

The Brazilian Economy

Activity level

The evolution of the Brazilian economy in 2009 reflected, as of the middle of the first half of the year, the consistent recovery of activity level that followed the brief recessive period observed after the worsening of the world crisis. This performance, highlighting the importance of internal demand for supporting the new expansionist cycle, took place in a scenario of greater imports, consistent with the domestic economic activity recovery, and reduced trade balance surpluses.

At first, the dynamics of domestic demand ensured the favorable performance of the sector producing low aggregate value goods and, subsequently, in an environment of improved credit market conditions and economic agents' expectations, the recovery of the sectors producing high aggregate value consumer goods and capital goods. In this scenario, private consumption and investments contributed with respective 2.4 p.p. and -1.9 p.p. to the annual variation of the Gross Domestic Product (GDP) in 2009.

In the acutest phase of the world crisis, the trajectory of household consumption was favoured by income support provided by federal government transfer programs and relative labour market stability. The consolidation of consumer spending, as evinced by the performance of retail sales, was due to increased consumer confidence and consequent willingness to commit future income as well as the effect of improved credit terms on the purchase of durable goods.

The behaviour of investments, in line with the significant improvement of indicators relating to business expectations, the growth pace of production and capacity utilization, also contributed to sustain the process of economic expansion. It is worth noting that the maintenance of the dynamics of this important component of aggregate demand is fundamental for the adjustment of industrial capacity to the increased level of domestic demand – driven by improved expectations and consumers' willingness to commit a larger share of income – and, therefore, to mitigate pressure on prices.

Gross Domestic Product

According to the Quarterly National Accounts of the Brazilian Institute of Geography and Statistics (IBGE), the GDP, in spite of a strong recovery at the margin in the last quarter of the year, closed the year with a 0.2% decline. This trajectory is consistent with the two distinct seasons experienced by the Brazilian economy after the intensification of the crisis in international financial markets.

Table 1.1 – GDP at market price

Year	At 2009 prices (R\$ million)	Real change (%)	Implicit deflator (%)	At current prices ^{1/} (US\$ million)	Population (million)	Per capita GDP		
						At 2009 prices (R\$)	Real change (%)	At current prices ^{1/} (US\$)
1980	1 575 890	9.2	92.1	237 772	118.6	13 292	7.0	2 005
1981	1 508 915	-4.3	100.5	258 553	121.2	12 448	-6.3	2 133
1982	1 521 439	0.8	101.0	271 252	123.9	12 281	-1.3	2 190
1983	1 476 861	-2.9	131.5	189 459	126.6	11 668	-5.0	1 497
1984	1 556 611	5.4	201.7	189 744	129.3	12 041	3.2	1 468
1985	1 678 790	7.8	248.5	211 092	132.0	12 720	5.6	1 599
1986	1 804 531	7.5	149.2	257 812	134.7	13 401	5.4	1 915
1987	1 868 231	3.5	206.2	282 357	137.3	13 610	1.6	2 057
1988	1 867 110	-0.1	628.0	305 707	139.8	13 354	-1.9	2 186
1989	1 926 111	3.2	1 304.4	415 916	142.3	13 535	1.4	2 923
1990	1 842 325	-4.3	2 737.0	469 318	146.6	12 568	-7.1	3 202
1991	1 861 301	1.0	416.7	405 679	149.1	12 484	-0.7	2 721
1992	1 851 183	-0.5	969.0	387 295	151.5	12 215	-2.2	2 556
1993	1 942 350	4.9	1 996.1	429 685	154.0	12 614	3.3	2 790
1994	2 056 033	5.9	2 240.2	543 087	156.4	13 143	4.2	3 472
1995	2 142 876	4.2	93.9	770 350	158.9	13 488	2.6	4 849
1996	2 188 958	2.2	17.1	840 268	161.3	13 569	0.6	5 209
1997	2 262 842	3.4	7.6	871 274	163.8	13 816	1.8	5 320
1998	2 263 642	0.0	4.2	843 985	166.3	13 616	-1.5	5 077
1999	2 269 393	0.3	8.5	586 777	168.8	13 448	-1.2	3 477
2000	2 367 118	4.3	6.2	644 984	171.3	13 820	2.8	3 766
2001	2 398 201	1.3	9.0	553 771	173.8	13 798	-0.2	3 186
2002	2 461 947	2.7	10.6	504 359	176.3	13 964	1.2	2 861
2003	2 490 178	1.1	13.7	553 603	178.7	13 932	-0.2	3 097
2004	2 632 424	5.7	8.0	663 783	181.1	14 535	4.3	3 665
2005	2 715 600	3.2	7.2	882 439	183.4	14 808	1.9	4 812
2006	2 823 437	4.0	6.1	1 088 767	185.6	15 215	2.7	5 867
2007	2 995 028	6.1	5.9	1 366 544	187.6	15 961	4.9	7 283
2008	3 148 854	5.1	7.4	1 636 022	189.6	16 607	4.0	8 628
2009	3 143 015	-0.2	4.8	1 577 264	191.5	16 414	-1.2	8 237

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 brief recession that followed the turmoil in the international economic environment led the seasonally adjusted GDP to decline by 3.5% and 0.9% in the quarters ended in December 2008 and March 2009 in comparison to respective previous quarters. It is worth noting that this development reflected, primarily, the effects of the deterioration of expectations and credit conditions on the dynamics of industry and investments as well as on the stock levels. Industrial sector output fell by 7.6% and 4.2%, respectively, in the quarters under analysis.

As of the second quarter of 2009, the level of economic activity started to recover gradually, as evinced by respective expansions of 1.4%, 1.7% and 2% in the June, September and December quarterly GDP. This movement was driven by the recovery of domestic demand, temporary tax waiver measures adopted by the federal government and, in the second half of the year, higher level of investments.

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

Itemization	2009			
	I	II	III	IV
GDP at market price	-0.9	1.4	1.7	2.0
Crop and livestock sector	-1.8	-0.4	-2.1	-0.0
Industrial sector	-4.2	1.5	3.0	4.0
Service sector	1.2	1.5	1.4	0.6

Source: IBGE

With regard to supply, the annual performance of GDP reflected declines of 5.2% and 5.5%, respectively, in the primary and secondary sectors, and growth of 2.6% in the sector of services. It should be emphasized that the weak performance of crop/livestock sector largely resulted from crop failures caused by adverse weather conditions during the growing season of important crops.

The annual decrease of 5.5% observed in the industrial segment reflected, in particular, an expressive downturn in manufacturing, 7%; and civil construction, 6.3%, while the growing dynamics observed in the sector of services, consistent with the recovery in domestic demand, was supported by the trajectory of financial intermediation, insurance, pension funds and related services, 6.5%; other services, 5.1%; information services, 4.9%; administration, health and public education, 3.2%, and real estate and leasing activities, 1.4%. The sectors of commerce and transportation, storage and postal services, which partly reflect the behaviour of agricultural and industrial sectors, registered respective annual downturns of 1.2% and 2.3%.

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

Percentage			
Itemization	2007	2008	2009
GDP	6.1	5.1	-0.2
Crop and livestock sector	4.8	5.7	-5.2
Industrial sector	5.3	4.4	-5.5
Mineral extraction	3.7	4.9	-0.2
Manufacturing	5.6	3.2	-7.0
Building	4.9	8.2	-6.3
Production and distribution of electricity, gas and water supply	5.4	4.8	-2.4
Service sector	6.1	4.8	2.6
Commerce	8.4	6.1	-1.2
Transportation, storage and postal services	5.0	3.4	-2.3
Information services	7.4	8.9	4.9
Financial intermediation, insurance, complementary pension system and related services	15.1	13.0	6.5
Other services	4.8	4.2	5.1
Real estate activities and rent	4.9	1.6	1.4
Public administration, health and education	2.3	1.5	3.2

Source: IBGE

The analysis of demand components demonstrates the importance of household and government consumption for the GDP performance in 2009. Accordingly, household expenditures, in a scenario of expansion of real overall wages and financial system's credit transactions targeted to individuals, increased 4.1% in the year, whilst government consumption grew by 3.7%. In contrast, investments, in line with the performance of the civil construction sector together with the production and import of machinery and equipment, registered an annual decline of 9.9%, contributing significantly to the 0.3 p.p. negative influence exerted by domestic demand on the annual performance of GDP in 2009. Imports fell 11.4% in the year and exports, 10.3%, thus leading external demand to contribute with 0.1 p.p. to GDP variation in the year.

