



The Brazilian Economy

Activity level

The activity level of the Brazilian economy in 2003 can be divided into two highly different moments. The first period was marked by the repercussions of the political transition to the new federal administration, mainly upward movement in country risk, a lesser volume of available external resources and the consequent depreciation of the rate of exchange. All of these factors began in the second half of 2002 and produced significant impacts on general price levels.

In this context, monetary policy was conducted in the framework of a fundamental commitment to preserving price stability. Thus, the measures taken by Banco Central were targeted at reversing the situation of economic uncertainties caused by the coming together of a series of unfavorable internal and external factors in the final six months of 2002. The adverse macroeconomic situation noted since the start of 2003, coupled with the adjustments required to overcome it, resulted in a sharp falloff in internal demand and investment flows.

A process of recovery in the activity level began toward the end of the first half of the year, once the earlier rise in inflation and the uncertainties surrounding economic policy had dissipated. Industrial production, retail sales and outlays on investments became much more dynamic, as inflation declined, wage losses diminished in real terms, expectations improved and the authorities adopted a considerably more flexible monetary policy. Recovery in the activity level in the second half of the year followed the pattern of previous recoveries and was initially driven by more intense demand for consumer durables and capital goods.

Exports continued as one of the driving factors underlying expanded internal activity. Basically, growth in foreign sales has resulted from the aggressive policy adopted by the government, in a partnership with the private sector, aimed at consolidating the position of Brazilian goods in new markets. Other factors of importance to expanded economic activity were increases in the prices of commodities and productivity gains. With respect to supply, this evolution was, above all else, reflected in the positive performance of the crop/livestock sector and of such specific industrial segments as metallurgy, mechanics and cellulose.

Gross Domestic Product (GDP)

Calculated on the basis of market prices, GDP diminished by 0.2% in 2003, with reductions of 1% in the industrial sector and 0.1% under services. Output of farm goods registered 5% growth in the year. At current values, GDP at market prices came to R\$1,514 billion.

Table 1.1 – 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	968 371	9,2	92,1	237 772	118,6	8 168	7,0	2 005
1981	927 215	- 4,3	100,5	258 553	121,2	7 649	- 6,3	2 133
1982	934 911	0,8	101,0	271 252	123,9	7 547	- 1,3	2 190
1983	907 518	- 2,9	131,5	189 459	126,6	7 170	- 5,0	1 497
1984	956 524	5,4	201,7	189 744	129,3	7 399	3,2	1 468
1985	1 031 602	7,8	248,5	211 092	132,0	7 816	5,6	1 599
1986	1 108 869	7,5	149,2	257 812	134,7	8 235	5,4	1 915
1987	1 148 012	3,5	206,2	282 357	137,3	8 363	1,6	2 057
1988	1 147 323	- 0,1	628,0	305 707	139,8	8 206	- 1,9	2 186
1989	1 183 579	3,2	1 304,4	415 916	142,3	8 317	1,4	2 923
1990	1 132 093	- 4,3	2 737,0	469 318	147,6	7 670	- 7,8	3 180
1991	1 143 754	1,0	416,7	405 679	149,9	7 629	- 0,5	2 706
1992	1 137 536	- 0,5	969,0	387 295	152,2	7 473	- 2,0	2 544
1993	1 193 557	4,9	1 996,2	429 685	154,5	7 725	3,4	2 781
1994	1 263 415	5,9	2 240,2	543 087	156,8	8 059	4,3	3 464
1995	1 316 779	4,2	77,5	705 449	159,0	8 281	2,8	4 436
1996	1 351 787	2,7	17,4	775 475	161,2	8 383	1,2	4 809
1997	1 396 009	3,3	8,3	807 814	163,5	8 540	1,9	4 942
1998	1 397 850	0,1	4,9	787 889	165,7	8 437	- 1,2	4 755
1999	1 408 830	0,8	5,7	536 554	167,9	8 390	- 0,5	3 195
2000	1 470 265	4,4	8,4	602 207	170,1	8 641	3,0	3 539
2001	1 489 563	1,3	7,4	509 797	172,4	8 641	0,0	2 957
2002	1 518 264	1,9	10,2	459 379	174,6	8 694	0,6	2 631
2003	1 514 924	- 0,2	12,8	493 348	176,9	8 565	- 1,5	2 789

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.

The overall performance of the economy in the first and second halves of the year varied sharply and this was reflected in GDP results calculated on the basis of deseasonalized

quarterly growth figures. Thus, in the first quarter of the year, GDP registered a drop of 0.8% when compared to the previous quarter. This was the first negative quarterly result, following four consecutive positive performances. Among the various sectors of activity, only crop/livestock production turned in positive growth, with a final figure of 3.9% in the period.

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

Itemization	2003			
	I	II	III	IV
GDP at market price	- 0,8	- 0,9	0,1	1,5
Crop and livestock sector	3,9	0,2	- 6,4	7,3
Industrial sector	- 2,1	- 3,5	2,6	1,2
Service sector	- 0,7	- 0,1	0,2	0,8

Source: IBGE

The generally unfavorable situation continued into the second quarter of the year when the seasonally adjusted GDP dropped by 0.9% in comparison to the previous quarter. In keeping with what occurred in the previous period, output of the crop/livestock sector expanded by 0.2%, while the industrial and service sectors turned in reductions of 3.5% and 0.1%, respectively.

Reflecting the start of a somewhat more flexible monetary policy, among other factors, the third quarter of the year marked the beginning of a recovery in the activity level, as demonstrated by 0.1% GDP expansion in relation to the previous quarter. The falloff in interest rates generated improved business and consumer expectations, with positive impacts on output levels. This movement acted as an incentive to demand, generating growth in industrial output, particularly in the segments of consumer durables and capital goods, both of which are more sensitive to alterations in credit conditions.

The continuity of the interest rate decline in the fourth quarter of the year impacted consumption levels. This factor, taken together with the performance of the export sector and growth in the output of capital goods, was the element most responsible for the increased dynamism of the economy in the final months of the year. In the fourth quarter, GDP expanded by 1.5%, compared to the previous quarter, with growth of 7.3% in the crop/livestock sector, 1.2% under industry and 0.8% for the service sector.

