



THE BRAZILIAN ECONOMY

Output indicators

Expectations regarding the level of economic activity in 2000 were highly positive at the start of the year and were backed by a favorable international scenario and exceptionally low inflation indicators. The upturn in the pace of economic activity began as of the final quarter of 1999 as the repercussions of that year's financial crisis ran out of steam and the impacts of the change in the nation's exchange system were fully absorbed – which, it should be stated, were considerably less intense than initially expected. In general, the favorable scenario continued throughout the year and was sustained partly by a steady decline in interest rates and by adoption of a series of monetary policy measures aimed at increasing the credit supply and reducing credit costs. In this sense, the rate of compulsory reserves on demand resources was cut from 65% at the start of the year to 45% as of June, while the Selic (Special System of Liquidation and Custody) rate target dropped from 19% per year in January to 15.25% per year in December.

Ratifying these rather optimistic expectations, GDP expanded by 4.5% in 2000 at market prices, following two years of almost negligible growth (0.2% in 1998 and 0.8% in 1999). This performance was quite similar to that registered in 1995 and raised the average rate for the 1990s from 1.8% up to 1999 to 2%. Per capita product registered real growth of 3.1% in 2000 and closed at R\$6,560.00.

At market prices and based on seasonally adjusted data, GDP registered growth of 1.3% in the first quarter of 2000, when compared to the final quarter of the previous year and 4.1% when contrasted to the first three months of the previous year. All the sectors concerned turned in positive results, with a particularly good performance under crop and livestock production (7%). For the most part, this result is explained by crop output (7.9%), which accounted for more than 60% of the sector's overall product. Livestock output and plant and forest extracts increased by 4.9% and 8.3%, respectively. Secondary sector growth closed at 5.5%. In this context, one should underscore the 6.5% result achieved by manufacturing, which is particularly sensitive to changes in credit conditions and to upward movement in export operations. Significant results were also achieved in terms of growth in the mining sector (8%) and public utility industrial services (6.6%). In the service sector, which

turned in growth of 3.7%, the best performances occurred under communications (15.9%), followed by commerce (5.5%) and transportation (5%).

Table 1.1 - Gross Domestic Product (GDP) at market price

Year	At 2000 prices (R\$ million)	Real change (%)	Implicit deflator (%)	At current prices ^{1/} (US\$ million)	Population (million)	Per capita GDP		
						At 2000 prices (R\$)	Real change (%)	At current prices ^{1/} (US\$)
1980	716 417	9.2	92.1	237 772	118.6	6 042	7.0	2 005
1981	685 969	- 4.3	100.5	258 553	121.2	5 659	- 6.3	2 133
1982	691 662	0.8	101.0	271 252	123.9	5 583	- 1.3	2 190
1983	671 397	- 2.9	131.5	189 459	126.6	5 304	- 5.0	1 497
1984	707 652	5.4	201.7	189 744	129.3	5 474	3.2	1 468
1985	763 196	7.8	248.5	211 092	132.0	5 783	5.6	1 599
1986	820 359	7.5	149.2	257 812	134.7	6 092	5.4	1 915
1987	849 318	3.5	206.2	282 357	137.3	6 187	1.6	2 057
1988	848 808	- 0.1	628.0	305 707	139.8	6 071	- 1.9	2 186
1989	875 631	3.2	1 304.4	415 916	142.3	6 153	1.4	2 923
1990	837 541	- 4.3	2 737.0	469 318	144.1	5 813	- 5.5	3 257
1991	846 167	1.0	416.7	405 679	146.4	5 780	- 0.6	2 771
1992	841 598	- 0.5	969.0	387 295	148.7	5 660	- 2.1	2 605
1993	883 005	4.9	1 996.2	429 685	150.9	5 850	3.4	2 847
1994	934 660	5.9	2 240.2	543 087	153.1	6 103	4.3	3 546
1995	974 103	4.2	77.6	705 449	155.3	6 272	2.8	4 542
1996	1 000 014	2.7	17.4	775 475	157.5	6 350	1.2	4 924
1997	1 032 715	3.3	8.3	807 814	159.6	6 469	1.9	5 060
1998	1 034 987	0.2	4.7	787 499	161.8	6 397	- 1.1	4 867
1999	1 043 163	0.8	4.3	529 398	163.9	6 363	- 0.5	3 229
2000	1 089 688	4.5	8.6	595 881	166.1	6 560	3.1	3 587

Source: IBGE

1/ Estimates obtained dividing the GDP at current prices by the annual average rate of exchange, which is calculated according to the methodology described in the Boletim do Banco Central do Brasil, December 1996 issue.

In the second quarter of the year, GDP growth closed at 1.45%, in comparison to the immediately previous period. This result reflected positive growth under industry (1.53%) and services (0.95%) and a negative performance under crop/livestock farming (0.33%).

In the first half of the year, GDP expanded by 4.3% at market prices in relation to the same period of the previous year. For the most part, this result was attributed to improvement in credit conditions and expanding exports, particularly those involving manufactured goods, and to the results of the farm harvest. This GDP growth figure also benefited from a sharply depressed basis of comparison, since the activity level in the first half of 1999 was strongly impacted by the repercussions of the Russian crisis, together with uncertainties surrounding the alteration in Brazil's exchange system. On a sector-by-sector basis, following the example of the first quarter of the

year, the highest rate of growth was registered by crop/livestock farming (7.3%), followed by industry (5.3%) and services (3.9%).

Table 1.2 - Gross Domestic Product under the prism of expenditure and income

In R\$ million

Itemization	1996	1997	1998	1999
Gross Domestic Product	778 887	870 743	913 735	960 858
Final consumption expenditure	630 814	704 200	738 747	775 098
Family consumption	486 813	545 698	567 001	593 938
Government consumption	144 001	158 502	171 746	181 160
Gross capital formation	162 953	187 187	193 436	196 452
Gross fixed capital formation	150 050	172 939	179 484	181 813
Changes in inventories	12 903	14 248	13 951	14 639
Exports of goods and services	54 430	65 356	69 727	101 809
Imports of goods and services (-)	69 311	86 000	88 174	112 501
Remuneration of employees	300 208	326 145	349 118	360 096
Wages and earnings	224 329	241 949	250 841	255 059
Effective social contributions	45 337	50 051	55 199	59 847
Ascribed social contributions	30 542	34 146	43 078	45 189
Earnings of non-salaried workers	44 306	48 630	50 345	49 003
Gross operating surplus	319 137	372 396	386 929	397 593
Taxes on production and imports deducted from subsidies	115 236	123 572	127 343	154 167

Source: IBGE

In the third quarter of the year, the pace of GDP growth diminished. In comparison to the previous quarter, product growth came to 1.1%, utilizing data from which seasonal impacts have been purged. When one analyzes the results accumulated in the year, growth closed at 4.6%. Following the standard of previous quarters, the crop/livestock sector expanded most intensively (6.2%), while industry, which accounts for approximately 35% of GDP, turned in positive growth of 5.1%, with particularly strong performances under manufacturing (6.1%) and mining (10%). Output of services expanded by 3.8%, mostly as a consequence of growth under communications (17.1%), commerce (5.3%) and other services (5.2%).

In the last quarter, 0.3% GDP growth – based on seasonally adjusted data – pointed to a strong reduction in the pace of economic growth. Despite this result, however, the final 4.5% figure was similar to the third quarter result and mirrored expansion of 3% under crop/livestock farming, 5% under industry and 3.9% under services. The subgroupings that expanded at an above average pace were manufacturing (5.7%), mining (11.5%), public utility industrial services (5.3%), communications (17%), other services (5.7%) and commerce (5.5%).

Table 1.3 - Quarterly Gross Domestic Product

In R\$ million

Year		GDP at market price	Taxes on products	Crop and livestock sector	Industrial sector	Service sector
1996	I Quarter	188 230	19 113	20 319	52 092	106 189
	II Quarter	193 604	20 501	17 450	57 626	107 185
	III Quarter	199 097	21 482	12 553	64 603	109 929
	IV Quarter	197 956	22 824	7 669	66 860	109 730
1997	I Quarter	198 579	20 870	10 303	62 147	114 459
	II Quarter	217 537	22 370	16 996	69 513	118 627
	III Quarter	230 032	23 202	17 969	72 990	126 257
	IV Quarter	224 595	23 879	16 840	70 111	123 911
1998	I Quarter	221 074	22 543	17 355	66 727	124 409
	II Quarter	237 020	23 983	20 855	73 105	129 830
	III Quarter	234 653	23 333	16 020	74 960	131 209
	IV Quarter	220 988	23 756	13 698	68 796	125 161
1999	I Quarter	214 023	23 654	14 846	62 101	123 728
	II Quarter	233 996	24 907	18 609	72 080	129 123
	III Quarter	250 509	26 559	18 883	82 870	132 541
	IV Quarter	262 329	29 043	18 463	86 856	137 812
2000	I Quarter	248 549	26 432	18 509	79 138	134 012
	II Quarter	268 900	28 370	20 407	89 124	138 372
	III Quarter	281 884	31 668	20 056	95 006	145 300
	IV Quarter	290 355	33 520	16 221	97 067	153 252

Source: IBGE

Investments

The participation of gross fixed capital formation (GFCF) in GDP declined in the period from 1995 to 1999. In the first year of the period, investments accounted for 21.4% of GDP, at the previous year's prices or 20.5% at current prices. In 1999, the corresponding figures had dropped to 18% and 18.9%. One should note that the gross capital formation (GCF), which includes variation in inventories, decreased from 22.3% to 20.5% during the period under analysis.

