



I

THE BRAZILIAN ECONOMY

Activity level

In 2002, growth in the level of activity was impacted basically by the repercussions of the electoral process and by cutbacks in the volume of external financing channeled to the country. The climate of uncertainty was most intensely felt as of the second quarter of the year and was first reflected in expectation indicators, exchange rates and the credit market. In the real sector of the economy, these factors were responsible, on the one hand, for a decline in investment outlays and reductions in consumption of goods of higher aggregate value, with negative repercussions on the industrial sectors involved in production of capital goods, automotive vehicles and construction. On the other hand, these factors also produced incentives for exports and internal production of goods similar to those previously imported. One result was a significantly more vibrant and dynamic foreign trade sector. Aside from this, exchange depreciation increased the profitability of the farm sector, as the income of this activity was positively impacted by the excellent result of the nation's crop production.

It is important to stress that the factors that drove expansion in the activity level in 2002 were trade balance results, the performance of the primary sector of the economy and, in the second half of the year, extraordinary disbursements by the Employment Compensation Fund (FGTS) fully impacting the retail trade sector.

Gross Domestic Product (GDP)

At market rates, GDP came to R\$1,321.5 billion in 2002, with real growth of 1.5%. This result was below the 2.3% result expected at the start of the year, according to market estimates surveyed by Banco Central, and above the 1.2% forecast made at the end of the third quarter. Basically, this growth maintained the same *per capita* income level of the previous year.

GDP registered relatively stable growth over the course of the year, when analyzed on the basis of growth figures purged of seasonal factors compared to the previous

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

Year	At 2002 prices (R\$ million)	Real change (%)	Implicit deflator (%)	At current prices ^{1/} (US\$ million)	Population (million)	Per capita GDP		
						At 2002 prices (R\$)	Real change (%)	At current prices ^{1/} (US\$)
1980	845 387	9.2	92.1	237 772	118.6	7 130	7.0	2 005
1981	809 458	- 4.3	100.5	258 553	121.2	6 678	- 6.3	2 133
1982	816 176	0.8	101.0	271 252	123.9	6 588	- 1.3	2 190
1983	792 262	- 2.9	131.5	189 459	126.6	6 259	- 5.0	1 497
1984	835 045	5.4	201.7	189 744	129.3	6 460	3.2	1 468
1985	900 587	7.8	248.5	211 092	132.0	6 824	5.6	1 599
1986	968 041	7.5	149.2	257 812	134.7	7 189	5.4	1 915
1987	1 002 213	3.5	206.2	282 357	137.3	7 301	1.6	2 057
1988	1 001 612	- 0.1	628.0	305 707	139.8	7 164	- 1.9	2 186
1989	1 033 263	3.2	1 304.4	415 916	142.3	7 261	1.4	2 923
1990	988 316	- 4.3	2 737.0	469 318	147.6	6 696	- 7.8	3 180
1991	998 495	1.0	416.7	405 679	149.9	6 660	- 0.5	2 706
1992	993 068	- 0.5	969.0	387 295	152.2	6 524	- 2.0	2 544
1993	1 041 974	4.9	1 996.2	429 685	154.5	6 744	3.4	2 781
1994	1 102 960	5.9	2 240.2	543 087	156.8	7 035	4.3	3 464
1995	1 149 546	4.2	77.5	705 449	159.0	7 229	2.8	4 436
1996	1 180 108	2.7	17.4	775 475	161.2	7 319	1.2	4 809
1997	1 218 714	3.3	8.3	807 814	163.5	7 455	1.9	4 942
1998	1 220 322	0.1	4.9	787 889	165.7	7 365	- 1.2	4 755
1999	1 229 907	0.8	4.6	536 554	167.9	7 325	- 0.5	3 195
2000	1 283 539	4.4	8.0	602 207	170.1	7 544	3.0	3 539
2001	1 301 705	1.4	7.5	510 360	172.4	7 551	0.1	2 961
2002	1 321 490	1.5	8.5	451 005	174.6	7 567	0.2	2 583

Source: IBGE

1/ Estimates obtained by the Banco Central do Brasil dividing the GDP at current prices by the annual average buying rate of exchange.

quarter. In the early months of 2002, the economy was impacted by efforts to overcome the country's energy supply shortages, as deseasonalized GDP expanded by 0.9% in the first quarter of the year compared to the previous quarter. This was the first positive performance after three negative quarterly results. Among the various sectors of activity, crop/livestock farming played an outstanding role, with growth of 2.1% in the quarter.

As of the start of the second quarter, expectations surrounding the presidential elections generated market uncertainty which, in turn, provoked increased exchange rate volatility and deterioration. Parallel to this, expectation indicators, which had been recovering since the start of the year, turned downward once again. Despite this scenario, growth in the level of economic activity continued in the second

quarter, as GDP registered expansion of 0.8% in the seasonally adjusted series when compared to the previous quarter. The most significant factors underlying this result were growth in mining activity and the excellent performance of the farm harvest.

Table 1.2 – GDP – Quarterly growth/previous quarter – seasonally adjusted

Percentage

Itemization	2002			
	I	II	III	IV
GDP at market price	0.9	0.8	0.9	0.7
Crop and livestock sector	2.1	0.4	0.6	0.3
Industrial sector	1.3	1.8	1.7	1.9
Service sector	0.6	0.2	0.7	0.2

Source: IBGE

GDP expansion continued into the third quarter of the year, closing with 0.9% when viewed against the previous quarter. Two factors of importance in the period were growth in exports and the start of court ordered extraordinary FGTS disbursements projected to offset shortfalls in monetary indexing of the balances in the economic stabilization plans that were introduced prior to the Real Plan. The resources released came to more than R\$7 billion, with direct impacts on domestic consumption. The upward movement in demand sustained growth in industrial product, particularly involving the goods channeled to the foreign trade sector and durable consumer goods of lesser unit value.

Table 1.3 – Gross Domestic Product under the prism of expenditure and income

In R\$ million

Itemization	1999	2000	2001	2002
Gross Domestic Product	973 846	1 101 255	1 200 060	1 321 490
Final consumption expenditure	792 529	880 655	957 836	1 037 935
Family consumption	606 701	670 702	727 095	783 280
Government consumption	185 828	209 953	230 741	254 655
Gross capital formation	196 336	237 255	254 126	255 668
Gross fixed capital formation	184 098	212 384	233 376	247 241
Changes in inventories	12 238	24 871	20 750	8 427
Exports of goods and services	100 136	117 423	158 501	208 262
Imports of goods and services (-)	115 154	134 079	170 403	180 374

Source: IBGE

In the third quarter of the year, intensification of exchange depreciation stimulated growth in the trade surplus by expanding exports and restricting imports, transforming the sector into the most dynamic factor underlying economic performance in the final months of the year. Viewed in terms of the seasonally adjusted statistical series, fourth quarter GDP registered growth of 0.7% compared to the previous quarter.

Table 1.4 – Quarterly Gross Domestic Product

In R\$ million

Year		GDP at market price	Taxes on products	Crop and livestock sector	Industrial sector	Service sector
1998	I quarter	210 606	22 580	13 565	65 895	119 469
	II quarter	233 104	23 999	20 313	72 181	125 035
	III quarter	233 974	23 277	19 017	75 311	127 960
	IV quarter	236 504	23 543	14 655	70 754	138 638
1999	I quarter	221 629	23 573	17 058	65 249	126 374
	II quarter	247 582	25 094	19 458	77 191	134 103
	III quarter	241 182	26 269	17 087	82 093	127 106
	IV quarter	263 453	28 451	18 253	85 542	142 163
2000	I quarter	250 866	26 301	19 275	80 450	135 336
	II quarter	271 619	28 229	21 174	91 405	138 887
	III quarter	284 896	31 511	20 822	96 956	146 586
	IV quarter	293 873	33 353	16 987	99 664	153 946
2001	I quarter	280 474	32 074	21 480	95 195	141 624
	II quarter	295 488	34 390	25 380	96 493	146 006
	III quarter	303 347	34 181	20 429	104 300	154 857
	IV quarter	320 751	34 322	21 933	104 674	187 374
2002	I quarter	295 848	32 931	23 336	93 611	159 367
	II quarter	324 116	34 982	27 042	107 174	174 487
	III quarter	337 220	36 649	24 613	117 374	184 604
	IV quarter	364 306	40 760	21 800	126 678	191 417

Source: IBGE

A sector-by-sector breakdown of GDP performance in 2002 indicates that crop/livestock farming expanded by 5.8% and played a leading role for the second consecutive year. With this result, the average rate of growth of this sector over the past five years came to 4.6% due fundamentally to the productivity growth that resulted from increased consumption of inputs and a steady rise in acquisitions of farm machines and equipment, as well as expansion in foreign sales of these products.

