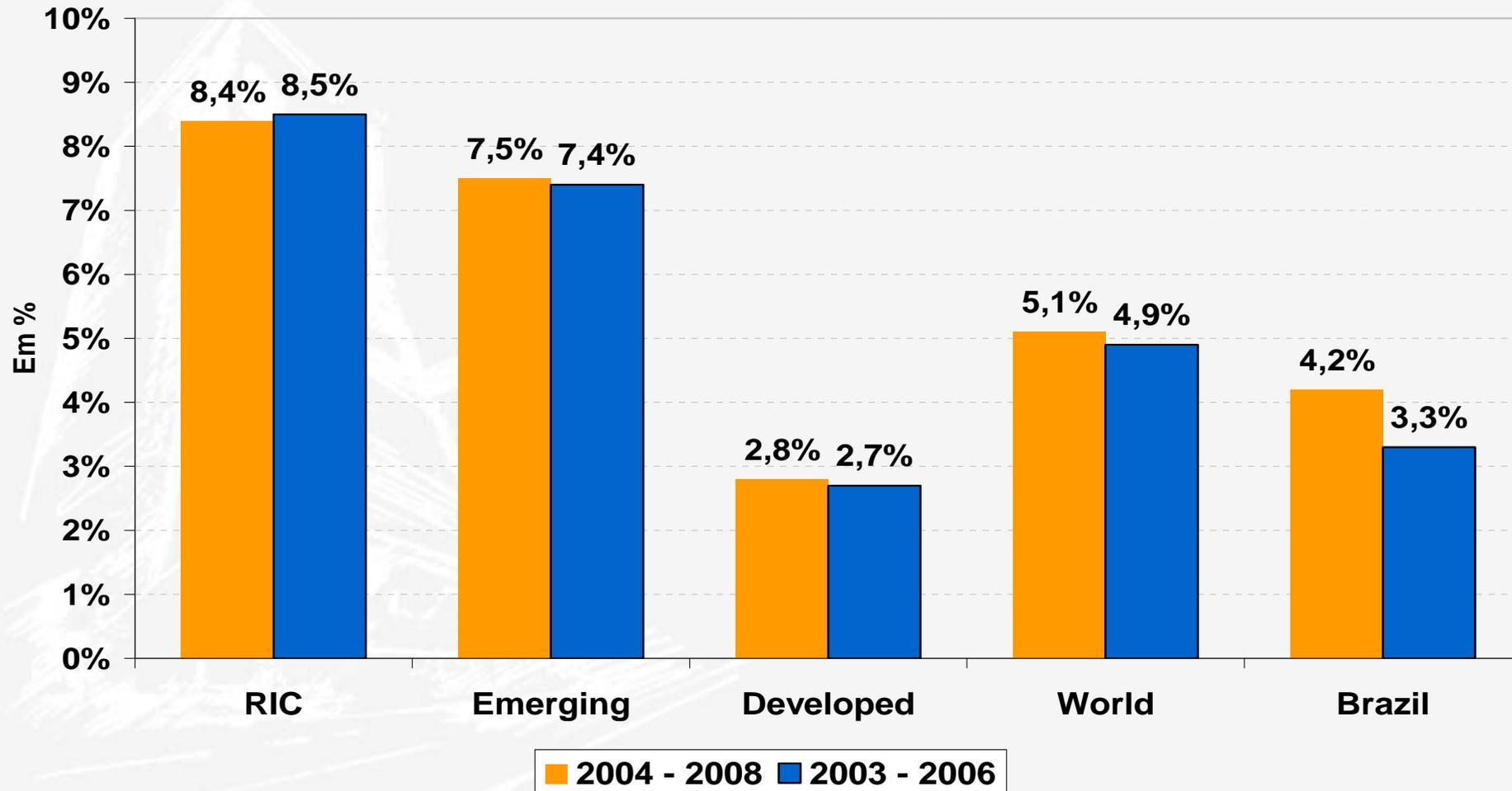




**The Brazilian economy:
Recent performance and impact
on the manufacturing industry**

The Brazilian economy has a low growth rate in comparison with other emerging countries

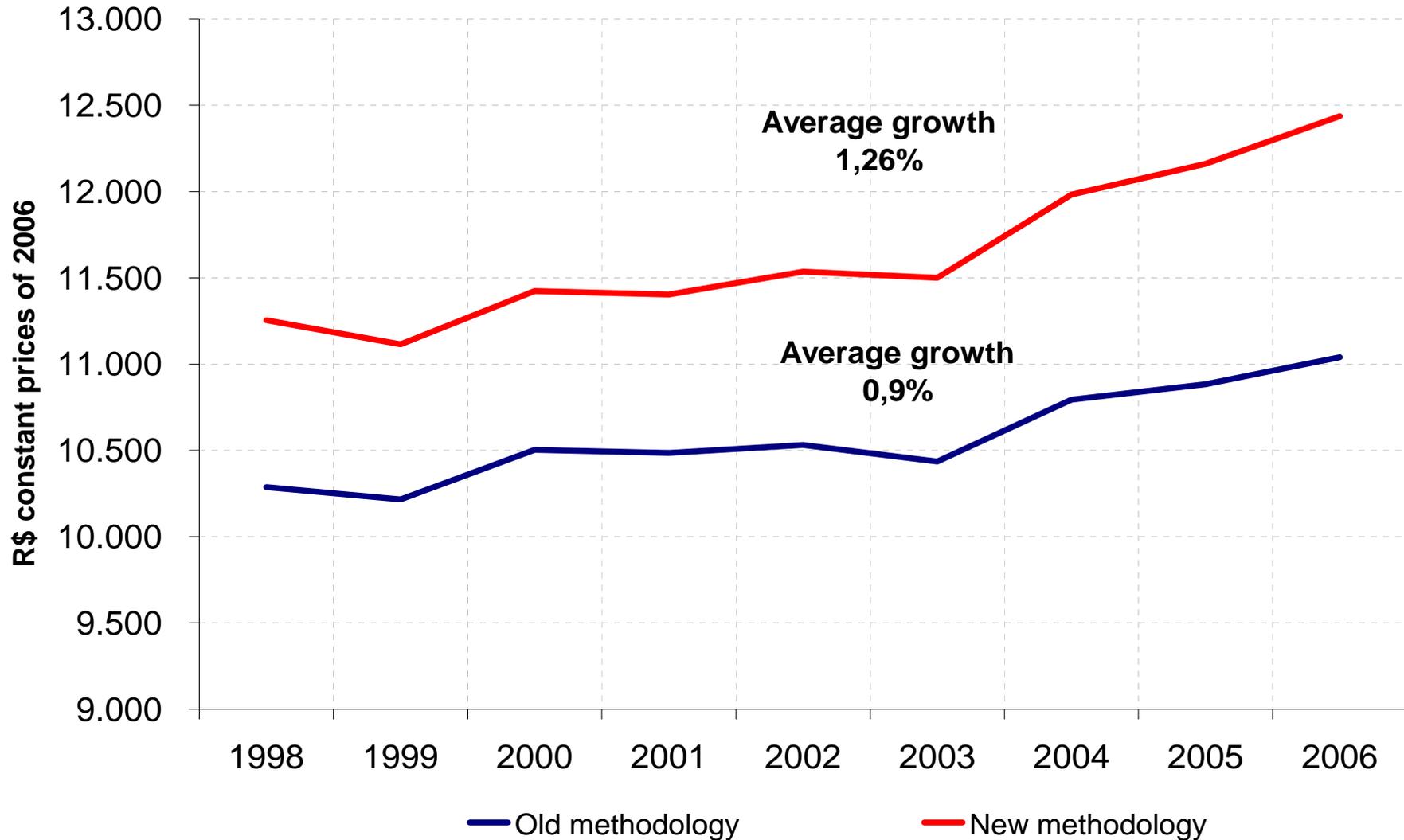
Average Annual GDP Growth



Source: World Economic Outlook – IMF

* 2007-2008 IMF forecast

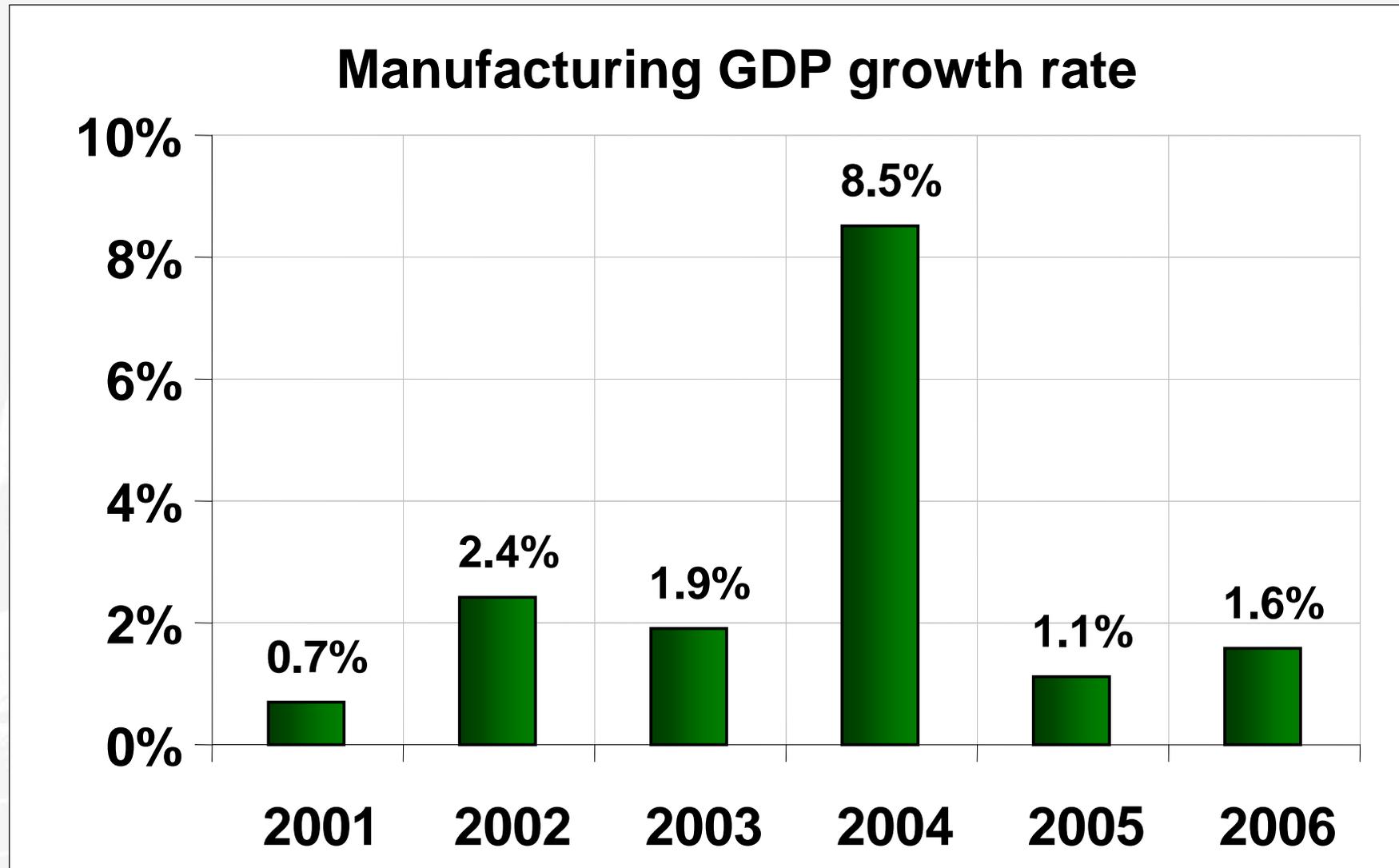
Real GDP (per capita) has been increasing only 1,3% per year on average



Changes in GDP methodology have reduced the share of industry. Among its four segments, only utilities has increased its share.