In the first six months of the year, GDP expanded by 0.4% at market prices when compared to the same period of the previous year. This performance was mainly

Table 1.3 – GDP real change rates

Percentage			
Itemization	2001	2002	2003
GDP	1.3	1.9	- 0.2
Crop and livestock sector	5.8	5.5	5.0
Industrial sector	- 0.5	2.6	- 1.0
Mineral extraction	3.7	6.7	2.8
Manufacturing	0.7	3.6	0.7
Building	- 2.7	- 1.8	- 8.6
Public utility industrial services	- 5.6	3.0	1.9
Service sector	1.8	1.6	- 0.1
Commerce	0.5	- 0.2	- 2.6
Transportation	1.7	3.4	- 0.8
Communications	10.5	9.8	0.1
Public administration	0.9	1.7	0.5
Other services	1.8	1.1	- 0.5
Financial institutions	0.8	2.1	0.1
Rents	2.1	0.6	0.9
Financial dummy	1.3	2.3	0.3

Source: IBGE

attributed to the positive results of the crop/livestock and export sectors. Broken down by sectors of activity, only crop/livestock farming managed to register positive growth, with 8.8%. Industry closed with a drop of 0.2% and the service sector remained stable in the first six months of the year. Using the same basis of comparison, in the second half of the year, GDP dropped by 0.8%, as a result of downward movements of 1.7% under industry and 0.2% under services, while crop/livestock farming expanded by 0.7% in the period.

A sectoral analysis of GDP in 2003 demonstrates the importance of the crop/livestock sector to sustaining the activity level. The 5% growth registered by the sector marked the third consecutive positive annual rate and was basically a consequence of increased productivity, made possible by expanded use of inputs and steady growth in acquisitions of farm equipment and machinery. The increased profitability of the farm sector was generated mainly by greater exports and had the result of sharply expanding self-financing operations in the sector.

Industrial output diminished by 1% in 2003, mostly as a result of the performance of the construction industry. The mining sector turned in growth of 2.8% in the year, with successive increases in monthly production of petroleum and natural gas. Manufacturing expanded by 0.7% and was sustained principally by positive growth in the various export-oriented segments. The sector of public utility industrial

Table 1.4 – Gross Domestic Product under the prism of expenditure

In R\$ million

Itemization	2000	2001	2002	2003
Gross Domestic Product	1 101 255	1 198 736	1 346 028	1 514 924
Final consumption expenditure	880 655	956 501	1 052 139	1 154 367
Family consumption	670 702	725 760	781 174	862 447
Government consumption	209 953	230 741	270 965	291 920
Gross capital formation	237 255	254 137	265 953	303 977
Gross fixed capital formation	212 384	233 384	246 606	273 321
Changes in inventories	24 871	20 753	19 348	30 656
Exports of goods and services	117 423	158 501	208 489	255 385
Imports of goods and services (-)	134 079	170 403	180 554	198 805

Source: IBGE

Table 1.5 – Quarterly Gross Domestic Product

In R\$ million

Year		GDP at market price	Taxes on products	Crop and livestock sector	Industrial sector	Service sector
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	250 907	26 301	19 275	80 445	135 381
	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	293 833	33 353	16 987	99 669	153 900
2001	I quarter	279 749	32 067	21 496	95 089	140 996
	II quarter	295 374	34 390	25 396	96 623	145 746
	III quarter	302 812	34 181	20 445	104 430	154 176
	IV quarter	320 800	34 329	21 949	105 032	187 042
2002	I quarter	301 080	33 300	25 365	96 548	159 264
	II quarter	330 657	35 379	29 071	111 058	174 718
	III quarter	343 532	37 046	26 642	121 135	184 727
	IV quarter	370 759	41 158	23 829	130 565	191 554
2003	I quarter	348 749	39 013	35 763	118 513	177 966
	II quarter	374 756	39 596	39 638	125 314	191 297
	III quarter	386 322	39 200	31 681	137 919	195 816
	IV quarter	405 097	41 583	30 794	142 252	203 239

Source: IBGE

services (Siup), which is constituted mostly of electricity generation and transmission services, turned in growth of 1.9%, reflecting not only the natural expansion of this area of activity but also the modest – albeit positive – growth of the industrial sector. The building industry was the only real exception among the various industrial segments and closed with an overall decline of 8.6% in the year. This was the third consecutive year of downward movement in the building industry.

Output of the tertiary sector of the economy declined by 0.1% in the year, with negative performances under commerce, transportation and other services caused, among other aspects, by the evolution of industrial activity in the year. The other segments managed to achieve rather discreet growth.

Table 1.6 – Quarterly National Accounts

In R\$ million

Year	GDP at market price	Family consumption	Government consumption	Gross fixed capital formation	Changes in inventories	Exports	Imports (-)
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	250 907	150 798	45 919	53 855	2 717	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	293 833	180 400	63 315	54 298	4 159	30 557	38 897
2001 I quarter	279 749	173 258	48 224	57 574	5 979	32 641	37 927
II quarter	295 374	180 293	53 246	58 726	6 556	39 754	43 202
III quarter	302 812	183 538	53 600	59 354	7 751	44 526	45 957
IV quarter	320 800	188 671	75 671	57 730	466	41 580	43 318
2002 I quarter	301 080	181 687	57 012	56 016	6 893	34 285	34 814
II quarter	330 657	190 956	66 316	59 521	13 638	38 297	38 070
III quarter	343 532	198 435	62 430	64 022	4 866	64 835	51 057
IV quarter	370 759	210 096	85 206	67 047	- 6 050	71 072	56 613
2003 I quarter	348 749	207 686	57 712	65 332	8 138	61 741	51 861
II quarter	374 756	210 600	69 533	64 321	16 182	60 876	46 755
III quarter	386 322	216 716	73 270	69 914	9 597	65 356	48 531
IV quarter	405 097	227 445	91 404	73 755	- 3 262	67 413	51 658

Source: IBGE

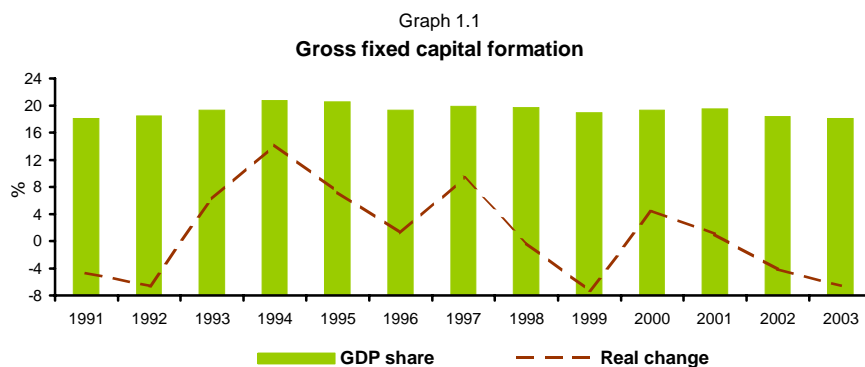
Analyzed under the prism of the various demand components, evolution of the activity level in 2003 indicates a decline of 6.6% under investments, excluding inventory variations. This performance was a consequence of the uncertainties that

surrounded the transition to the new federal administration. Household consumption also declined by 3.3% and, for the most part, reflected declining real earnings generated by upward movement in inflation toward the end of 2002 and early part of 2003.