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

Percentage			
Itemization	2007	2008	2009
GDP	6.1	5.1	-0.2
Family consumption	6.1	7.0	4.1
Government consumption	5.1	1.6	3.7
Gross Fixed Capital Formation	13.9	13.4	-9.9
Exports of goods and services	6.2	-0.6	-10.3
Imports of goods and services	19.9	18.0	-11.4

Source: IBGE

The analysis of quarterly GDP variation indicates that the 0.9% reduction observed in the first quarter of the year, compared to the previous quarter ended in December, represented the beginning of the Brazilian economy turnaround after the start of the world crisis. This result followed the 3.5% decrease observed in the quarter ended in December on this same comparison basis – when a cycle of nine consecutive positive quarterly results had been broken – and reflected, in particular, the low impact of negative expectations and credit market restrictions on the performance of industry, which carried out significant adjustments in the level of stocks and investments.

Table 1.5 – Gross Domestic Product – At current value

In R\$ million

Itemization	2006	2007	2008	2009
Gross Domestic Product at market prices	2 369 484	2 661 344	3 004 881	3 143 015
Under the prism of product				
Crop and livestock sector	111 566	127 267	151 268	163 953
Industrial sector	584 952	636 280	698 939	686 445
Service sector	1 337 903	1 524 311	1 706 098	1 851 703
Under the prism of expenditure				
Final consumption expenditure	1 903 679	2 133 194	2 400 746	2 626 525
Family consumption	1 428 906	1 594 133	1 812 467	1 972 431
Government consumption	474 773	539 061	588 279	654 094
Gross Capital Formation	397 027	487 761	598 382	518 950
Gross Fixed Capital Formation	389 328	464 137	560 893	525 837
Changes in inventories	7 699	23 624	37 490	-6 887
Exports of goods and services	340 457	355 672	414 257	354 235
Imports of goods and services (-)	271 679	315 283	408 504	356 696

Source: IBGE

From the viewpoint of supply, GDP variations in the first quarter of the year reveal overall improvement in all sectors. Thus, industrial decline closed at 4.2%, against 7.6% in the quarter ended in December, whilst the performance of the service and crop/livestock sectors reached, in the order, 1.2% and -1.8%, compared to -2% and -4.3%, respectively, in the last quarter of 2008.

Insofar as the behaviour of demand is concerned, it should be highlighted the sharpest decline observed in the Gross Fixed Capital Formation (GFCF) in the quarter ended in March, 11.2%, compared to 10% in the quarter ended in December, together with the recovery in household consumption, which expanded by 0.2% as compared to a decline of 1.8%. Government consumption rose 4.5% in the quarter, while imports and exports decreased by 15.6% and 15.1%, respectively.

Ratifying the effectiveness of government economic measures, among which the monetary policy easing and tax incentives targeted to important productive sectors, GDP expanded by 1.4% in the second quarter of the year, reversing the declining trend which began after the worsening of the international crisis.

From the perspective of supply, this recovery resulted in expansions of 1.5% in both industrial and service sectors, which had registered respective variations of -4.2% and 1.2% in the quarter ended in March, contrasting with the decrease of 0.4% in crop/livestock, which had declined by 1.8% in the quarter ended in March. GDP analysis from the demand perspective reveals expansion of 2.9% in household consumption, 2.3% in GFCF, and a 0.3% reduction in government consumption. With regard to foreign demand, exports increased by 8.7%, and imports, 5.4%.

GDP grew 1.7% in the quarter ended in September, compared to the quarter ended in June, registering the second consecutive positive result on this comparison basis, thus signalling the exhaustion of the recessive cycle experienced by the Brazilian economy after the worsening of the global crisis.

From the perspective of supply, the quarterly GDP performance reflected expansions in industry, 3%, and services, 1.4%, and decline of 2.1% in crop/livestock, while the behaviour of demand components reinforced the relevance of domestic demand in supporting production growth. From this viewpoint, expansions were registered in GFCF, 6.7%; household consumption, 2.4%, government consumption, 0.6%, imports, 2.9%, and exports, 0.3%.

The 2% expansion of GDP in the last quarter of 2009 represented an important indicator of the consolidation of the Brazilian economy recovery. From the perspective of supply, it should be emphasized the expansions of industry, 4%, and services, 0.6%, at the same time that the crop/livestock sector registered stability. The analysis of the GDP quarterly trajectory from the perspective of demand components showed respective expansions of 6.6%, 1.9% and 0.6% in GFCF, household and government consumption. As regards external demand, expansion of imports, 11.4%, and exports, 3.6%, are consistent with the relative recovery of the global economy and particularly with the resumption of domestic spending, thus demonstrating the importance of imports as a counterbalance factor between aggregate supply and demand.

Investments

According to the Quarterly National Accounts published by IBGE, investments, excluding stock variations, dropped by 9.9% in 2009. It should be emphasized that this result, interrupting a cycle of five consecutive increases, reflected the impact of

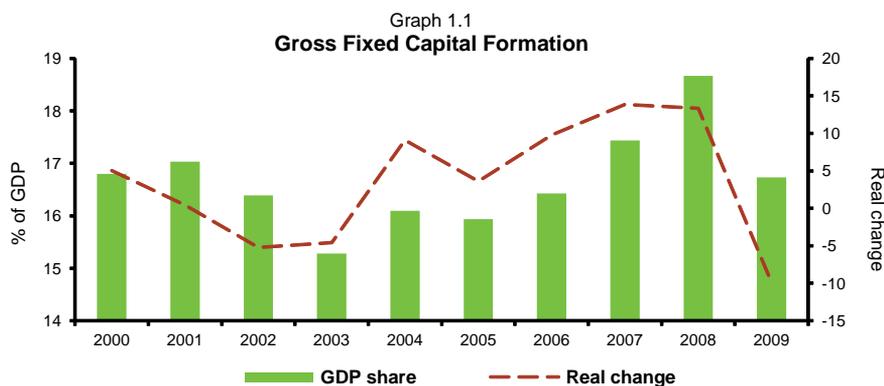
the significant decline observed in the first quarter of the year in comparison to the recovery observed over the last two quarters of the year.

Table 1.6 – Gross capital formation (GCF)

Percentage						
Year	Share in GCF				At current prices	
	Gross Fixed Capital Formation (GFCF)			Changes in inventories	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	1.9	16.4	16.8
2007	36.5	51.5	7.2	4.8	17.4	18.3
2008	35.3	51.6	6.8	6.3	18.7	19.9
2009	41.7	51.8	7.9	-1.3	16.7	16.5

Source: IBGE

The production of construction inputs declined by 6.3% in 2009, compared to the 8.5% increase observed in the previous year. It is worth noting the sector recovery during the year – expressed by positive quarterly growth rates observed as of the quarter ended in June, a trajectory partly due to the continuation of works under the Growth Incentive Program (PAC).



Source: IBGE

The production of capital goods, reflecting the initial impact of the worsening of the global crisis on the demand for investment goods, decreased 17.4% in 2009, compared to an expansion of 14.3% in the previous year. This reversal reflected reductions in all industrial segments, with emphasis in construction, 48.5%, and crop/livestock, especially agricultural accessories, 38.4%, and agricultural machinery and equipment, 28.5%. Additionally, reductions also occurred in the production of typically industrialized goods, 28.1%, as a result of declines in the segments of goods produced in series, 31.8%, goods produced on an order basis, 6.5%, capital goods targeted to the electricity sector, 32.5%, and transportation equipment, 8.8%.