According to Banco Central Department of Economics (Depec) figures, the result for 2000 is estimated at 18.6% at the previous year's prices and 18.8% at current

Table 1.4 - GDP real change rates

Percent

Itemization	1998	1999	2000
GDP	0.2	0.8	4.5
Crop and livestock sector	1.9	7.4	3.0
Vegetable production	1.3	8.3	2.8
Animal production	6.4	6.9	3.1
Vegetal extraction	- 4.9	1.1	4.3
Industrial sector	- 1.4	- 1.6	5.0
Mineral extraction	7.8	5.0	11.5
Manufacturing	- 3.8	- 1.6	5.7
Building	1.4	- 3.2	2.1
Public utility industrial services	3.8	2.5	5.3
Service sector	1.1	1.9	3.9
Commerce	- 5.1	0.3	5.5
Transportation	5.1	0.6	3.4
Communications	13.6	21.3	17.0
Public administration	1.9	2.8	2.0
Other services	- 0.4	- 1.3	5.7
Financial institutions	- 0.6	0.9	2.9
Rents	2.9	2.5	2.3
Financial dummy	0.1	0.5	4.3

Source: IBGE

prices. The relative stability in relation to 1999 reflected the differentiated performances of the major investment indicators in the period. The construction industry, which has accounted for approximately 68% of GFCF, turned in 2.1% growth in the year, closing below the rate of GDP growth. On the other hand, this performance was offset by 12.7% expansion registered under capital goods output, with participation of about 27% of GFCF. Aside from these results, imports of capital goods, which had declined in the past two years, moved upward by 2.8% in real terms in 2000. Thus, despite the fact that the proportion of investment outlays in relation to GDP remained stable, the productive capacity of the economy increased as evinced in the strong upturn registered under output of machines and equipment.

Growth in investment indicators over the course of the year pointed to sharper expansion in the second half of the period, mostly as a response to the ongoing rise in the level of activity. In this sense, production of construction inputs, which had expanded by 0.8% in the first half of the year when compared to the second half of 1999, increased by 1.5% in the second half, using the same basis of comparison. These data have already been purged of seasonal factors. In the case of capital goods output, the respective rates came to 6.4% and 10.3%.

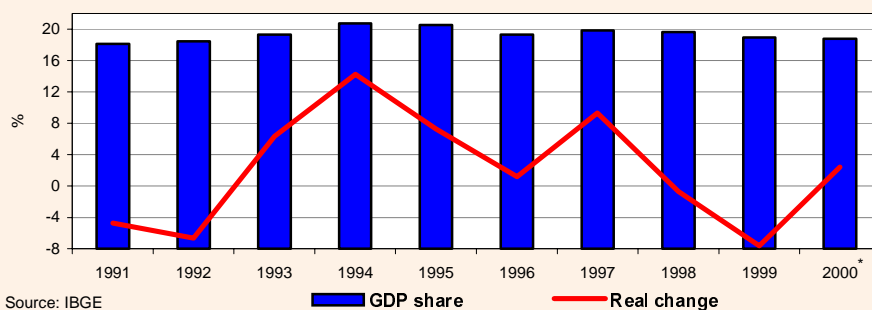
Table 1.5 - Gross capital formation (GCF)

Percent

Year	Share in GCF			Changes in inventories	GFCF/GDP	
	Gross fixed capital formation (GFCF)				At current prices	At the previous year's prices
	Building	Machines and equipments	Others			
1990	65.7	34.0	2.7	-2.5	20.7	-
1991	60.4	28.7	2.5	8.4	18.1	19.5
1992	64.8	26.3	6.3	2.7	18.4	17.0
1993	62.5	24.2	5.8	7.5	19.3	18.7
1994	60.6	27.2	5.8	6.3	20.7	20.8
1995	57.4	28.9	5.8	7.8	20.5	21.4
1996	62.0	25.3	4.8	7.9	19.3	20.3
1997	63.2	24.8	4.4	7.6	19.9	20.4
1998	65.3	23.2	4.3	7.2	19.6	19.7
1999	65.0	23.0	4.5	7.5	18.9	18.0
2000 ^{1/}	64.8	23.8	4.6	...	18.8	18.6

Source: IBGE

1/ Banco Central do Brasil estimates.

Graph 1.1
Gross fixed capital formation

Source: IBGE

* Banco Central do Brasil estimates.

Growth in the construction industry at a level below the average for the economy is explained to some extent by the low levels of public sector investment and housing construction and acquisition financing. In this sense, the resources set aside by the Brazilian System of Savings and Loans (SBPE) dropped by 0.5% in 2000 in nominal values, while housing financing operations registered a reduction of 15.9%. Financing of commercial real estate, which accounts for less than 1% of total SBPE resources, recovered sharply in 2000 and closed with growth of 10.2%. Analyzed under the prism of the number of real estate financing operations approved, growth came to 9.8% in operations channeled into GCF construction, following a cutback of 22.7% in 1999. Operations targeted to real estate purchases dropped by 2.9%, following positive growth of 1.7% in 1999.

Output of capital goods was stimulated by reductions in idle industrial capacity, as well as by the favorable results registered under farm production. Statistics released by the Brazilian Institute of Geography and Statistics (IBGE) on specific groupings of products indicate that, after two consecutive years of reductions under most of the segments involved, across-the-board product growth was achieved in 2000, with the strongest upturns registered under transportation equipment, mass produced capital goods for the industrial sector, farm equipment, construction industry equipment and parts for farm machines.

Table 1.6 - Selected capital goods production

Itemization	Percentage share ^{1/}	Percent change		
		1998	1999	2000
Capital goods	100.0	- 1.6	- 9.1	12.7
Industrial	24.6	- 5.5	- 7.0	18.5
Serial	16.8	- 3.0	- 4.0	21.2
Non-serial	7.9	- 13.2	- 17.6	7.4
Agricultural	9.7	- 1.7	- 15.2	19.3
Agricultural parts	1.5	- 12.3	- 1.9	14.6
Building	3.4	2.7	- 41.9	15.0
Electric energy	5.5	- 3.4	- 5.2	3.2
Transportation	26.0	8.3	2.7	22.7
Mixed	29.2	- 4.2	- 9.1	7.8

Source: Monthly Industrial Survey - IBGE

1/ It refers to the estimated share in 2000.

Data released by the National Association of Automotive Vehicle Manufacturers (Anfavea) corroborated the results of the IBGE survey. Following a 1999 decline of 13%, output of farm machines and equipment increased by 25.1%, mostly reflecting growth in the production of wheeled tractors (30.7%) and harvesters (14.5%). The item “others”, which refers to motorized harvesters, caterpillar-type tractors and rear-mounted ditch diggers turned in growth of 3.2%. In the same context, the number of bus and truck units produced expanded by 50.9% and 26.2%, respectively.

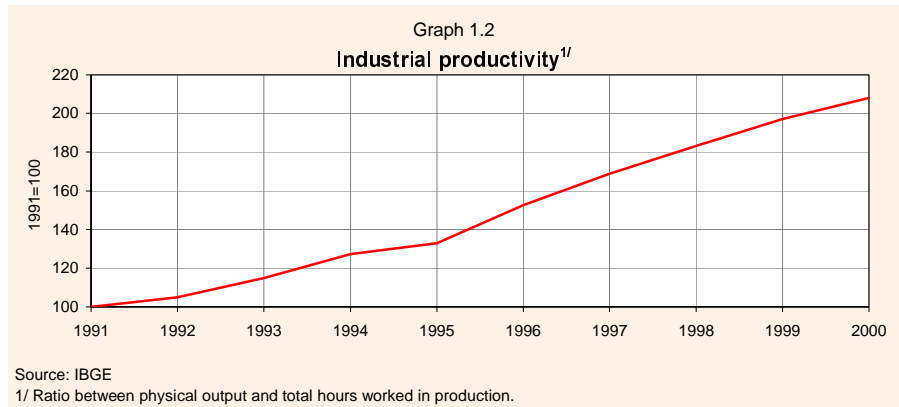
Another indicator that corroborates the growth in the nation’s installed output capacity is 12.8% expansion in the real sales of the machine and equipment industry in 2000, following the 11.7% decline registered in 1999, according to data released by the Brazilian Association of the Machinery and Equipment Industry (Abimaq). Recovery in the sector generated 9% growth in the number of persons employed, coupled with upward movement in the average utilization level of the industries that are members of the Association from 67.7% in 1999 to 75.9%.

Total disbursements by the BNDES System – National Bank of Economic and Social Development (BNDES), Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESPar) – increased by 27.7% in 2000 in nominal terms, closing with a total of R\$23 billion, compared to R\$18 billion in 1999. On a sector-by-sector basis, disbursements targeted to crop/livestock farming turned in the sharpest growth, with 48.3%, followed by commerce and services (28.7%) and manufacturing (25.9%). Financing for the mining industry declined by 53.2%, mostly as a result of the high basis of reference used in the comparison. The distribution of resources on a region-by-region basis pointed to concentration in the southeast region (56.5%), a figure that was somewhat lower than in 1999 (60.4%). Financing channeled to the south region added up to 18.5% of the total, compared to 21.1% in 1999. The levels of participation in the other regions of the country tended to increase, with the northern region moving from 2.5% in 1999 to 4% and the northeast and central-west regions increasing their participation from 9.2% to 12.2% and from 6.6% to 9%, respectively.