On the other hand, for the third consecutive year, the performance of the foreign trade sector was the bulwark underlying the pace of economic activity. Growth of 14.2% in exports and a reduction of 1.9% under imports accounted for 2.6 p.p. of the GDP result.

Investments

According to the national accounts released by IBGE, the 6.6% reduction in investment outlays in 2003 resulted in a cutback in the participation of this heading in GDP from 18.3% in 2002 to 18%, the lowest level since 1990. Investment components evolved in highly diverse manners, accompanying alterations and expectations regarding the overall scenario, as well as the downward movement in interest rates that occurred in the second half of the year.



Source: IBGE

Production of construction industry inputs dropped by 8.7% in 2003, despite the recovery that marked the third and fourth quarters of the year, when this item expanded by respective rates of 0.1% and 2.9% in comparison to the previous quarters, based on deseasonalized data.

Production of capital goods expanded by 1% in 2003. Based on seasonally adjusted data, the behavior of this heading during the year points to recovery only in the third and fourth quarters, with growth rates of 2.5% and 9.2%, when compared to previous quarters. The first two quarters of the year registered reductions of 0.7% and 2.6%, using the same basis of comparison. A breakdown of capital goods production data in 2003

pointed to expanded output of farm machines and equipment, 24.8%; parts for farm machines, 8.9%; machines and equipment for the industrial sector, 8.1%; and transportation equipment, with 0.9%. Increases in the production of farm machines and equipment and parts accompanied the favorable performance of crop/livestock production. Output of electricity supply equipment closed with the most accentuated falloff in the segment, with 26.5%, compared to a reduction of 27% in 2002. This result was followed by a falloff of 18.6% in production of goods for the building industry.

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	- 2.4	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	59.8	27.9	5.1	7.3	18.3	19.8
2003	18.0	20.1

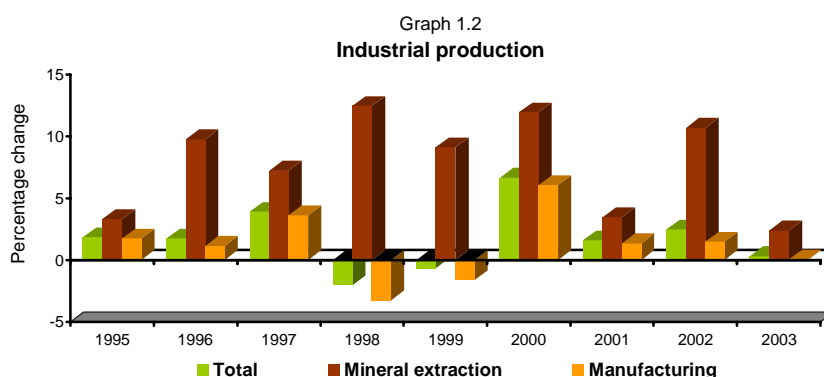
Source: IBGE

Disbursements made by the BNDES System – National Bank of Economic and Social Development (BNDES), Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – totaled R\$33.5 billion in 2003. This result reflects a real drop of 27% compared to 2002, when the General Price Index – Internal Supply (IGP-DI) is used as deflator. On an activity-by-activity level, declines were registered in the financing targeted to all sectors, with particularly sharp drops in operations with the manufacturing sector, 24.5%, and with the sector of services and commerce, 32.4%.

The Long-Term Interest Rate (TJLP), the basic cost of the financing contracted with the BNDES System, was reduced to 11% per year in the final quarter of 2003, returning to the level in effect at the start of the year. This rate had risen to 12% per year in the second and third quarters of 2003.

Industrial output indicators

According to the Monthly Industrial Survey (PIM), which is carried out by the Brazilian Institute of Geography and Statistics (IBGE)¹, industrial activity expanded by 0.3% in 2003 as a result of highly distinct performances during the year. Consequently, in the first half of 2003, industrial production declined by 1.5% in relation to the final half of the previous year, based on deseasonalized data. Starting in the third quarter, the progressive reduction in interest rates that began in June, coupled with improved expectations stimulated an accentuated recovery in the pace of industrial activity, with a gain of 2.3% in production in the second half of the year, compared to the previous period.



Source: IBGE

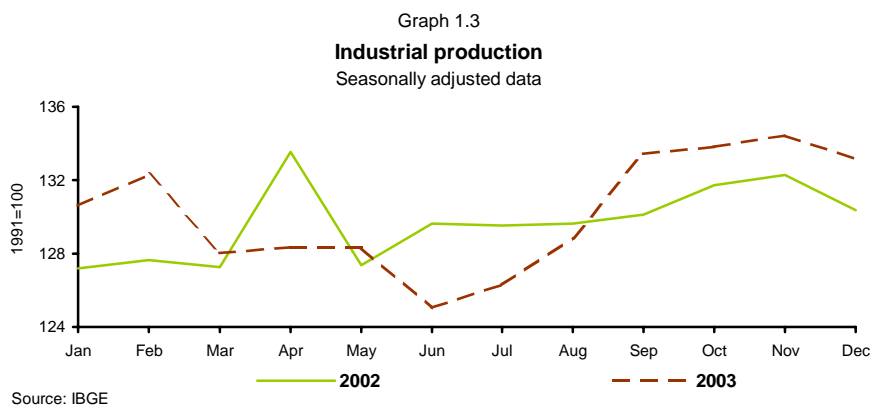
Industrial activity during the year varied sharply from one industrial class to another. Mining turned in growth of 2.4% in 2003, registering particularly strong growth of 3.1% in the first six months of the year. In the subsequent six month period, the result was a falloff of 0.3% compared to the immediately previous period, primarily as a result of a halt in production on offshore oil platforms for maintenance purposes.

The output of the manufacturing sector, which was strongly impacted by the macroeconomic environment, remained at the same level as the previous year. Analysis of the results, based on deseasonalized data, points to a decline of 2.1% in the first half of the year and positive growth of 2.7% in the second, when compared to the previous half-year periods.

On a monthly basis, acceleration in the pace of industrial activity was concentrated in the period from July to September and was followed by somewhat more moderate

1/ On April 2004, IBGE will release revised data for the years 2002 and 2003, in accordance to the new methodology adopted by the Monthly Industrial Survey – Physical Production (PIM-PF). However, results are not expected to be considerably different.

growth. A quarterly comparison points to a falloff of 2.2% in the second quarter and positive growth of 1.9% and 3.1%, respectively, in the third and fourth quarters, compared to the immediately previous period.



