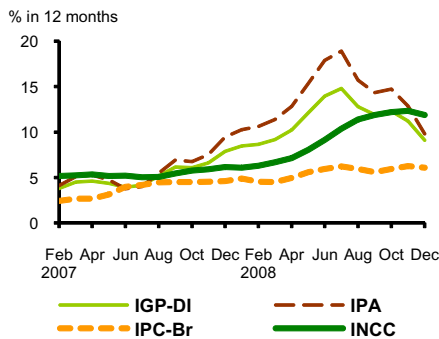
The IPCA, released by the IBGE, increased 5.90% in 2008, registering an increase of 3.27% in regulated prices of goods and services¹ and 7.05% in market prices, compared to 1.65% and 5.73%, respectively, in the previous year. This was the sixth

^{1/} Regulated prices are those directly or indirectly determined by federal, state or municipal governments. In some cases, the adjustments are determined by contracts between producers / suppliers and the relevant regulatory agencies, as in electricity and fixed telephony.

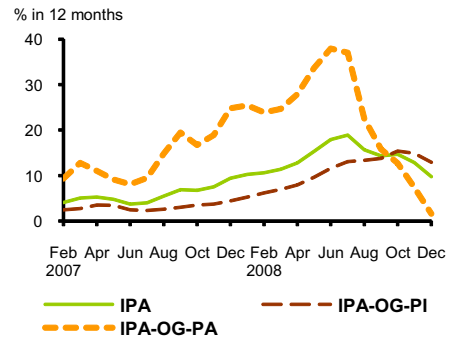
Graph 1.12
Consumer price indices



IGP-DI and components



IPA according to origin



Source: IBGE, Fipe and FGV

lowest IPCA rate since the beginning of its release in 1980. IPCA is an indicator that considers the consumption basket of families with monthly income between 1 and 40 minimum wages.

The performance of the IPCA in the year reflected an upward trend for regulated prices, from 1.65% to 3.27%, reflecting the final impact of the reduction in the prices of electricity and the increase in the water and sewage rates, and market prices, from

5.73% to 7.05%, due to the accelerated pace of economic activity and the behavior of food prices, especially for items such as rice, black beans, meat, tubers, roots and vegetables, sugar, and bread.

The variation of the National Consumer Price Index (INPC), also calculated by IBGE, reached 6.48% in 2008, as compared to 5.16% in 2007. This rate is higher than that registered by the IPCA and evinces the greatest participation of the food and beverage group in the INPC, 30.31%, compared to 22.76% in the IPCA. The reason for this is that the INPC is measured by utilizing the consumption basket of families with an income bracket of 1-6 monthly minimum wages, and the percentage of income committed to outlays on food for these families is relatively greater.

The Consumer Price Index (IPC), calculated by the Institute of Economic Research (Fipe)² also reflected the pace of economic activity and high food prices, growing 6.16% in 2008 from 4.38% in the previous year.

Table 1.18 – IPCA items share in 2008

Groups	Percentage change				
	IPCA				Index share ^{2/}
	Weight ^{1/}	Accumulated change in 2007	Accumulated change in 2008	Accumulated share in 2008	
IPCA	100.00	4.46	5.90	5.90	100.00
Meals	3.97	7.79	14.46	0.57	9.74
Meats	2.15	22.15	24.01	0.52	8.75
Domestic services	3.13	9.50	11.04	0.35	5.86
Bread	1.19	7.92	19.35	0.23	3.89
Rice	0.61	-1.90	33.94	0.21	3.51
Personal hygiene	2.31	2.30	7.34	0.17	2.87
Edible tubers, roots and vegetables	0.62	25.81	20.27	0.13	2.13
Black beans	0.14	39.02	65.52	0.09	1.61
Cleaning products	0.78	3.00	11.44	0.09	1.51
Sugar (refined)	0.19	-22.73	13.10	0.03	0.43
Sugar (crystal)	0.14	-28.69	12.71	0.02	0.29
Electric household equipment	1.81	-4.66	-2.82	-0.05	-0.87
Automobiles	2.85	1.76	-2.25	-0.06	-1.09
Used automobiles	1.59	0.09	-4.32	-0.07	-1.17

Source: IBGE

1/ Average weight in 2008.

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

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

Table 1.19 – IPCA items share in 2008

Groups	Percentage change				
	IPCA				
	Weight ^{1/}	Accumulated change in 2007	Accumulated change in 2008	Accumulated share in 2008	Index share ^{2/}
IPCA	100.00	4.46	5.90	5.90	100.00
Foodstuffs and beverages	22.40	10.77	11.11	2.42	41.02
Housing	13.14	1.76	5.08	0.67	11.36
Housing products	4.30	-2.48	1.99	0.09	1.53
Apparel	6.51	3.78	7.31	0.48	8.14
Transportation	20.05	2.08	2.32	0.47	7.97
Health and personal care	10.75	4.47	5.73	0.62	10.51
Personal outlays	9.74	6.54	7.35	0.72	12.20
Education	7.06	4.16	4.56	0.32	5.42
Communication	6.05	0.69	1.78	0.11	1.86

Source: IBGE

1/ Average weight in 2008.