The Long-Term Interest Rate (TJLP), which is the basic cost of BNDES System financing, continued on a downward curve in the period, dropping from 12% per year in the first quarter to 9.75% per year in the final quarter.

Productivity

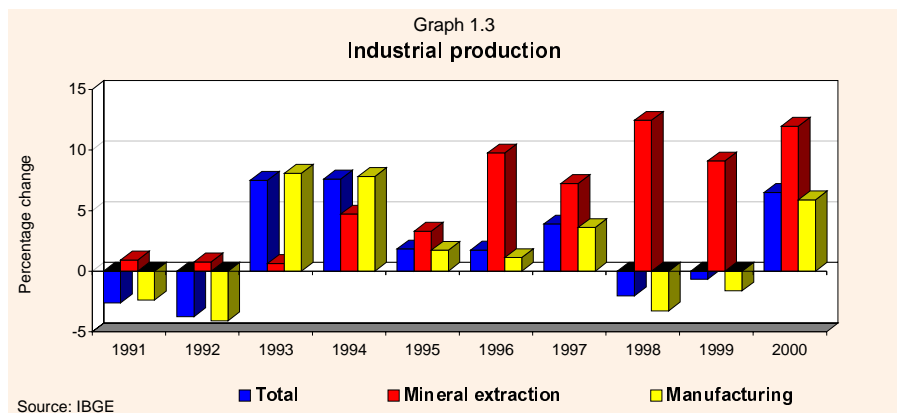
Labor productivity continued on the growth trajectory begun in 1993. According to 1999 National Accounts, total productivity in that year, as measured by the ratio between growth in aggregate value at the previous year's prices and growth in the working population, increased by 2.3% compared to 2.2% in 1998. Of the 43 activities analyzed, productivity declined in only seven, with the sharpest falloffs occurring in the plant-based processing industry, including tobacco (6.47%), followed by textiles (3.2%) and real estate rentals (1.1%). In the other sectors analyzed, reductions closed at a level of less than 1%. On the other hand, highly positive performances occurred under activities related to the coffee industry (26.2%) and sugar production (20.3%), as well as under public utility industrial services (15.9%). Other segments of activity that turned in growth of more than 10% were extraction of oil, natural gas, coal and other fuels, with 14.7%, manufacturing of pharmaceutical and perfume products with 12.2%, rubber with 10.6%, and the manufacturing of electric apparatuses and equipment, with 10% growth. In the crop/livestock sector, productivity expanded by 2.3% while that of the building industry increased by 2.2%.



Statistics available for 2000 make it possible to monitor the evolution of productivity in the manufacturing and mining industries. The ratio between physical output and total hours worked in general industrial production increased by 5.6%, compared to 7.6% in 1999. The rise in productivity was more intense in the mining industry (10%) than in manufacturing (5%). An analysis of productivity by industrial segment shows that the most intense growth occurred under transportation equipment (14.6%) and mechanics (13.7%), both of which are closely linked to the output of the automotive sector. Significant productivity growth was also achieved under beverages (10.1%), electric and communications equipment (9.2%) and textiles (8.3%). Reductions occurred in just five of the twenty segments surveyed: plastics (4.1%), food products (3.8%), tobacco (3.9%), wood (3.4%) and leather and hides (3.3%).

Industrial production indicators

Following two consecutive years of decline, indicators of the level of industrial activity pointed to output recovery in 2000. According to IBGE figures, industrial production increased by 6.5% in the year, which was the best result since 1994. The index for the month of December was the highest ever registered in the seasonally adjusted statistical series for both total physical output and for the use categories of intermediate goods and consumer durables.



The mineral extraction industry continued the growth trajectory that has marked recent years, closing with 11.9% growth in 2000. For the most part, this expansion was generated by increased extraction of crude oil and natural gas. The manufacturing industry, which accounts for about 90% of total output, turned in growth of 5.9% when compared to the average for 1999 and 2000. An analysis of the twenty industrial segments surveyed indicates that fifteen registered production growth. These results clearly point to an across-the-board upturn in the activities of the sector in response to the highly favorable economic scenario, represented by a cutback in interest rates and increased internal and external sales. The highest growth occurred under transportation equipment (18.9%), followed by mechanics (18%), rubber (13%), electric and communications equipment (11.9%), furniture (7.8%) and metallurgy (7.6%). Among the five segments that turned in output declines, the most important were leather and hides (8%) and tobacco (7.8%).

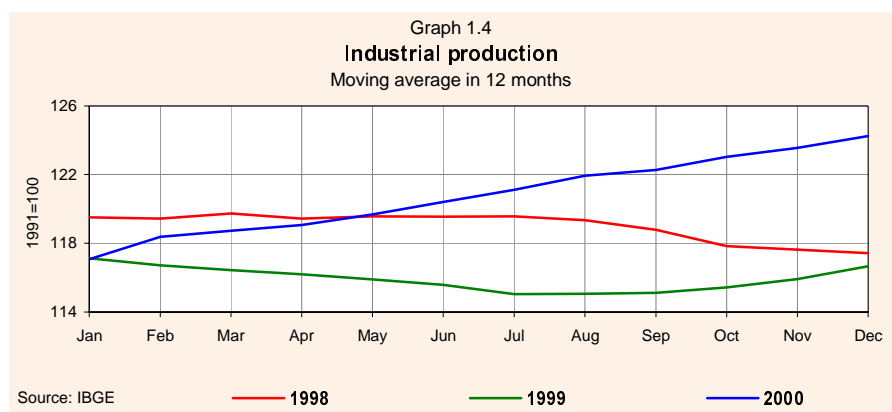


Table 1.7 - Industrial production

Itemization	Percentage share ^{1/}	Percent change		
		1998	1999	2000
Total	100.0	- 2.0	- 0.7	6.5
By category of use				
Capital goods	8.6	- 1.6	- 9.1	12.7
Intermediate goods	65.4	- 0.7	1.9	6.9
Consumer goods	26.0	- 5.4	- 2.8	3.0
Durable	5.7	- 19.6	- 9.3	20.5
Semi and nondurable	20.3	- 1.1	- 1.2	- 1.0

Source: Monthly Industrial Survey - IBGE

1/ It refers to the estimated share in 2000.

A breakdown by categories of usage indicates that output of intermediate goods, a heading of considerable weight in the industrial sector, expanded by 6.9%. Production of capital goods expanded by 12.7%, suggesting an ongoing process of re-equipping not only the industrial sector, but other sectors of activity as well.

Taken as a whole, the heading of consumer goods accounts for approximately 26% of the total, with growth of 3% in the year. However, the consumer goods industry did not register totally homogeneous results. The subheading of consumer durables, which is basically composed of automotive vehicles, electric and electronic appliances and furniture, expanded by 20.5% in the period and benefited from the increase in employment, overall wages and, principally, improved credit market supply conditions. Data released by Anfavea indicated recovery in the automotive industry, with growth of 23.6% in the output of automobiles and light commercial vehicles. The subheading of semidurable and nondurable consumer goods registered a reduction of 1%, partly as a result of a 5.7% drop in the production of fuels.

Output growth was reflected in the average utilization of installed manufacturing industry production capacity. According to the Getulio Vargas Foundation (FGV), the level of utilization of installed output capacity, which had registered a January 2000 level of 81.3%, moved to 84.1% in October before dropping back to 82% in January 2001. In the statistical series purged of seasonal factors, however, the January 2001 level was 0.6% higher than the October 2000 mark as a result of the upturn in seasonally adjusted production indicators in the final quarter of the year.

Table 1.8 - Capacity utilization^{1/}

Percent

Itemization	1998	1999	2000
Manufacturing industry	79	81	82
Consumer goods	76	75	77
Capital goods	65	75	81
Building material	82	79	86
Others intermediate goods	83	85	86

Source: FGV

1/ Quarterly survey. January figures of the following year.

On a sector-by-sector basis, intermediate goods registered the highest level of utilization during the course of the year, with 86.2% in the most recent survey. Average utilization in the construction inputs industry moved along an upward curve in the year and closed January at 85.6%. In the same month, capacity utilization levels in the capital goods and consumer goods industries came to 81.3% and 77.1%, respectively. Among the various industrial segments, rubber, paper and cardboard, wood and textiles turned in the highest utilization levels, with final January 2001 figures above 90%.

The drop in the level of idle capacity was also evident in the survey released by the National Confederation of Industry (CNI), based on figures calculated by industrial federations in 12 different states. This survey pointed to an average utilization level of 79.9% in December 2000, compared to 78.6% in the same month of the previous year. On a state-by-state basis, output capacity utilization levels were higher than the overall national level in Santa Catarina (85.4%), Rio Grande do Sul (83.8%), Minas Gerais (82.5%) and Ceará (81.2%). The São Paulo level closed the year at 79.8%.

Despite the fact that some sectors were operating at levels close to their limits, one should note that average capacity in the manufacturing industry in no way restricted production. Growth in utilization indicators has been less than output growth, suggesting incorporation of economies of scale and increased productivity or even expansion of industrial output capacity as a result of ongoing investments.