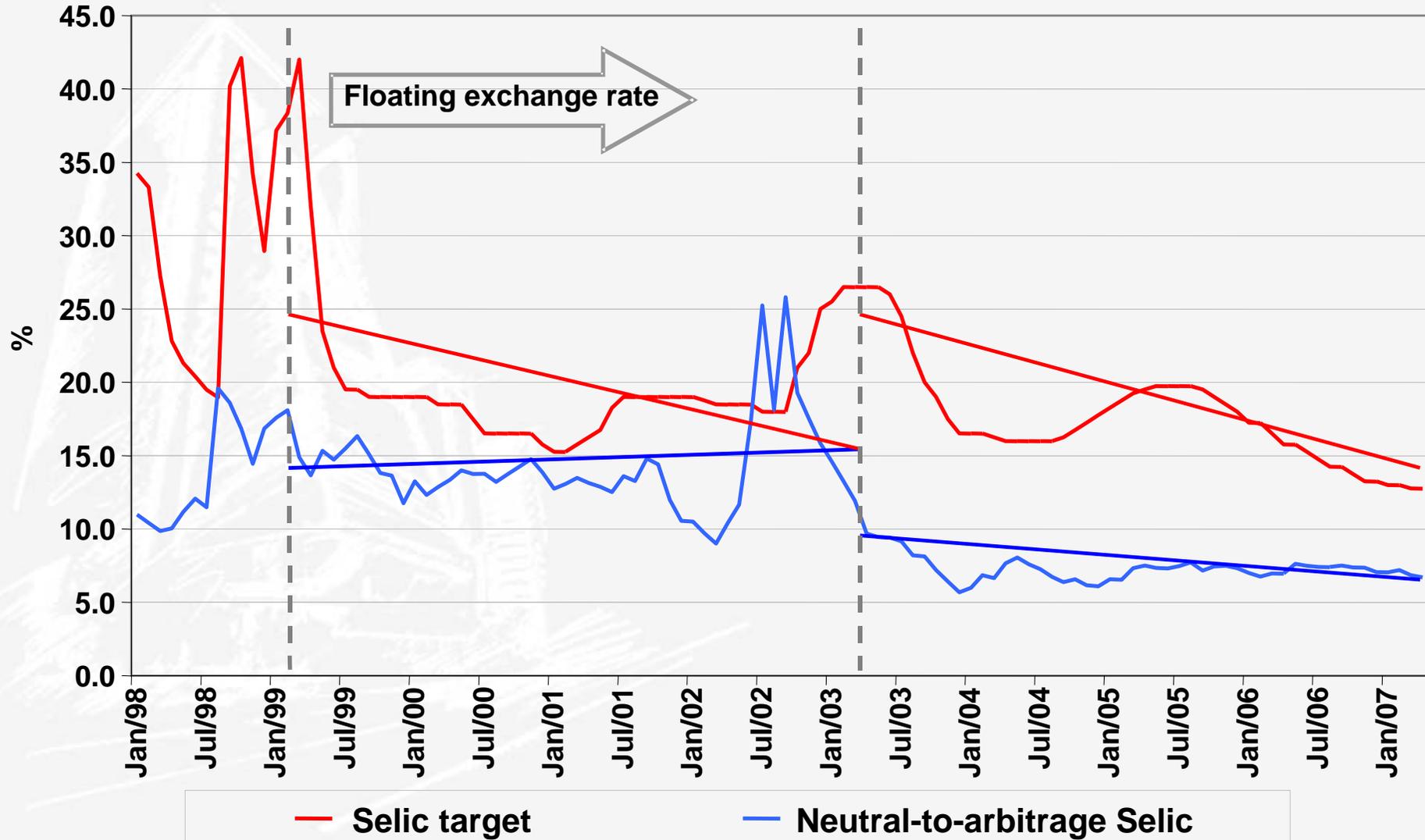
2000						
	R\$ millions			GDP Structure (%)		
	Old Methodology (A)	New Methodology (B)	% (B)/(A)	Old Methodology (C)	New Methodology (D)	% (D)/(C)
Agriculture	75.222	57.212	-23,9	7,7	5,6	-26,9
Industry	354.180	282.996	-20,1	36,1	27,7	-23,2
Mining	24.289	16.346	-32,7	2,5	1,6	-35,3
Manufacturing	211.679	175.723	-17,0	21,6	17,2	-20,2
Utilities	32.749	34.736	6,1	3,3	3,4	1,9
Construction	85.463	56.191	-34,3	8,7	5,5	-36,8
Services	552.459	681.439	23,3	56,3	66,7	18,5
Added Value	981.861	1.021.648	4,1	100,0	100,0	
Taxes on products	119.394	157.834	32,2	12,2	15,4	27,0
GDP	1.101.255	1.179.482	7,1	112,2	115,4	2,9
2006						
Agriculture	162.315	102.891	-36,6	8,4	5,1	-38,6
Industry	734.242	617.965	-15,8	37,9	30,9	-18,5
Mining	91.637	58.688	-36,0	4,7	2,9	-38,0
Manufacturing	440.703	368.101	-16,5	22,8	18,4	-19,1
Utilities	136.663	108.732	-20,4	7,1	5,4	-22,9
Construction	65.239	82.443	26,4	3,4	4,1	22,4
Services	1.040.594	1.278.771	22,9	53,7	64,0	19,0
Added Value	1.937.151	1.999.627	3,2	100,0	100,0	
Finance Dummy	(96.613)			-5,0	0,0	
Taxes on products	221.431	323.191	46,0	11,4	16,2	41,4
GDP	2.061.968	2.322.818	12,7	106,4	116,2	9,1

Source: IBGE
prepared by
FIESP



Since 2003 current interest rate has been higher than the neutral to arbitrage

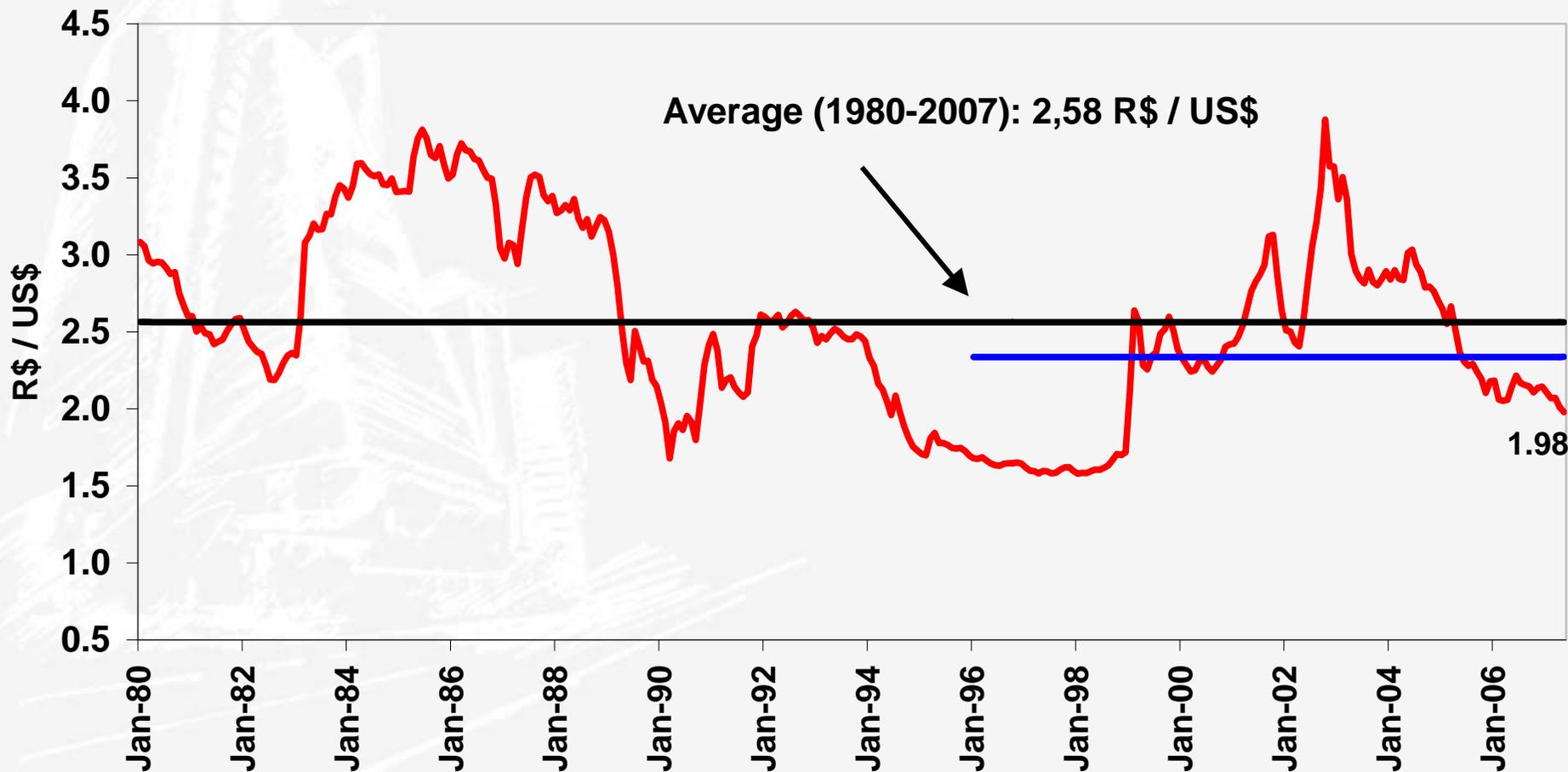
Selic & neutral-to-arbitrage Selic



Source: Central Bank of Brazil, FED St. Louis, JP Morgan

Current exchange rate is 23% below the 1980-2007 average, and 16% below the 1996-2007 average

Real effective exchange rate - R\$ / US\$ (basket of 17 currencies)



Other primary goods exporting countries have experienced strong export growth with little currency appreciation