Table 1.7 – Selected capital goods production

Itemization	Percentage change		
	2007	2008	2009
Capital goods	19.5	14.3	-17.4
Industrial	17.0	4.6	-28.1
Serial	18.5	2.7	-31.8
Non-serial	7.4	17.4	-6.5
Agricultural	48.4	35.1	-28.5
Agricultural parts	170.8	58.8	-38.4
Building	18.7	4.8	-48.5
Electric energy	26.0	12.0	-32.5
Transportation	18.0	31.3	-8.8
Mixed	15.4	2.5	-14.7

Source: IBGE

The BNDES system – Brazilian Development Bank (BNDES), Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – disbursements grew by 50% in 2009, totalling R\$136.4 billion. With regard to the allocation by sector, it is worth emphasizing the expansion of resources channelled to the manufacturing industry, 68.9%, and to sector of commerce and services, 42.6%.

Table 1.8 – BNDES disbursement^{1/}

In R\$ million

Itemization	2007	2008	2009
Total	64 892	90 878	136 356
By sector			
Manufacturing industry	25 395	35 710	60 302
Commerce and service	33 448	46 263	65 979
Crop and livestock	4 998	5 595	6 856
Extraction industry	1 051	3 311	3 219

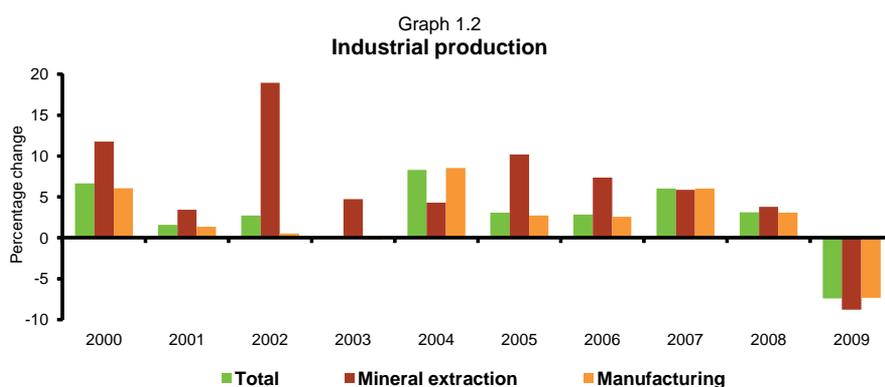
Source: BNDES

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

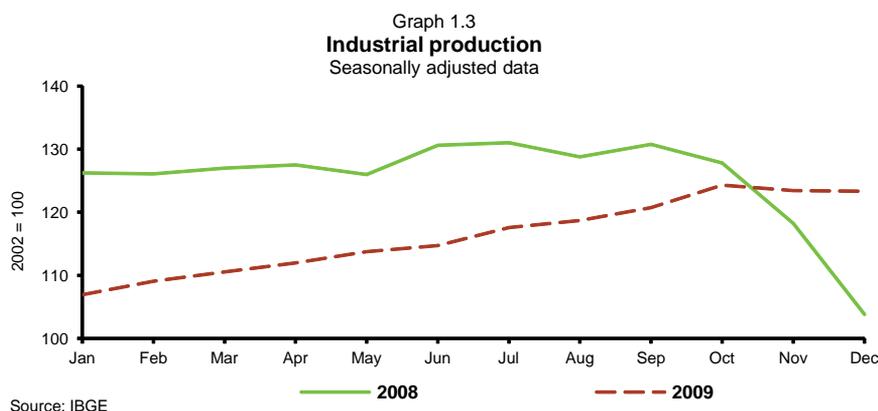
The Long-Term Interest Rate (TJLP), used as the indexing factor for loans contracted through the BNDES system, which had remained at 6.25% p.y. since the second quarter of 2007, was reduced to 6% p.y. at the end of the first half of 2009, a level maintained until the end of the year.

Industrial output indicators

According to the IBGE Monthly Industrial Survey – Physical Production (PIM-PF), industrial output declined 7.4% in 2009, the first negative annual result observed since 1999. During the 2000-2009 period, industrial output registered an average annual growth rate of 2.6%.



It is important to emphasize that, in spite of this annual decline, the Brazilian industry recovered consistently over the year, after the strong decline observed at the end of 2008. Thus, the general industrial output indicator accumulated an expansion of 19.5% from December 2008 to October 2009, a trajectory broken only in the last two months of the year, when the index fell by 1.2%.



The world crisis impacted the Brazilian industrial segment mostly through the trade and credit channels. The credit channel, in view of the temporary collapse of credit supply in domestic and international markets, affected particularly the availability of capital for investment and purchase of higher valued goods. This movement, in the context of entrepreneurs and consumers deteriorating expectations, hit the segments of capital goods and consumer durables. The trade channel, reflecting the sharp decline in external demand, although impacting especially the segment of intermediate goods targeted to foreign markets, also exerted a negative influence on the segment of capital goods, with emphasis on the output decline in the segments of planes and trucks, and consumer durables, especially the automotive sector.

The production of capital goods registered an annual decrease of 17.4% in 2009, with emphasis on significant declines in machinery and equipment, 29.4%; electronic material; communications devices and equipment, 27.7%; and machinery, equipment and electrical products, 26.8%. Conversely, the production of other transportation equipment, excluding automobiles, reported the only positive outcome of the current year, with expansion of 16.2%.

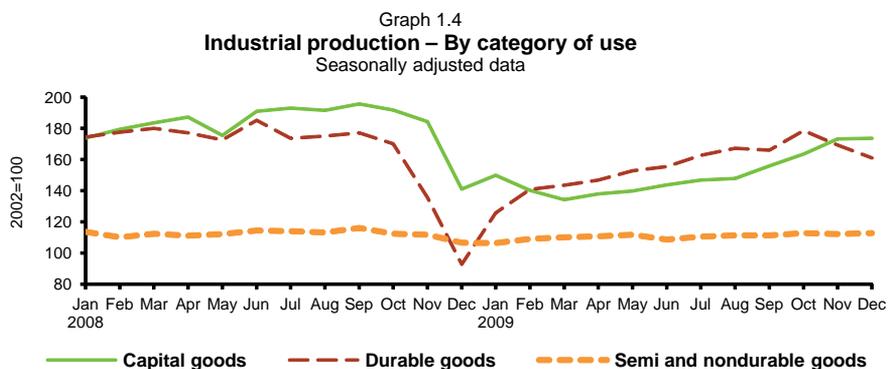
The production of durable consumer goods fell 6.4% in 2009, with emphasis on the declines in the activities of other transportation equipment, excluding automobiles, 32.9%, and electronic material, communication devices and equipment, 24.3%. On the opposite direction, the output of machinery and equipment and furniture segments increased 8.2% and 1.2%, in the order. It is important to emphasize the recovery of the automotive industry throughout the year. This sector, which had registered sharp declines in the last quarter of 2008, responded to specific tax incentives, closing the year with a decline of only 0.6%.

Table 1.9 – Industrial production

Itemization	Percentage change		
	2007	2008	2009
Total	6.0	3.1	- 7.4
By category of use			
Capital goods	19.5	14.3	- 17.4
Intermediate goods	4.9	1.5	- 8.8
Consumer goods	4.7	1.9	- 2.7
Durable	9.1	3.8	- 6.4
Semi and nondurable	3.4	1.4	- 1.6

Source: IBGE

The performance of the semi and nondurables industrial segments was favoured by the maintenance of household disposable income, in view of payroll stability and strengthening of federal government social programs. Accordingly, the segment's annual decline of 1.6% was the lowest observed in the consumer categories. It should be emphasized the expansions in pharmaceutical activities, 7.9%; beverages, 7.1%; and perfumes, soaps, detergents and cleansing products, 4.7%. Conversely, the most significant declines were observed in the production of footwear and leather goods, 8.6%; apparel and accessories, 7.9%; textiles, 6.4%; and food 1.7%.