Other important indicators confirmed the positive industrial result registered in 2000. According to the CNI, real industrial sales increased by 10.8% in the year, while the number of hours worked in production expanded by 4%. In the case of São Paulo industry, figures released by the Federation of Industries of the State of São Paulo (Fiesp) demonstrate that these same variables expanded by rates of 13.7% and 4.7%, in the same order as above.

Energy

Petroleum output, including natural gas liquid, continued on the growth curve that has marked recent years. According to the National Petroleum Agency (ANP), the final growth mark in 2000 was 12.3%. Average daily production over the year came to 1,270.6 thousand barrels, compared to 1,131.7 thousand in 1999. Output of natural gas turned in similar results, with growth of 11.7% in the period.

Total oil processed at refineries increased by 2.1% in 2000, with an average of 1,585.3 thousand barrels per day, for an increase in the participation of national petroleum in the processed total from a 1999 level of 71% to 74%. Imports of petroleum declined by 14.2% in the year and closed at 397.1 thousand barrels/day.

Internal sales of petroleum derivatives dropped by an average of 1.6% in the year, according to figures released by the ANP. This performance curve, which was just the opposite of the behavior of economic activity as a whole, can to some extent be explained by consumer reactions to higher prices. Gasoline sales declined by 4.4% while marketing of fuel oils dropped by 6.1%. In contrast, sales of liquefied petroleum gas and diesel oil expanded by 1.7% and 0.7%, respectively. Sales of the other derivatives dropped by 7% while those of automotive gasoline, including the anhydrous alcohol added to the gasoline supply, dropped by 6.2%.

Table 1.9 - Oil derivatives and fuel alcohol

Apparent consumption - daily average (1,000 b/d)

Itemization	1998	1999	2000
Petroleum	1 382	1 385	1 362
Fuel oil	186	185	173
Gasoline	313	308	295
Diesel oil	589	596	600
Liquid gas	205	215	218
Aviation kerosene	86	79	72
Other derivatives	3	3	4
Fuel alcohol	201	201	161
Anhydrous	94	97	86
Hydrated	107	104	76

Source: ANP

Consumption of fuel alcohol declined by 19.7% in 2000. Viewed separately, sales of anhydrous alcohol dropped by 12% due partly to the change in the proportion of anhydrous alcohol in the automotive gasoline supply, which was cut from 24% to 20% as of last August. Sales of hydrated alcohol have been declining since 1996 and registered a falloff of 27% in 2000. Average daily sales of hydrated alcohol came to the equivalent of 75.7 thousand barrels, and were surpassed by sales of anhydrous alcohol, which closed in the range of 85.7 thousand barrels per day.

With respect to electric energy, total consumption increased by 4.6% in 2000, according to Centrais Elétricas Brasileiras S.A. (Eletrobrás). Commercial consumption, which accounts for approximately 15.5% of the total market, registered the strongest growth (8.5%). Industrial consumption of electricity followed the growth curve registered by installed industrial output capacity, closing with expansion of 5.9%. Residential consumption came to 27.3% of the total, with more moderate 2.7% growth. This rate can be explained by a drop in the real average earnings of working people, tariff increases and more moderate temperatures during the course of the year. Taken together, these factors contributed to a cutback in average residential consumption. According to Eletrobrás, approximately 158 thousand new connections were made on a monthly basis over the course of 2000, raising the number of residential consumers by 4.9% to a total of 40.3 million. However, a significant share of these connections was concentrated in residences classified as low energy consumption units. The aggregate of the other classes, which include rural consumers, public lighting, government installations, public services and consumption by electricity companies themselves, increased by just 0.1% due partly to cutbacks in irrigation levels.

Table 1.10 - Electric energy consumption^{1/}

GWh

Itemization	1998	1999	2000
Total	284 737	292 188	305 570
By sectors			
Commercial	41 561	43 588	47 384
Residential	79 364	81 291	83 491
Industrial	122 099	123 893	131 234
Other	41 713	43 416	43 461

Source: Eletrobrás

1/ Self-producers not included.

On a region-by-region basis, consumption of energy in the southeast region, which includes approximately 57% of the overall total for the country, rose by 3.9%. Industrial consumption in the region expanded by 4.9%, while commercial and residential consumption expanded by 8.8% and 1.7%, respectively.

Total consumption in the north, central-west and south regions expanded at a pace higher than the national average and closed with respective growth levels of 7.4%, 6% and 5.8%. The northeast region kept pace with the national average, registering growth of 4.5%. One should stress consumption growth in the industrial category of the south and central-west regions, with 10.5% and 10.2%, in the same order, as well as expanded residential consumption in the north region (7.9%), all of which were substantially higher than the average calculated for the country as a whole.

Trade sector indicators

According to the Quarterly National Accounts published by the IBGE, the trade sector registered growth of 5.5% in 2000, compared to 0.3% in 1999. This recovery was a consequence of positive growth in the labor market and expansion of the credit supply. In the latter case, the underlying reasons for the additional credit available in the period were the downturn in average monthly interest from 7.5% in January, a figure equivalent to 138.2% per year, to 6.8% in December, equivalent to 121.5% per year. These figures were calculated by the National Association of Finance, Management and Accounting Executives (Anefac).

The evolution of default levels also closed 1999 with a positive performance. The net level of default, as measured by the Credit Protection Service of the São Paulo Trade Association, declined from 5.3% in December 1999 to 4.2% at the end of 2000. Viewed in terms of annual average rates, there was an even more accentuated drop,

from 9.6% in 1999 to 5.8%. The national indicator, calculated by Teledata and based on data gathered in 10 major Brazilian cities¹, also indicated a drop in the average rate of defaults from 1.3% in December 1999 to 1.2% in the corresponding month of 2000. In the opposite sense, the participation of checks returned due to insufficient backing in total checks cleared at the national level increased from 3.1% in December 1999 to 3.5% in December 2000.

According to the Trade Federation of the State of São Paulo (FCESP), real sales expanded by 10.4% in 2000. To a great extent, this performance was impacted by growth in sales of consumer goods, as the segment of consumer durables expanded by 13.7% and nondurable consumer goods by 15.7%, offsetting the 34.5% decline in revenues earned on sales of semidurable consumer goods. Real sales in the automotive trade sector and building materials segment expanded by respective rates of 13.8% and 4.5% in the year.

Table 1.11 - Trade real sales

Percentage change

Itemization	1997	1998	1999	2000
Wholesale ^{1/}	2.1	3.6	3.5	-0.5
Retail sales				
Brasil ^{2/}	...	...	-2.9	4.7
São Paulo ^{3/}	-2.1	3.5	-0.6	10.4
Rio de Janeiro ^{4/}	-13.3	-11.2	-3.2	-5.5
Belo Horizonte ^{5/}	-12.6	-20.9	-11.2	4.0
Supermarket ^{1/}	-0.4	6.1	-2.8	-1.2

Source: Abad, FCESP, IBGE, FCEMG and Abras

1/ Deflated by IGP-DI.

2/ Weighted by the 1996 IBGE Annual Commerce Survey: São Paulo (53.6%), Rio de Janeiro (24.8%), Belo Horizonte (12.5%), Salvador (5.2%) and Recife (3.9%).

3/ Deflated by IPCA.

4/ Deflated by Rio de Janeiro IPCA.

5/ Deflated by Belo Horizonte IPCA.

The indicator that aggregates the results of the retail trade sector in Rio de Janeiro, São Paulo, Salvador and Recife registered growth of 4.7% in 2000, with expansion of 12.2% in the automotive segment. These figures are based on the weighting system used in IBGE's Annual Trade Sector Survey for 1996². Real sales of consumer goods and transportation equipment expanded at respective rates of 4.6% and 0.6%. Aside from São Paulo, only Belo Horizonte was able to register an increase in real revenues in the trade sector in relation to 1999 (4%), as Rio de Janeiro, Recife and Salvador turned in reductions of 5.5%, 1.1% and 0.6%, respectively.

1/ Belém, Fortaleza, Recife, Salvador, Belo Horizonte, São Paulo, Ribeirão Preto, Rio de Janeiro, Curitiba and Porto Alegre.

2/ Weighting by metropolitan region: São Paulo (53.6%), Rio de Janeiro (24.8%), Belo Horizonte (12.5%), Salvador (5.2%) and Recife (3.9%).

In the segment of supermarkets, real sales dropped once again in 2000, with a 1.2% result, following a drop of 2.8% in the previous year, according to the Brazilian Association of Supermarkets (Abrás). One should note that part of the negative result was due to the use of the General Price Index – Domestic Supply (IGP-DI) as deflator. Just as occurred in 1999, this index in 2000 was higher than the results generated by consumer price indices. In the retail trade sector, in which the calculation of real revenues also uses the IGP-DI as the deflation factor, the reduction came to 0.5% according to data released by the Brazilian Association of Wholesalers and Distributors (Abad).

Farm production indicators

In 2000, the crop/livestock sector registered growth of 3%, compared to 7.4% in the previous year. This result was a consequence of 2.8% expansion in crop output and 3.1% in livestock production. Plant extraction activities, with participation in GDP lower than 1%, closed the period with an increase of 4.3%.