Just as in the previous year, 2003 growth in the industrial sector was a consequence of the positive performance of the crop/livestock and foreign trade sectors. Consequently, those segments that supply the farm sector, such as fertilizers and agricultural machines, together with those that have strong participation in the export sector, such as minerals, steel and cellulose, registered more accentuated growth in the year. Among the items that made the most important contributions to 2003 industrial performance, mention should be made of farm tractors, stationary diesel engines, molded cast iron and steel, parts and stainless steel plates, petroleum and aluminum ore.

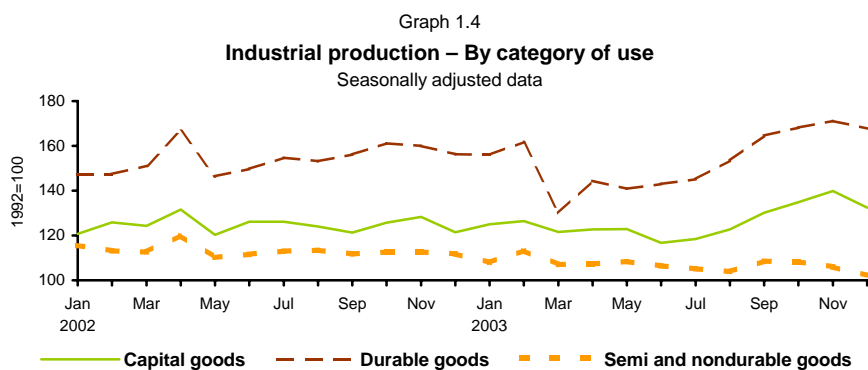
According to IBGE, growth in the production of insecticides and fungicides, 16.6%, as well as of other industrial products used by the farm sector, 17.2%, offset downward movement of 1.7% under industrial products derived from agriculture and 1.2% in industrial products used in the livestock sector. Consequently, the agribusiness complex repeated the trend of the last two years and expanded by 1.6% in 2003, which was higher than the average for the industrial sector as a whole.

Among the nineteen manufacturing segments surveyed by IBGE, eight managed to close with positive results. Special mention should be made of 8.9% growth registered by the mechanics industry, its fourth consecutive strongly positive annual expansion. Aside from mechanics, the most significant positive rates of growth were registered under rubber, 5.8%; metallurgy, 4.5%; wood, 4.1%; leather and hides, 2.9%; paper and cellulose, 2.8%; transportation equipment, 1.8%; and chemicals, 0.9%. In the opposite sense, accentuated downturns were registered by the following industries: pharmaceuticals, 18.7%; apparel and footwear, 12.4%; plastics, 10.8%; tobacco, 8.8%; beverages, 7.2%; textiles, 6.9%; and nonmetallic minerals, 6.1%.

In the second half of the year, the recovery process began among companies targeted to the domestic market and, therefore, considerably more sensitive to credit conditions. In this sense, based on data from which seasonal factors have been purged, the half-year period was marked by growth in the output of transportation equipment, 9.4%; furniture, 6.5%; and electric and communications equipment, 3.4%, compared to output in the first half of the year.

According to the National Association of Automotive Vehicle Manufacturers (Anfavea), automobile production expanded by 2% in the year, reaching total output of 1.8 million units, the same level registered in 2001. Foreign sales of automotive vehicles expanded by 26% in 2003 and accounted for 28.9% of overall sales or 5 p.p. more than in the previous year. Though internal sales declined by 4.9% in the year, closer analysis of this result points to a falloff of 13.5% in the first half of the year and positive expansion of 11.9% in the second half, indicating a strong upturn in internal vehicle demand in more recent months.

In the same sense, according to IBGE, output of home appliances dropped by 2.1% in 2003, though the final months of the year were marked by positive growth. In more specific terms, the first half of the year registered a production decrease of 10.8%, compared to the result for the latter half of 2002, while the second half was marked by positive growth of 18.5% when set against the previous half-year period. Once again, these figures have been purged of seasonal factors.



Analysis according to use categories also demonstrates the impact of exports, credit and overall wage levels on production. In this sense, the heading of intermediate goods, which concentrates the majority of the export segments, registered the highest rate of growth in the year, with 1.6%. Output of capital goods expanded by 1% in 2003, with a significant upturn in the final quarter. According to the Center of Foreign Trade Studies Foundation (Funcex), this result reflected demand for farm machines, as well as an increase of 16.1% in the volume of capital goods exports in the year.

Table 1.8 – Industrial production

Itemization	Percentage change		
	2001	2002	2003
Total	1.6	2.4	0.3
By category of use			
Capital goods	13.5	- 1.0	1.0
Intermediate goods	- 0.1	3.1	1.6
Consumer goods	1.2	0.9	- 4.4
Durable	- 0.6	2.7	- 0.5
Semi and nondurable	1.6	0.4	- 5.5

Source: IBGE

Following a decline of 7.1% in the first six months of the year, compared to the previous half-year period, output of durable consumer goods, which are particularly sensitive to credit conditions, moved into an upward curve, with growth of 10.9% in the second half of the year, when expressed in deseasonalized terms. More intensive growth in recent months, however, did not avoid a production decline of 0.5% under this category during the year.

Production of semidurable and nondurable consumer goods dropped by 5.5% in 2003, compared to positive growth of 0.4% in 2002. However, this sector of activity was strongly impacted by adverse labor market conditions, particularly the 12.6% decline in the habitual earnings of the working population, compared to monthly averages in 2003 and 2002. It is important to note that the foreign trade sector has powered the sales of specific segments of this category, such as footwear and foodstuffs, though this expansion was not sufficient to offset the falloff under internal demand.

From the regional point of view, production in the State of Espírito Santo expanded by 11.6% and was driven by the mining sector and manufacturing of cellulose and paper. Downward movement was concentrated in the states of Santa Catarina, 2.5%; Bahia, 1.9%; Ceará, with 1.4%; Rio de Janeiro, with 0.9%; and Minas Gerais, with 0.6%.

Real sales of the Brazilian manufacturing industry expanded by 0.4% in the year, according to figures released by the National Confederation of Industry (CNI), while real industrial sales in the State of São Paulo rose by 3%, based on data calculated by the Federation of Industries of the State of São Paulo (Fiesp).