Table 1.5 – Quarterly National Accounts

In R\$ million

Year	GDP at market price	Family consumption	Government consumption	Gross fixed capital formation	Changes in inventories	Exports	Imports (-)
1998 I quarter	210 606	134 928	41 693	43 259	- 4 569	15 514	20 220
II quarter	233 104	138 577	42 794	46 211	8 726	18 105	21 309
III quarter	233 974	148 528	45 867	46 882	- 1 789	18 087	23 602
IV quarter	236 504	144 158	44 492	43 630	13 074	16 156	22 638
1999 I quarter	221 629	139 530	42 764	43 001	- 1 013	21 323	23 976
II quarter	247 582	145 837	44 614	46 234	13 991	23 802	26 896
III quarter	241 182	157 976	48 388	46 852	- 8 071	26 611	30 574
IV quarter	263 453	163 357	50 062	48 011	7 330	28 400	33 708
2000 I quarter	250 866	150 798	45 919	53 855	2 677	25 354	27 737
II quarter	271 619	163 902	49 293	51 281	9 405	29 049	31 311
III quarter	284 896	175 602	51 426	52 950	8 589	32 463	36 134
IV quarter	293 873	180 400	63 315	54 298	4 200	30 557	38 897
2001 I quarter	280 474	173 591	48 353	57 572	6 243	32 641	37 927
II quarter	295 488	180 627	53 246	58 724	6 339	39 754	43 202
III quarter	303 347	183 872	53 600	59 352	7 953	44 526	45 957
IV quarter	320 751	189 005	75 542	57 728	215	41 580	43 318
2002 I quarter	295 848	182 214	53 608	56 175	4 392	34 228	34 769
II quarter	324 116	191 482	61 960	59 679	10 780	38 240	38 025
III quarter	337 220	198 962	58 276	64 181	2 036	64 778	51 012
IV quarter	364 306	210 622	80 811	67 206	- 8 781	71 016	56 568

Source: IBGE

Output of the industrial sector increased by 1.5% in 2002, with the mining sector accounting for the lion's share of this growth. Over the course of the year, the country set successive records in monthly output of petroleum and natural gas, with growth of 12.2% in the year, the sharpest level since the series was first elaborated. Among the different industrial segments, the exception was construction which registered downward movement for the second consecutive year. Manufacturing expanded by 1.9% and was mainly sustained by the sectors involved in exports and production of consumer durables, particularly electric-electronic goods, which increased in relation to a rather low reference base caused by the 2001 energy crisis. The sector of public utility industrial services (SIUP) was constituted mostly by electricity generation and transmission services and registered growth of 1.5%, accompanying the growth process of the economy. However, it should be noted that, despite positive growth, energy consumption in 2002 remained below the level expected by electricity companies themselves at the start of the year. The reason behind this was the change in consumer behavior following the period of energy rationing.

Table 1.6 – GDP real change rates

Percentage			
Itemization	2000	2001	2002
GDP	4.4	1.4	1.5
Crop and livestock sector	2.2	5.7	5.8
Industrial sector	4.8	- 0.3	1.5
Mineral extraction	10.4	3.9	10.4
Manufacturing	5.5	0.9	1.9
Building	2.6	- 2.6	- 2.5
Public utility industrial services	4.2	- 5.6	1.5
Service sector	3.8	1.9	1.5
Commerce	4.5	1.5	0.2
Transportation	3.1	5.2	- 0.9
Communications	15.6	9.9	7.4
Public administration	1.5	0.8	1.3
Other services	5.6	1.3	1.0
Financial institutions	4.1	0.3	2.2
Rents	2.6	2.1	1.7
Financial dummy	4.2	1.3	1.9

Source: IBGE

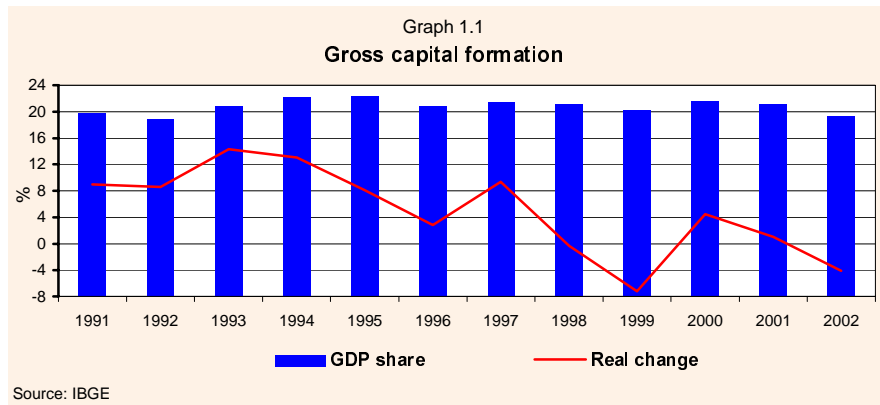
In the tertiary sector of the economy, particular mention should be made of the communications segment, which, just as had occurred in the previous year, expanded sharply particularly as a result of expansion of telephone services. The other service segments registered relatively moderate growth as a result of the low but positive growth of the economy. Here, the only major exception was transportation, which closed with downward movement in the year.

When one considers growth in the activity level as reflected in changes in demand components, the highlight in 2002 was the downward movement in investments, which accounted for 19.4% of GDP, the lowest level since 1992. On the other hand, growth in exports and declining imports resulted in strong growth in net external demand in the year (10.4%) and became the major source of positive growth in product during the year.

Investments

According to the national accounts as released by Brazilian Institute of Geography and Statistics (IBGE), there was a reduction of 4.1% in 2002 in investment outlays, including changes in investment stocks, thus cutting investments as a percentage of GDP from 21.2% in 2001 to 19.4% in 2002. All investment components declined

in the year, reflecting the low level of economic activity, as well as uncertainties regarding future economic performance, high rates of interest and declining real earnings levels.



Production of construction industry inputs fell by 2.8% in 2002, despite strong recovery in the final quarter of the year when deseasonalized growth moved to 3.9% compared to the third quarter figure. To some extent, this recovery is explained by the channeling of resources into real estate as a result of the uncertainties that surrounded the electoral process and of the changes introduced into the rules

Table 1.7 – Gross capital formation (GCF)

Percentage

Year	Share in GCF			Changes in inventories	At current prices	
	Gross fixed capital formation (GFCF)				GFCF/GDP	GCF/GDP
	Building	Machines and equipments	Others			
1990	65.7	34.0	2.7	- 2.5	20.7	20.2
1991	60.4	28.7	2.5	8.4	18.1	19.8
1992	64.8	26.3	6.3	2.7	18.4	18.9
1993	62.5	24.2	5.8	7.5	19.3	20.8
1994	60.6	27.2	5.8	6.3	20.7	22.1
1995	57.4	28.9	5.8	7.8	20.5	22.3
1996	62.0	25.3	4.8	7.9	19.3	20.9
1997	63.2	24.8	4.4	7.6	19.9	21.5
1998	65.4	23.5	4.4	6.8	19.7	21.1
1999	65.0	23.7	5.0	6.2	18.9	20.2
2000	60.0	24.7	4.8	10.5	19.3	21.5
2001	58.8	28.0	5.0	8.2	19.5	21.2
2002	3.3	18.7	19.4

Source: IBGE

governing fixed income investment funds. The result of these factors was a net withdrawal of resources from the financial system.

Output of capital goods slipped by 1.1% in 2002 and interrupted the growth trajectory of the previous two years. Viewed in terms of seasonally adjusted data, performance over the course of the year pointed to positive growth of 1.7% in the final quarter of the year, when compared to the third quarter result. However, it is important to underscore that the underlying cause of this performance was growth of 18.4% in exports of capital goods in the period and not an increase in productive investments in the country. A breakdown of capital goods production data in the year shows growth figures of 18.6% in the production of farm machines and equipment, 8.1% in output of transportation equipment and 5.1% in machines and equipment for the industrial sector. The last several years have been marked by growth in the production of farm machines and equipment and, simultaneously, by excellent crop/livestock production results. The most important negative factor was found in the production of equipment for electricity generation and distribution, with a drop of 27%. However, this drop can be attributed to the cooling of the investment cycle triggered by the electricity supply crisis that encouraged companies to invest heavily in their own electricity production facilities in 2001. In their turn, imports of capital goods registered a decline of 18.1% in the year, mostly as a result of the climate of uncertainty that marked the period, together with strong exchange depreciation.

Table 1.8 – Selected capital goods production

Itemization	Percentage share ^{1/}	Percentage change		
		2000	2001	2002
Capital goods	100.0	13.1	13.5	- 1.1
Industrial	22.4	19.0	4.1	5.1
Serial	17.8	21.9	3.5	1.9
Non-serial	4.6	7.3	6.6	19.5
Agricultural	13.5	19.3	20.0	18.6
Agricultural parts	1.2	14.6	3.4	0.3
Building	2.5	15.0	18.3	0.0
Electric energy	9.4	3.2	42.6	- 27.0
Transportation	29.4	22.8	12.2	8.1
Mixed	21.7	8.4	2.8	- 0.9

Source: IBGE

1/ It refers to the estimated share in 2002.