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

Regulated prices

Regulated prices increased 3.27% in 2008, accounting for 0.98 p.p. of total variation of the IPCA in the year. The largest variations occurred in the items of water and sewage rates, 7.11%; piped gas, 13.96%, interstate bus, 9.38%; airfare, 12.18%; auto gas, 23.44%; and toll, 11.88%, while gasoline and mobile phone rates moved in the opposite direction, dropping by 0.26% and 2.82%, respectively. It should be noted, though, the increases in items bottled gas, 2.42%, electricity rates, 1.11%, and urban bus, 3.08%.

Payments of health plans, which are regulated by the National Supplementary Health Agency (ANS), rose 6.15% in 2008, generating an impact of 0.21 p.p. on the IPCA, with variations of 5.91% in São Paulo and 6.52% in Salvador. Urban bus fares rose 3.08% in 2008, accounting for 0.11 p.p. of the IPCA, with the sharpest increases occurring in Goiânia, 11.11%, Recife, 9.40%, and Rio de Janeiro, 6.37%. The variation of water and sewage rates represented 0.11 p.p. of the IPCA increase, highlighting the upward movement of 12.82% in Rio de Janeiro and 12.07% in Salvador, compared to stability in Curitiba.

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, reached an average of 3.64% in 2008.

The average adjustment of electricity rates, which fell in five of the eleven regions covered by the IPCA index, closed at 1.11%, after decreasing 6.2% in 2007. Regionally, the

Table 1.20 – Major items included in the IPCA during 2008

Itemization	IPCA			
	Weight ^{1/}	Accumulated	Accumulated	Accumulated
		change in 2007	change in 2008	share in 2008
Index (A)	100.00	4.46	5.90	5.90
Non-monitored prices	70.13	5.73	7.05	4.92
Monitored prices	29.87	1.65	3.27	0.98
Selected monitored items				
Natural gas vehicle	0.11	5.44	23.44	0.03
Pipeline gas	0.10	5.75	13.96	0.01
Air ticket	0.28	3.12	12.18	0.03
Tolls	0.13	4.61	11.88	0.02
Interstate bus	0.38	4.63	9.38	0.04
Water and sewage fees	1.61	4.82	7.11	0.11
Health care	3.37	8.13	6.15	0.21
Phone fees	3.49	0.34	3.64	0.13
Urban transportation	3.73	4.69	3.08	0.12
Domestic gas	1.13	0.11	2.42	0.03
Electric energy	3.33	-6.16	1.11	0.04
Gasoline	4.29	-0.68	-0.26	-0.01
Cellular phone fees	1.43	2.92	-2.82	-0.04

Source: IBGE

1/ Average weight in 2008.

variation in the price of electricity dropped by 17.22% in Belo Horizonte and expanded by 18.92% in Belém. Gasoline prices fell 0.26% in 2008, as compared to a reduction of 0.68 % the previous year, while those for the bottled kitchen gas rose 2.42%. Medicine prices and tariffs for intermunicipal buses increased 3.98% and 5.66%, against 0.54% and 4.20%, respectively, in 2007.

Cores

Repeating the behavior of the full index, the three IPCA cores calculated by the Central Bank accelerated in 2008, emphasizing that the cores calculated by smoothed trimmed means registered annual variations lower than the full index, while the core by exclusion showed a more pronounced increase.

The core based on the smoothed trimmed means grew 4.82% in 2008, as compared to 4.04% the previous year, while the core based on the nonsmoothed trimmed means registered variations, respectively, of 4.92% and 3.62%. The variation of the core by

Table 1.21 – Consumer prices and core inflation in 2008

Percentage change				
Itemization	2007	2008		
		1 H	2 H	In the year
IPCA	4.46	3.64	2.18	5.90
Exclusion	4.11	3.26	2.74	6.09
Trimmed means				
Smoothed	4.04	2.52	2.24	4.82
Non smoothed	3.62	2.64	2.22	4.92
IPC-Br	4.60	3.84	2.15	6.07
Core IPC-Br	3.31	2.10	1.94	4.07

Source: IBGE and FGV

exclusion, which excludes from the IPCA the subgroups of household food and regulated prices, reached 6.09%, as compared to 4.11% in 2007.

The change in IPC-Br core, calculated by the FGV using the smoothed trimmed means method, increased from 3.31% in 2007 to 4.07% in 2008, standing at a level below the 6, 07% increase posted by the IPC-Br.