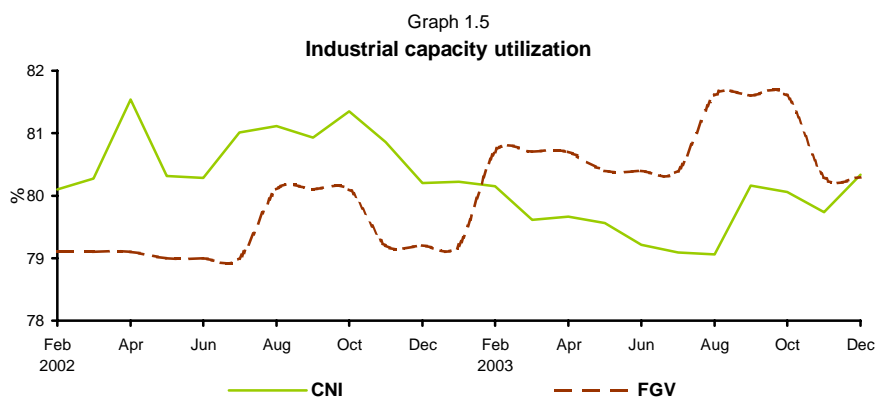
The relative stability of manufacturing industry output in the year was reflected in the levels of utilization of installed production capacity which, according to the CNI,

Table 1.9 – Selected capital goods production

Itemization	Percentage change		
	2001	2002	2003
Capital goods	13.5	- 1.0	1.0
Industrial	4.1	5.2	8.1
Serial	3.5	1.9	15.0
Non-serial	6.6	20.2	- 18.2
Agricultural	20.0	18.6	24.8
Agricultural parts	3.4	0.3	8.9
Building	18.3	0.0	- 18.6
Electric energy	42.6	- 27.0	- 26.5
Transportation	12.2	8.1	0.9
Mixed	2.8	- 0.9	- 2.8

Source: IBGE

moved to 78.6% in December 2003, the same level registered in December of the previous year. According to Fiesp data, median utilization of installed capacity in the State of São Paulo increased from 78.2% in December 2002 to 78.9% in the same month of 2003. The results calculated by the Getulio Vargas Foundation (FGV) for Brazil as a whole indicated a similar movement, as the level of utilization of installed capacity shifted from 79.2% in the final quarter of 2002 to 80.3% in the same period of 2003.



Though the FGV figures do point to steady growth in the median level of installed production capacity in 2003, there are no signs that any of the important use categories are nearing the limits of their output capacity. In the various industrial sectors, few reached relatively high levels of utilization in the final quarter. Among those that came closest to their limits, mention should be made of paper and cardboard, 91.6%, rubber, 90.5%, and metallurgy, 90.4%, as well as part of the

mechanics and petrochemical industries. Since these sectors are particularly important to the productive chain and to the foreign trade sector, there are clear indications that investments will have to be made in order to meet the demand of the nation's new foreign markets and of expected growth in internal demand.

Commerce sector indicators

Table 1.10 – Capacity utilization^{1/}

Percentage			
Itemization	2001	2002	2003
Manufacturing industry	80	79	80
Consumer goods	74	75	74
Capital goods	76	70	76
Building material	83	80	80
Intermediate goods	84	86	85

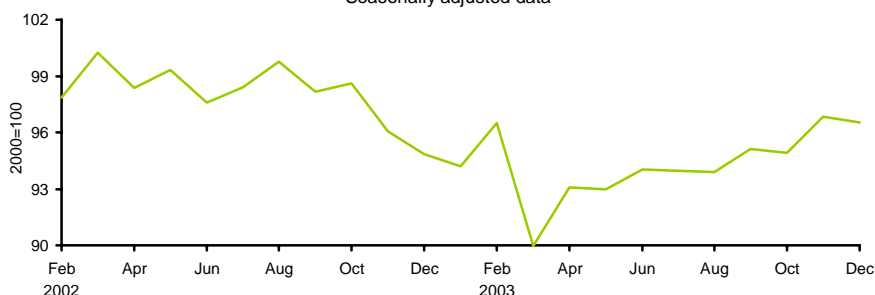
Source: FGV

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

Retail sector indicators closed 2003 with negative results. Just as in the other segments of the economy, sales recovered in the third and fourth quarters and, above all else, reflected growth in credit operations.

According to IBGE's Monthly Survey of Commerce (PMC) which includes all states, the volume of retail sales dropped by 3.7% in 2003, despite the fact that analyses based on deseasonalized data indicate recovery in the second half of the year and, particularly, in the final quarter. A breakdown of the result according to categories indicates negative results in all activities surveyed, with especially strong reductions under supermarkets, fuels and lubricants, fabrics, apparel and footwear. Sales of the

Graph 1.6
Sales volume index in the retail sector
Seasonally adjusted data



Source: IBGE

automotive trade sector, which are not included in the calculation of the overall index, dropped by 7.2% in the year. At the state level, only six states registered positive retail sales growth in 2002, led by Rondônia, with 6.8%; Mato Grosso, 1.8%; and Paraná, 0.9%. The sharpest reductions occurred in Roraima, 13.2%; Paraíba, 9.4%; and Alagoas, 9.3%.

Data released by the Trade Federation of the State of São Paulo (Fecomercio SP) accompanied the tendency evident in the IBGE survey, indicating an overall drop in retail activity in 2003. Analysis of the metropolitan region of São Paulo shows that physical sales declined by 15.3%, reaching as low as 16.5% under consumer goods which, in turn, was caused by reductions of 12.7% under consumer durables, 15.4% under semidurable goods and 18% under the heading of nondurable consumer goods. Following sharp recovery in the second half of the year, automotive sales closed the year with overall growth of 1.2%, while sales of building materials declined by 16.9%. It is important to observe that the IBGE survey is different from that performed by Fecomercio SP not only in terms of the geographic area covered but also in methodological terms since the IBGE sample involves only companies with twenty or more employees.

Other indicators confirmed the downturn in consumption in 2003. According to the Trade Association of São Paulo (ACSP), the number of consultations with the Credit Protection Service (SPC) and the Usecheque system dropped by respective rates of 1.4% and 1.3% in the year, when compared to 2002.

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

Percentage change			
Itemization	2001	2002	2003
Total	- 6.3	0.0	- 15.3
Consumer goods	- 6.7	2.4	- 16.5
Durable	- 4.5	- 5.1	- 12.7
Semidurable	- 25.5	- 13.2	- 15.4
Nondurable	- 4.6	8.9	- 18.0
Automotive trade	1.0	- 20.1	1.2
Building material	- 5.2	- 10.1	- 16.9

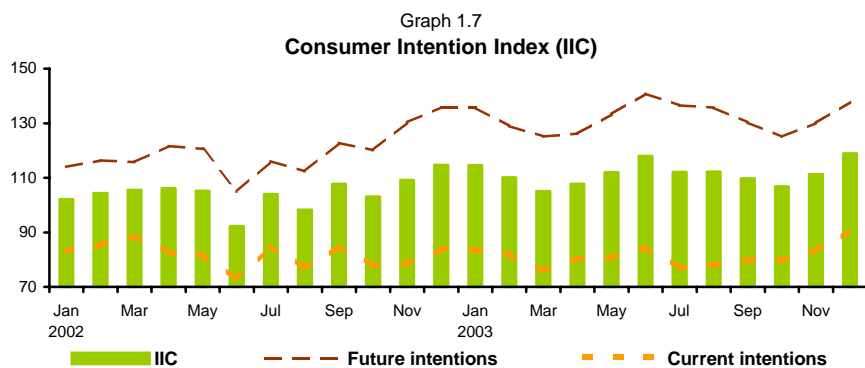
Source: Fecomercio SP

^{1/} Deflated by IPCA.