Total disbursements by the BNDES System – National Bank of Economic and Social Development (BNDES), Special Industrial Financing Agency (Finame) and

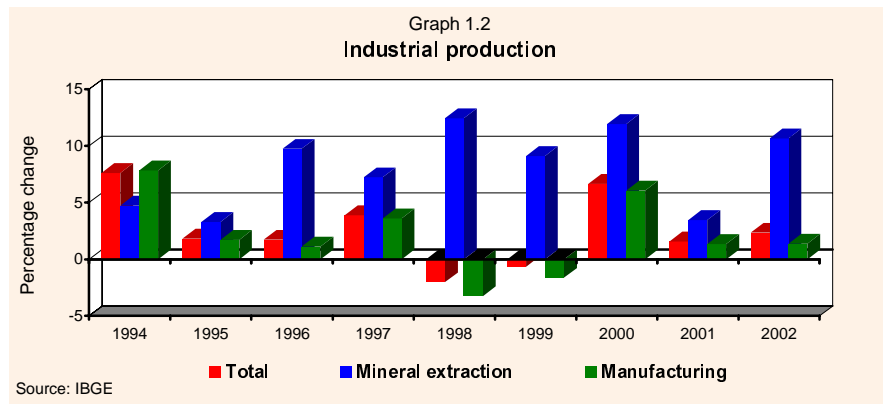
BNDES Participações S.A. (BNDESpar) – came to a total of R\$37.4 billion in 2002, reflecting nominal growth of 48.4% and real expansion of 30.7% in relation to 2001 (deflated by the General Price Index - Internal Supply (IGP-DI)).

A sector-by-sector analysis shows that BNDES financing provided to the manufacturing sector turned in nominal growth of 34.6% and real growth of 18.6%. Financing channeled into commerce and the service sector expanded by 66.5% in nominal terms and 46.7% in real terms. Financing for crop and livestock farming was 63.3% higher than in 2001 in nominal terms and 43.8% at constant prices. Loans to the mining sector dropped by 36.9% in nominal terms and 44.4% in real terms. This falloff in the volume of financing provided to the mining sector is explained by the high basis of comparison, since financing to this sector of activity had expanded by 228% in 2001.

The Long-Term Interest Rate (TJLP) – the basic cost of financing contracted with the BNDES System – remained practically stable over the course of 2002. The rate stood at 10% per year in the first quarter of 2002, dropping back to 9.5% per year in the following quarter and moving back to 10% per year in the third and fourth quarters of 2002.

Industrial output indicators

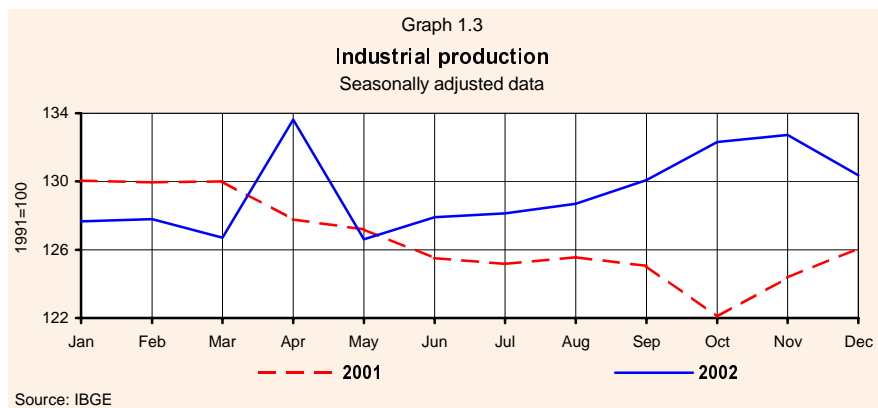
In 2002, industrial output expanded by 2.4%, as a result of growth of 10.7% in the mining sector and 1.4% in the manufacturing industry. The exceptional performance of the mining sector resulted from the record levels achieved in petroleum output, including natural gas liquid (NGL), with 1.5 million barrels per day (bpd) and growth of 12.2% in relation to 2001. As a result of this growth, the participation of national petroleum in the volume processed by refineries in Brazil increased from 75% in 2001 to 78% in 2002. Imports of petroleum registered a decline of 6.9% in



comparison to 2001, with an average of 381.1 bpd, and exports expanded by 109%, with 234.3 thousand bpd.

Growth in the pace of manufacturing activity in 2002 was, to a great extent, a consequence of the performance of those segments that are most intensively impacted by the strong growth registered in the crop/livestock sector and/or operating in the segment of foreign sales. In the first grouping, one should highlight the industries that turn out fertilizers, animal feed and farm machines, with respective growth rates of 13.2%, 8.8% and 18.6% in the year, respectively. In the second grouping, industries in the segments of cellulose, vegetable oils, sugar and animal slaughters turned in positive growth rates of 10.5%, 8.3%, 7.3% and 7%, in the year. Other areas that deserve mention are output of home appliances, with 5.1%, resulting partly from the rather depressed basis of comparison caused by the 2001 energy crisis and growth in demand for televisions at the time of the World Cup.

An analysis of the evolution of the manufacturing sector over the course of the year indicates that, once seasonal factors are eliminated from the statistical series, positive growth was registered in every month from May to November, with the strongest performance at the end of the third quarter and start of the fourth. In the period in question, trade balance surpluses expanded sharply and internal output of automotive vehicles and construction material, stimulated, among other factors, by net outflows of resources from investment funds, turned in positive results. In the final month of the year, the series of consecutive positive results was interrupted as a consequence of deteriorating demand conditions, including a falloff in real income, stagnation in the volume of credit and higher interest rates. With regard to seasonally adjusted industrial output in the year, the sharp fluctuation that occurred in April was caused by a statistical distortion generated by the fact that Holy Week occurred in March instead of April, as normally happens.



A breakdown of industrial performance by use category indicates the major factors underlying the behavior of manufacturing activity in 2002. In this sense, the heading of intermediate goods – the item of greatest weight in industrial output – registered the strongest upturn, with 3.1% compared to a drop of 0.2% in the previous year. The segment encompasses production of petroleum and important export market products, such as cellulose, vegetable oils and sugar, all of which turned in strong growth in the year.

Output of consumer durables registered growth of 2.8% in the year. Despite significant recovery in the second half of the year, the automotive industry closed the year with a production decline. Data released by the National Association of Automotive Vehicle Manufacturers (Anfavea) indicated a drop of 1.7% in the production of automobiles and light commercial vehicles, following positive growth of 6.7% in 2001 and 23.6% in 2000. This sector, which is highly sensitive to factors involving decisions to commit future earnings, was adversely impacted by the uncertainties of the economic environment and deteriorating expectations. The performance of the automotive industry benefited from growth of 5.2% in foreign sales, as the participation of this heading in the total industrial sales of the sector moved from 21.4% in 2001 to 22.8%.

Production of semidurable and nondurable consumer goods remained at practically the same level as in 2001, with growth of just 0.1% as a result of expansion in the output of the food industry, principally in the case of the segments of meat derivatives and fruit and vegetables (including juices), coupled with declines in the sectors of textiles and apparel.

Output of capital goods declined by 1.1% following sharp growth in the previous two years. According to observers, this was a result of the uncertainties generated by the electoral process and exchange rate volatility on business confidence. Based on the deseasonalized statistical series, data projected on a quarterly basis registered the worst result in the third quarter, when output turned in a decline of 2.7% compared to the previous period.

An analysis made by the IBGE covering twenty different products indicates growth under thirteen of these headings, with a particularly strong performance in the metal-mechanics industry. Output of the sector of metallurgy increased by 3.3% and was impacted by production of steel and cast iron, while the mechanics industry grew by 8.7% as a result of an equivalent rise in the production of machines and equipment and a 13.4% increase in the output of tractors and highway machines. Also in this grouping, the segment of transportation equipment registered growth of 1.2% in the year, due to expanded production in the railway industry (22.7%) and shipbuilding segment (12%). One should further stress the growth that occurred in such industrial segments as tobacco (22.8%) and food products (4.4%). These

results were evidently stimulated by the excellent performance of the primary sector and by expanding export operations, particularly those involving meat and derivatives.

Table 1.9 – Industrial production

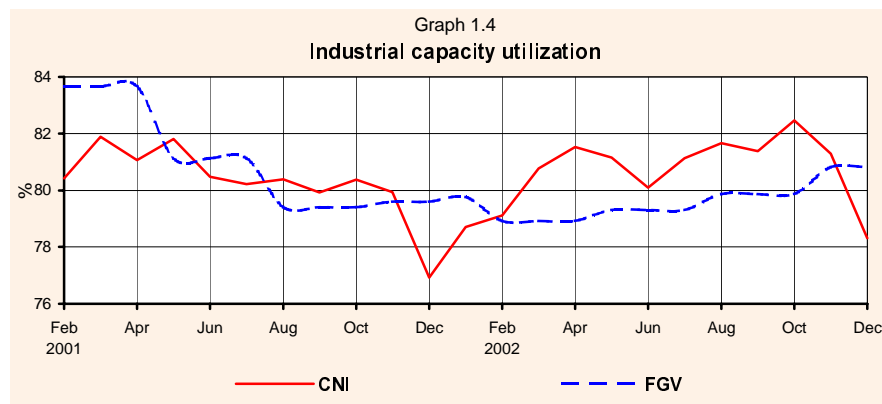
Itemization	Percentage share ^{1/}	Percentage change		
		2000	2001	2002
Total	100.0	6.6	1.6	2.4
By category of use				
Capital goods	9.4	13.1	13.5	- 1.1
Intermediate goods	65.0	6.8	- 0.1	3.1
Consumer goods	25.7	3.5	1.2	0.7
Durable	5.6	20.8	- 0.6	2.8
Semi and nondurable	20.1	- 0.4	1.6	0.1

Source: IBGE

1/ It refers to the estimated share in 2002.