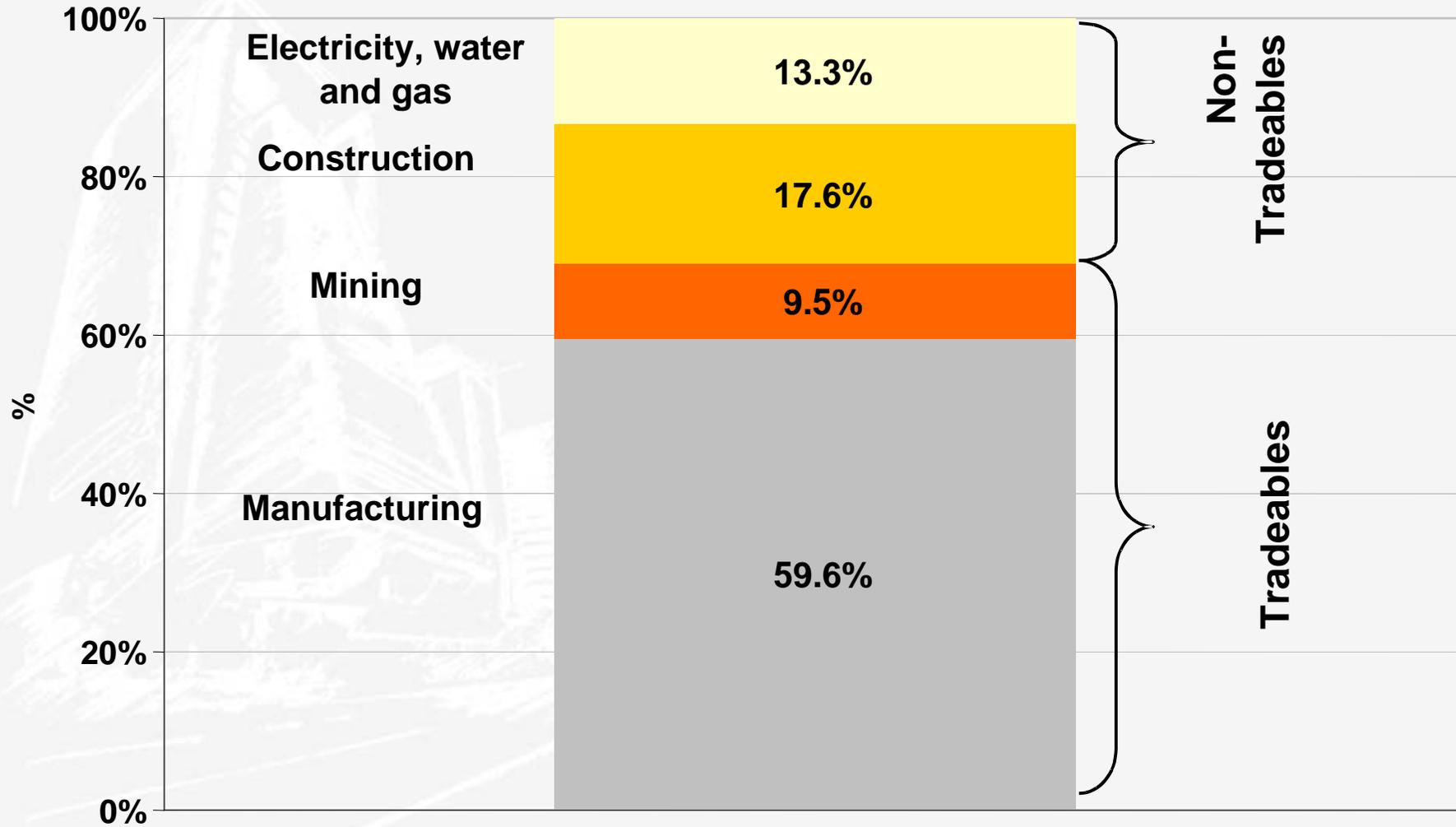
From 2003 to 2006, other currencies appreciated less than 10%, while the R\$ rose more than 25%

Exchange rate and exports (2003 – 2006)

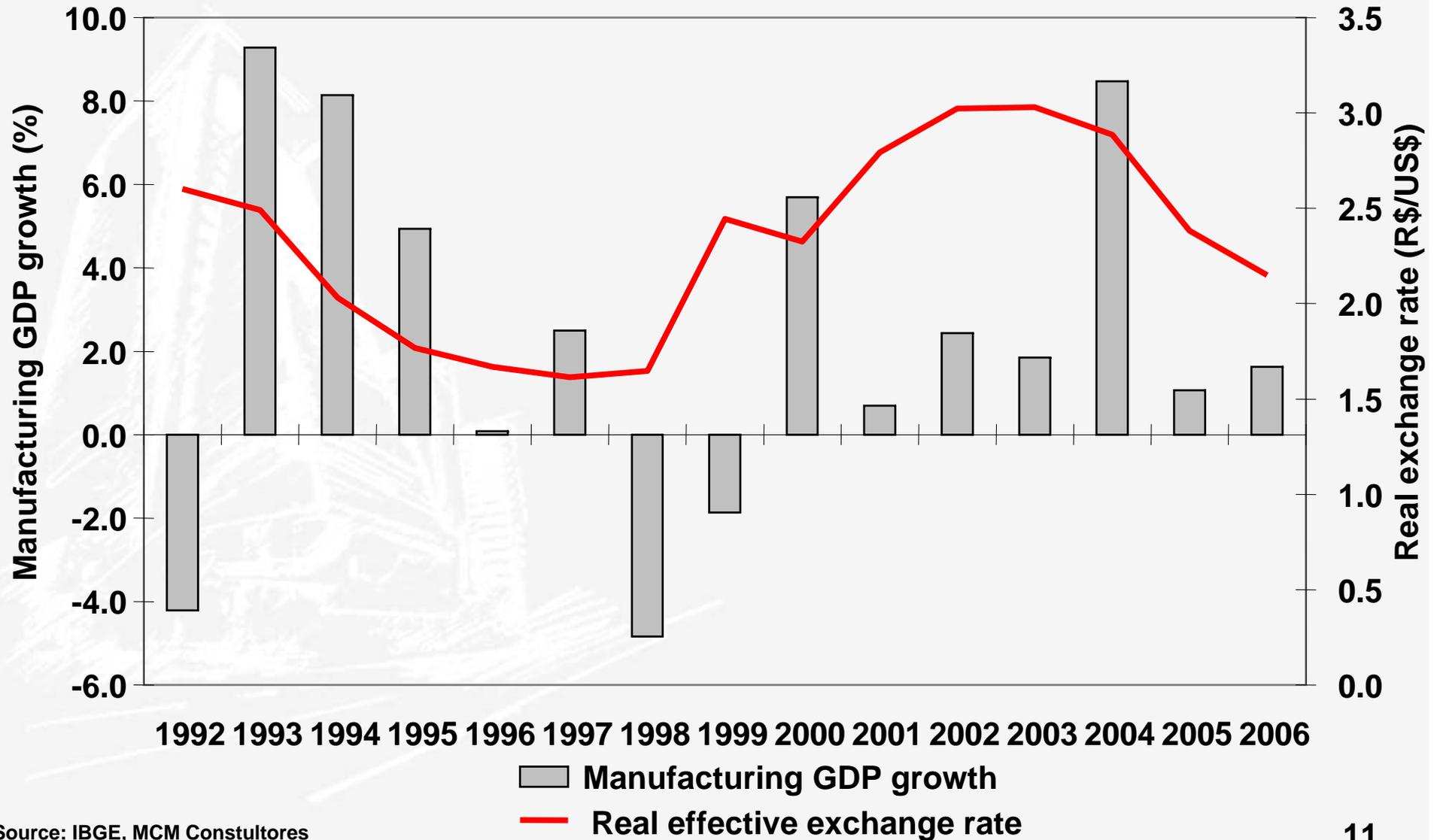
Countries	Change in exports	Change in exchange rate
Australia	70.0%	5.2%
Canada	42.5%	9.8%
New Zealand	37.7%	7.9%
South Africa	63.8%	-5.0%
Brazil	87.7%	26.0%

Source: WTO, IMF and SECEX

Industrial value-added structure



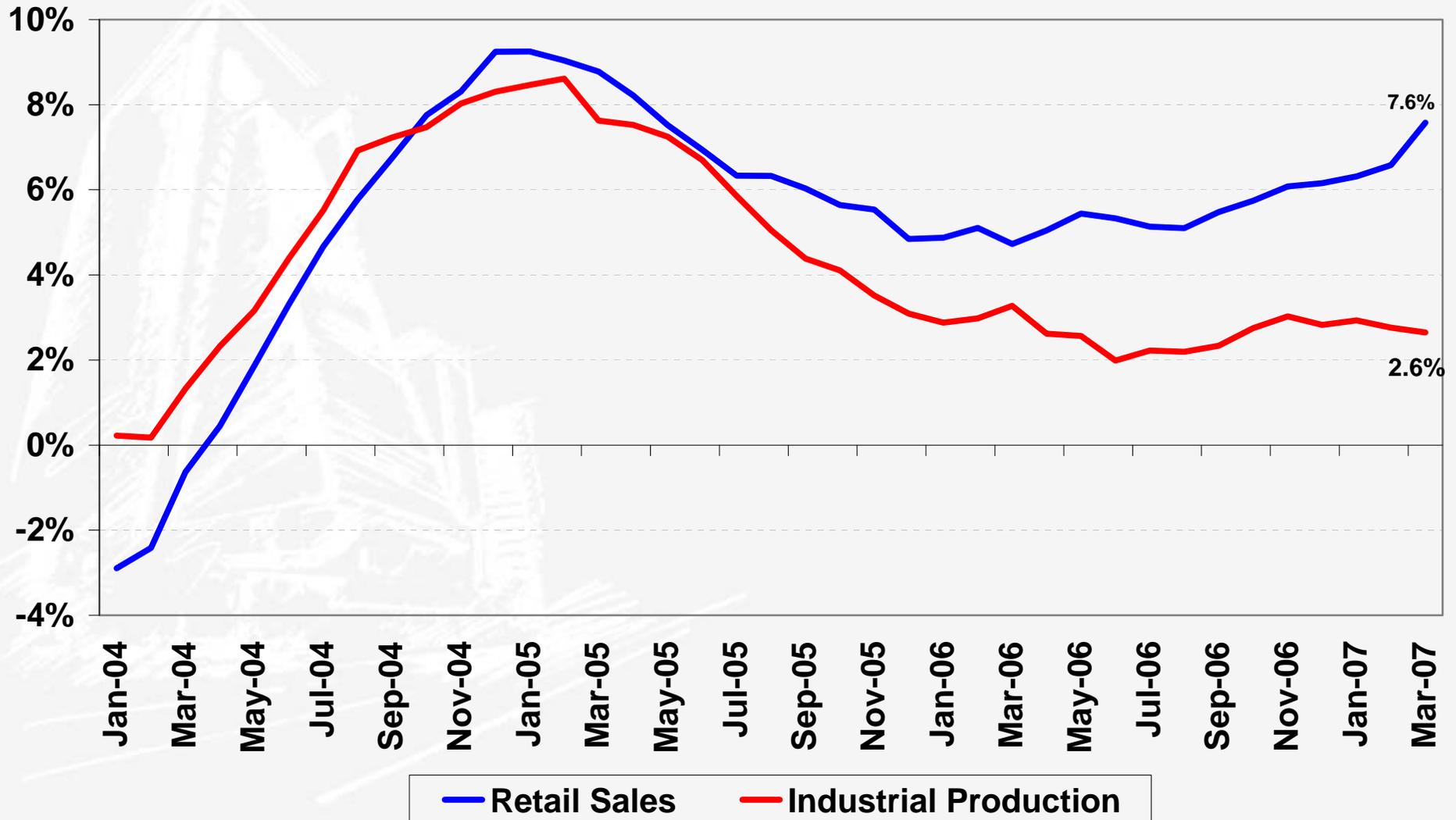
Currency appreciation results in poor performance of the manufacturing industry