Default indicators registered highly distinct results in 2003. The ratio of checks returned due to insufficient backing to total checks cleared in the country came to 5.3% in the year, compared to 4.7% in 2002. In the opposite sense, the net default rate in the Metropolitan Region of São Paulo, as measured by the ACSP, came to 5.2% in 2003, compared to 6.4% in 2002. This reduction was to some extent a

consequence of the 8.2% rise in the number of occurrences cancelled, reflecting the fact that consumers are targeting their available funds into payment of already contracted debts.

Surveys on consumer expectations generated more optimistic results than in 2002. The Consumer Intentions Index (IIC), released by Fecomercio SP, registered growth of 6.9% in 2003 and was impacted by the 10% increase in the Future Intentions Index, which accounts for 60% of the overall index. The Index of Current Intentions, which represents the remainder of the general index, declined by 0.5% in the year.



Source: Fecomercio SP

The quarterly National Consumer Expectations Index (Inec), which is calculated by the National Confederation of Industry (CNI), expanded by 4.1% in 2003. Among the components of the general index, the best results was registered under improved expectations regarding inflation, reflecting the turnaround that had occurred in the previously accelerated upward price trajectory.

Crop/livestock output indicators

According to data drawn from the Systematic Farm Production Survey (LSPA), which is calculated by IBGE, national grain production came to 123.2 million tons, for growth of 26.8% compared to 2002. The underlying reasons for this growth were 9.9% expansion in the area under cultivation and 15.4% growth in average yield. For the most part, this performance was a consequence of growth in the production of wheat, soybeans, cotton, corn and beans, all of which benefited from intensified use of agricultural inputs, continued investments in mechanization and highly favorable climatic conditions.

A breakdown of the nation's overall grain production indicates that 112.5 tons were harvested in the South, Central-West and Southeast regions, with respective

growth rates of 36.1%, 19.9% and 15.1% in that order. Though they had less overall participation (8.7%), production in the northeast and north of the country registered strong growth of 25.1% and 22.2%, respectively.

Table 1.12 – Agricultural production – Major crops

Millions of tons		
Products	2002	2003
Grain production	97.2	123.2
Cotton seed	1.4	1.4
Rice (in husk)	10.5	10.2
Beans	3.1	3.3
Corn	35.5	47.8
Soybeans	42.0	51.5
Wheat	2.9	5.9
Others	1.8	3.0
Change in grain production (%)	- 1.4	26.8
Other crops		
Bananas	6.5	6.5
White potatoes	2.9	3.1
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.5	2.0
Sugarcane	363.7	389.9
Tobacco (in leaf)	0.7	0.6
Oranges	18.4	16.9
Cassava	23.1	22.2
Tomatoes	3.6	3.6

Source: IBGE

When one looks at the major products, the soybean harvest turned in growth of 22.6% in the year, with total output of 51.5 million tons. The State of Mato Grosso, which is the major production center of the country, closed with 12.7 million tons, while productivity was highest in Paraná, with 3,019 kg/ha, followed by Mato Grosso do Sul, with 2,899 kg/ha and Rio Grande do Sul, with 2,667 kg/ha.

In 2003, the failure of the United States harvest, coupled with greater external demand, particularly in the case of China, generated sharp upward movement in prices and acted as an added incentive to Brazilian crop production. As a result, producers began expanding the output of such other crops as corn and beans. In this context, foreign sales of soybeans reached a level of 19.9 million tons or 24.6% more than in 2002, according to the Foreign Trade Secretariat (Secex) of the Ministry of Development, Industry and Foreign Trade (MDIC).

Corn production totaled 47.8 million tons in the two harvests, corresponding to growth of 34.7% over the 2002 harvest. In the first harvest, the total came to 34.8

million tons, for an increase of 18.7% in the year. Here, the underlying factors were 2.7% expansion in the area under cultivation and 15.5% in median productivity. Even though a shortage of rainfall was somewhat damaging to the first stage of the cultivation period and a rather large number of producers had migrated to soybeans, the results were still positive. In the second harvest, production came to 13 million tons, for growth of 110% in the year, reflecting expansion of 33.5% in the area harvested and 57.5% in average yield. The strong performance registered by this harvest was a consequence of high international prices, which favored expansion of the area under cultivation, as well as rather good climatic conditions and intensified utilization of inputs which aided in enhancing productivity. One should also stress that demand for this product, which is one of the major components of animal feed, was also driven by increased foreign sales of meats.

Output of wheat came to 5.9 million tons or 102% more than in 2002. Particularly in the State of Paraná, which is the major wheat producing region in the country, output set a new record, principally as a result of favorable climatic conditions which, together with such factors as improved soil conditions and renewed genetic material, contributed significantly to improved productivity. One should further stress that the prices in effect in the previous year, caused by adverse climatic conditions in the States of Paraná and Rio Grande do Sul, acted as an incentive to producers in 2003. The area harvested increased by 21.7% and yield expanded by an average of 65.7%, closing at a level of 2,371 kg/ha in the year.

Rice production closed with a volume of 10.2 million tons, for a reduction of 2.6% compared to the 2002 harvest. Productivity closed at 3,238 kg/ha, for a reduction of 2.7%, while the area under cultivation increased by 0.1%. Basically, the falloff in production was due to the excess rains that occurred during the planting period in the southern region of the country, which accounts for 58% of the country's overall production. The 2003 harvest in that region closed at 5.9 million tons, or 10.1% less than in the previous year.

Viewed under the prism of the three annual harvests, production of beans came to 3.3 million tons, for an increase of 8.5% in comparison to the 2002 harvest, despite the fact that the area under cultivation diminished by 0.9%. The first harvest totaled 1.7 million tons, with growth of 1.3% in volume and a productivity increase of 4%, despite a 2.6% reduction in the area harvested. In this case, only the southern region managed to register increases in both output and area planted, despite the fact that excessive rain was prejudicial to the crop in both Rio Grande do Sul and Santa Catarina. As far as the second harvest is concerned, production of this crop came to 1.2 million tons, for growth of 14%. Average yield expanded by 14%, mostly reflecting favorable climatic conditions. Finally, the third harvest turned in the year's best results and was driven mainly by the attractive prices obtained by producers in the first and second harvests. With this, production closed at 461

thousand tons of grain, for growth of 24.2%, and expansion of 14% in the area harvested and 8.9% in median productivity.

