



GDP Observatory

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GDP grew 1.3% q-o-q in the third quarter due to the dynamism of both private consumption and investment. The expansion, however, was lower than expected.

- GDP expanded 1.3% q-o-q in the third quarter of the year (-1.2%y-o-y). The result is lower than both BBVA's (1.8%q-o-q; -0.7%y-o-y) and market's forecasts (2.0%q-o-q; -0.2y-o-y).

- The GDP numbers for the previous quarters were significantly revised by IBGE (the Brazilian statistical institute). The GDP growth in the second quarter was adjusted downwards to 1.1% q-o-q from 1.9% q-o-q. And the GDP for the first quarter was revised to -0.9% q-o-q from -0.8% q-o-q.

- The new GDP figures reveal that the growth process underway in Brazil is robust but not as much as previously estimated. The current economic dynamism highly benefits from the monetary and fiscal stimulus actually in place in the Brazilian economy and also from the improvement in the global economic conditions.

- The expansion of the GDP in the third quarter was driven by the positive performance of the domestic demand. Private consumption grew 2.0% q-o-q and provided a very positive support to the GDP figure, such as in the second quarter (2.4% q-o-q in Q2 09). On the other, investments surged 6.5% after a very poor performance in the quarters before (2.0% in Q2 09; -11% in Q1 09; -10% in Q4 08). Public consumption expanded 0.5%. The expansion rates of private consumption and investments are in line with our forecasts but public consumption was much weaker than we had estimated. Finally, **a large drop in inventories contributed to the worse-than-expected performance of the GDP.**

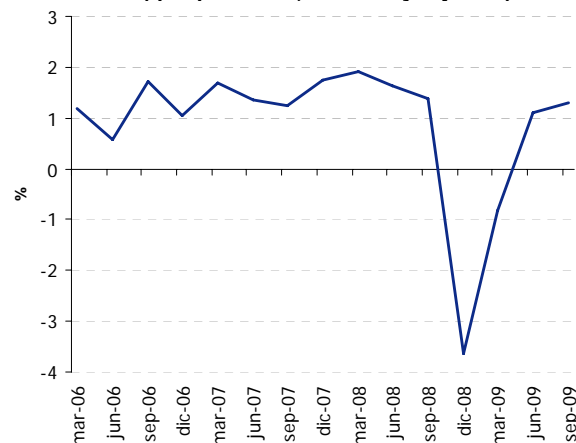
- Exports growth in the third quarter (0.5% q-o-q) was weaker than imports growth (1.8% q-o-q). The contribution of the external sector to the GDP expansion was slightly lower than we expected.

- Considering supply-side components, the GDP of the industrial activities showed the highest expansion, 2.9% q-o-q. Services expanded by 1.6% q-o-q and the agriculture sector dropped by -2.5%.

- Assuming that the country grows around 1.5% q-o-q in the fourth quarter (our current forecast) and taking in account the just-released GDP figures, the overall growth in 2009 should be slightly lower than 0.0% (our current GDP forecast for the year). **In 2010 the domestic demand should continue supporting the GDP and the Brazilian economy should grow more than 5%.**

- Future interest rates dropped right after the announcement as a weaker than expected growth supports the view that SELIC rates will remain unchanged in the forthcoming months (the CB decided yesterday to keep the SELIC rate unchanged). The Real, on the other hand, strengthened slightly after the release of the GDP figures.

Brazilian GDP
(q-o-q variation; seasonally adjusted)



Source: IBGE

GDP: demand components

	y-o-y %			q-o-q %		
	Q3 09	Q2 09	Q1 09	Q3 09	Q2 09	Q1 09
GDP	-1,2	-1,6	-2,1	1,3	1,1	-0,9
Private Cons.	3,9	3,0	1,5	2,0	2,4	0,4
Public Cons.	1,6	3,9	4,3	0,5	-0,1	4,2
Investment	-12,5	-16,0	-14,2	6,5	2,0	-11,0
Exports	-10,1	-11,4	-15,4	0,5	7,1	-15,4
Imports	-15,8	-16,5	-15,8	1,8	4,4	-16,1