Among the seven segments in which growth closed below the 2001 level, the most accentuated reductions were registered under electric and communications equipment (11.7%), leather and hides (3.8%) and apparel, footwear and cloth goods (2.1%).

The slight growth registered in 2002 industrial production generated upward movement in the level of utilization of installed capacity in the manufacturing sector. According to figures released by the Getulio Vargas Foundation (FGV), the utilization level moved from 79.5% at the start of January 2002 to 80.8% in January 2003. A survey carried out by the National Confederation of Industry (CNI), which aggregates data provided by industrial federations from twelve different states,



clearly ratified the FGV results, indicating that median utilization of production capacity came to 78.3% in December 2002, compared to 76.9% in the same month of the previous year. On a state-by-state basis, the highest levels of utilization were registered in Rio Grande do Sul (83.2%), Santa Catarina (82.7%), Minas Gerais (82.1%), Ceará (80.9%) and Bahia (79.8%). In the case of São Paulo, the rate came to 78.3%, compared to 76.6% in December 2001.

Analysis of the evolution of the level of utilization of installed capacity indicated that, according to FGV data, the largest growth in the year was registered in the segments of publishing and printing (26.8%), perfumes, soaps and candles (20.5%) and beverages (12%). However, despite these increases, the segments in question were unable to achieve utilization levels of 80%. Of the 23 segments covered by the FGV survey, fourteen turned in utilization levels above this mark and, of these, only metallurgy, textiles and paper and pulp closed above 90%.

Commerce indicators

Retail activity in 2002 was sharply impacted by extraordinary FGTS disbursements as of May and, with even greater intensity as of July, resulting in a much better performance in the second half of the year.

Table 1.10 – Capacity utilization^{1/}

Itemization	2000	2001	2002
Manufacturing industry	82	80	81
Consumer goods	77	74	75
Capital goods	82	76	77
Building material	86	83	80
Intermediate goods	86	84	86

Source: FGV

^{1/} Quarterly survey. January figures of the following year.

Disbursements of more than R\$7 billion involved outlays that were predominantly below R\$1 thousand, thus partly explaining the improved performance of sales of nondurable consumer goods with lesser unit value. Despite this, an analysis of nationally gathered IBGE data indicates a slight decline in the sector of commerce when compared to 2001. Statistics for São Paulo released by the Trade Federation of the State of São Paulo (Fecomercio SP), however, registered growth in the year.

Considering the metropolitan region of the São Paulo capital, real trade sector revenues increased by 4.3% in 2002, as sales of consumer goods increased by 6.7%

as a result of growth of 16.1% under sales of nondurable goods and declines of 4.1% and 11.5% under consumer durables and semidurable goods, respectively. The segment of automotive vehicles registered a decline of 16.7% in 2002, despite the sales recovery that marked the second half of the year.

Table 1.11 – Real sales of the retail sector in São Paulo^{1/}

Percentage change			
Itemization	2000	2001	2002
Total	10.4	- 5.5	4.3
Consumer goods	10.4	- 4.4	6.7
Durable	13.8	- 7.0	- 4.1
Semidurable	- 34.3	- 21.5	- 11.5
Nondurable	15.7	0.9	16.1
Automotive trade	13.8	- 16.3	- 16.7
Building material	4.5	- 1.3	- 5.6

Source: Fecomercio SP

1/ Deflated by IPCA

According to IBGE's nationwide monthly survey of the sector of commerce (PMC), sales volume at the retail level dropped by 0.68% in 2002. A breakdown by categories points to drops in sales through hypermarkets and supermarkets (1.8%), other articles for personal and domestic use (1.5%), cloth, apparel and footwear (1.2%) and furniture and home appliances (0.6%). The heading of fuels and lubricants was the only one in which sales registered growth in the period (5.6%). The automotive trade, which is not included in the general index, dropped by 16.2%. A breakdown on a state-by-state basis shows that the sharpest growth in the sector of commerce occurred in the states of Piauí, Amapá and Rondônia, while the most accentuated declines were registered in Acre, Rio Grande do Sul and Mato Grosso.

The schedule of FGTS disbursements also impacted default levels in 2002. According to data released by the Credit Protection Service (SPC) of the São Paulo Trade Association (ACSP), the net rate of participation of new occurrences less cancellations came to an average of 6.4% in 2002, compared to 7.5% in 2001. The ratio between checks returned due to insufficient backing and total checks cleared on a national basis pointed in the same direction, with 4.7% in 2002, compared to 4.8% in 2001.

The trajectory of the Index of Consumer Intentions (IIC) over the course of the year, as announced by Fecomercio SP, points to a situation of compatibility with the evolution of the retail trade sector. The general index turned in average growth of

1% in relation to 2001. The upward movement in the IIC was mostly a consequence of the component of future intentions, which accounts for 60% of the composition of the general index and registered strong recovery in the final part of the year. According to Fecomercio SP, the end of the period of uncertainties related to the electoral process and the lesser level of concern with the situation of unemployment explain the recovery in consumer confidence.

Crop and livestock output indicators

Grain production in 2002 closed at 97.1 million tons or 1.4% less than in the previous harvest, according to the IBGE's Systematic Farm Production Survey (LSPA). The falloff was caused basically by reductions in the output of corn and wheat.

Output of corn grain dropped by 5.9 million tons or 14.3% as a consequence of drought during the period of the crop cycle and a cutback of 4.3% in the area cultivated. Production of wheat totaled 2.9 million tons for a drop of 10% when compared to the previous harvest. Basically, this result reflected climatic adversities

Table 1.12 – Agricultural production – Major crops

Millions of tons

Products	2001	2002
Grain production	98.5	97.1
Cotton seed	1.7	1.4
Rice (in husk)	10.2	10.5
Beans	2.4	3.1
Corn	41.4	35.5
Soybeans	37.7	41.9
Wheat	3.3	2.9
Others	1.8	1.7
Change in grain production (%)	18.4	- 1.4
Other crops		
Unprocessed cotton	2.6	2.1
Bananas	6.0	6.5
White potatoes	2.8	2.9
Cocoa (beans)	0.2	0.2
Coffee (grains)	1.9	2.4
Sugarcane	345.9	367.5
Tobacco (in leaf)	0.6	0.7
Oranges	16.8	18.9
Cassava	22.5	23.0
Tomatoes	3.0	3.6

Source: IBGE

in São Paulo, Paraná, Santa Catarina and Rio Grande do Sul, since the area cultivated increased in the period by 18.2%.

Production of soybeans came to 41.9 million tons in 2002 or 11.3% more than in the previous harvest. With high international prices and earnings levels generated in recent years by adoption of new cultivation technologies, soybeans have invaded areas previously planted in corn, cotton and rice. Since 1993, when the crop occupied an area of 10 million hectares, the area under cultivation has risen steadily until reaching 16.3 million hectares in 2002.

The harvest of rice in husk increased by 2.7% in relation to the previous harvest and closed at a total of 10.5 million tons. The southern region accounted for 62.8% of national production, with growth of 4% over the previous harvest. Output in Rio Grande do Sul, which accounts for 52.3% of national rice production, came to 5.5 million tons or 43% more than in the previous year. In the North and Northeast regions, production declined by 2.7% and 3.8%, respectively, while the Southeast and Central-West regions turned in growth of 7.3% and 3.9% in that order.

Table 1.13 – Agricultural production, planted area and average earnings

Major crops

Percentage change

Products	Production		Area		Average production	
	2001	2002	2001	2002	2001	2002
Grain production	18.4	- 1.4	1.1	6.2	17.1	- 7.2
Cotton (seed)	31.4	- 18.1	8.5	- 13.2	21.1	- 5.6
Rice (in husk)	- 8.4	2.7	- 14.5	0.4	7.0	2.3
Beans	- 20.3	25.2	- 12.5	20.3	- 8.9	4.1
Corn	28.2	- 14.3	1.9	- 4.3	25.9	- 10.5
Soybeans	14.8	11.3	1.8	17.1	12.8	- 5.0
Wheat	89.0	- 10.0	12.7	18.2	67.7	- 23.9

Source: IBGE

When one analyzes the three bean harvests in 2002, production and area cultivated registered strong growth in relation to the previous year. The area harvested came to 4.1 million hectares, with growth of 20.3% and output of 3.1 million tons, reflecting expansion of 25.2%. All of the large bean production regions turned in important gains in the first harvest, as a consequence of growth in the area under cultivation and favorable climatic conditions. The Southern region is the major production region and registered output of 699.8 thousand tons, for growth of 22.2%. The Northeast region closed with 467.5 thousand tons in the first harvest, for record growth of 80.2% when compared to the previous harvest.

In 2002, Brazil registered its largest coffee harvest in the country's history, with output of 40.7 million 60 kg bags, for growth of 26.3% over the previous harvest, as a result of an increase of 26.9% in median productivity, which moved from 13.6 bags/ha to 17.2 bags/ha. This productivity gain was impacted by the biannual nature of this crop and by introduction of improved technologies in the period from 1995 to 1999, both of which aided in making this a more attractive crop. In 2000 and 2001, the large stocks held by consumer countries and rising production levels in nontraditional producer countries, particularly in Asia and Central America, pressured international prices into a downward curve. In 2002, the excellent Brazilian harvest further intensified the price decline registered during the course of the entire year.

