Industry recovering on the strength of the domestic market

For the first time in a decade, Brazilian industry recovery has been driven mostly by the domestic market, supported by the ongoing fiscal stimulus. Last August, the FGV industrial confidence index of exporting companies (50% or more export sales) was well below its historical average, while the total industrial confidence index (ICI) was already above its historical average. In July and August, the export upturn seems to have gained some strength, but it continues hesitant as foreign markets remain a major factor of uncertainty in the short term.

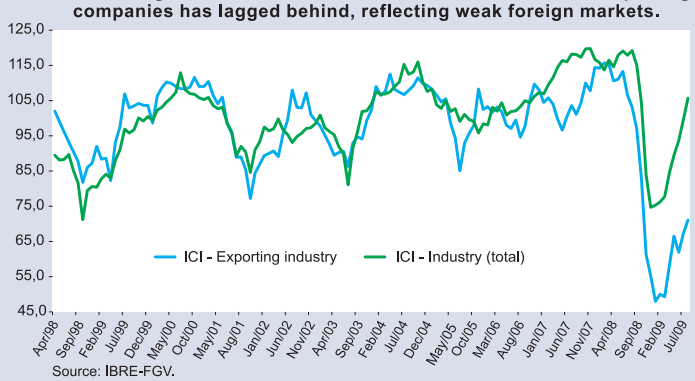
Uneven industrial recovery

Measured by the FGV confidence index of industry, the capital goods sector was hit most by the international crisis. Low levels of capacity utilization suggest that the capital goods sector will recover to its pre-crisis production levels only in the second half of 2010. The durable goods sector has been in a relatively better position owing to tax exemptions on durable goods since early this year, while the confidence of the nondurable goods sector remains relatively stable. In the past two months, the confidence index of intermediate goods has improved significantly. This segment represents over 40% of Brazilian industrial output and a large share of exports.

Resilient services sector

If it were only for the services sector, the Brazilian economy would not have gone into recession. After declining 0.5% in the fourth quarter of 2008, the sector grew by 1.5% for two consecutive quarters. Accounting for two-thirds of GDP, the services sector has offset part of the fall in industrial activity. Second quarter data, however, leaves no doubt that the industry began recovering strongly, posting growth of 2.1% compared with previous quarter. Apparently, the Brazilian recession will be one of the shortest compared to most countries affected by the crisis.

While the confidence index of Brazilian industry has recovered on the strength of domestic market, the confidence index of exporting companies has lagged behind, reflecting weak foreign markets.



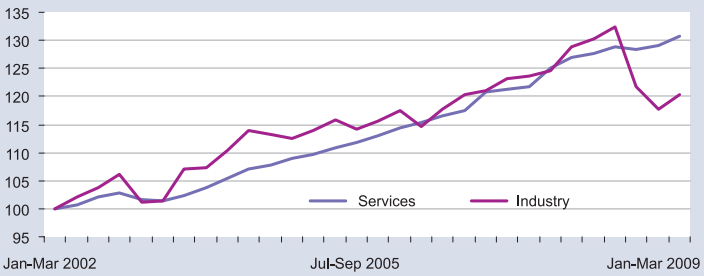
Source: IBRE-FGV.

Uneven industry recovery: Confidence index by sector

	Fall in the forth quarter of 2008	Rise in 2009	Post Crisis
Consumer goods	-34.6%	44.5%	-5.5%
Nondurable	-13.0%	5.5%	-8.2%
Durable	-42.3%	60.7%	-7.3%
Capital goods	-54.1%	34.6%	-38.3%
Construction materials	-38.2%	19.5%	-26.1%
Intermediate goods[1]	-35.3%	43.2%	-7.3%

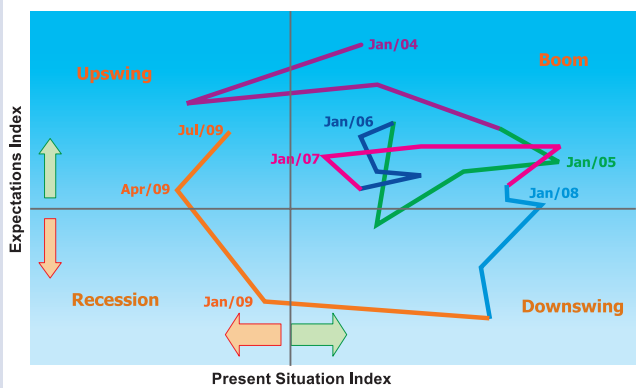
Source: IBRE-FGV.
[1]Metallurgy, pulp and paper, chemical and wood products.

Despite the international crisis, the services sector has remained resilient.



Source: Institute of Geography and Statistics (IBGE).

Brazil: Business cycle clock



Brazil heading out of recession

According to the opinion poll of 30 experts consulted last July for the Ifo-FGV Economic Survey of Latin America, Brazil is expected to resume the phase of accelerated expansion ("boom") in the last quarter of this year. The business cycle clock shows that the country was in recession only in January this year. Since April, Brazil has been in the recovery phase ("upswing"), and should return to the quadrant of economic boom as early as October 2009. Sources: Ifo (Institute for Economic Research, University of Munich) and Brazilian Institute of Economics of Getulio Vargas Foundation (IBRE-FGV).

For additional series and methodology contact: Industry and consumer surveys: (55-21) 3799-6764 or sondagem@fgv.br; Price indexes and data bank services: (55-21) 3799-6729 or fgvdados@fgv.br.