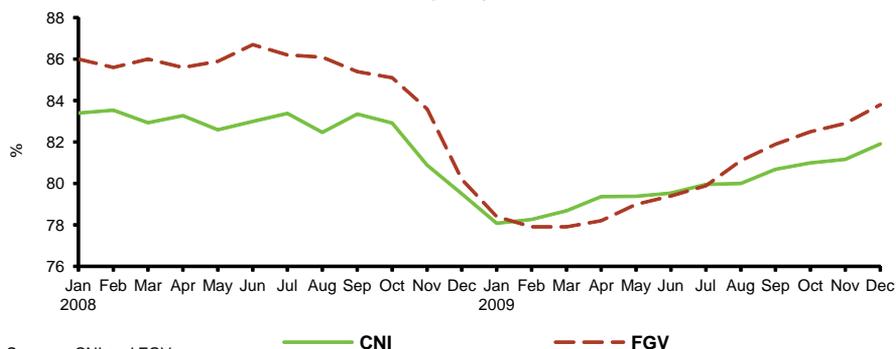


The production of intermediate goods, reflecting the negative trajectory of other consumer categories and the adjustment in stocks of raw materials carried out in the months that followed the worsening of the crisis, fell 8.8% in 2009. The performance of this category reflected, in particular, the declines in the sectors of electronic material, communication devices and equipment, 25.5%; machinery, electrical components and materials, 19.9%; machinery and equipment 18.5%; and metallic products – except machinery and equipment, 14.6%, partly offset by the increase in the segments of petroleum refining, 1%, and cellulose and pulp for paper manufacture, 0.2%.

Among the 27 sectors surveyed by the IBGE, 23 recorded production declines, emphasizing those related to electronic material, communication devices and equipment, 25.5%; machinery, electrical components and equipment, 19.9%; and machinery and equipment, 18.5%, contrasting with the increases recorded in pharmaceuticals, 7.9%; beverages, 7.1%; perfumes, soaps, detergents and cleansing products, 4.7%; and other transportation equipment, 2.3%. Food production, the most representative sector in this category, decreased 1.7% in the year.

According to seasonally adjusted data from the Industrial Indicators System released by the National Confederation of Industry (CNI), the level of Installed Capacity Utilization Level (Nuci), which had fallen 4.8 p.p., to 78.1%, in the quarter ended in January 2009, increased gradually over the year, reaching 81.9% in December.

Graph 1.5
Industrial capacity utilization



Sources: CNI and FGV

Table 1.10 – Industrial capacity utilization^{1/}

Itemization	2007	2008	2009
Manufacturing industry	85.1	85.2	80.2
Consumer goods	83.1	84.9	82.5
Capital goods	85.7	87.9	75.5
Building material	84.6	88.4	85.3
Intermediate goods	87.8	86.4	80.8

Source: FGV

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

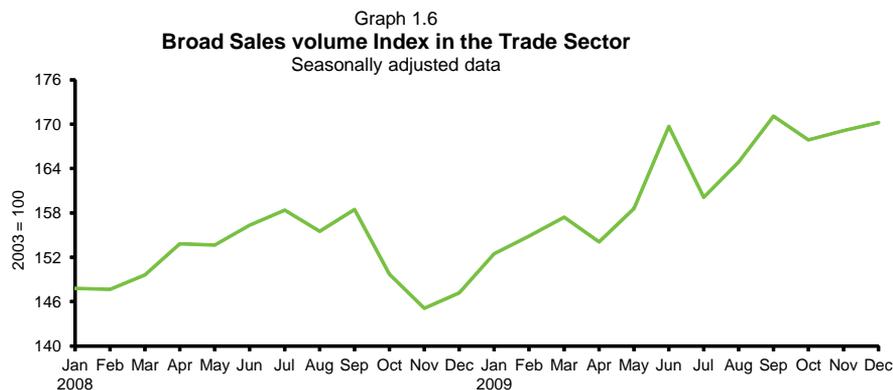
The trajectory of industrial employment over the year was consistent, albeit understated and misaligned, with the output growth. Accordingly, the annual decline of 5.2% observed for personnel occupied in the industrial segment was concentrated in the first half of the year, whilst the recovery of industrial production, as of the second quarter of the year, began to influence the recovery of employment as of the second half of the year.

According to the Industrial Confidence Index (ICI), released by the Getulio Vargas Foundation (FGV), the optimism of industrial businessmen, especially after the most acute effects of the crisis had been overcome, closed at 113.4 points in December, following a 75.1 points drop in January, only 3.5 p.p. below the historical record reached in April 1995.

Commerce indicators

According to the IBGE Monthly Retail Trade Survey (PMC), the Retail Sales Volume Index registered an annual increase of 6.9% in 2009. Even though the year's growth rate was lower than those registered in 2008 and 2007, it shows the consistent upward trajectory of private consumption, with positive results for sales dependant on the evolution of overall wages and credit market conditions. In the period, positive results were

observed in eight out of the ten sectors surveyed, with emphasis on the pharmaceutical, medical, orthopedic, perfume and cosmetic items, 11.8%; automobiles, motorcycles, parts and accessories, 11%; office and communication equipment and materials, 10.6%; and books, newspapers, magazines and stationery, 9.6%; contrasting with falloffs in the sectors of building materials, 6.6%; and textiles, clothing and footwear, 2.7%.



Analysed by geographical region, expanded retail sales registered a widespread expansion in 2009. The most significant growth rates were observed in the Northeast, 8.5%, followed by the Southeast, 7.6%; the Central-West, 6%; the South, 5.8%; and the North, 3.6%. In relation to the Federation units, with the exception of the 0.6% decline observed in Amazonas, retail sales registered overall expansion, especially in Piauí, 15.8%; Sergipe, 15.6%; Roraima, 10.8%; Alagoas, 10.4%; and Ceará, 10.2%.

Expanded Nominal Sales Revenue expanded by 7.8% in 2009, reflecting expansions of 6.9% and 0.8% in sales' volume and prices, respectively. The following segments registered revenue growth rates above the nominal inflation rate of 4.9%, as indicated by the IBGE Extended National Consumer Price Index (IPCA): pharmaceutical, medical, orthopaedic and perfume items, 18.3%; other personal and household goods, 18%, and books, newspapers, magazines and stationery, 14.1%. More modest nominal revenue growth occurred under furniture and appliances, 1.5%, and fuels and lubricants, 1.9%.

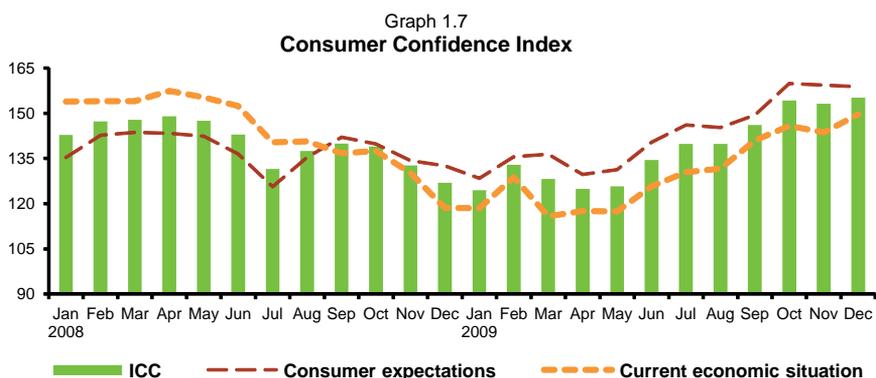
According to the National Federation of Automotive Vehicle Distribution (Fenabrave), auto sales, helped by the reduction in the Industrialised Products Tax (IPI) and improved credit conditions, grew 12.7% in 2009. Meanwhile, automotive vehicle sales on the domestic market, released by the National Association of Automotive Vehicle Manufacturers (Anfavea), increased by 10%.