Brazilian output of sugar cane came to 367.5 million tons in 2002, for growth of 6.2%, with harvested area of 5.1 million hectares, reflecting expansion of 2.4%. Average productivity per hectare increased by 3.7%, due partly to increased capitalization of producers in the most recent two harvests, which made it possible for farmers to invest more heavily in production.

The national harvest of oranges in 2002 came to 18.9 million tons of the fruit, for growth of 12.5% compared to the previous harvest. Cultivation of oranges is concentrated mostly in the state of São Paulo, which accounts for 81.1% of national output.

Table 1.14 – Grain stock – Major crops

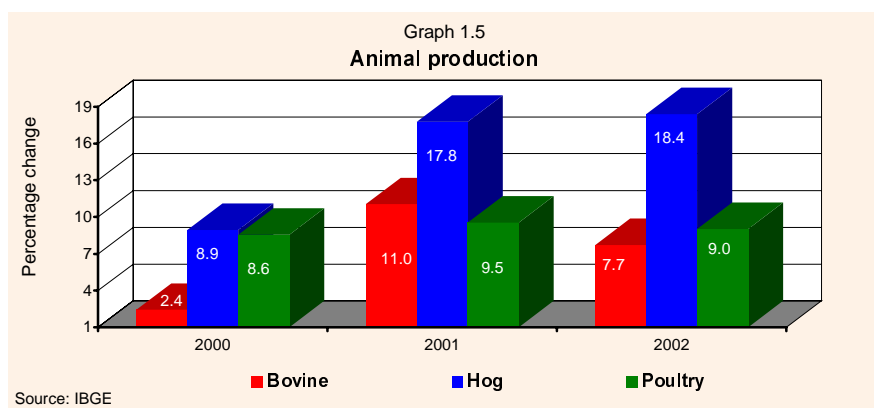
Thousands of tons

Products	1999/2000	2000/2001	2001/2002
Grain production			
Rice (in husk)			
Beginning of the year	1 799.2	2 104.8	1 495.6
End of the year	2 104.8	1 495.6	1 228.5
Beans			
Beginning of the year	146.8	270.5	104.5
End of the year	270.5	104.5	129.5
Corn			
Beginning of the year	4 676.8	3 534.8	4 218.9
End of the year	3 534.8	4 218.9	1 586.4
Soybeans			
Beginning of the year	2 347.4	2 562.0	2 388.8
End of the year	2 562.0	2 388.8	1 845.8
Wheat			
Beginning of the year	845.4	931.7	130.0
End of the year	931.7	130.0	223.8

Source: Conab

Livestock

IBGE's Quarterly Survey of Animal Slaughters indicates sharp growth in 2002. Pork was the segment that registered the sharpest growth (18.4%), followed by chicken (9%) and beef (7.7%). The increase in the volume of pig slaughters, particularly in the third quarter of the year, was a consequence of the higher production costs generated by the crisis in the supply of corn, the major raw material used in this segment. External sales of meat registered an excellent performance, with foreign sales of 465.9 thousand tons of pork, 1.7 million tons of poultry and 466.4 thousand tons of beef, with respective annual growth levels of 81.3%, 28.2% and 16.4%, respectively.



Crop and Livestock Harvest Plan 2002/2003

The 2002/2003 Harvest Plan, elaborated by the Ministry of Agriculture, Livestock and Supply (Mapa), forecast funding totaling R\$21.7 available to farmers in the 2002/03 farm year. Of this total, R\$13.4 billion were reserved to current expenditures/marketing operations, R\$2.9 billion to marketing operations and R\$2.4 billion for Constitutional Funds, Finame – Agriculture and the Coffee Economy Defense Fund (Funcafé).

The R\$21.7 billion forecast for this harvest year represented 26% more than in the previous harvest and reflected the flow of investments – loans, returns and relending operations – over the course of the agricultural year with a total amount (stock of resources) of R\$18.95 billion or 28.9% over the previous harvest. The availability of funding at interest of 8.75% per year is forecast at R\$13.55 billion, for growth of 18.3% in relation to the previous period. These amounts do not include funding targeted to family farm programs, which are part of the National Program of Strengthening Family Farming (Pronaf).

Worker Support Fund (FAT) resources to be used in the Program of Income Generation (Proger Rural) were extended to producers with areas of fifteen fiscal modules and annual gross income of up to R\$60 thousand, substituting the previous limits of six fiscal modules and gross income of R\$48 thousand per year.

In the past, the 40% of Rural Savings Account resources reserved to the farm sector were channeled to producers and cooperatives. However, as of the 2002/2003 harvest, these resources may also be used to benefit agribusiness, finance marketing operations, processing and industrialization of products originating at the farm level or of inputs used in that sector of activity. These financing operations could reach as high as R\$2.5 billion and will be contracted at interest rates freely negotiated among the parties.

Funding supplied by BNDES was raised to R\$2.83 billion, for growth of 22.5%, compared to the total amount set aside in the previous agricultural year. A total of R\$2 billion will be allocated to continuation of specific programs and, of this amount, R\$1 billion will be channeled into the Program of Modernization of the Farm Tractor Fleet and Associated Implements and Harvesters (Moderfrota); R\$360 million will be targeted to the National Program of Recovery of Degraded Pastures (Propasto); R\$200 million to the Program of Incentives to the Use of Soil Correction Products (Prosolo); R\$100 million into the Program of Incentives to the Mechanization, Cooling and Bulk Transportation of Milk Production (Proleite); and R\$230 million into cocoa farming.

Productivity

In the primary and secondary sectors of the economy, productivity pointed to reductions in 2002. The productivity rate of the manufacturing sector, understood as the ratio between the sector's physical output index, as announced by IBGE, and the index of hours worked in production, released by the CNI, showed a decline for the second consecutive year, closing with a drop of 0.6%, compared to 0.5% in 2001. Data available for the states of the south, southeast, Pernambuco, Ceará and Bahia indicated that reductions occurred in seven of the ten surveyed. Just as occurred in 2001, the productivity losses were most intense in Ceará and Paraná, with 15.6% and 12.8%, respectively, compared to 8.8% and 11.3%, in the preceding year. Positive growth was restricted to Rio de Janeiro with 10.6% (9.2% in 2001) and in Espírito Santo with 9.6% (-2.7% in 2001). In São Paulo, productivity remained stable.

In grain production, the average yield – calculated as the ratio between production and area cultivated – dropped by 7.4%, thus interrupting a period of two consecutive years of sharp increases. Basically, this performance was caused by the climatic adversities that had a particularly strong impact on the corn and wheat crops. One

should mention that, following the tendency of recent years, consumption in inputs increased in the year. By way of example, physical sales of fertilizers increased by 12%, according to Mapa, and sales of farm machines and equipment rose by 19.5%, based on figures released by Anfavea.

Energy

Petroleum production in 2002, including NGL, continued on the positive growth trajectory of recent years and, according to the National Petroleum Agency (ANP), expanded by 12.2%. Daily average output for the year came to 1.5 million barrels, compared to 1.34 million in 2001. The highest level of production was reached in August, with 1.56 million bpd and the lowest in December, with 1.4 bpd. The drop in production in the final month of the year is explained by programmed stoppages at several oil fields for maintenance purposes. Production of natural gas increased by 12.1% in 2002, and closed at 268 bpd.

Total oil processed at national refineries decreased by 1.4% in 2002 and closed at an average of 1.6 million bpd. The participation of national oil in the total amount processed increased by 3.4% to a level of 78%. Imports of petroleum diminished by 6.9% in the year and closed at 381.1 thousand bpd, while exports expanded by 109% due to growth in the production of heavy oil to a level beyond the nation's refining capacity, which stands at 234.3 thousand bpd. Data on production, exports and imports indicate apparent consumption of 1.65 million bpd, with 91% of this consumption being met by national production.

Total internal sales of petroleum derivatives diminished by 2.4% in 2002, with the exception of those involving diesel oil, which expanded by 1.2%. Reductions in sales of other items came to 15.4% under fuel oil, 3% under gasoline and 4.5%

Table 1.15 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2000	2001	2002
Petroleum	1 374	1 386	1 352
Fuel oil	173	156	132
Gasoline	301	301	292
Diesel oil	605	639	646
Liquid gas	219	218	209
Other derivatives	76	72	74
Fuel alcohol	166	140	154
Anhydrous	87	81	92
Hydrated	79	59	62

Source: ANP

under natural gas liquid (NGL). Sales of anhydrous alcohol, which is mixed into the nation's gasoline supply, increased by 13.8%, which can be explained by alteration of the proportion of alcohol in gasoline from 20% to 24% in 2001 and to 25% as of June 2002, while sales of hydrated alcohol increased by 4.3%, indicating the start of a turnaround in the downward trajectory evident since 1996.

In 2002, national electricity consumption expanded by 2.5%. The only negative result (1.3%) occurred in the residential segment, while the commercial segment expanded by 1.9%, the industrial segment by 4.2% and other consumers by 5.3%. All regions turned in consumption growth, varying from 0.5% in the Southeast to 11.7% in the Northern region.

