Consumer confidence

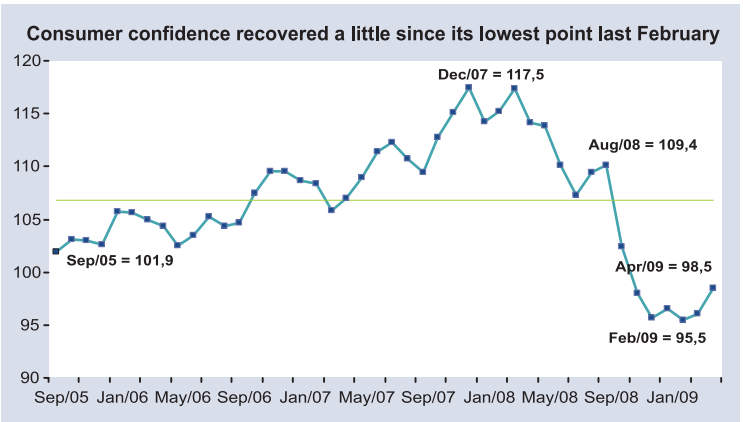
The FGV Consumer Confidence Index (CCI) fell sharply from last August, reaching, its lowest historical point in February. In March and April, the CCI increased two months in a row by 2.5%. Despite the increase in confidence, the worsening of labor market in recent months, and the environment of uncertainty will keep consumers cautious and purchases on hold for several months.

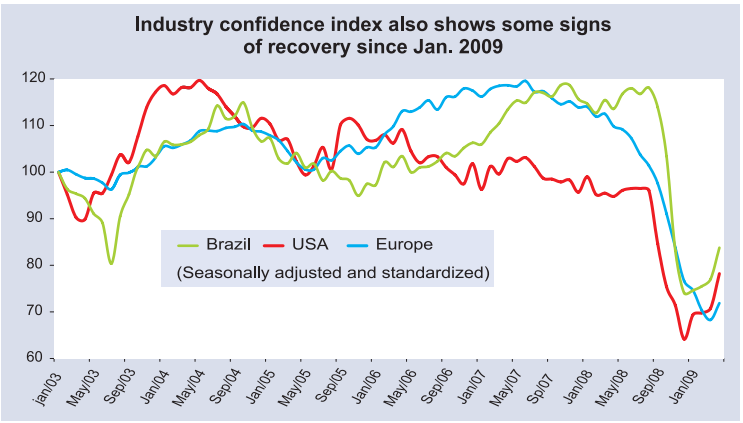
Industry

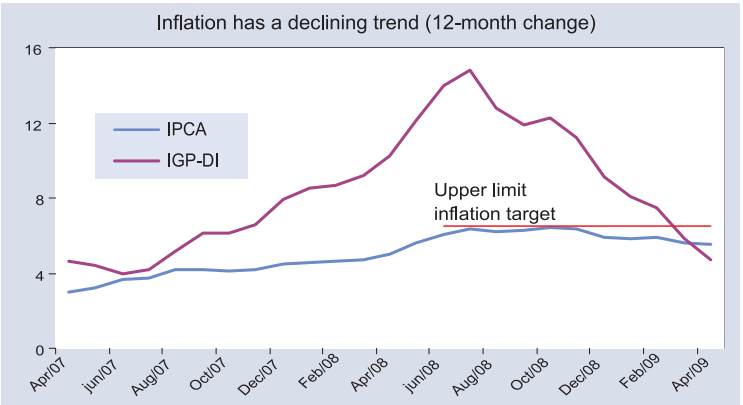
Brazilian industrial production dropped sharply in the last quarter of last year. According to the government's statistical agency (IBGE), the physical production index fell by 30%. In early 2009, the government enacted measures to stimulate the car industry and production started to grow slowly. Further monetary loosening and fiscal stimulus should help to support the recovery trend, which intensified in April. Compared with other countries, the FGV confidence index of Brazilian industry declined by less than Europe and USA. Brazil seems recovering in line with other emerging markets with strong economic fundamentals.

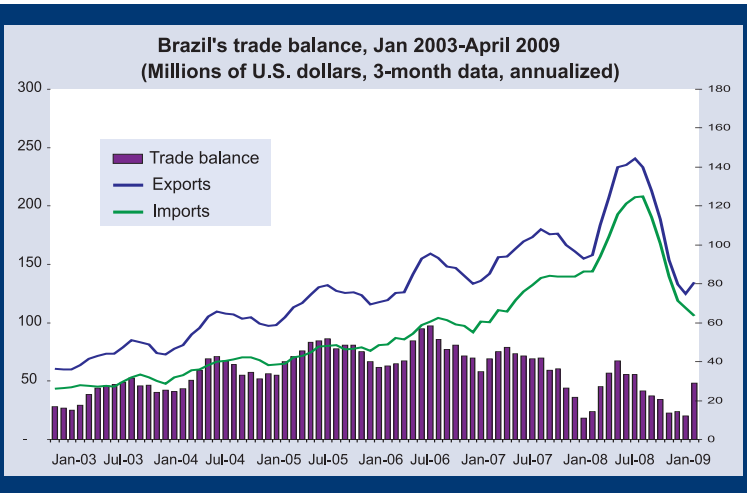
Inflation

After getting close to the 6.5% upper limit of the central bank's inflation target last October, 12-month inflation, measured by the official consumer price index (IPCA), declined to 5.5% in April. Food prices fell significantly, while service prices remained sticky. For the next few months, the prospects for a declining inflation remain favorable as the prices of industrial and primary products are declining sharply. 12-month inflation measured by the FGV General Price Index (IGP-DI), which relates closely to industrial and primary product prices, declined from 14.81% in July to 4.74% in April, dispelling the threat of passing through costs. Official inflation (IPCA) is likely to the year near the center of the central bank's inflation target (4.5%).









Trade balance surplus declines

Although the current crisis has contributed to reduce the trade balance, there has been a clear declining trend, since mid 2006, when imports started to grow faster than exports. Some observers argue this is evidence that the Brazilian currency was overvaluated. However, continuing investment inflows and strong accumulation of international reserves seems to suggest that a strong currency is not a threat to Brazil's macroeconomic stability. Nevertheless, if the crisis persist, the Brazilian currency may have to devalue further.

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