Industry capacity utilization

Capacity utilization in Brazilian industry — which registered in June 2008 its highest level since the 70s (86.7%) — sank to 77.6% last February because of the international financial crisis. Since then, capacity recovered up to 79.8% by July, but it is still below its historical average of the last 10 years (82%), showing that industry has not fully recovered. Although the FGV confidence index of industry has been recovering faster since the second quarter, significant investments in industry should occur only in 2010.

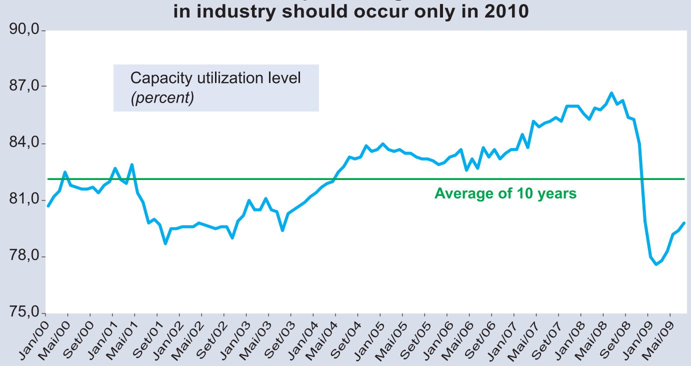
Industrial production and retail sales

The international crisis affected differently Brazilian industrial production and retail sales. Industrial production fell sharply in the fourth quarter of 2008 due to credit shortage, loss of consumer confidence and especially the fall in exports. Since January, the industry is recovering some of the ground lost as a result of tax exemptions and lower interest rates. In contrast, retail sales declined little in the fourth quarter of 2008, and most of the fall was in durable goods. In 2009, the industry has been recovering on the strength of the domestic market and counter cyclical effect of social programs.

Industrial input prices

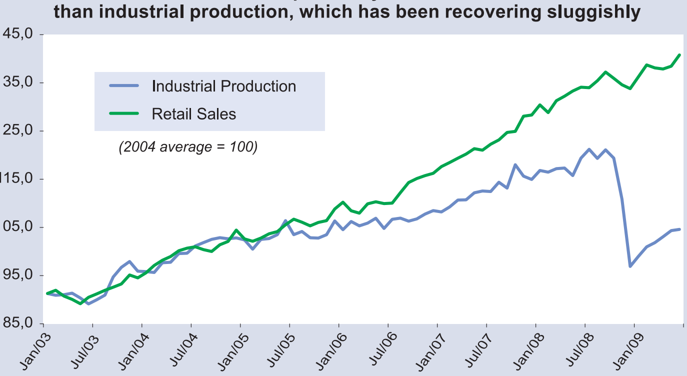
For the ninth consecutive month, industrial input prices fell. They have fallen 11.5% since October 2008 —, when prices reached their peak. Industrial input prices followed the decline of international industrial commodities prices (18.3% in the past 12 months). Recent increases in commodities prices in view of prospects of recovery of the global economy have been offset by the appreciation of the Brazilian currency (12.7% in the last three months). This reduction in prices is good news for controlling domestic inflation as it ensures the current industrial production recovery with modest cost pressures.

Although confidence index of industry has been recovering faster since second quarter, significant investments in industry should occur only in 2010



Source: IBRE-FGV.

Retail sales have suffered comparatively less from the international crisis than industrial production, which has been recovering sluggishly

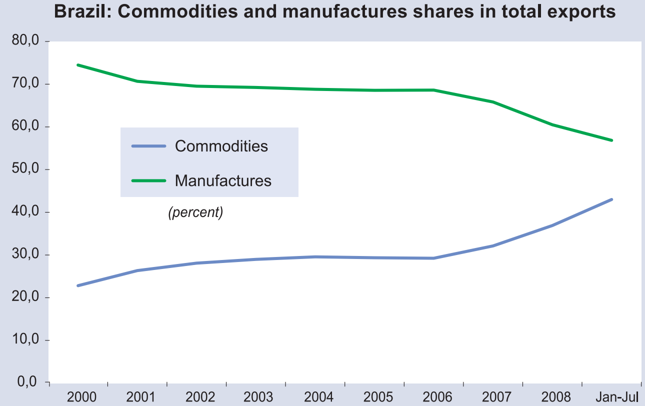


Source: Brazilian Institute of Geography and Statistics (IBGE).

Industrial input prices in Brazil fell following the decline in international industrial commodities prices

Source: IBRE-FGV.

Brazil: Commodities and manufactures shares in total exports



Source: Ministry of Development, Industry and Foreign Trade.

Brazil's challenge to recapture lost export markets

While the share of commodities in total exports has increased, manufactures' share has fallen in recent years. Brazilian manufacturing has lost competitiveness partly due to exchange rate appreciation. Also, with international demand having contracted, exporters of manufactures are fighting for a smaller slice of the market, and need to offer lower prices and financing on more advantageous terms, especially when compared with China. China is taking advantage of the current international scene to take over markets by offering generous financing to countries in exchange for their purchase of Chinese manufactured goods.

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