Table 1.16 – Electric energy consumption^{1/}

GWh

Itemization	2000	2001	2002
Total	307 529	283 257	290 466
By sectors			
Commercial	47 626	44 434	45 256
Residential	83 613	73 622	72 660
Industrial	131 278	122 539	127 626
Other	45 011	42 663	44 924

Source: Eletrobrás

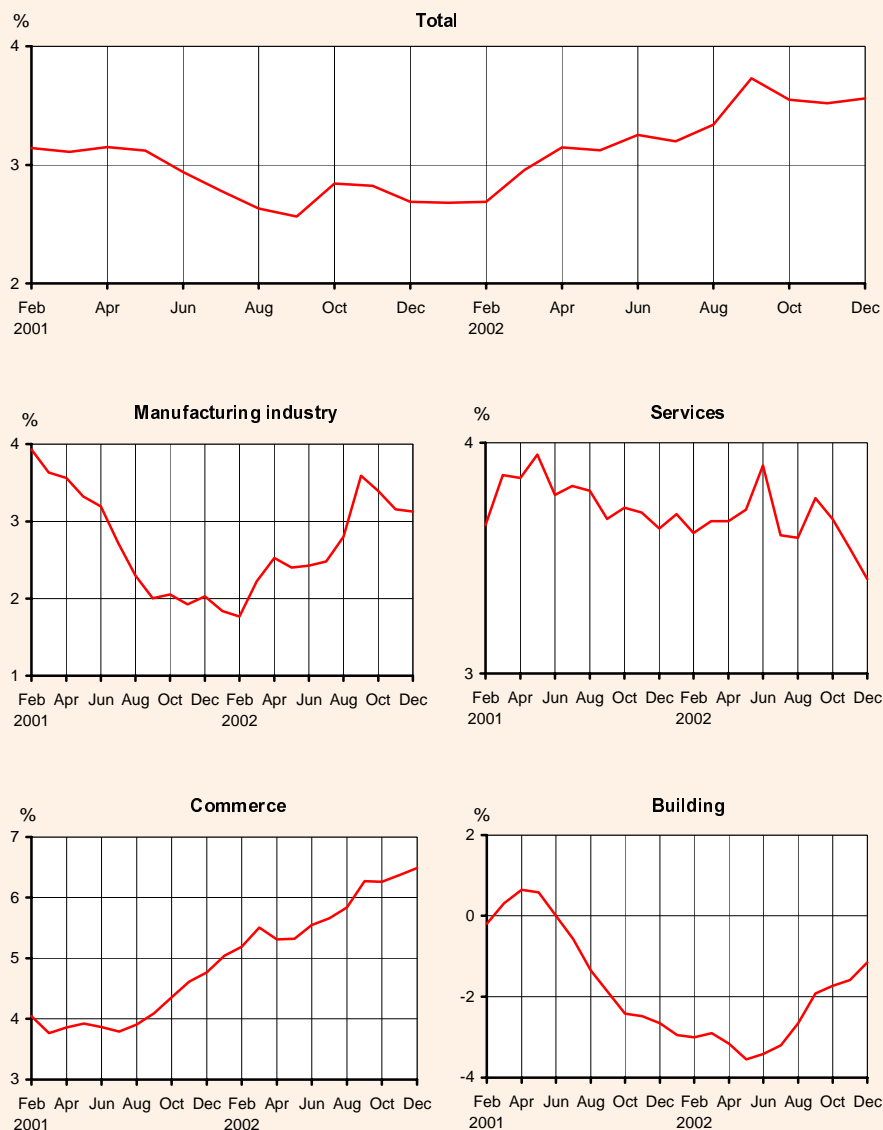
^{1/} Self-producers not included.

Employment indicators

Labor market evolution in 2002 was marked by record growth in the number of job openings in the formal sector of the economy in all parts of the nation, according to statistics released by the Ministry of Labor and Employment (MTE). At the same time, the informal employment sector also generated additional jobs, with a total of more than 100 thousand new openings in the metropolitan regions surveyed by IBGE. However, unemployment rates, which had registered a downward trend in 2001, moved upward once again as a result of growth in the overall labor force that was higher than job growth. Industrial employment registered differentiated performances in the states covered by the survey, with reductions in job positions in those areas with the highest concentration levels, such as Rio de Janeiro and São Paulo, and new hirings in the states of the South and in several Northeastern states.

According to the Ministry of Labor and Employment (MTE), formal employment expanded by 762.4 thousand vacancies in 2002 or 3.2% above the previous year's

Graph 1.6
Level of formal employment
 Percentage change in 12 months

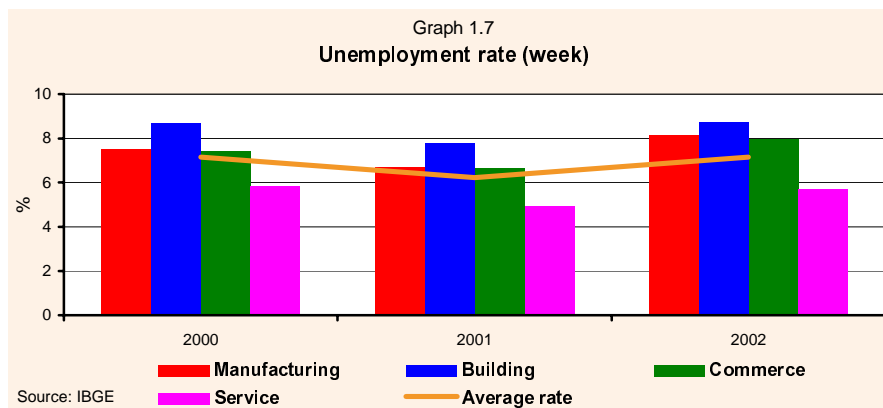


Source: Ministério do Trabalho e Emprego

result. When one considers the major activity sectors, services and commerce were the largest employers. In the first case, new job openings totaled 285.8 thousand, compared to 311 thousand in 2001, while the sector of commerce registered more accentuated expansion, with 283.3 thousand, compared to 209.8 thousand in the preceding year. The manufacturing sector followed with 161.1 thousand new positions, as against 103.8 thousand in the previous year. In the construction industry, there was a drop of 29.4 thousand positions.

Also according to the MTE, total unemployment insurance benefits granted in 2002 came to 4.76 million people, for growth of 1.7% in the year. Insofar as the value of these benefits is concerned, 58.1% were less than two times the minimum wage, while 25% were situated between two and three times the value of the minimum wage, 11% from three to five times that figure and 6% above five times the minimum monthly wage.

In 2002, the rate of open unemployment increased and interrupted the downward trend that had marked the three previous years. According to IBGE's Monthly Employment Survey (PME), the median rate of the year registered 7.1% as compared to 6.2% in 2001. In May, this indicator came to 7.7%, a level that had not been reached since August 2001. The overall labor force, which had dropped by 0.3% in 2001, expanded by 3.7% in 2002, while new positions expanded by 2.6%.



Among the metropolitan regions surveyed, unemployment in São Paulo rose sharply, with an average of 8.4% compared to 6.4% in 2001. This rate was the highest of the six regions, surpassing even that of Salvador, the city that has traditionally occupied first position. Here, it should be mentioned that, for the second consecutive year, the rate in Salvador moved downward, dropping from 8.9% in 2001 to 7.6%. The lowest rates were registered once again in Rio de Janeiro, with 5.4%, and in Porto Alegre, with 5.8%, even though these were higher than the corresponding figures of 4.4% and 5.5% registered in 2001, respectively.

An analysis of the different categories indicates that the number of unregistered employees expanded by 4.5% in the year, compared to a decline of 1.2% in 2001, thus revealing a considerable shift from the formal to the informal labor market in the metropolitan areas surveyed. The number of registered employees expanded by 2.9%, thus confirming MTE data, while the number of the self-employed remained stable and that of employers moved upward by 1.1%.

The Survey of Employment and Unemployment (PED), which is elaborated by the State System of Data Analysis Foundation (Seade) in a partnership with the Interunion Department of Statistics and Social-Economic Studies (Dieese) and carried out in the São Paulo metropolitan area, identified unemployment growth in 2002, following two consecutive years of decline, and a final figure of 19% compared to 17.5% in the previous year. This performance reflected increases of 0.7% in the number of jobs and 2.5% in the overall labor force in São Paulo. The PED registered declines of 0.5% in the total number of unregistered employees and 0.3% in public sector job positions, with a slight increase of 0.1% in the number of registered workers. In a sector-by-sector analysis, percentage growth was identical in commerce and manufacturing (0.2%), while the rendering of services registered sharp 3.4% expansion.