Table 1.13 – Agricultural production, harvested area and average earnings

Major crops

Percentage change

Products	Production		Area		Average earnings	
	2002	2003	2002	2003	2002	2003
Grain production	- 1.4	26.8	7.6	9.9	- 8.4	15.4
Cotton (seed)	- 18.2	1.6	- 13.4	- 6.6	- 5.6	8.7
Rice (in husk)	2.8	- 2.6	0.2	0.1	2.7	- 2.7
Beans	24.4	8.5	20.3	- 0.9	3.4	9.4
Corn	- 15.4	34.7	- 4.4	9.7	- 11.5	22.8
Soybeans	10.9	22.6	17.0	13.0	- 5.2	8.5
Wheat	- 13.1	101.6	18.3	21.7	- 26.5	65.7

Source: IBGE

In 2003, total production of processed coffee came to 2 million tons or 21% less than in the record 2002 harvest. The major producer states, Minas Gerais and Espírito Santo, which accounted for more than 70% of overall output, registered production declines due to adverse climatic conditions and low international prices. In the latter case, the price decline was a response to a high level of supply and discouraged producers from intensifying use of more efficient inputs in their crops.

The sugar cane harvest totaled 389.9 million tons, or 7.2% more than in 2002. Both the area under cultivation and productivity expanded by 4.9% and 2.3%, respectively. This performance was powered by sugar and alcohol prices in the period in which planting decisions are taken, as well as by an agreement between the sugar-alcohol production sector and the government, with the aim of ensuring supply of the product.

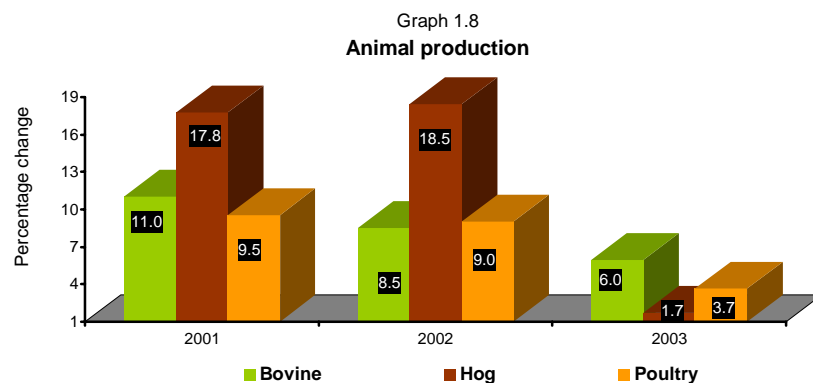
Livestock

According to the Quarterly Survey of Animal Slaughters, which is calculated by the IBGE, the livestock sector continued expanding in 2003. This result was powered by increased exports made possible, to some extent, by the opening of new markets for the country's products. The segment of beef registered the highest annual growth, with 6%, followed by poultry, with 3.7%, and pork, with 1.7%. With respect to total carcass weight, the beef sector closed with 5 billion tons, while the poultry sector registered 6.3 billion tons and the swine sector with 1.9 billion tons.

Table 1.14 – Grain stock – Major crops

Products	2000/2001	2001/2002	2002/2003
Thousands of tons			
Grain production			
Rice (in husk)			
Beginning of the year	1 824.9	1 360.1	763.4
End of the year	1 360.1	763.4	502.0
Beans			
Beginning of the year	270.5	104.5	167.2
End of the year	104.5	167.2	435.2
Corn			
Beginning of the year	3 534.8	4 218.9	1 049.6
End of the year	4 218.9	1 049.6	5 848.7
Soybeans			
Beginning of the year	2 562.0	2 388.8	2 055.7
End of the year	2 388.8	2 055.7	3 988.4
Wheat			
Beginning of the year	716.5	770.5	763.9
End of the year	770.5	763.9	571.6

Source: Conab



Source: IBGE

With regard to exports, shipments totaled 1.9 million tons of poultry, 620.1 thousand tons of beef and 458 thousand tons of pork, corresponding to annual increases of 20.1%, 44.1% and 2%, respectively.

Farm policy

The resources injected into the 2003/2004 Crop Livestock Plan by the Ministry of Agriculture, Livestock and Supply (Mapa) totaled R\$32.6 billion or 25.8% more than in the previous harvest. Of this total, R\$21.4 billion were channeled into current expenditures and marketing costs, with R\$16.4 billion at fixed rates and R\$5 billion

at market rates. At the same time, an additional R\$5.8 billion were forecast for investment programs financed with resources supplied by BNDES, Constitutional Funds (north, northeast and central-west) and the Rural Employment and Income Generation Program (Proger Rural), aimed at making the crop/livestock sector more competitive. Aside from these resources, R\$5.4 billion were channeled through the National Program of Strengthening Family Farming (Pronaf), which is administered by the Ministry of Agrarian Development (MDA).

Greater incentives have been given to Floor Price Policy (PGPM), with priority to basic foodstuffs. Prices were defined following analysis of the variable costs of production in the different regions of the country, market fundamentals and outlook and export and import parities.

Resources for Proger rural were increased by 150% and are being targeted to producers with annual gross income above the limit defined for the Pronaf target public. With this, the government sought to reach a greater number of rural workers, covering those with areas corresponding to up to fifteen fiscal modules and with annual gross income of up to R\$80 thousand and providing for their needs through the program's financing agents.

In the context of the Program of Support to the Marketing and Stocking of Products, as well as the basic PGPM and rural credit instruments – Federal Government Acquisitions (AGF), Federal Government Loans (EGF), Rural Product Bills (CPR), Promissory Notes and Rural Invoices – and the Special Line of Marketing Credits (LEC), the Mapa budget proposal called for allocation of R\$3 billion for direct purchases from producers, options contracts and price equalization programs based on sales option contracts, product outflow premiums (PEP) and product outflow value (VEP).

Productivity

Productivity indicators in the primary and secondary sector performed in highly distinct manners in 2003. Industrial productivity, understood as the ratio between the index of physical production of the sector, as announced by IBGE, and the indicator of hours paid in production, which is calculated by the CNI, dropped by 0.3% in 2003, the fourth consecutive decrease, compared to a reduction of 0.1% in the previous year. A comparison among the states shows declines in three of the ten states surveyed, with 11.4% in Bahia, 5.8% in Santa Catarina and 2.3% in Minas Gerais. The highest growth was registered in Espírito Santo, 11.4%; Ceará, with 7.7%; and Rio de Janeiro, with 6.7%, while industrial productivity in São Paulo increased by 1.2%.