In relation to the measures taken to stimulate farm production, the Farm Plan for the 1999/2000 harvest specified investments of R\$13 billion, representing growth of R\$3 billion compared to the immediately previous harvest. The principal rules covering current expenditure and investment financing remained in effect, as did the essential elements of the National Program for Strengthening Family Agriculture (Pronaf) and the Rural Employment and Income Program (Proger Rural).

No alterations were introduced into the interest rates levied on operations with earmarked resources. This rate had been specified at 8.75% per year in 1999. The development of family farming has received priority attention. Interest rates on current expenditure financing operations in the Pronaf framework were reduced from 5.75% per year to a minimum of 2% per year and a maximum of 4% per year. At the same time, farmers gained greater access to funding for investment outlays as the costs of these operations were cut from 50% of the TJLP plus 6% per year to rates that vary between 1% and 3% per year.

The 2000 grain harvest came to 83.1 million tons or 0.9% more than the 1999 mark, according to the Systematic Farm Production Survey (LSPA), carried out in the month of December by IBGE. Basically, this growth was generated by recovery in crop harvests in the north and northeast regions, where expansion came to 27% due mostly to the herbaceous cotton, soybean and corn crops. The results for the southeast, south and central-west regions, which concentrate 88% of overall national output of grains, legumes and oil-bearing crops, turned in a decline of 1.7% in overall output. The principal cause of this falloff was the occurrence of drought and frost that hampered crop development in major output centers. In absolute terms, output on a region-by-region basis came to 37.6 million tons in the south, 24.1

Table 1.12 - Agricultural production - major crops

Millions of tons			
Products	1998	1999	2000
Grain production	75.2	82.4	83.1
Cotton (seed)	0.8	1.0	1.3
Rice (in husk)	7.7	11.8	11.1
Beans	2.2	2.8	3.1
Corn	29.5	32.0	31.7
Soybeans	31.4	30.9	32.7
Wheat	2.2	2.4	1.7
Others	1.3	1.4	1.6
Change in grain production (%)	- 3.0	9.5	0.9
Other crops			
Bananas (millions of bunches)	532.5	553.0	630.0
White potatoes	2.7	2.8	2.6
Cocoa (beans)	0.3	0.2	0.2
Coffee (beans)	3.5	3.3	3.7
Sugarcane	339.0	337.2	317.6
Tobacco (in leaf)	0.5	0.6	0.6
Oranges (millions of fruits)	103.7	113.8	108.6
Cassava	19.7	20.9	23.2
Tomatoes	2.8	3.3	3.1
Change in real output of crop sector (%)	1.3	8.3	2.8

Source: IBGE

million in the central-west region, 12.5 million in the southeast, 5.9 million in the northeast and 2.3 million in the north.

Soybean production, which accounts for 39% of the grain harvest, came to 32.7 million tons, setting an all time record. This volume was 5.8% higher than the previous harvest and reflected growth of 4.7% in the area under cultivation and 1% in average yields. Due to a series of climatic factors, the southeast and south regions turned in harvests that were below the previous year's level. In the other regions of the country, productivity was high, particularly in the State of Mato Grosso, where the average came to 3,022 kg/hectare, compared to the national average of 2,400 kg/hectare. Grain exports came to 11.5 million tons or 2.6 million more than in 1999. The performance of prices during the year was quite positive for both the internal and external markets. The average monthly price for a 60 kilogram bag moved from R\$18.30 in January to R\$19.10 in December, according to the Institute of Agricultural Economy of São Paulo.

Taking the year's two harvests together, the overall corn harvest totaled 31.7 million tons, for a reduction of 1% in relation to the previous year. The recovery in marketing

prices that began in 1998 continued during the following year and resulted in 1.6% growth in the area under cultivation in the first harvest, when total output came to 27.7 million tons or 1.7 million more than in 1999. However, performance differed widely from one region to another. By way of example, one should cite the State of Mato Grosso do Sul where climatic problems cut production by 43% while output in the northeast region increased by 47.9%. The second corn harvest was severely affected by drought during practically the entire growth cycle of the crop. In June, frost hit the Paraná crop and caused a loss of 60.4% of the output expected in that state. Though the total area planted for the second harvest was 7% greater, the average yield came to just 1,955 kg/hectare, compared to 2,452 kg/hectare in the same period of the preceding year. Imports totaled 7.5 million tons in the year or 115% more than in 1999 to meet internal demand estimated at 34.5 million tons. Prices remained high over the course of the year due to low stock levels and higher prices for the imported product.

Output of rice turned in results that were just the opposite of those of the previous year when growth came to 51.6%. Production of this crop in 2000 came to 11.1 million tons for a drop of 5.4% compared to the 1999 volume. The overall reduction resulted to a great extent from the 11.43% output decline caused by drought in the State of Rio Grande do Sul, which accounted for 44.7% of the overall national rice harvest. Reductions were also registered in terms of area under cultivation (4.6%) and productivity (1%). Positive figures were achieved only in the northeast region even though average yield came to just 1,647 kg/hectare and was well below the national average of 3,036 kg/hectare and the average in the southern region of the country, which stands at 5,137 kg/hectare. In the State of Mato Grosso, the largest producer of this grain, the reduction in area planted came to 7.2% and was offset by growth of 10.1% in productivity. Internal consumption totaled 11.7 million tons and closed at the same level as in 1999, while imports dropped by 39.6% due to the high volume of stocks that existed at the start of the year under analysis.

Production of beans totaled 3 million tons in 2000, 6.7% more than in the previous harvest. Though reductions were registered in the area under cultivation, the area harvested came to 4.3 million hectares with average yield of 699 kg/hectare. These figures were 3.7% and 2.9% higher than in 1999. In the first harvest of the year, which totaled 1.7 million tons, only the south region – still the major producer with 662 thousand tons – failed to generate positive results as a consequence of the prolonged drought that hit the area during the entire crop cycle. In the northeast region, the harvest came to 612 thousand tons and set a new record, accounting for 35.9% of the total harvest. This result was achieved as a consequence of excellent climatic conditions, particularly in the State of Bahia, the largest production center in the northeast. In the second harvest, the total came to 1.1 million tons in an area of 1.7 million hectares. These figures reflect growth of 7.6% and 8.7% respectively in relation to the same harvest in the previous year. The northeast is responsible for

48.3% of the harvest and was the only region to register increases in area and output. Here, one should make special mention of the 108.8 thousand ton harvest in the State of Paraíba, compared to 20.4 thousand in the previous harvest. The reductions that occurred in all of the other regions reflected the impact of low prices in the marketing period of the first harvest as well as the severe drought that hit several important production regions. Finally, the third harvest registered a result that was just the opposite of the two previous harvests, with declines of 36.6% in the area harvested and 29.6% in production. These reductions were caused by the low prices received by producers during the marketing of both the first and second harvests. To meet consumer demand, the country imported 78.5 thousand tons or 15.4% less than in the previous year.

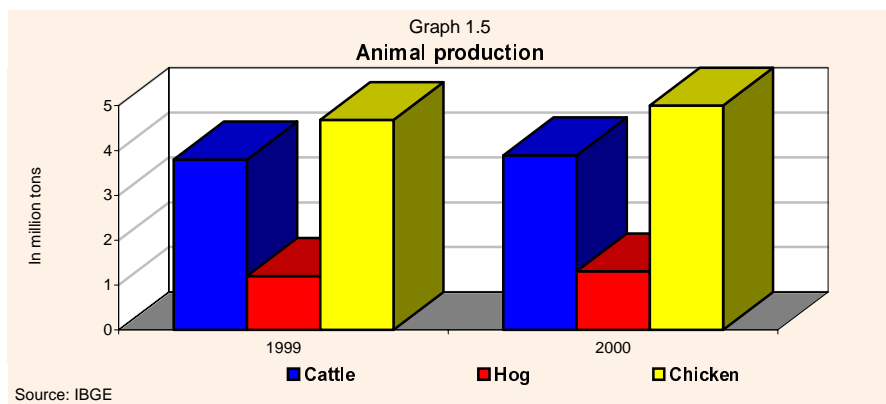
The wheat harvest came to 1.7 million tons for a reduction of 31.8% compared to the 1999 result. This was the second poorest result in the last decade and was only surpassed by the 1995 harvest. Despite expansion of 21.6% in area planted, the drought that hit the south, southeast and central-west regions up to the middle of the year, coupled with the frosts that occurred in July, resulted in an output decline. In the south region, which accounts for 94.4% of the nation's harvest, the decline came to 31.4%. In Paraná, crops were severely affected by drought in the initial stages of development and frosts at the time of flowering and fructification. Consequently, the Paraná harvest, which had reached a level of 1.5 million tons in 1999, dropped to 635.4 thousand tons in 2000. Internal demand, which is estimated at about 10 million tons, was completed with imports of 7.5 million tons and utilization of buffer stocks.

Output of unprocessed herbaceous cotton came to 1.9 million tons in 2000, thus repeating the volume registered in 1999. With the exception of the north region, which has almost negligible participation in national output, this crop turned in an excellent overall performance, particularly in the northeast and central-west regions where growth came to respective levels of 136% and 34.5%. The State of Mato Grosso has consolidated its position in recent years as the major Brazilian producer. In the most recent harvest, the state accounted for 47.5% of total output. Productivity in that state came to 3,380 kg/hectare or well above the national average of 2,023 kg/hectare. The factors most responsible for this result were more intensive use of technology, favorable climate and such government incentives as reductions in the rate of the Tax on the Circulation of Goods and Services (ICMS).