Delinquency rates remained at a level compatible with the trajectory of retail sales. Thus, the relationship between the number of checks returned due to insufficient funds and the total of checks cleared reached, on average, 6.5% in 2009, compared to 6.1% in 2008. By region, the highest rates occurred in the North, 9.7%, and in the Northeast,

9.3%. Delinquency in the São Paulo Metropolitan Region (RMSP), measured by the São Paulo Trade Association (ACSP), reached an average of 6.9% in 2009, up from 6.5% in the previous year.

Consumer expectation indicators, in spite of a significant recovery observed in the second half of the year, registered a general decline in 2009. Accordingly, the National Confidence Index (INC), elaborated by the Ipsos Public Affairs for the ACSP, fell 6.8% in the year.

The Consumer Confidence Index (ICC), published by the FGV, fell 2.4% in the year, as a result of reductions of 2.1% in the Expectations Index (IE) and 2.8% in the Current Situation Index (CSI). It is worth noting that the aforementioned pattern of expectations recovery is evident in the ICC 16.5% increase observed in the final quarter of 2009, compared to the same period of the previous year, when the IE and ICS components had increased respectively by 14.4% and 20.2%.



Source: Fecomercio SP

The National Consumer Expectations Index (Inec), published quarterly by the CNI, grew 0.6% in the year, with emphasis on the increase of 6.7% observed between the quarter ended in December 2009 – when the indicator reached the historical record of the series started in 2001 – and December 2008. The breakdown of the Inec annual result shows that the consumer optimism in relation to expected inflation and expectations of personal income increased respectively by 4% and 1.1%, contrasting with falloffs in expected unemployment, 1%, and intention to purchase higher valued goods, 0.3%.

The ICC, published by the Trade Federation of the State of São Paulo (Fecomercio SP) fell 1.5% in 2009, as a result of a 9.5% decrease in the Current Economic Conditions Index (Icea) and a 4% increase in the Consumer Expectations Index (IEC), which represents 60% of the overall index.

Crop/livestock production indicators

The grain harvest totaled 133.8 million tons in 2009, for an annual decrease of 8.3%, according to the Systematic Farm Production Survey (LSPA), published by the IBGE in conjunction with the National Supply Company (Conab). The average yield, affected by adverse weather conditions at the time of planting and/or development of main crops, fell 8.2% in the year, while the harvested area diminished 0.2%.

Table 1.11 – Agricultural production – Major crops

Millions of tons		
Products	2008	2009
Grain production	146.0	133.8
Cotton seed	2.4	1.8
Rice (in husk)	12.1	12.6
Beans	3.5	3.5
Corn	59.0	51.0
Soybeans	59.9	57.0
Wheat	5.9	4.9
Others	3.2	2.9
Change in grain production (%)	9.7	- 8.3
Other crops		
Bananas	7.0	7.1
White potatoes	3.7	3.5
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.8	2.4
Sugarcane	649.0	687.1
Tobacco (in leaf)	0.9	0.9
Oranges	18.4	18.3
Cassava	26.3	26.6
Tomatoes	3.9	4.1

Source: IBGE

Soybean production fell by 4.8%, reaching 57 million tons, as a result of a 6.8% decline in average yield and 2.2% expansion in the harvested area. Exports, in particular to China and the European Union, rose by 16.6% in the year.

The rice harvest reached 12.6 million tons. The annual growth of 4.2% recorded in the cultivation was due to increases of 3.2% in average yield and 0.9% in the harvested area. The corn crop totaled 51 million tons, decreasing 13.5% in the year, with emphasis on the decrease of 9.3% in average yield.

The production of beans, although occupying an area 9.3% greater than in 2008, increased 0.5% in the year, reaching 3.5 million tons. It is worth mentioning that average productivity dropped by 8% in the year as a result weather conditions, in spite of the stimulus represented by high prices registered at the time of the first harvest.

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

Products	Percentage change					
	Production		Area		Average earnings	
	2008	2009	2008	2009	2008	2009
Grain production	9.7	-8.3	4.2	-0.2	5.3	-8.2
Cotton (seed)	-3.0	-25.9	-5.7	-23.2	2.9	-3.6
Rice (in husk)	9.5	4.2	-1.2	0.9	10.8	3.2
Beans	6.6	0.5	-1.4	9.3	8.1	-8.0
Corn	13.9	-13.5	4.5	-4.6	8.9	-9.3
Soybeans	3.4	-4.8	3.4	2.2	0.0	-6.8
Wheat	44.0	-16.0	28.3	2.1	12.2	-17.7

Source: IBGE

Production of herbaceous cottonseed totaled 1.8 million tons. The annual falloff of 25.9% in the year reflected, in particular, a reduction of 23.2% in the harvested area.

The wheat harvest totalled 4.9 million tons, dropping 16% in the year and occupying an area 2.1% larger. The significant decrease of 17.7% observed in the average yield reflected, fundamentally, the adverse effects of high rainfall recorded during the growing season.

Coffee production, affected by a biannual downward cycle, declined by 12.8%, reaching 2.4 million tons. This decline in the production of the grain resulted of respective declines of 3.5% and 9.6% in the area harvested and average yield.

The sugar cane harvest totalled 687.1 million tons, for a 5.9% expansion in the year, the same expansion rate observed for the cultivated area.

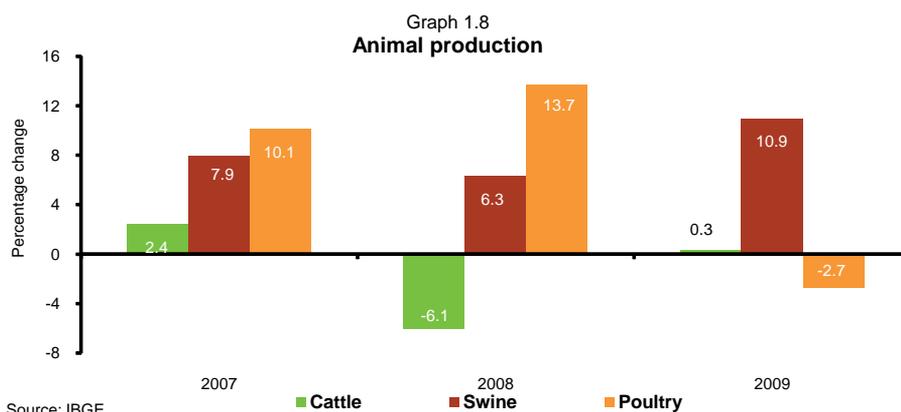
Table 1.13 – Grain stock – Major crops

Products	2006/2007	2007/2008	2008/2009
Thousands of tons			
Grain production			
Rice (in husk)			
Beginning of the year	2 021.7	1 081.3	983.9
End of the year	1 081.3	983.9	664.1
Beans			
Beginning of the year	81.4	180.0	257.7
End of the year	180.0	257.7	478.0
Corn			
Beginning of the year	3 300.2	11 860.5	11 210.3
End of the year	11 860.5	11 210.3	8 148.7
Soybeans			
Beginning of the year	3 675.6	4 540.1	1 971.7
End of the year	4 540.1	1 971.7	4 251.2
Wheat			
Beginning of the year	1 817.9	1 676.7	2 422.7
End of the year	1 676.7	2 422.7	1 482.0

Source: Companhia Nacional de Abastecimento (Conab)

Livestock

According to the Quarterly Survey of Animal Slaughters, published by IBGE, the production of poultry, beef cattle and swine totalled 9.9 million, 6.6 million and 2.9 million tons in 2009, for annual increases of 10.9% and 0.3% for swine and cattle, respectively, and a decrease of 2.7% for poultry.