Source: IBGE, MCM Constutores

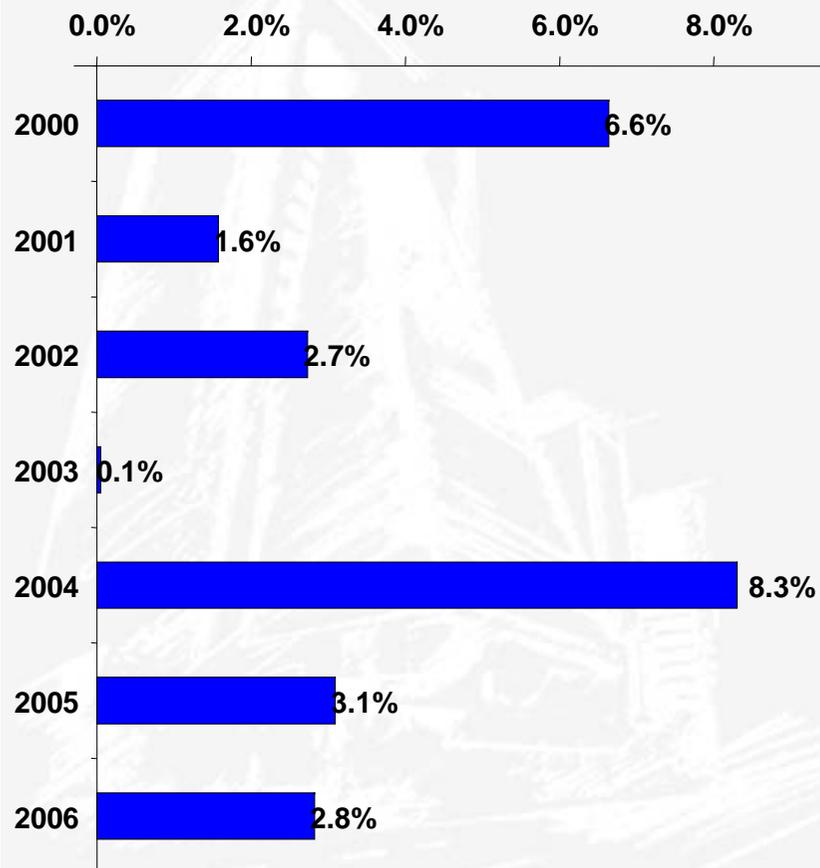
Retail sales have been growing faster than industrial production

12-month growth



Source: IBGE

Volume of industrial production (manufacturing, mining and oil) has been slowing down since 2004

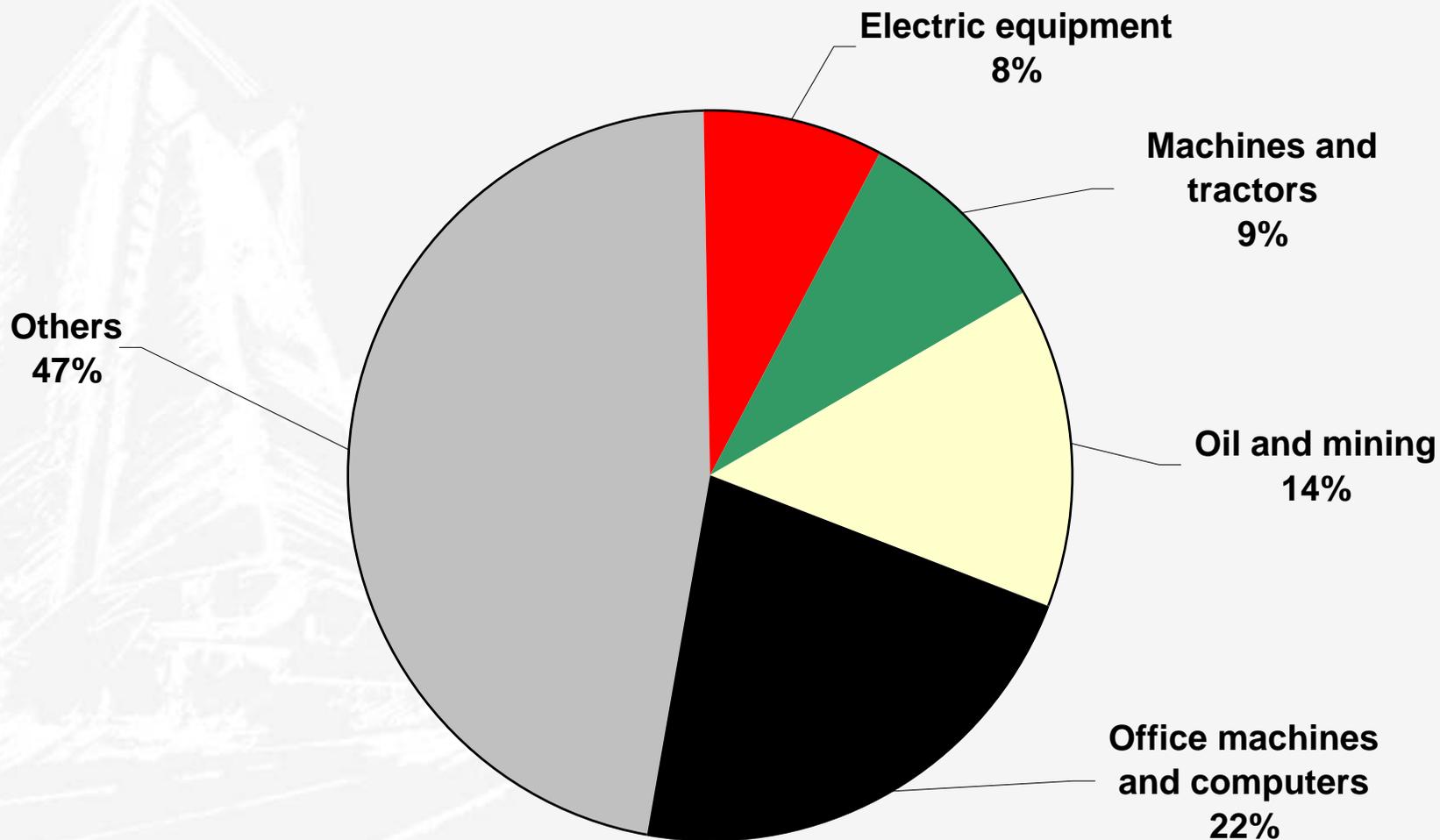


Sector	Growth (%yoy)		
	2005	2006	2007.I
Industry	3,09	2,82	3,78
Mining	10,19	7,35	5,65
Manufacturing	2,72	2,57	3,68
Food	0,61	1,80	4,83
Beverage	6,36	7,08	6,39
Tobacco	-0,89	3,94	1,24
Textile	-2,11	1,55	0,46
Clothing	-5,05	-5,11	-3,10
Leather articles and footwear	-3,20	-2,72	-6,38
Wood	-4,46	-6,85	-5,49
Pulp and paper	3,10	2,16	0,47
Printing and related support activities	11,30	1,73	-2,52
Oil and gas extraction	1,48	1,62	-1,17
Pharmaceutical products	14,44	4,39	-4,75
Perfum, soaps, detergents	3,73	1,96	9,22
Other Chemical products	-1,25	-0,90	3,75
Rubber and plastic products	-1,20	2,15	-0,03
Nonmetallic mineral products	2,82	2,57	3,60
Metallurgy	-1,96	2,84	9,14
Metal products - exclusive machines	-0,15	-1,28	1,15
Machines and equipment	-1,35	4,00	14,37
Office machine and computer	17,26	51,57	30,55
Electric machines	7,88	8,71	7,24
Electronic machines	14,22	0,00	-10,85
Medical and optical machines	2,56	9,37	-1,94
Vehicles	6,84	1,28	6,00
Other transport equipment	5,54	2,10	12,89
Furniture and related products	0,54	8,43	11,48
Others	8,45	-1,28	-0,07

Source: IBGE Prepared by FIESP.

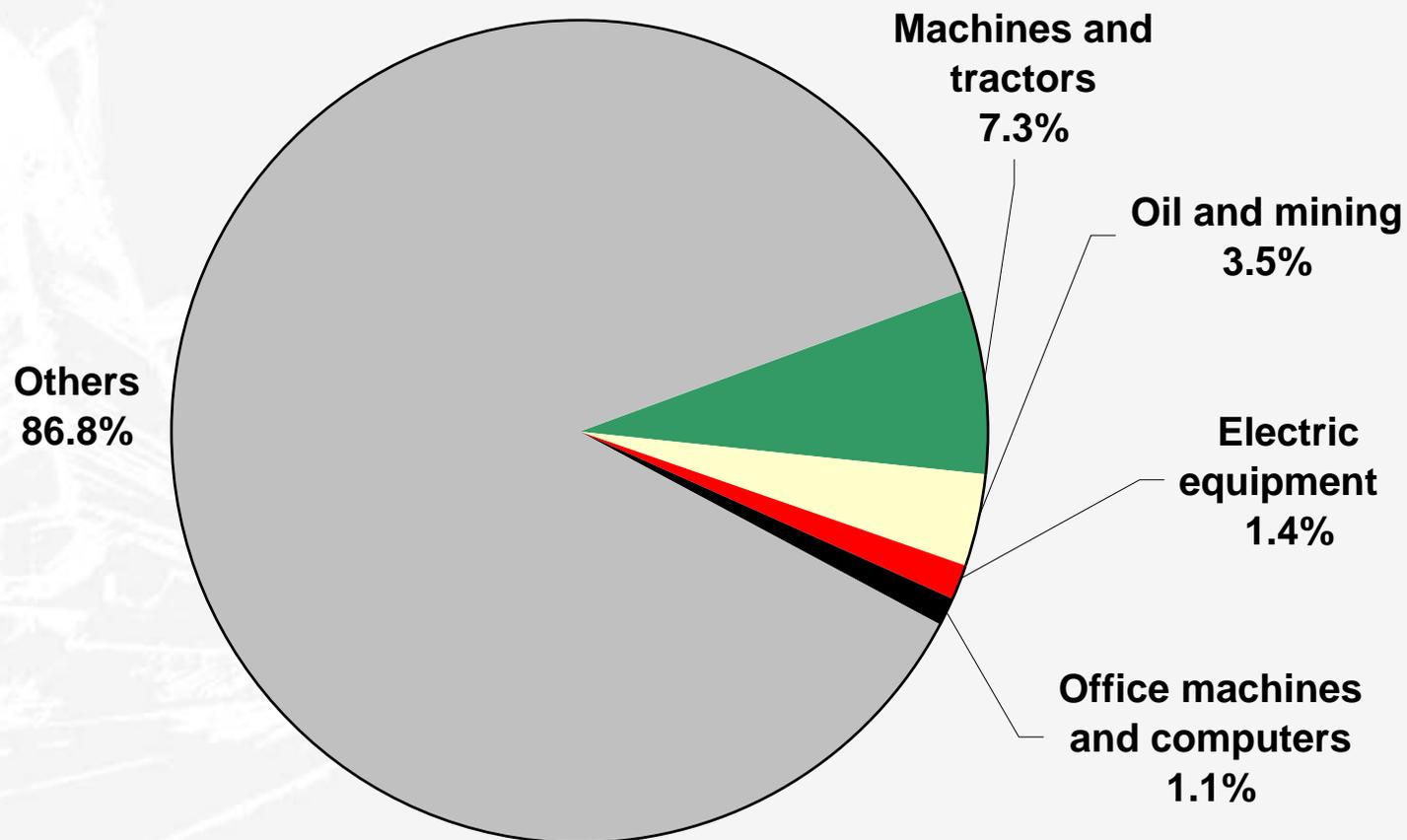
In 2006 four industries alone accounted for 53% of total manufacturing growth

Share in the growth of the manufacturing production (2006)



The same four industries accounted for only 13.2% of total employment in manufacturing