Output of coffee beans came to 3.7 million tons or 11.7% more than in the previous harvest. Productivity, which is calculated on a twice yearly basis, increased by 8.4%. The southeast region harvested 81.6% of the national harvest, with the State of Minas Gerais leading the way with 1.6 million tons, while São Paulo achieved the highest average yield, with 2,004 kg/ha. In the 1999 harvest, prices remained steady since international stocks were not particularly large. This situation was reversed

in 2000, since the increase in the volume of supply occurred at a time when consumer countries had already set aside very voluminous stocks. Increasing market complexity led to creation of the harvest retention plan that was accepted by the Association of Coffee Producing Countries (APPC) and was designed as an attempt to discipline world supply. In the latter weeks of the year, the per bag price of processed coffee fluctuated between 120 and 140 dollars, a level considered low by coffee farmers when compared to the high costs of production. Exports of coffee beans came to 967 thousand tons, for a decline of 24% in relation to 1999.

Following a trend that dates to 1994, production of the livestock sector expanded in 2000 and closed with growth of 3.3% compared to 6.9% in 1999. Data available up to the fourth quarter of the year points to expanded meat output in all segments, based on IBGE's Quarterly Survey of Animal Slaughters. The largest growth occurred in the output of the hog farming segment (8.8%), followed by chicken (8.6%) and cattle (2.4%). Production of milk increased by 6%. Export operations registered across-the-board expansion, with the best performance under pork, which registered total sales of 127.9 thousand tons or 46.5% more than in 1999. Foreign sales of beef came to 215.6 thousand tons while the marketing of chicken totaled 949.6 thousand tons, for increases of 27.4% and 19.3%, respectively.

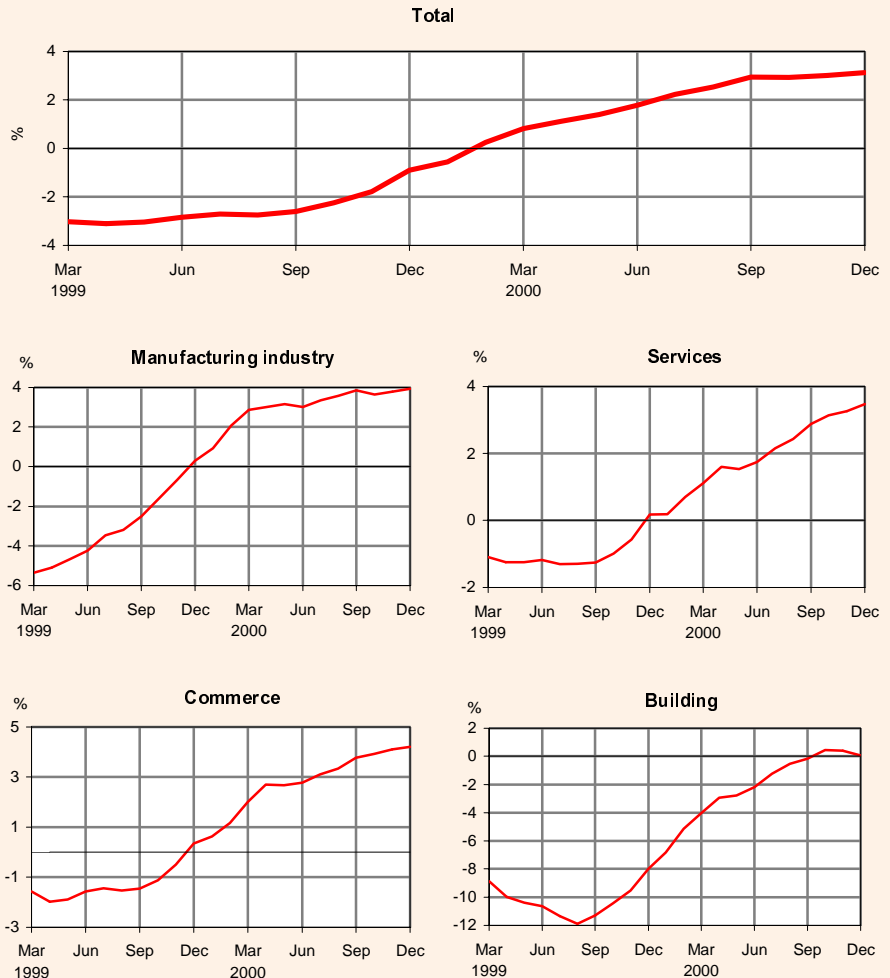


Employment indicators

Employment indicators reflected the ongoing process of recovery in the pace of economic activity and turned in positive performances over the course of 2000 in both the formal and informal sectors. Utilizing the rates for the final month of the year, open unemployment as measured by the IBGE declined sharply and closed at a level similar to that of 1997. Parallel to this, Ministry of Labor and Employment (MTE) data on formal employment pointed to interruption in the downward trend in employment levels for the first time since 1995.

In 2000, 657.6 thousand employment positions were created in the formal sector of the economy according to data included in MTE's General Record of the Employed and Unemployed (Caged). This result was not sufficient to offset elimination of 1.62 million positions in the period extending from 1995 to 1999. An analysis of that period based on annual average employment indices shows that the sharpest drops occurred in 1999 (2.52%) and 1996 (1.85%). In 2000, the average annual increase came to 1.8%, as the December 2000 index closed 3.12% above that of the same month of the previous year. When the statistical series purged of seasonal factors is utilized, growth was registered in every month of the year. On a sector-by-sector basis, the building industry and the sector of public utility industrial services registered

Graph 1.6
Level of formal employment
 Percentage change in 12 months



Source: Ministry of Labor and Employment

elimination of 1.6 thousand and 15.3 thousand jobs, respectively, while the best result in absolute terms occurred under services, with creation of 283.9 thousand vacancies. In the manufacturing sector, the increase came to 192.9 thousand positions, while the sector of commerce added 175.5 thousand jobs.

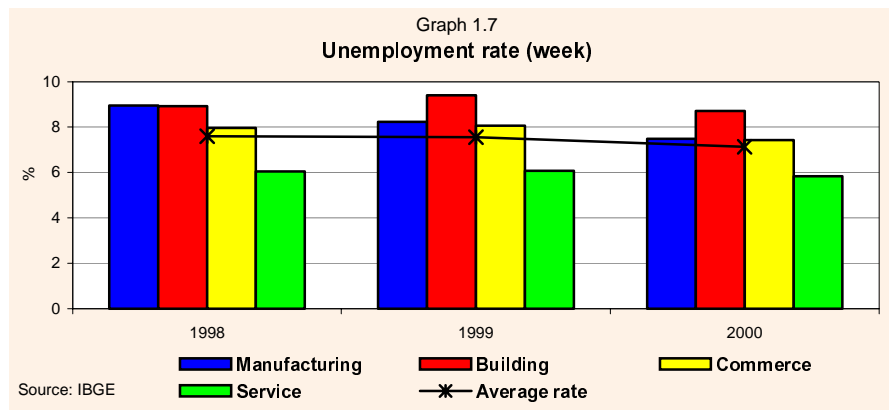
According to MTE records, 4.24 million unemployment compensation requests were submitted in 2000 and 4.13 million benefits were granted. This result reflected a decline of 4.52% in total requests and 4.85% in the number of workers covered, in contrast to 1999. The reduction in the number of benefits occurred in the wage brackets above two times the minimum monthly wage. In the other wage brackets, the following increases occurred: up to one minimum monthly wage, 7.14%; between one and 1.5 times the minimum wage, 11.23%; and between 1.51 and twice the value of the minimum monthly wage, 1.32%.

On a sector-by-sector basis, the monthly Fiesp survey indicates that industrial employment expanded by 0.97% in 2000 in response to the upturn in manufacturing activity. A comparison between the current year and the corresponding months of the preceding year indicate that recovery in the industrial employment level got underway in the month of March and became more accentuated as the year progressed. This is evident in the evolution of the growth rate from 0.35% to 1.73% in the period. The weekly survey, which is based on a Fiesp survey of 47 employer categories, showed an even more positive result, with growth of 1.71% in the number of job positions and generation of 27.4 thousand in 2000. Of the 47 employer associations surveyed, five turned in accumulated growth of more than 10%: rubber goods (10.07%), olive oil and food oils (12.76%), railroad and highway equipment (12.85%), foundries (15.83%) and footwear (16.69%). Negative results occurred in 17 segments, including 13.73% for jewelry and 29.5% for beverages.

Aggregate statistics for the industrial sectors of twelve different states announced by CNI also pointed to upward movement in employment levels. In this sense, the average monthly index pointed to an increase of 0.76% in relation to 1999. This was the best performance since the survey was first carried out in 1993. Declines in employment levels were registered in Rio de Janeiro (3.82%), Minas Gerais and Bahia (1.86%) and Paraná (1.63%). In the states that registered the highest growth in industrial employment, the sharpest rates occurred in Santa Catarina (3.42%) and Rio Grande do Sul (5.02%), while all of the other states were concentrated between 0.43% and 1.91%.