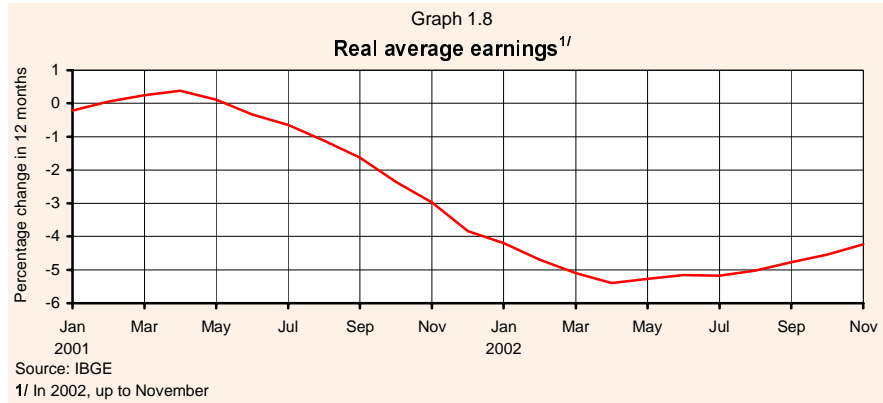
Though the PED has registered relative stability in industrial employment in 2002, data released by the Federation of Industries of the State of São Paulo (Fiesp) for the entire state, pointed to a 4.4% decline in the employment level in the year, according to a weekly survey among 47 employer associations in the state. With the exception of April, layoffs predominated in 2002 and totaled 69 thousand. The Industrial Employment Index in the São Paulo metropolitan region, which is also calculated by Fiesp, showed a 2.3% decline in the number of workers. It should be stated that the Fiesp and Dieese surveys differ substantially in methodological terms, since the former uses information provided by employer entities as its reference base, while the latter is based on a household survey.

CNI data drawn from its twelve state survey of the labor situation in the industrial sector pointed to a drop of 0.1% in the number of employees in the sector in 2002, compared to growth of 1.1% in 2001. Over the course of the year, there was a steady loss of job positions up to July, with an average of 0.7% per month. Starting in August, this trend reversed direction and practically neutralized the losses registered in the earlier part of the year. On a state-by-state basis, the highlights were Paraná, with growth of 8.5% in the employment level, followed by Bahia and Ceará, with 4.5% and 2.2% in that order. It should be noted, that in the states in question, the pace of hirings was more intense in the second half of the year. Downward movement in the year was registered in Pernambuco (4%), Goiás (3.1%), Rio de Janeiro (2.5%) and São Paulo (2.3%).

Wage and earnings indicators

The evolution of wage and earnings indicators showed a loss in purchasing power in 2002 in all of the sectors and occupational categories surveyed. The only difference was registered under the heading of industrial employees in the state of São Paulo, with real gains when compared to 2001.

According to the PME survey, average worker earnings declined by 3.8% up to November of 2002, when deflated by the National Consumer Price Index (INPC). This was the fifth consecutive annual reduction in earnings, reflecting an accumulated loss of 17% in the period. It should be noted that the result for the month of December – not yet announced by IBGE for methodological reasons – tends to further accentuate the result, since inflation in that month was still relatively high.



Analysis of each of the sectors covered by the survey indicates that, despite the across-the-board wage loss registered, the sharpest reductions occurred under commerce and construction, just as had happened in the previous year. According to the National Accounts, it should be noted that these sectors registered reductions in their 2002 activity levels. An evaluation according to occupational categories

Table 1.17 – Real average earnings of occupied people^{1/}

Percentage change

Itemization	2000	2001	2002 ^{2/}
Total	- 0.6	- 3.8	- 3.8
Sectors of activity			
Manufacturing	- 1.9	- 5.1	- 2.5
Building	1.9	- 5.2	- 6.4
Commerce	2.6	- 5.7	- 7.9
Service	- 0.9	- 3.4	- 3.7
Job position			
Registered	- 1.0	- 4.8	- 4.2
Unregistered	0.7	- 2.1	- 0.5
Self-employed	- 0.8	- 1.4	- 4.4
Employers	0.2	- 2.6	- 6.7

Source: IBGE

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

2/ Up to November

also points to generalized losses. The largest of these occurred under the heading of employers, with 6.7%, followed by the self-employed with 4.4%, registered workers with 4.2% and unregistered workers with 0.5%.

According to the MTE, the average initial wage in the formal sector of the economy declined by 9.5% in the year and closed the month of December at R\$416.38. The most accentuated declines were registered in the sectors of services (16.1%), public administration (12.4%) and manufacturing (7.5%). The only sectors to register growth in initial wages were construction with 1.1% and crop/livestock farming with 6.9%. Here, one should mention that the latter heading offers the lowest initial wages.

Fiesp wage indicators for the São Paulo manufacturing sector points to a 5.7% increase in real earnings in 2002, deflated by the Consumer Price Index elaborated by the Institute of Economic Research Foundation (IPC-Fipe). Overall real wages increased by 3.2% in the year. On the other hand, the median purchasing power of industrial workers in CNI's twelve state survey showed a reduction of 0.6%, deflated by the INPC. The largest losses occurred in Rio de Janeiro (7.7%) and in Pernambuco (3.9%) and the sharpest highs occurred in Goiás (9%) and Bahia (6.8%). It should be stressed that part of the difference detected in the results of these surveys is related to the evolution of the indicators considered as deflators, since growth in the IPC-Fipe came to 9.92% and that of the INPC closed at 14.74% in the year.

Finally, the value of the minimum monthly wage was increased from R\$180.00 to R\$200.00 in April 2002, closing at a level of US\$55.16 in December of the same year.

Price indicators

Price growth in 2002 was influenced by the pressures of exchange depreciation, with repercussions on both government monitored prices and freely determined market prices. At the same time, supply restrictions involving several farm products of importance to consumers generated added pressures on food prices, particularly in the second half of the year.

When one analyzes price performance over the course of the year, the first two quarters were marked by practically stable and relatively low rates of inflation in the range of 0.5%. Thus, growth in the Extended National Consumer Price Index (IPCA) came to 2.9% in the first half of the year. However, it is important to perceive that, underlying this result, there was a trend toward acceleration under government-monitored prices that became more accentuated in the second quarter.

This trajectory was mostly offset by downward movement in the prices of several farm products, as a consequence of downward movement under the prices of grains and meats, mostly as a result of favorable seasonal factors in the period, and of *in natura* production, which had registered strong highs in the early months of the year.

In the second half of the year, inflation rates were strongly impacted by exchange. At the same time, price indices reflected concentration of changes in government-managed prices, coupled with the impact of the off-season farm period. Insofar as exchange is concerned, the process of depreciation that began in April and became more intense in the third and fourth quarters of the year generated an impact on market prices, particularly in the case of food products that utilize important commodities as their raw materials. Among these cases, one should cite wheat (pastas and bakery goods) and soybeans derivatives. Later on, the passthrough of the cost increases caused by exchange devaluation impacted other prices, particularly those of electric-electronic goods, perfumes and furniture. Government administered prices were also impacted by exchange depreciation, particularly in the case of fuel prices, which rose sharply in the final months of the year and generated added pressures on public transportation fares.

Table 1.18 – IPCA items share in 2002

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	2.9	9.3	12.5	100.0
Foodstuffs and beverages	22.4	0.6	18.7	4.4	34.8
Housing	16.5	6.9	5.7	2.1	16.6
Housing products	5.7	2.5	10.3	0.7	5.9
Apparel	5.4	3.8	4.9	0.5	3.8
Transportation	21.7	1.7	8.1	2.2	17.6
Health and personal care	10.6	3.9	6.0	1.1	8.7
Personal outlays	9.4	2.2	6.0	0.8	6.4
Education	4.9	6.9	1.5	0.4	3.2
Communication	3.5	1.1	10.1	0.4	3.1

Source: IBGE

^{1/} 2002 average

^{2/} It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

Parallel to this, mention should be made of the impacts of shortfalls in the supply of important farm products on inflation in the third and fourth quarters of the year.

Corn was in short supply during the entire year due to the harvest reduction of 14.4% caused by cutbacks in the area under cultivation, as well as climatic adversities. Though growth came to 2.7% in the year, production of rice was insufficient to meet internal demand, particularly when one considers the low level of stocks at the start of the year. This fact demanded adoption of government measures to stimulate imports of this product in the second half of the year. Bean production increased sharply in 2002 (25%), mostly as a result of the low reference base registered in 2001, when climatic difficulties provoked significant harvest losses. Despite growth in the current year, price pressures appeared as of the third quarter due mostly to the ongoing drought in important production regions that caused farmers to postpone their planting operations. This same factor also exerted upward pressure on beef prices, which had already been impacted by exchange depreciation.

As a result of these factors, the major price indices turned in significant expansion in the second half of the year, particularly in the final three months of the year. As a result, the period witnessed the highest levels of inflation since adoption of the Real Plan. Simultaneously to this, the activity level continued expanding as a result of export growth and internal extraordinary disbursements of FGTS resources. As a result, several of the sectors that had felt particularly strong pressures on their costs were able to pass these costs on to final consumers.

General price indices

The components of the general price indices calculated by the FGV are the consumer price indices, with 30% weight, wholesale prices indices, with 60%, and the national cost of construction index, with 10%. In 2002, growth in the general indices was greater than in the case of consumer price indices, as a consequence of sharp fluctuations in the prices practiced by the wholesale trade sector, which are more sensitive to exchange variations and changes in the supply of farm products. The Wholesale Price Index - Internal Supply (IPA-DI) registered growth of 35.4% in the year, as farm prices increased by 47.3% and those of industrial products rose by 30.9%. Inflation measured by the Consumer Price Index - Brazil (IPC-Br) closed at 12.2% and, according to the National Cost of Construction Index (INCC), building costs shot up by 12.9%. With these results, the IGP-DI registered inflation of 26.4% in 2002. The General Price Index - Market (IGP-M) and the General Price Index - 10 (IGP-10), which differ basically among themselves only in terms of the periods in which data are collected, closed with growth of 25.3% and 24.7%, respectively.