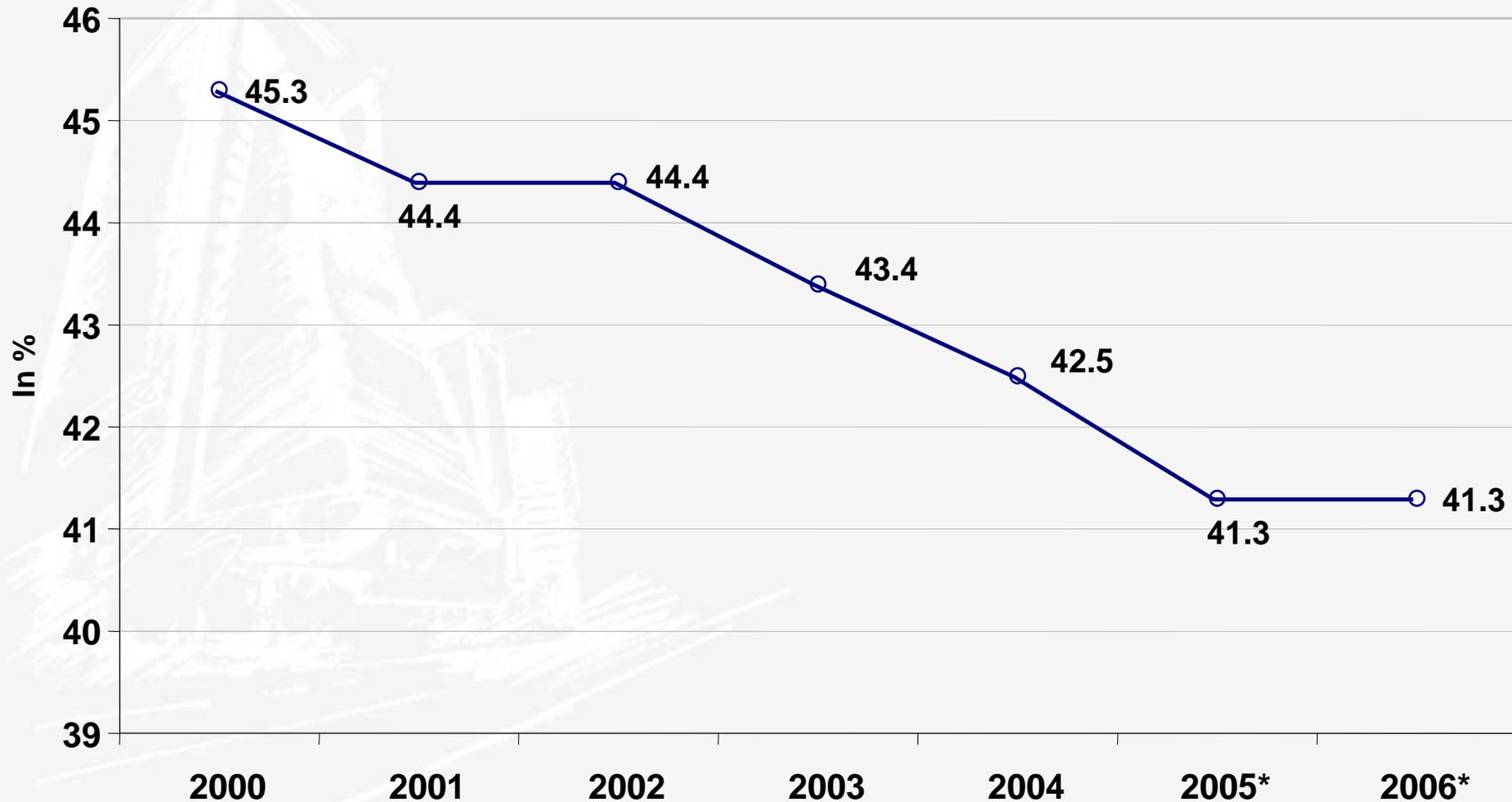
Employment in selected industries (2006)



Source: IBGE; prepared by FIESP

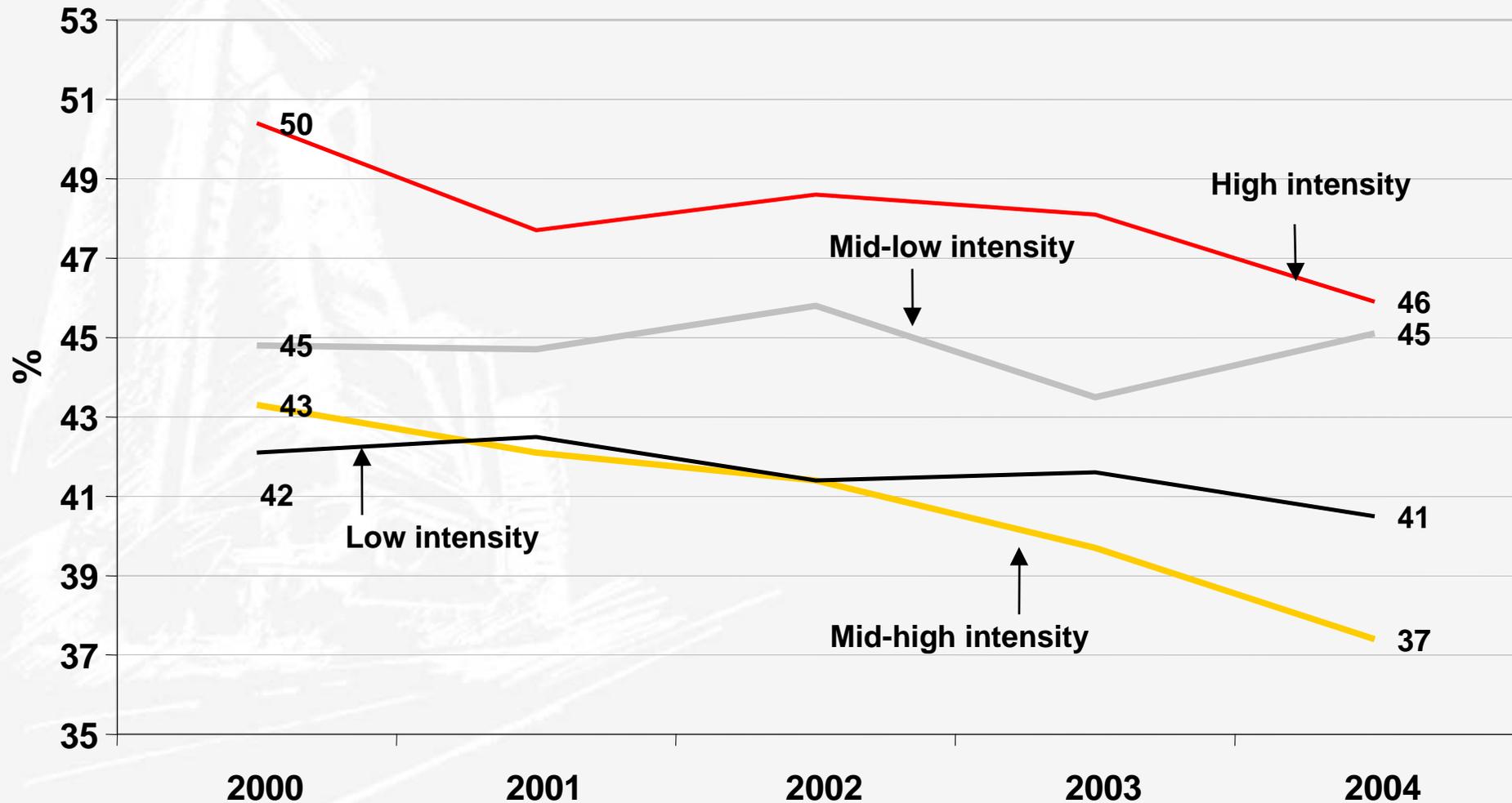
Manufacturing ratio between value added and production value is diminishing in time

Brazilian manufacturing ratio:
Value added / gross production value



Source: IBGE - Pesquisa Industrial Anual; prepared by IEDI (new).

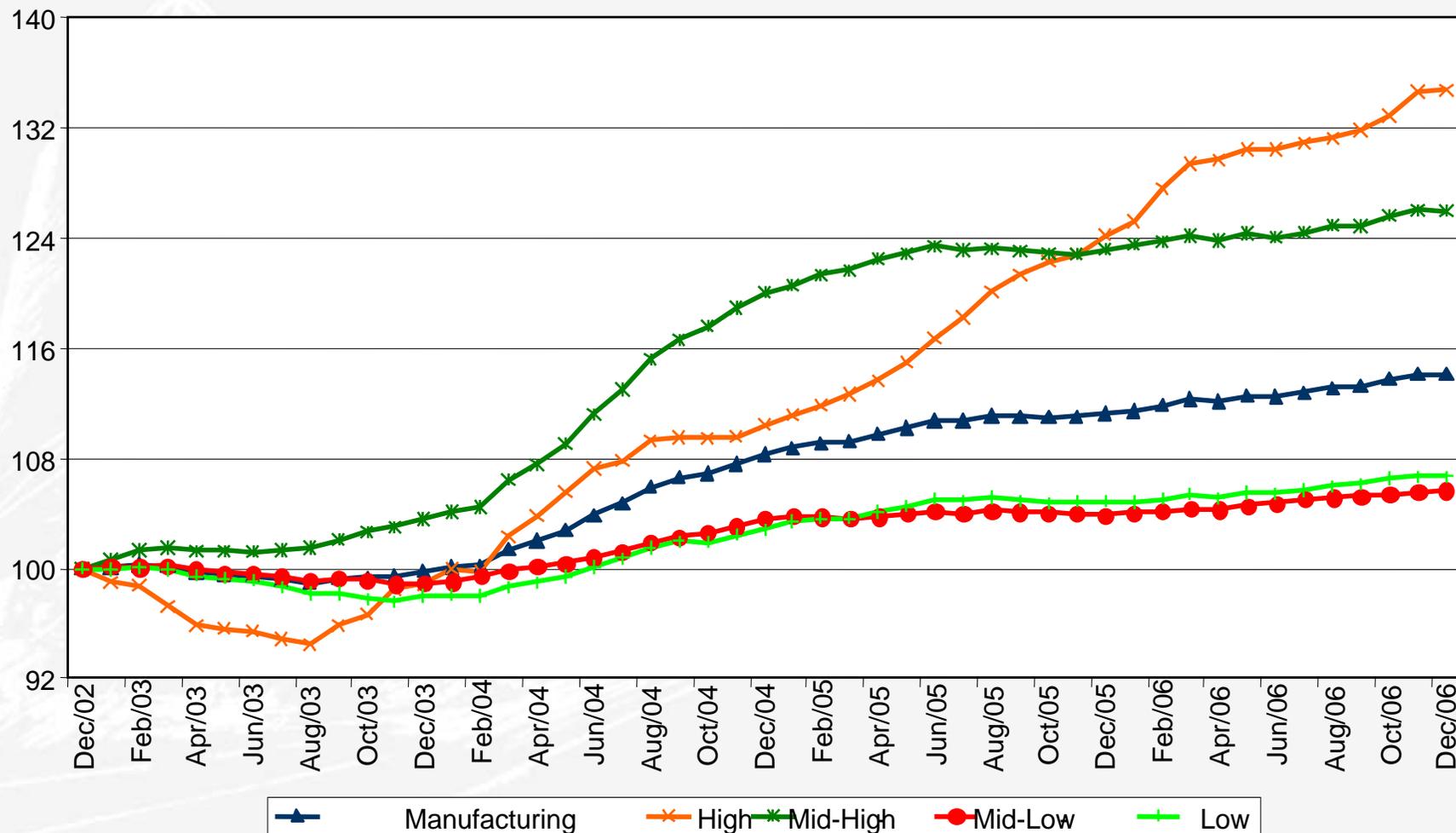
Ratio value added / gross production value
Segmented by technological intensity, according to OECD