Foreign sales of poultry, beef and pork totalled 3.3 million, 926.1 thousand and 529.2 thousand tons in 2009, for annual changes of -0.1%, -9.5% and 13.2%.

Farm policy

The 2009/2010 agricultural and livestock plan, published by the Ministry of Agriculture, Livestock and Supply (Mapa), includes available funding of R\$107.5 billion, 37.8% higher than the previous plan's amount, of which R\$92.5 billion channelled to commercial agriculture and R\$15 billion for family farming.

With respect to commercial agriculture, R\$66.2 billion should be allocated to credit and marketing, of which R\$54.2 billion is available for monitored interest rates and R\$12 billion for free interest rates. It should be noted that the figures quoted are, in the order, 20.8%, 20.2% and 23.7% higher than those registered in the previous plan.

Available investment funds totalled R\$14 billion, for a 37.2% expansion in the year, of which R\$3.5 billion originating in Constitutional Funds.

Fund transfers are predicted at R\$500 million under the support of the Rural Employment and Income Generation Program (Proger Rural); R\$1.5 billion for the Program of Incentive to Sustainable Farm Production (Produsa), and of R\$2 billion for the Capitalization Program of Farm Cooperatives (Procap-Agro), which enables the granting of funding for payment of quota-shares and for working capital, under exclusive conditions for agricultural cooperatives.

Additionally, special credit lines, totalling R\$12.3 billion, were created to meet working capital needs and funding for ethanol storage for cooperatives, agribusinesses, and agricultural machinery and equipment industries. These working capital lines, involving funds of up to R\$10 million, which are supported by BNDES, are granted under the equalization of interest rates modality, with a maximum term of 24 months and an interest rate of 11.25% p.y. Funds allocated for the storage of ethanol, R\$2.3 billion, shall be managed by the BNDES and eligible financial agents, at an interest rate of 11.25% p.y.

Productivity

The productivity of industrial labour, defined as the ratio between the sector's index of physical production and the number of hours paid to employed staff in factory production, both published by the IBGE, fell 1.9% in 2009, compared to respective increases of 1.1% and 4.1% in the previous two years. Productivity declines were observed in the manufacturing industry, 1.7%, and in the mining industry, 7.9%. Analysis of annual industrial productivity trajectory by sector reveals significant declines in the machinery and electrical appliance industries, precision and communication electronics, 15.2%; basic metallurgy, 9.6%; and machinery and equipment, excluding electrical, precision and communication electronics, 8.7%. Conversely, significant expansions were registered in the sectors of chemicals, 5.2%, and foodstuffs 2.5%.

Industrial labour productivity declined in six of the ten federation units surveyed by the IBGE, with emphasis on Espírito Santo, 9.4%; Minas Gerais, 5.5%; and São Paulo, 4.6%. By contrast, positive results were observed in Paraná, 4.2%, and Pernambuco, 2.3%.

The average productivity of the agricultural sector, defined as the ratio between grain yield and harvested area, decreased 8.2% in 2009. This change is strongly correlated to the bad weather conditions and, in addition, reflects the stability of demand for agricultural fertilizers, which, in view of strong stock adjustment, occurred in an environment of a 5.7% decline in national production of agricultural fertilizers – according to the National Association for Fertilizers Dissemination (Anda) – and 28.8% in imported raw materials. Sales of farm machinery on the domestic market grew 1.5% in the year, according to Anfavea, while the sales of wheeled tractors, motorized cultivators and harvesters registered respective variations of 4.7%, -5% and -14.4%.

Energy

Oil production, including liquefied natural gas (LNG), increased by 6.9% in 2009, compared to 3.6% in the previous year, according to the National Petroleum Agency (ANP). Production reached 2.029 million barrels/day (mbd), compared to 1.899 mbd in 2008, with the highest level recorded in December, 2.079 mbd, and the lowest in January, 1.973 mbd. Natural gas production totaled 0.364 mbd, dropping 1.8% in 2009.

Table 1.14 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2007	2008	2009
Petroleum	1 423	1 485	1 481
Fuel oil	95	89	86
Gasoline	318	324	328
Diesel oil	716	769	763
Liquid gas	207	211	209
Other derivatives	86	91	95
Fuel alcohol	262	336	393
Anhydrous	101	108	109
Hydrated	161	228	284

Source: ANP

The total oil processed in refineries registered an annual increase of 0.7% in 2009, reaching 1.742 mbd. Oil imports decreased 1.7% in the year, to 0.387 mbd, whilst exports increased 22%, to 0.525 mbd.

The consumption of petroleum products in the domestic market recorded an annual decline of 0.2% in 2009, with emphasis on the decreases related to kerosene for lighting purposes, 32.6%; fuel oils, 3%; Liquid Petroleum Gas (LPG), 1%; and diesel oil,

0.8%. Conversely, increases were observed in the consumption of jet fuel, 4.1%; other petroleum derivatives, 3.9%; aviation gasoline, 2.7%; and automotive gasoline, 1.2%. Alcohol consumption, continuing to reflect the growth in sales of cars with dual-fuel technology, increased 16.9% in the year, recording respective increases of 24.3% and 1.2% in sales of hydrated alcohol and anhydrous alcohol.

According to the Energy Research Company (EPE), a public federal company under the Ministry of Mines and Energy (MME), the national consumption of electricity decreased by 1.2% in 2009, as a result of a 8.1% falloff in industrial consumption. Residential, commercial and other sectors consumption – including public lightening, public service and rural sector – registered respective annual growth of 6.3%, 5.7% and 0.4%.

Table 1.15 – Electric energy consumption^{1/}

GWh			
Itemization	2007	2008	2009
Total	378 551	392 804	387 986
By sectors			
Commercial	58 739	61 947	65 479
Residential	90 300	94 719	100 680
Industrial	175 423	180 059	165 537
Other	54 089	56 082	56 289

Source: EPE

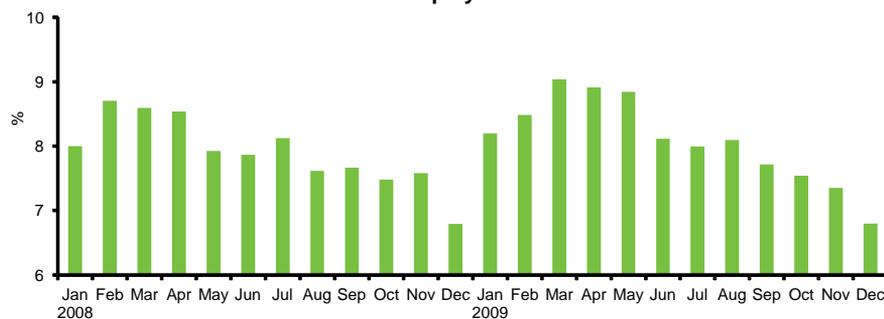
^{1/} Self-producers not included.

The analysis of energy consumption by geographic region reveals increases in the Central-West, 3.6%; Northeast, 0.4%; and North, 0.2%, contrasting with decreases recorded in the South, 0.5 %, and in the Southeast, 2.6%.

Employment indicators

Even though employment indicators reflected the intensification of the global crisis on the level of domestic activity in the first half of the year, a recovery compatible with the evolution of the Brazilian economy was observed in the rest of the year. Thus, according to the IBGE Monthly Employment Survey (PME), the unemployment rate in the six main metropolitan areas reached 8.1% in 2009, for an annual increase of just 0.2 p.p.

Graph 1.9
Median unemployment rate



Source: IBGE

It is important to mention that this relative unemployment rate stability occurred in an environment of decelerated employment growth rate – from 3.4% in 2008 to 0.7% in 2009. Thus, according to the PME, 308,000 jobs were created in 2009, compared to 625,000 in the previous year, 175,000 of which with formal contracts, 129,000 through self employment and 74,000 without formal contract. Even though this result was less significant than in previous years, it confirms the continuity of the process of growth in the formal labour market.