Consumer price indices

The IPCA accumulated growth of 12.5% in 2002. This indicator, which is calculated by the IBGE, reflects changes in prices for families with monthly income between 1 and 40 times the minimum monthly wage and serves as the parameter for defining the inflation targeting system. As already mentioned, the impact of exchange depreciation and shortfalls in the harvest of several products of importance to Brazilian consumers were the major sources of price pressures in the year. As a result of the latter factor, one should cite the examples of accumulated 2002 increases of 61.7% in the prices of “carioca” beans and 36.7% in the prices of rice. With respect to prices that reflect changes in the rate of exchange, one should stress industrialized food prices, with growth of 24.9% in the year, particularly in the case of bakery goods, with 31.4%, oils and fats, principally soybean oil, with price growth of 54.9%, as well as electric-electronic goods, with 13.6%.

Table 1.19 – IPCA items share in 2002

Percentage change

Groups	IPCA			
	Weight ^{1/}	Accumulated variation in the year	Accumulated share in the year	Index share ^{2/}
IPCA	100.0	12.5	12.5	100.0
Managed	28.0	15.3	4.1	33.0
Agricultural	16.1	16.9	2.6	20.9
Exchange	14.5	19.1	2.6	20.8
Services	21.1	5.5	1.3	10.7
Others	20.3	8.7	1.8	14.7

Source: IBGE

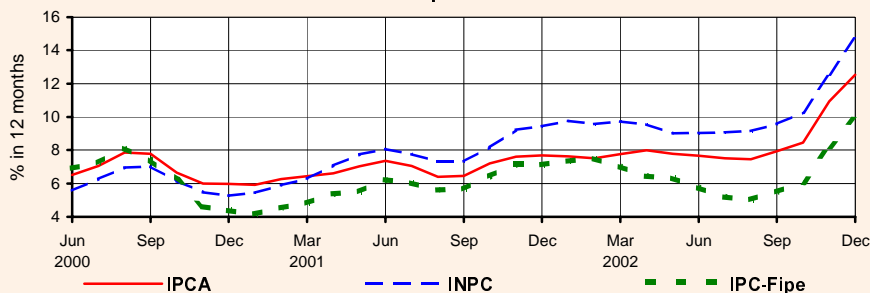
1/ In December 2002

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

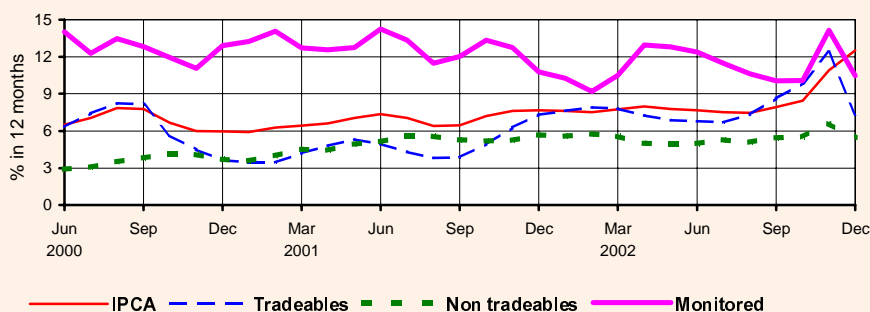
At the start of the year, market expectations (consulting companies and financial institutions) regarding IPCA growth in 2002 were quite close to the 4% level defined for the inflation targeting system. Influenced by the behavior of the rate of exchange and by highs under monitored prices, estimates were systematically increased over the course of time and were further intensified in October and November, reaching the level of 11%.

The INPC, which is also calculated by IBGE, accumulated growth of 14.7% in 2002. This indicator is different from the IPCA, particularly in terms of the target population, which corresponds to families with monthly income from 1 to 8 times the minimum monthly wage. For this reason, the prices of the grouping of

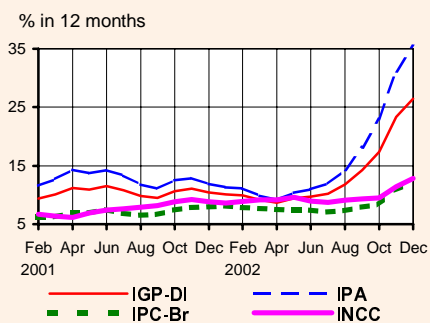
Graph 1.9
Consumer price indices



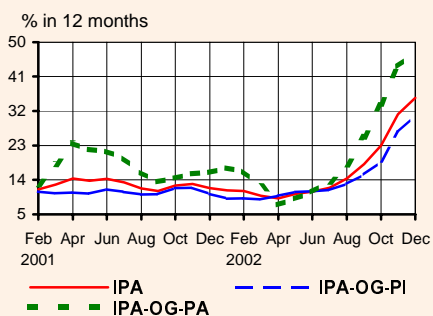
IPCA



IGP-DI and components



IPA according to origin



Source: IBGE, Fipe and FGV

foodstuffs and government-monitored prices, particularly in the segments of public transportation and electricity, have greater weight in the INPC than in the IPCA. And it is precisely this fact that justifies the more accentuated growth registered in the first of these indices, since these items were important sources of inflationary pressures during the course of the year.

The IPC-Fipe, which is calculated for families with earnings between 1 and 20 times the minimum monthly wage in the Metropolitan Region of São Paulo, registered inflation of 9.9% in 2002.

The IPC-Br, which is elaborated by the FGV, is a survey carried out in twelve state capitals. The index closed with 12.2% for the year and was impacted mostly by increases in outlays on food (18.7%), housing (11.8%) and education, reading and leisure (10.6%).

Monitored prices

Monitored prices are understood as those that are directly or indirectly determined by the federal, state or municipal government. In some cases, price increases are defined on the basis of contracts between producers/suppliers and the corresponding regulatory agencies. Examples of this are the areas of electric power and fixed telephone services.

In 2002, government monitored prices accounted for about 32% of IPCA growth, representing 3.98 p.p. of the 12.5% growth registered by this index in the year. The items that generated the greatest pressure in the period were bottled gas, gasoline and urban bus fares, fixed telephone services and electric power. These items accounted for approximately 69% of growth in monitored prices during the year. In 2002, gasoline prices rose by 12.1% and bottled gas prices increased by 48.3%, reflecting both international prices and the behavior of the rate of exchange.

Federal transportation costs were pressured most severely by increases in fuel prices, particularly diesel oil which rose by 51.3%. Here, it should be emphasized that fares are determined by each individual municipal administration and increases were adopted in all of the state capitals, except São Paulo. On average, the increases came to 12%.

Insofar as fixed telephone service rates are concerned, increases are authorized for the concession companies at twelve-month intervals by the National Telecommunications Agency (Anatel). In this calculation, the Agency applies the change in the IGP-DI to the cost of the overall services rendered. The change in rates in the year came to an average of 11.9%.

In 2002, the average increase in electricity rates came to 19.9%, ranging from 16% in Goiânia to 23.4% in Rio de Janeiro. These increases follow a schedule defined by the National Electric Power Agency (Aneel), which defines the period of the annual adjustment for each one of the concession companies. The percentage authorized by the Agency takes due account of manageable costs and applies the

Table 1.20 – Major items included in the IPCA during 2002

Percentage change

Itemization	IPCA		
	Weight ^{1/}	Accumulated variation	Accumulated share
Index (A)	100.0	12.5	12.5
Non-monitored prices	72.0	11.5	8.6
Monitored prices	28.0	15.3	4.0
Selected non-monitored items			
Bread	1.7	37.2	0.5
Medicine	3.8	10.9	0.4
Meat	3.0	14.6	0.4
Electronic equipment	3.0	13.6	0.4
Poultry and eggs	1.3	25.3	0.3
Servant	3.2	8.7	0.3
Rice	0.9	36.7	0.3
Milk	1.3	22.7	0.3
Meal	2.4	11.4	0.3
Personal hygiene	2.0	13.8	0.3
Pastry and flour	0.8	40.4	0.2
Soy bean oil	0.5	73.1	0.2
Selected monitored items			
Urban transportation	7.1	13.2	0.9
Electric energy	4.2	19.9	0.7
Barreled cooking gas	1.7	48.3	0.6
Gasoline	4.4	12.1	0.5
Alcohol	1.2	31.5	0.3
Telephone	3.0	11.9	0.3
Water and sewage rate	1.6	9.5	0.2
Health care	2.5	8.4	0.2
Total (B)	49.6	...	7.5
Share (B/A)			60.1

Source: IBGE

1/ In December 2002

IGP-M accumulated in the twelve previous months, together with the non-manageable costs, such as purchased energy and energy transmission costs, among others. Aside from this, Aneel authorized two extraordinary adjustments: the first in the amount of 2.9%, at the end of December 2001, and the second equivalent to 2.2% in March, in most of the areas covered by the survey.