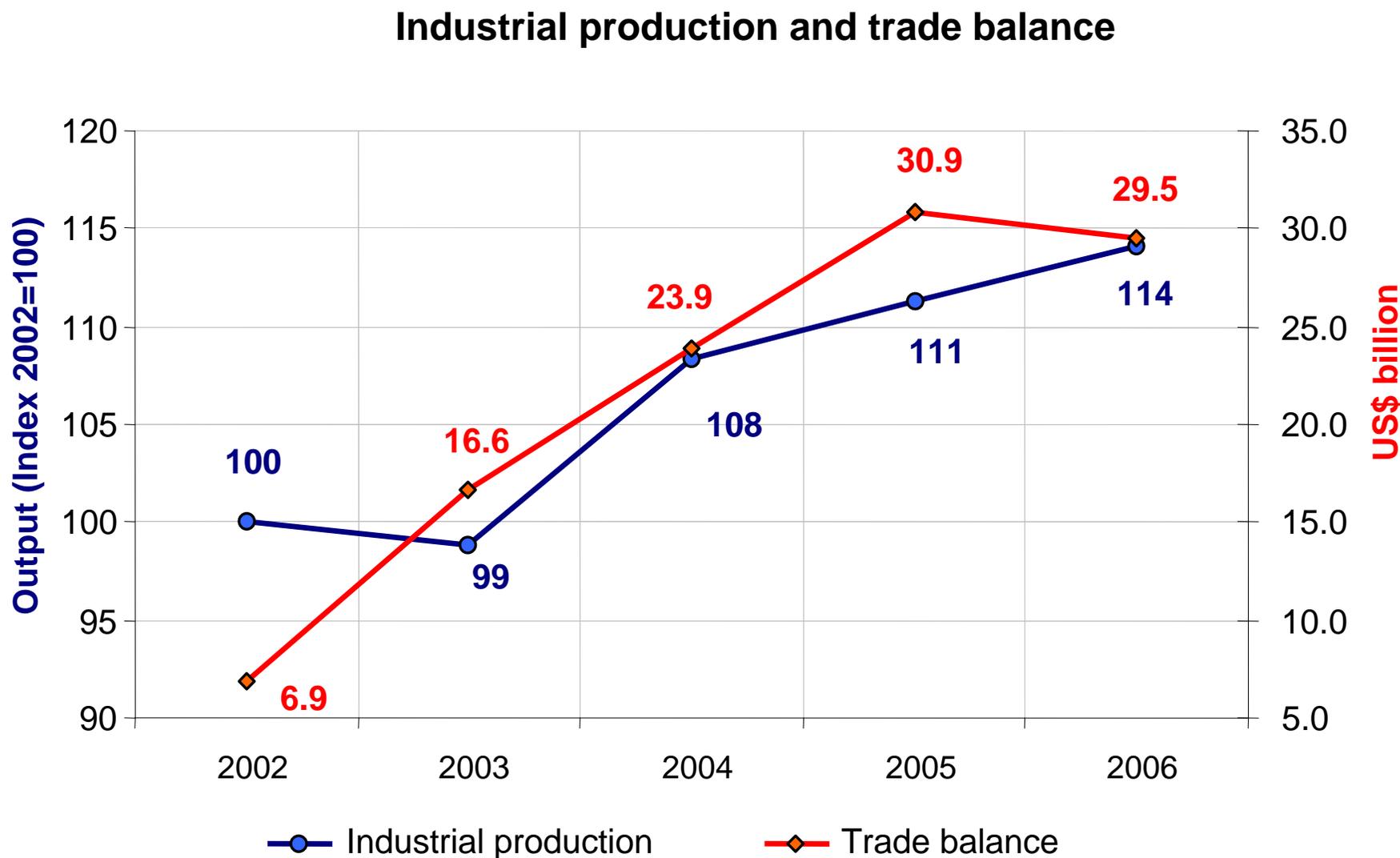
Source: IBGE; prepared by IEDI

Industrial production has been growing faster in technology-intensive industries

Industrial production by technological intensity
(2002 = 100; last 12 months)

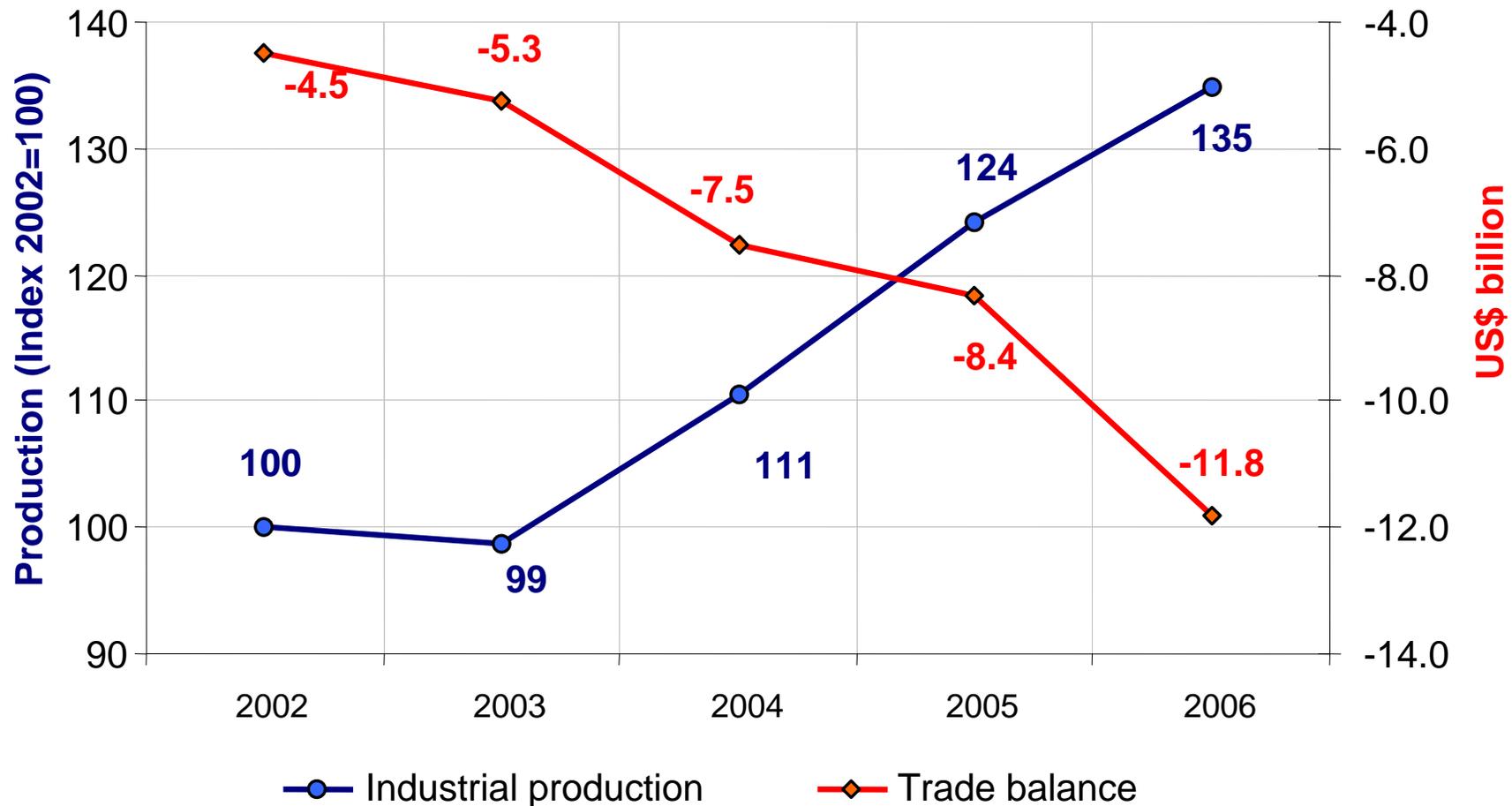


Source: IBGE; prepared by IEDI



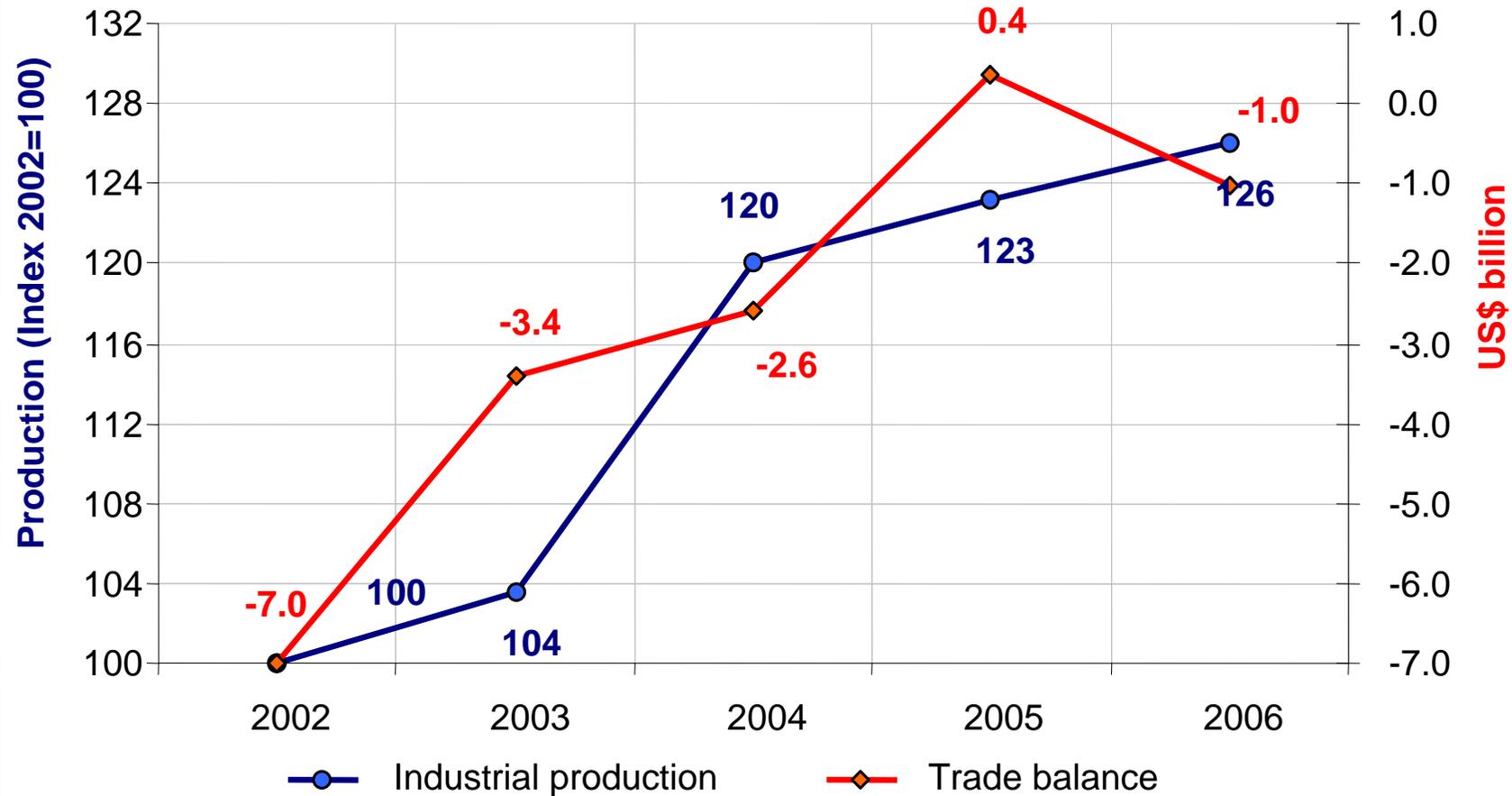
Source: SECEX and IBGE; prepared by IEDI