According to the General File of Employed and Unemployed Persons (Caged), of the Ministry of Labor and Employment (MTE), 995,100 jobs with formal contracts were generated in 2009, corresponding to nearly 70% of the average registered in the five year period up to 2008. The number of registered workers increased 2.1% in the year, with emphasis on the increase in the sectors of construction, 6.2%, and in both commerce and services, 3.9%, contrasting with a decrease of 2.2% in the manufacturing industry.

Table 1.16 – Formal employment – New jobs openings

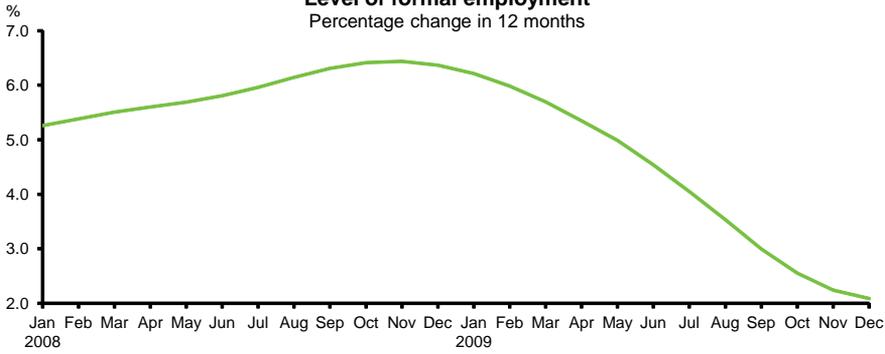
1,000 employees

Itemization	2007	2008	2009
Total	1 617.4	1 452.2	995.1
By sectors			
Manufacturing industry	394.6	178.7	10.9
Commerce	405.1	382.2	297.2
Services	587.1	648.3	500.2
Building	176.8	197.9	177.2
Crop and livestock	21.1	18.2	- 13.6
Public utilities	7.8	8.0	5.0
Others ^{1/}	25.0	19.0	18.3

Source: Ministério do Trabalho e Emprego (MTE)

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

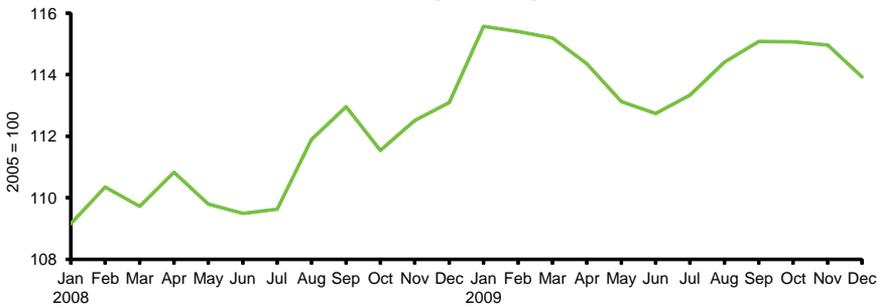
Graph 1.10
Level of formal employment
 Percentage change in 12 months



Wage and earnings indicators

The average earnings habitually received by persons employed in the six metropolitan areas covered by the PME reached R\$1,344.40 in December 2009, rising 3.2% in comparison to the same previous year period, reflecting respective increases of 5% and 2.3% in the number of nonregistered and registered workers. It should be noted that the pace of growth in earnings remained at the same level observed in the 2 year period up to 2008. Real overall wages, the product of the real average earnings habitually received multiplied by the number of persons employed, grew by 3.9% in 2009, compared to 6.9% in the previous year.

Graph 1.11
Real average earnings



Source: IBGE

Table 1.17 – Average earnings of occupied people – 2009

Percentage change		
Itemization	Nominal	Real ^{1/}
Total	8.4	3.2
Job position		
Registered	7.6	2.3
Unregistered	10.4	5.0
Self-employed	8.6	3.3
By sector		
Private sector	8.4	3.1
Public sector	10.7	5.3

Source: IBGE

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

Price indicators

Inflation, although registering a significant annual falloff in 2009, especially in relation to the performance of general indices, accelerated during the last months of the year. Accordingly, consumer price index variations in the last quarter of 2009, even devoid of seasonal pressures associated with increased prices of fresh food, educational costs and public transportation fares, demonstrated the effects of the enhanced domestic activity dynamics as of the middle of the first half of the year.

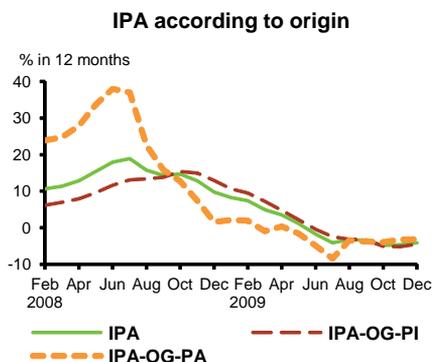
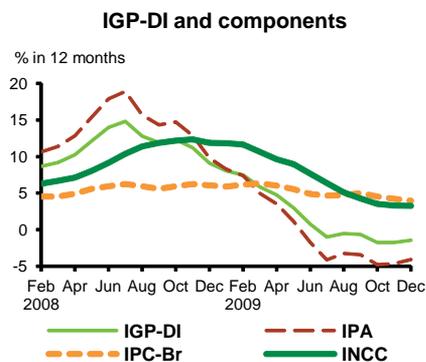
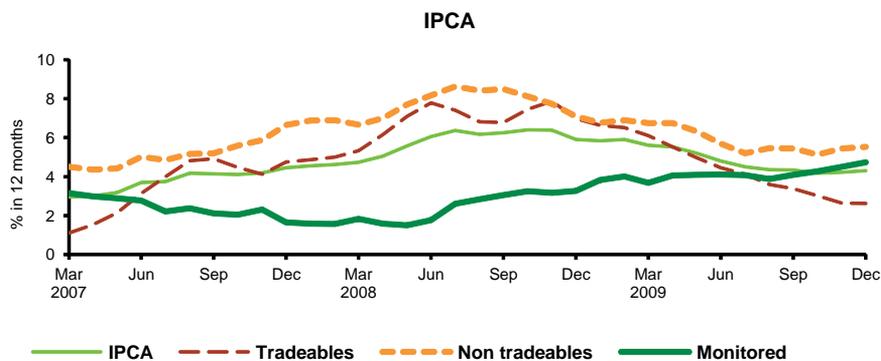
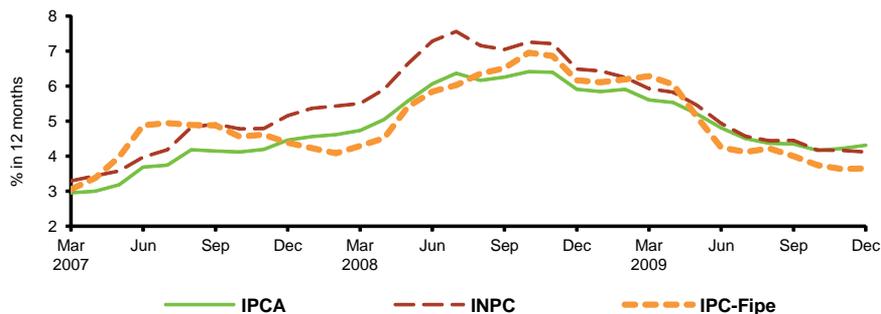
As released by the IBGE, IPCA variation reached 4.31% in 2009, within the target tolerance range set by the National Monetary Council (CMN) under the inflation targeting system.

General price indices

The General Price Index – Domestic Supply (IGP-DI), calculated by the FGV, which aggregates the Broad Producer Price Index – Domestic Supply (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%, recorded a 1.43% deflation in 2009, compared with growth of 9.10% in the previous year.