With the exception of February and May, the average rate of open unemployment in 2000 as released by the IBGE in its Monthly Employment Survey closed below the levels of the corresponding months of the previous year, ending with an annual average of 7.14% compared to 7.56% in 1999. When one considers data for the second half of each year, the average came to 6.46% and 7.29%, respectively, with

the sharpest drop in the jobless rate occurring in the second half of the year. The behavior of the jobless rate was a consequence of favorable performances under both the number of working people and those without work. In the entire year, comparisons with the corresponding months of 1999 pointed to upward movement under the heading of the working population. The number of those without work, however, only began to decline as of the month of June, as the budding process of economic recovery provoked growth in those entering the labor market or those returning in search of employment opportunities. In average terms for the year, the number of working people expanded by 4.26% while the number of those without work declined by 2.05%. In December 2000, the Monthly Employment Survey, which encompasses six metropolitan regions, registered an economically active population of 18.2 million people, for growth of 1.34% in comparison to the same month of the previous year.



In every month of the year, Rio de Janeiro registered the lowest level of open unemployment among the six major metropolitan regions covered by the Monthly Employment Survey, while Salvador registered the highest rates. When compared to the other regions of the country, the results for the metropolitan region of São Paulo were more favorable in 2000 even though they were, with the exception of December, higher than the average rate. The second highest jobless rates were registered alternately in Recife and Belo Horizonte. The metropolitan region of Porto Alegre followed a fluctuating curve, with rates that were below the average in six months of the year.

The increase in the employment level was a generalized phenomenon in all of the different categories. In all of them, the number of persons working in 2000 was greater than in the corresponding months of the previous year. The only exception to this rule occurred in January when the number of employers closed 2.19% below the 1999 result. A comparison of annual averages shows that the largest increase occurred under employees without legal working papers (8.77%), followed by the self-employed (3.39%), employers (3.18%) and registered workers (2.19%).

The Employment and Unemployment Survey carried out by the Foundation State System of Data Analysis (Seade) in a partnership with the Interunion Department of Statistics and Social and Economic Studies (Dieese), covering homes in the metropolitan region of São Paulo, registered a decline in the average rate of unemployment from 19.28% in 1999 to 17.67% in 2000. The rates of unemployment calculated in terms of movable quarterly averages were below those of the previous year in all periods, as of January 2000. It should be stressed that, in the period between December 1999 and December 2000, 73 thousand persons were incorporated into the economically active population of the region. When one compares annual averages, the falloff in the rate of unemployment occurred both as a consequence of a 6.59% reduction in the working population and as a result of a 4.02% increase in the employment level. According to the same basis of comparison, growth occurred in the number of working people in all of the categories considered, with the strongest rates (14.73%) occurring under unregistered workers and the lowest (2.5%) among employees with working papers registered by the private sector. In the case of the public sector, growth came to 4.04% in the number of working people, while the number of the self-employed expanded by 4.53%. This result confirms the data calculated by the Ministry of Labor, which pointed to low growth in the formal employment level in the southeast region (1.41%). In the north region, growth came to 3.75%, while the northeast, south and central-west regions closed with respective marks of 2.07%, 2.4% and 2.48%. In relation to the different economic sectors, the lowest growth came to 1.02% and occurred under the sector of commerce, followed by 2.18% expansion under other activities and higher rates under manufacturing (4.77%) and services (5.07%).

Wage and earnings indicators

Over the course of 2000, growth in wage and earnings indicators points to generalized recovery in all sectors and professional categories. In São Paulo, a survey carried out by Fiesp – utilizing the Consumer Price Index – Institute of Economic Research Foundation (IPC-Fipe) as deflator – indicates that average real wages paid in the industrial sector expanded by 2.67% when one compares the average in 2000 with that of the previous year. This result, combined with 0.97% expansion in the employment level, resulted in an increase of 3.75% in overall wages. The twelve state survey of overall wages carried out by the CNI, using the National Consumer Price Index (INPC) as deflator accompanied the Fiesp results and registered average growth of 2.79% in the year. However, one should note that this result was still insufficient to offset the losses of 4.91% and 9.29% in 1998 and 1999, respectively. The increase in the industrial employment level was less than 2.79% in the year and suggests that, in average terms, the real wages paid in the sector were higher than in the previous year.

According to Caged, average initial wages in 2000 increased by 5.31%. Among the sectors analyzed, the initial wages of those contracted in the service sector increased most intensively (10.07%), followed by those paid in the building industry (6.47%), industrial sector (5.43%), commerce (2.69%) and crop/livestock activities (0.53%). With the exception of the sector of commerce, in which the highest average initial wage was equivalent to that paid in December 1999, higher average initial wages were paid in 2000. In the case of the service sector, the average reached R\$520.13. The average registered in the industrial sector (R\$420.43) came close to the overall average (R\$420.47), while the other categories registered the following averages: agriculture (R\$229.30), commerce (R\$341.15) and construction (R\$382.97).

According to IBGE's Monthly Employment Survey in six metropolitan regions, the average earnings of working people declined by 0.57% between January and December 2000, according to figures deflated by the INPC. The falloff was considerably more accentuated in the previous year: 5.48%. Growth in average real earnings occurred in a highly differentiated manner in the different sectors surveyed. While the headings of services, other activities and manufacturing turned in reductions in earnings equivalent to 0.93%, 1.76% and 1.9%, respectively, the building industry and commerce closed with growth rates of 1.87% and 2.64%, in the same order. An analysis of the various employment categories indicates that the real earnings of registered workers declined by 1.03% while those of the self-employed dropped by 0.76%. The earnings of employers increased by 0.19% and those of unregistered workers rose by 0.66%.

Table 1.13 - Real average earnings of occupied people^{1/}

Percentage change

Itemization	1998	1999	2000
Total	- 0.4	- 5.5	- 0.6
Sectors of activity			
Manufacturing	- 0.3	- 7.5	- 1.9
Building	- 5.5	- 6.8	1.9
Commerce	- 4.9	- 6.7	2.6
Services	1.0	- 4.9	- 0.9
Position			
Registered	0.0	- 4.2	- 1.0
Unregistered	0.5	- 1.3	0.7
Self-employed	- 4.1	- 7.3	- 0.8
Employers	3.6	- 10.8	0.2

Source: IBGE

1/ Deflated by the INPC. Includes the metropolitan regions of Recife, Salvador, Belo Horizonte, Rio de Janeiro, São Paulo and Porto Alegre.

The Employment and Unemployment Survey carried out in the metropolitan region of São Paulo by the Seade Foundation and Dieese pointed to an across-the-board decline in real earnings when compared to the January to December averages. In the private sector, the earnings of unregistered workers dropped by 1.69% when deflated by the Cost of Living Index (ICV/Dieese) and those of registered workers fell by 6.66%. Real losses for the total working population came to 6.5%, using the same reference base.

The minimum wage was set at R\$151.00 effective as of April, corresponding to US\$76.91 in December 2000 or US\$3.11 more than in December 1999.

Price indicators

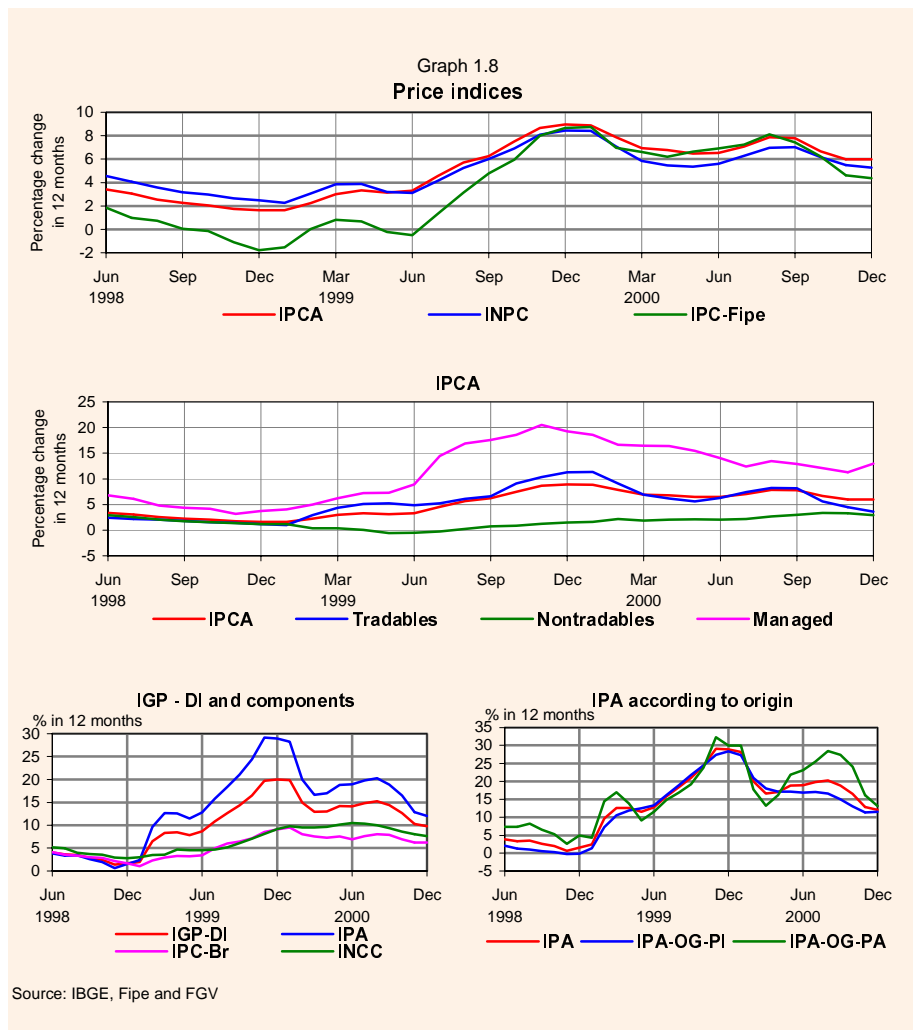
Inflation in 2000 was strongly impacted by food and government managed prices. The performance of the farm sector was marked by a record grain harvest, making it possible to avoid undue price increases under foodstuffs, particularly in the first half of the year. In several months of that period, food prices registered some degree of deflation. In the opposite sense, government managed prices accounted for the highest rates of monthly inflation in the year, with the most accentuated increases concentrated in July, August and December.