High technological intensity: industrial production and trade balance



Source: SECEX and IBGE; prepared by IEDI

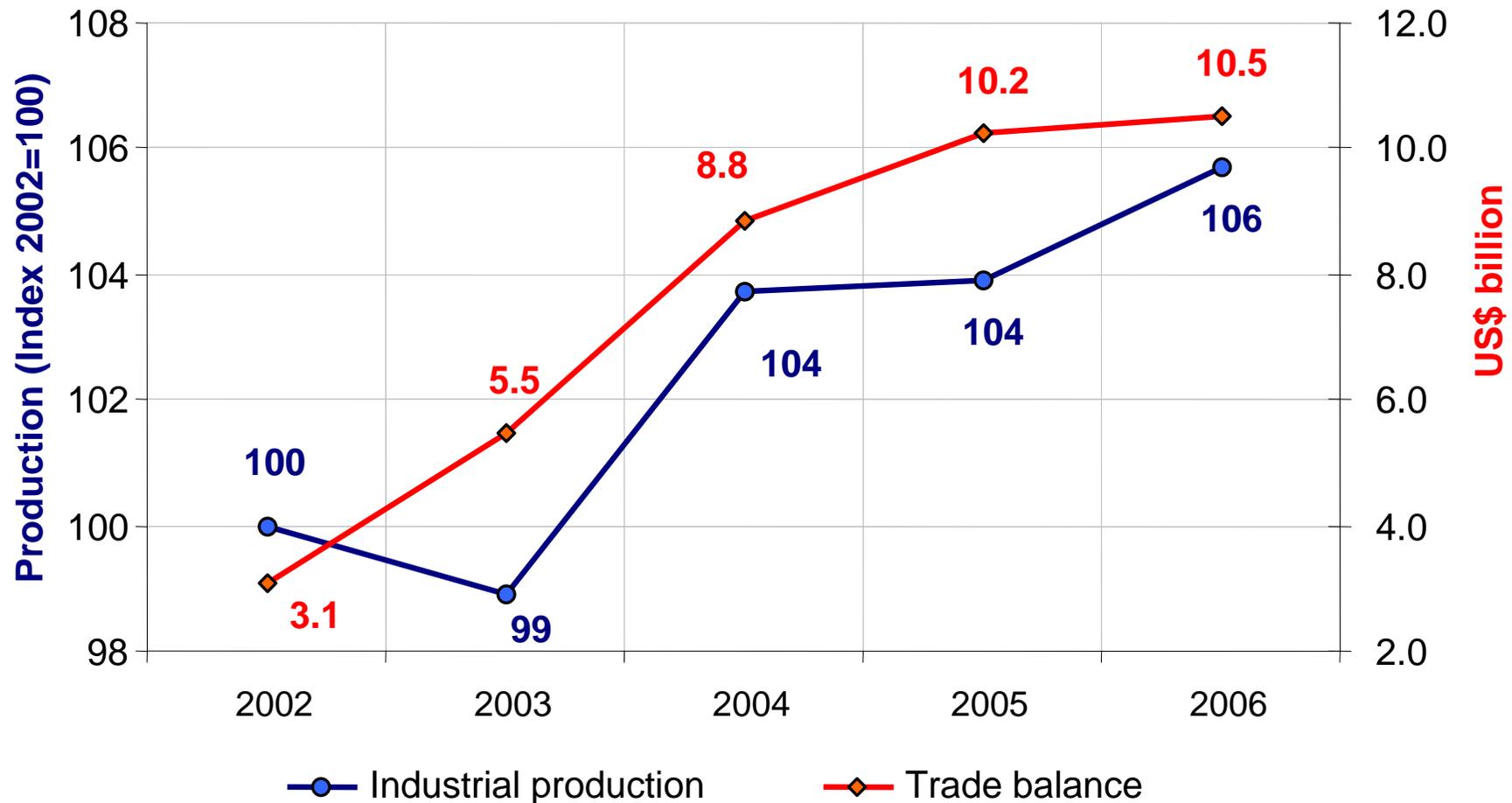
Mid-high technological intensity: industrial production and trade balance



Source: SECEX and IBGE; prepared by IEDI

In 2006 mid-low technology experienced increasing production with steady trade balance

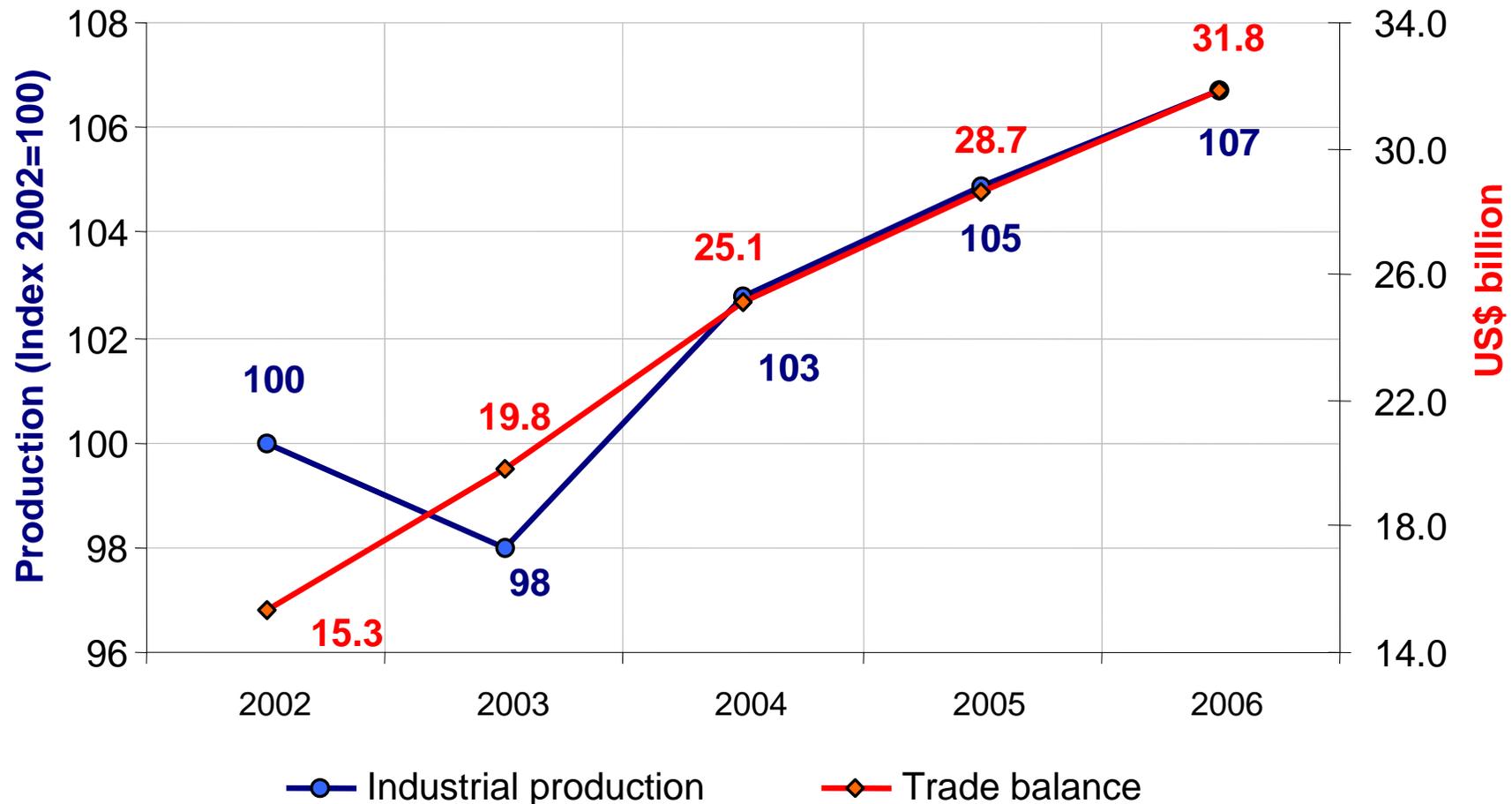
Mid-low technological intensity: industrial production and trade balance



Source: SECEX and IBGE; prepared by IEDI

Only the low-technology segment had rising production and a trade balance surplus

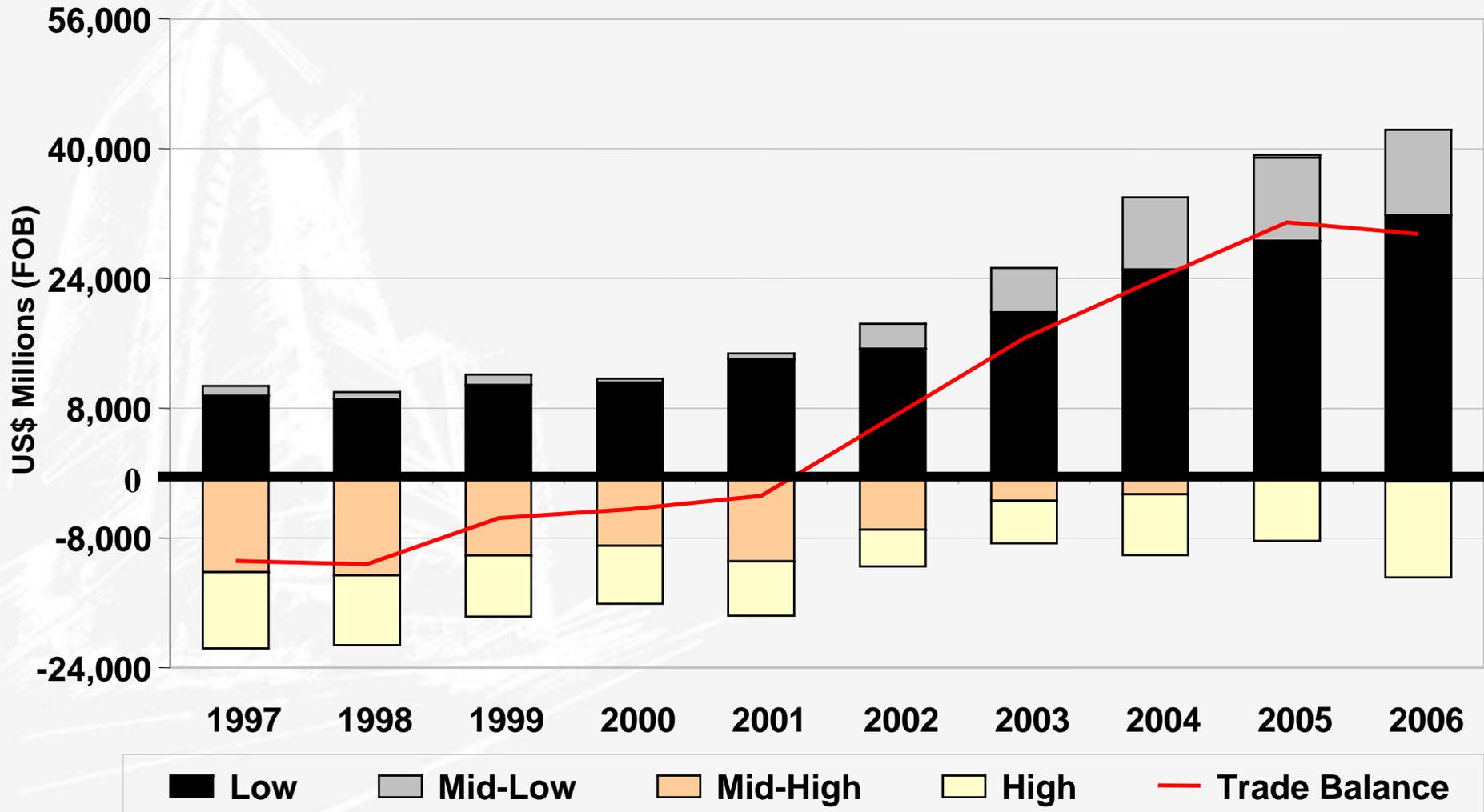
Low technological intensity: industrial production and trade balance



Source: SECEX and IBGE; prepared by IEDI

Only the low and mid-low intensity technology segments had a trade balance surplus in 2006

Manufacturing trade balance by technological intensity



- **Growing:** employment **AND** production growth greater than average.
- **Stagnated:** employment **OR** production growth greater than average.
- **Falling:** employment **AND** production growth lower than average.