The annual variation of IPA-DI, reflecting the impact of 4.43% and 3.16% falloff in the prices of industrial and agricultural products on the wholesale prices, reached -4.08% in the year, compared to 9.80% in 2008, whilst those of the IPC-Br and INCC stood at 3.95% and 3.25%, respectively, compared to 6.07% and 11.87% in the previous year.

Graph 1.12
Consumer price indices



Sources: IBGE, Fipe and FGV

Consumer price indices

The IPCA variation, 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 4.31% in 2009, the third lowest annual rate since the Index was first announced in 1980, compared with 5.90% in 2008 and 4.46% in 2007. The

annual performance of IPCA reflected expansion in market prices, 4.14%, and in regulated prices¹, 4.73%, which had increased, in the order, 7.05% and 3.27% in the previous year.

Table 1.18 – IPCA items share in 2009

Groups	Percentage change				
	Weight ^{1/}	IPCA			Index share ^{2/}
		Accumulated change in 2008	Accumulated change in 2009	Accumulated share in 2009	
IPCA	100.00	5.90	4.31	4.31	100.00
Meals	4.21	14.46	9.06	0.38	8.86
Educational institutions	4.92	4.76	5.94	0.29	6.78
Domestic services	3.31	11.04	8.74	0.29	6.71
Cigarette	0.99	6.08	27.00	0.27	6.19
Non-processed foods	1.90	10.79	13.55	0.26	5.98
Meats	2.24	24.01	-5.34	-0.12	-2.78
Beans	0.36	-10.04	-37.84	-0.14	-3.15
Used automobiles	1.33	-4.32	-11.91	-0.16	-3.68

Source: IBGE

1/ Average weight in 2009.

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 2009

Groups	Percentage change				
	Weight ^{1/}	IPCA			Index share ^{2/}
		Accumulated change in 2 008.00	Accumulated change in 2 009.00	Accumulated share in 2009	
IPCA	100.00	5.90	4.31	4.31	100.00
Foodstuffs and beverages	22.71	11.12	3.17	0.72	16.77
Housing	13.24	5.09	5.68	0.75	17.43
Housing products	4.21	1.99	3.05	0.13	2.98
Apparel	6.65	7.30	6.11	0.40	9.21
Transportation	19.36	2.32	2.37	0.46	10.61
Health and personal care	10.83	5.72	5.37	0.58	13.47
Personal outlays	10.06	7.35	8.03	0.79	18.42
Education	7.10	4.58	6.11	0.42	9.65
Communication	5.84	1.79	1.07	0.06	1.47

Source: IBGE

1/ Average weight in 2009.

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

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.

The annual acceleration of regulated prices largely reflected increases in bottled gas, 13.74%; medicines, 5.85%; urban buses, 5.34%; electricity tariffs, 4.69%; and gasoline, 2.06%. The deceleration of market prices, besides reflecting the decline of activity level in the months immediately subsequent to the worsening of the global crisis, reflected the movement of food prices, with emphasis on the variations in the prices of beans, -37.84%; rice, -13.12%; meat, -5.34%; chicken, -5.16%; milk -3.45%; soybean oil, -1.53%; and French bread, -1.11 %.

Growth in the National Consumer Price Index (INPC), which is also calculated by IBGE, reached 4.11% in 2009, compared to 6.48% in 2008. It is worth noting that inflation measured by the INPC stood at a lower level than that measured by the IPCA because 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 that these families commit on food – which registered lower price increases in the year – is relatively greater. It should be noted that the contributions of food and beverages in the IPCA reached 22.56% against 29.62% in the INPC.

The Consumer Price Index (IPC), calculated by the Institute of Economic Research Foundation (Fipe), for families with incomes of one to twenty minimum wages in the city of São Paulo, reached 3.65% in 2009, compared to 6.16% in the previous year.

Regulated prices

Regulated prices increased 4.73% in 2009, accounting for 1.40 p.p. of the total IPCA variation in the year. The largest variations occurred for bottled gas, 13.74%; electricity, 4.69%; urban buses, 5.34%; airfares, 31.89%; intercity buses, 6.19%; medicines, 5.85%; ferry-boat, 14.86%; and health plans, 6.39%. Conversely, the prices of vehicle gas and diesel oil fell by 5.34% and 8.48%, respectively. It is worth mentioning, however, the increases observed in gasoline, 2.06%, and fixed telephone tariffs, 0.91%.

In relation to the items with the largest impact on the annual IPCA variation, it should be mentioned the contributions of health plans, 0.22 p.p.; urban bus fares, 0.20 p.p., with the largest increases occurring in Curitiba, 14.69%; Goiânia, 12.50%; Fortaleza, 12.50%; and Salvador, 10.00%; and intercity bus fares, 0.07 p.p., with the sharpest increases occurring in Belo Horizonte, 9.58%, and Sao Paulo, 7.59%.

The average increase of electricity tariffs reached 4.69% in 2009, compared to 1.11% in the previous year, as a result of increases in eight of the eleven regions covered by the IPCA. The price of medicines and gasoline rose 5.85% and 2.06%, compared with respective changes of 3.98% and -0.26% in 2008.

Table 1.20 – Major items included in the IPCA during 2009

Percentage change				
Itemization	Weight ^{1/}	IPCA		
		Accumulated change in 2008	Accumulated change in 2009	Accumulated share in 2009
Index (A)	100.00	5.90	4.31	4.31
Non-monitored prices	70.43	7.05	4.14	2.91
Monitored prices	29.57	3.27	4.73	1.40
Selected monitored items				
Air ticket	0.27	12.18	31.89	0.09
Medicine	2.88	3.98	5.85	0.17
Interstate bus rates	1.19	5.66	6.19	0.07
Water and sewage fees	1.63	7.11	4.94	0.08
Health care	3.41	6.15	6.39	0.22
Phone fees	3.41	3.64	0.91	0.03
Urban transportation	3.76	3.08	5.34	0.20
Domestic gas	1.16	2.42	13.74	0.16
Electric energy	3.25	1.11	4.69	0.15
Gasoline	4.11	-0.26	2.06	0.08

Source: IBGE

^{1/} Average weight in 2009.

Cores

The annual variations of the three IPCA inflation cores calculated by the Central Bank decelerated in 2009, remaining at a higher level than that registered by the headline index.

Table 1.21 – Consumer prices and core inflation in 2009

Percentage change				
Itemization	2008	2009		
		1 H	2 H	In the year
IPCA	5.90	2.57	1.70	4.31
Exclusion	5.72	2.78	1.89	4.73
Smoothed trimmed means	4.82	2.24	2.07	4.36
Double-weighted	6.07	2.55	2.13	4.74
IPC-Br	6.07	2.66	1.25	3.95
Core IPC-Br	4.07	2.05	1.62	3.70

Source: IBGE and FGV

The smoothed trimmed means increased 4.36% in 2009, compared to 4.82% the previous year, whilst the double weighting core² reported respective variations of 4.74% and 6.07%. The core by exclusion, which excludes changes in the prices of ten items³ from the sub-group home food and domestic fuel and vehicles, registered an annual rise of 4.73%, compared to 5.72% in 2008.

The change in the IPC-Br core, calculated by the FGV, by the smoothed trimmed-means method, decelerated from 4.07% in 2008 to 3.70% in 2009, whilst the headline index grew 3.95% in the period.

2/ This core is calculated by reconsidering the original weights – based on the importance of each item to the IPCA basket – by their respective degrees of relative volatility, resulting in lower representation of the behavior of the more volatile components.

3/ The ten Items are: Tubers, roots and vegetables; Cereals, pulses and oilseeds; Vegetables and greens; Fruit; Meat; Fish; Sugars and derivatives; Milk and derivatives; Poultry and eggs; and Oils and fats.