At the start of the year, price indices continued on the downward curve registered since the end of 1999. The start of the farm harvest and cutbacks in industrial prices were the factors of greatest importance underlying this scenario, despite the seasonal pressures generated by *in natura* foodstuffs and outlays on education and the impact of the upward movement in gasoline prices at the start of the month of March. This latter factor was responsible for the greatest individual contribution to the IPCA in the month.

In the second quarter of the year, the 11% minimum wage increase, which impacted the maintenance costs of residential condominiums and the wages of domestic help, together with fuel price increases, were the items that exerted the greatest upward pressure on price indices. However, despite these results, the behavior of food prices over the first six months of the year led to the lowest growth levels in consumer price indices ever registered in that period of the year, as the IPCA closed at 1.64% and the IPC-Fipe at 0.87%. The IGP-DI accumulated growth of 3.16% in the period, the lowest level of the past fifty years.

At the start of the second half of the year, however, price indices pointed to an upturn in inflation as the IPCA expanded by 1.61% and 1.31% in July and August,

respectively. The elements responsible for growth in the two month period were the start of the off-season farm period and increases in government managed prices, particularly in the case of fuels. The reasons behind the latter increases were higher international oil prices and, in the case of fuel alcohol, one should note the sugar cane harvest failure. It should be stressed that the increases registered in the period did not disseminate to the other sectors of the economy. Evidently, this is a sign that the economy has practically freed itself from any remnants of indexing mechanisms. Thus, once the impacts of the price pressures that had marked the early part of the year had been overcome, inflation indices became relatively stable at a level similar to the first six months of the year. Toward the end of the year, however, a new fuel price increase in November brought upward pressure to bear on the indices once again.



Government managed prices

In 2000, government managed goods and services – the prices which are directly or indirectly set by federal, state or municipal government authorities – contributed approximately 58% of the growth in the IPCA. This was equivalent to 3.46 percentage points in the index of 5.97% registered in the year. The items that generated the greatest inflationary pressure in the period were fuels, urban bus fares and fixed telephone rates.

Table 1.14 - Managed prices: main items of inflation indices in 2000

Percentage change

Itemization	IPCA			IPA-DI		
	Weight ^{1/}	Accumulated variation	Accumulated share	Weight ^{1/}	Accumulated variation	Accumulated share
Index (A)	100.0	5.97	5.97	100.0	12.1	12.1
Urban transportation	6.6	7.7	0.5	...	...	...
Gasoline	4.1	30.7	1.1	2.1	37.6	0.8
Alcohol	1.1	32.9	0.3	1.7	44.6	0.8
Diesel oil	0.1	27.1	0.0	3.4	35.7	1.2
Barreled cooking gas	1.2	21.0	0.2	0.4	51.9	0.2
Electric energy	3.5	12.7	0.4	...	...	...
Telephone	3.0	13.7	0.4	...	...	...
Fuel oil	...	...	...	1.2	26.0	0.3
Total (B)	19.6	...	2.9	8.8	...	3.1
Share (B/A)			48%			25%

Source: IBGE and FGV

1/ December 2000 weight.

Growth in the prices of gasoline and hydrated alcohol accounted for approximately 40% of the upward movement registered under government managed prices in the year. Gasoline prices reflected the accentuated rise in international oil prices, which came to US\$37.20/barrel at the end of July. It should be noted that the prices of gasoline and hydrated alcohol at the pump were released from controls in February 1999, while the sale price at the refinery level to fuel distribution companies depends on issue of an interministerial directive.

Increases in fuels prices have also generated pressures on the costs of public transportation. In this case, fares are defined at the level of municipal governments. One should note that such important state capitals as São Paulo, Salvador, Recife and others did not alter the fare structures of public urban mass transit systems. On average, urban bus fares increased by 7.87%.

With regard to fixed telephone service rates, the National Telecommunications Agency (Anatel) is responsible for authorizing increases at 12 month intervals based on the impact of the IGP-DI on the various services rendered by the concession companies. Growth in phone rates during the course of the year came to an average of 13.67%.

In 2000, electric energy rates increased by an average of 12.66%. These increases follow a schedule defined by the National Electric Energy Agency (Aneel), which is responsible for defining the annual increases to be charged by each one of the concession companies. The percentage authorized by the Agency gives due consideration to the impact of the General Price Index - Market (IGP-M) accumulated over the previous twelve months on those costs that the company has the power to manage, together with the costs over which companies have no power, such as energy purchased from outside sources, fuel consumption and financial compensation for the utilization of resources.

General price index

In 2000, the IGP-DI registered growth of 9.81%, compared to 19.98% in the previous year. The Wholesale Price Index (IPA) registered a high of 12.06%. Fuels and lubricants accounted for approximately one fifth of this growth. The Consumer Price Index - Brazil (IPC-Br) closed the year with a high of 6.21%, compared to 9.12% in the preceding year. In its turn, the National Cost of Construction Index (INCC) registered growth of 7.66%, following the mark of 9.21% in 1999, with increases of 7.27% under labor and 8.02% in the prices of building materials.

The IGP-M differs from the IGP-DI only in terms of the period in which the data is gathered. This index registered growth of 9.95% in 2000, compared to 20.1% in 1999.

Consumer price index

The Consumer Price Index, which is calculated by Fipe, registered inflation of 4.38% in the metropolitan region of São Paulo. Growth in government managed prices accounted for the major share of inflation, as increases in public tariffs and in fuel prices represented approximately half of the growth in the index, despite the fact that no alterations had been incorporated into urban bus fares in the city of São Paulo. Food prices registered deflation of 0.15%, with reductions of 1.99% under semi-elaborated goods and 0.61% under industrialized products, compared to positive growth of 2.13% under the prices of *in natura* foodstuffs. To some extent, the favorable performance under food products offset higher than average increases registered under outlays on education (9%), health (4.67%) and housing (4.88%).

The IPCA, which reflects growth in the prices of goods purchased by families in the wage bracket between 1 and 40 times the minimum monthly wage, is used as the parameter underlying the inflation targeting system adopted by Brazil. In 2000, this index rose by 5.97%, compared to 8.94% in 1999. This result was within the interval of 6% with a deviation of two percentage points either up or down defined as the inflation target in 2000 by the National Monetary Council (CMN) in June 1999.

Just as occurred under the other inflation indices, the greatest pressures perceived by the IPCA originated in government managed prices, particularly communications (12.89%) and transportation (12.08%). In contrast to this performance, the other groupings registered growth below the average index level, particularly in the sectors of health and personal care (2.2%) and foodstuffs and beverages (3.2%). When one considers only food products, the following increases should be cited: white potatoes (67.31%) and refined sugar (37.21%), parallel to declines under black beans (17.08%), soybean oil (14.63%) and rice (10.21%). Moderate price growth occurred under apparel (4.14%), new automobiles (3.94%) and medicines (0.97%). The heading of rentals registered negative growth of 2.31%.

Table 1.15 - IPCA items share in 2000

Percentage change

Groups	IPCA				
	Weight ^{1/}	Accumulated in the first half-year	Accumulated in the second half-year	Accumulated share in the year	Index share ^{2/}
IPCA	100.0	1.64	4.26	5.97	100.00
Foodstuffs and beverages	22.3	-0.8	4.0	0.7	11.8
Housing	15.8	0.8	3.6	0.7	11.6
Housing products	5.9	1.9	3.3	0.3	5.0
Apparel	5.5	0.1	4.1	0.2	3.7
Transportation	21.2	3.2	8.6	2.4	41.0
Health and personal care	11.3	1.6	1.0	0.3	5.0
Personal outlays	9.6	4.2	1.4	0.5	8.9
Education	4.9	4.0	0.7	0.2	3.8
Communications	3.4	4.5	8.0	0.4	7.0

Source: IBGE

1/ 2000 average.

2/ It is obtained by dividing the accumulated share in the year by the IPCA accumulated change in the year.

Market estimates regarding the IPCA in 2000 declined systematically over the course of the year, with the exception of the August-September period, when inflation was pressured by rises in government managed prices and the start of the

off-season farm period. As the year came to a close, all of these factors were converging toward a level of 6%. In the month of January, median expectations placed inflation at 6.94%, compared to 6.07% in December. Here, one should mention that the December rate was quite close to the rate that effectively occurred (5.97%).

The INPC, which is also calculated by IBGE, accumulated growth of 5.27% in 2000. This indicator differs from the IPCA principally with regard to the target population, which corresponds to families with monthly income between 1 and 8 times the monthly minimum wage.