Industrial imports accelerate, impacts on employment and production vary

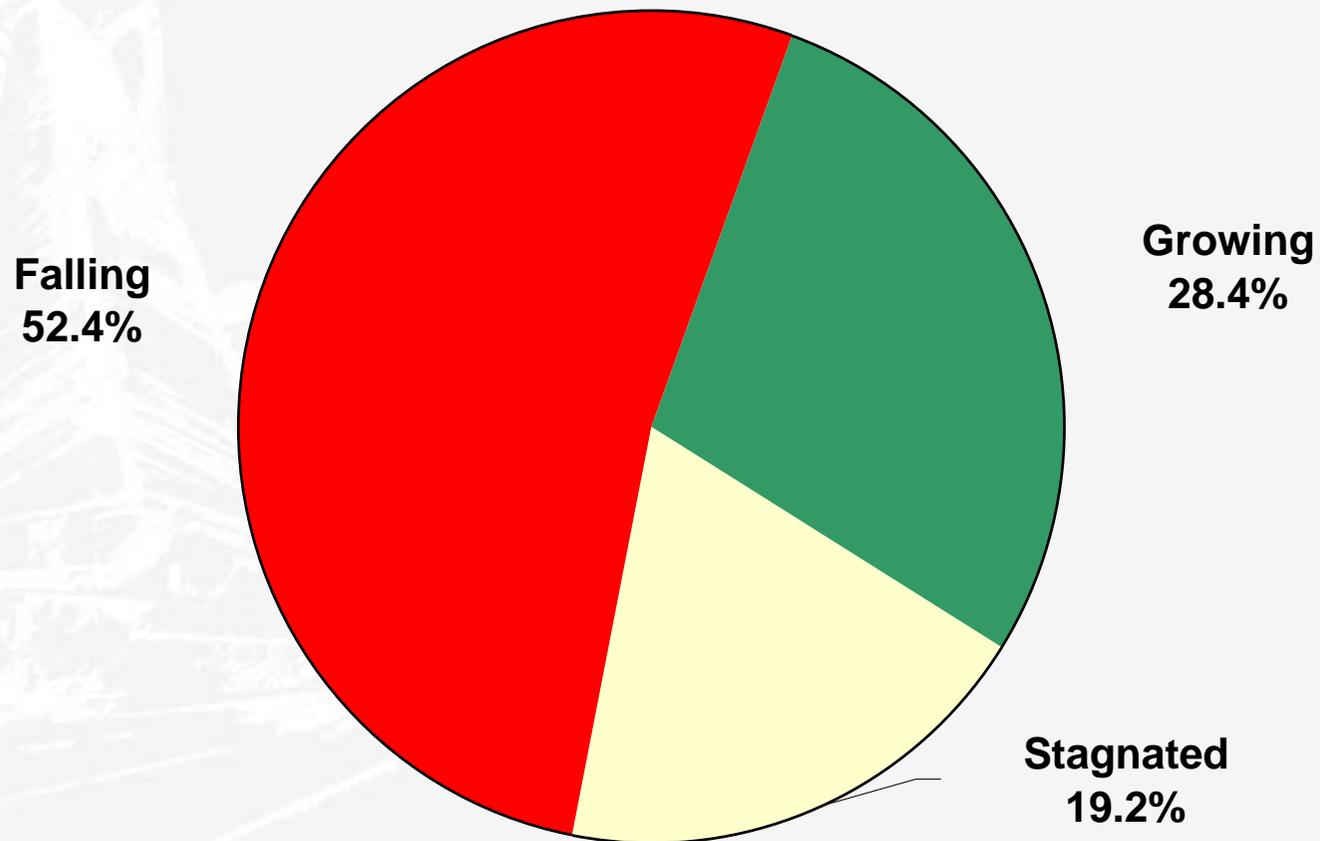
	Sector	Import growth (SECEX)	Industrial employment growth (PIMES)	Industrial production growth (PIM)
Growing	Mining	23.4%	1.0%	7.4%
	Food and drink	25.0%	8.2%	4.5%
	Metallurgy	51.3%	2.0%	2.8%
	Office machine and computer	34.1%	ND	51.6%
	Electric machines	22.0%	4.3%	8.7%
	Precision and optic equipment	21.8%	ND	9.4%
Stagnated	Oil and gas extraction	42.5%	14.0%	1.6%
	Tobacco	-1.3%	-4.7%	3.9%
	Chemical	13.9%	1.5%	1.8%
	Metal products	24.8%	0.2%	-1.3%
	Machines and equipment	12.5%	-6.2%	4.0%
	Vehicles	30.6%	2.6%	1.3%
	Furniture and related products	34.1%	-0.9%	3.1%
Falling	Electronic machines	23.1%	ND	0.0%
	Transport equipment	23.9%	ND	2.1%
	Printing and related support activities	12.0%	ND	1.7%
	Textile	44.6%	-1.2%	1.6%
	Clothing	55.4%	-5.4%	-5.0%
	Leather articles and footwear	27.3%	-13.0%	-2.7%
	Wood products	36.4%	-7.5%	-6.8%
	Pulp and paper	27.8%	-1.2%	2.2%
	Rubber and plastic products	14.6%	-2.2%	2.2%
	Nonmetallic mineral	11.8%	-1.4%	2.6%
	Manufacturing	23.31%	0.0%	2.6%
	Industry	23,32%	0,0%	2.8%

Source: IBGE.

Prepared by FIESP

Most of the employment is in falling sectors

Employment distribution according to previous sector classification
(Manufacturing + Mining)



Source: IBGE; prepared by FIESP

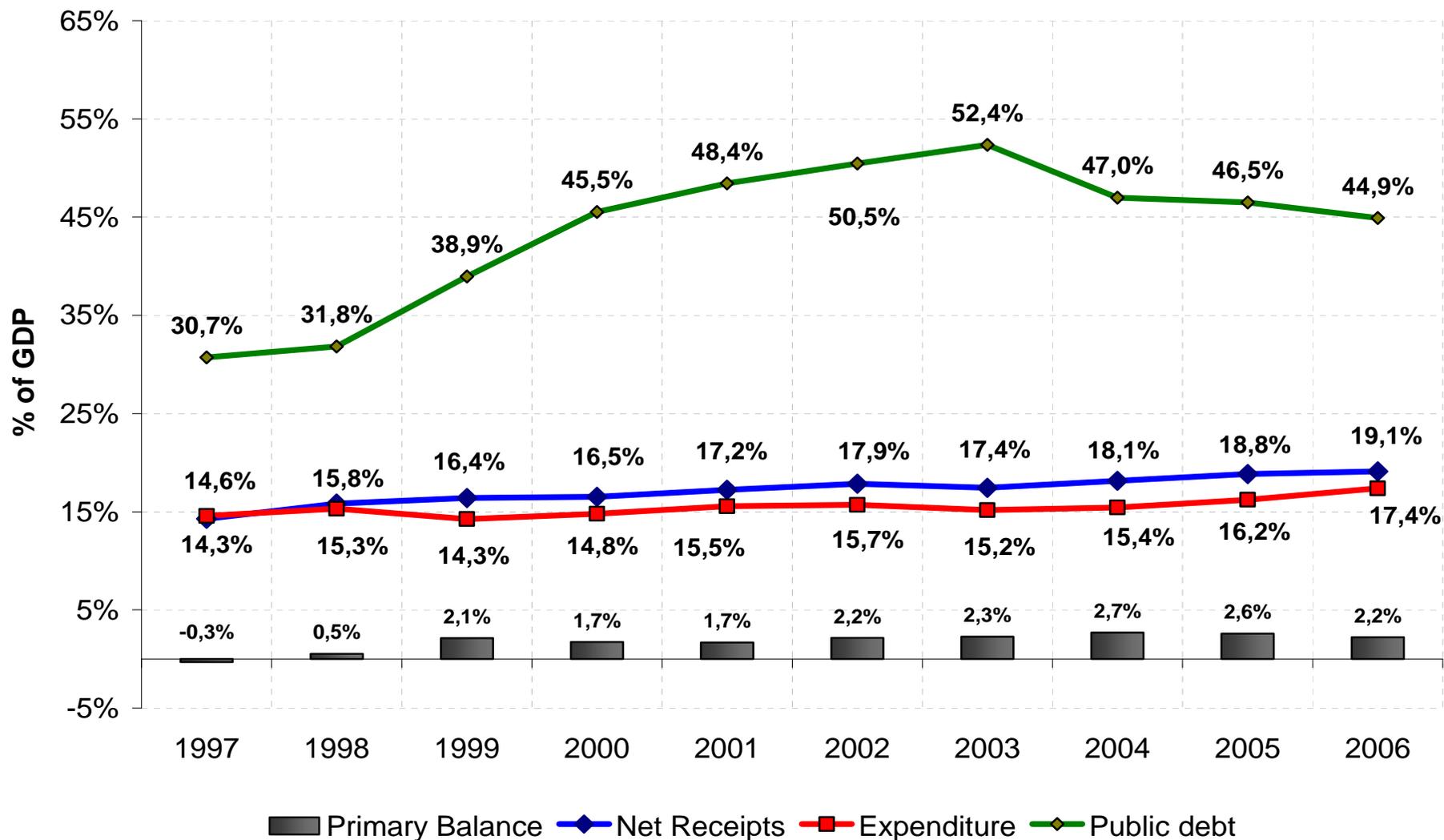
One third of Brazilian exports has lower volume with higher prices. These sectors account for 22% of industrial employment

Sector	Quantity index (2005-2006)	Price index (2005-2006)	Share of exports	Share of industrial employment
Sectors with falling exported value			33.5%	22.40%
Vegetable oil	-13.29%	1.14%	2.8%	0.47%
Textile	-9.37%	6.34%	1.4%	5.22%
Vehicles	-8.45%	12.61%	5.2%	2.79%
Wood and furniture	-7.81%	10.74%	3.1%	5.42%
Improvement of vegetal products	-5.47%	21.21%	2.8%	1.09%
Machines and tractors	-5.15%	12.10%	5.1%	2.79%
Meat production	-1.76%	6.14%	6.3%	3.97%
Siderurgy	-0.14%	3.94%	6.8%	0.64%
Other sectors			66.5%	77.60%
Total economic activities	3.62%	12.46%	100.00%	100.00%

FIESP forecasts

		% growth 2006	% growth 2007 b 2007*	Contribution to GDP growth (2007)
Supply	Agriculture	4.1	5.2	0.3
	Industry	2.8	3.7	1.1
	Oil and mining	6.0	6.0	0.2
	Manufacturing	1.6	2.5	0.5
	Construction	4.6	5.4	0.3
	Electricity, water and gas	3.6	5.3	0.2
	Services	3.7	4.1	2.6
	GDP	3.7	4.0	4.0
Demand	Family consumption	4.3	4.5	2.7
	Government consumption	3.6	3.9	0.8
	Gross fixed capital formation	8.7	11.8	2.0
	Export of goods and services	4.6	5.2	0.8
	Import of goods and services	18.1	18.5	-2.2
	GDP	3.7	4.0	4.0

Growing public expenditure will require increases in taxes or in public debt



Source: Central Bank of Brazil.

- This is a transition phase for the better; some sectors hire some lay off, net result is more jobs.

The manufacturing industry is facing a transition for the worse. The future will be worse than the present.

- **Competitive adjustment.**

Competitive adjustment in some sectors, together with loss of manufacturing in others. Net result is less industries, less jobs, less economic vigor.

- **External leaks because of demand higher than supply.**

Because of overvalued currency, domestic supply cannot keep up with growth of aggregated demand.