The farm sector registered a high of 15.4% in the average yield of grain production, calculated as the ratio between output and area under cultivation, compared to a reduction of 8.4% in 2002, which had interrupted two consecutive years of strong increases. For the most part, this growth was due to climatic conditions. Here, one should stress that, following the trend perceived in previous years, the utilization of inputs expanded in the year. Physical sales of fertilizers expanded by 19.3%, according to the National Association for Dissemination of Fertilizers (Anda), while sales of farm machines and equipment expanded by 17.3%, according to Anfavea data.

Energy

In 2003, petroleum production, including Natural Gas Liquid (NGL), continued on the growth curve begun in 1992, registering expansion of 3.5%, according to the National Petroleum Agency (ANP). Output came to 1.6 million barrels/day (mbd), compared to 1.5 mbd in 2002. The highest production level occurred once again in the month of August with 1.6 mbd and the lowest in November and December, with 1.5 mbd. The falloff in output in the final months of the year is explained by programmed and normal stoppages for purposes of maintenance at the production sites. Production of natural gas increased by 1.7% in 2003, reaching a level of 272 thousand barrels/day.

Total oil processed at the nation's refineries declined by 0.6% in 2003, registering an increase of 1.2% in the participation of national petroleum, which moved to a level of 79%. Petroleum imports declined by 4.7% in the year, closing at 343.3 thousand barrels per day. Exports expanded by 2.9% to 242.7 thousand barrels per day. Once again, this result reflects growth in the production of heavy oil beyond the level of internal refining capacity. Data on production and exports and imports of petroleum indicate apparent consumption of 1.7 mbd, with national production accounting for 94% of the total.

Internal sales of petroleum derivatives declined by 5% in 2003, with reductions in all segments of consumption. The cutback in the marketing of fuel oils came to 18.6%, followed by decreases under liquefied petroleum gas (LPG), with 6%; gasoline, with 4.5%; and diesel oil, with 2.7%. Overall consumption of alcohol diminished by 6.8%, for a reduction of 1.4% in sales of anhydrous alcohol, which is mixed into the nation's gasoline supply, and 14.8% in sales of hydrated alcohol.

National electricity consumption expanded by 3.7% in 2003, according to Centrais Elétricas Brasileiras (Eletrobrás), with expansion of 5% in the commercial segment; 4.8% in residential use; 1.8% under industry; and 6.2% under the remaining categories. All of the various regions registered growth in consumption, with rates in a range varying from 1.5% in the southeast to 13.5% in the central-west region.

Table 1.15 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2001	2002	2003
Petroleum	1 386	1 355	1 287
Fuel oil	156	132	107
Gasoline	301	293	280
Diesel oil	639	648	630
Liquid gas	218	209	196
Other derivatives	72	74	74
Fuel alcohol	140	155	145
Anhydrous	81	92	91
Hydrated	59	63	54

Source: ANP

Table 1.16 – Electric energy consumption^{1/}

GWh

Itemization	2001	2002	2003
Total	283 257	289 868	300 652
By sectors			
Commercial	44 434	45 256	47 525
Residential	73 622	72 660	76 168
Industrial	122 539	127 626	129 884
Other	42 663	44 326	47 075

Source: Eletrobrás

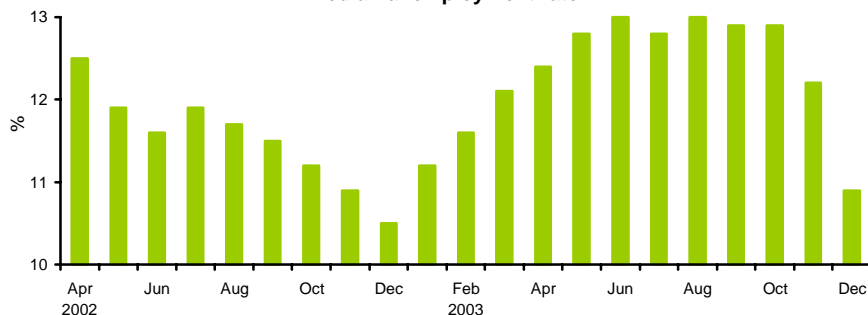
^{1/} Self-producers not included.

Employment indicators

According to the IBGE's Monthly Employment Survey (PME), which is calculated in six metropolitan regions, the rate of open unemployment reached 12.3% in 2003, compared to 11.7% in the previous year. Reflecting the adverse economic environment, the rate of unemployment followed an upward curve in the first half of the year, closing in the range of 13%. In the second half of the year, this movement was halted with the start of a gradual process of recovery in the pace of economic activity, which further accentuated in the last two months of the year.

It should be stressed that the increase in the jobless rate in 2003 resulted from generation of a quantity of job positions that was insufficient to absorb the number of workers joining the economically active population, although the average number

Graph 1.9
Median unemployment rate



Source: IBGE

created was higher than the level registered in recent years in percentage terms². In 2003, the economically active population expanded at a pace that was unprecedented since the survey was first carried out, coming to 5.5% from March to December, when compared to the same period of 2002. Basically, this behavior may well have been due to people who had stopped looking for work returning to the job market, particularly as a result of improvements in expectations when compared to 2002, as demonstrated by the different surveys on confidence levels.

Analysis on the basis of labor categories indicated continued growth in informal employment. In absolute terms, the PME shows that the major share of the jobs created in 2003 was concentrated in the informal sector of the economy, with expansion of 8.4%. By way of comparison, jobs in which workers are duly registered expanded by just 1.1% while the self-employed and employers increased by 8.2% and 14.3%, respectively.

An evaluation by metropolitan region shows growth in the unemployment rate in four of the regions surveyed, with a particularly sharp increase in Salvador where average joblessness in the year closed at 16.7%. The metropolitan region of Rio de Janeiro managed to reduce unemployment from 10.1% in 2002 to 9.2%, while the rate in Belo Horizonte remained stable at 10.8%.

In the entire country, formal employment expanded in 2003, though at a less intense pace than in the previous year. According to the Ministry of Labor and Employment (MTE), 645 thousand positions were created for registered workers, compared to 762 thousand in 2002. A sectoral analysis indicates that the service sector produced the most dynamic performance, creating a total of 260 thousand jobs, followed by the sector of commerce, with 226 thousand, manufacturing with 129 thousand, and crop/

² The growth of occupied people as compared to 2002 figures came to 4.5% when March to December data of the new PME are considered. Data from January and February 2002 where not included since distortions occurred. Annual changes for the period from 1991 to 2002 were calculated using data from the former PME. In percentage terms, job creation in 2003 was the highest in the period from 1991 to 2003.

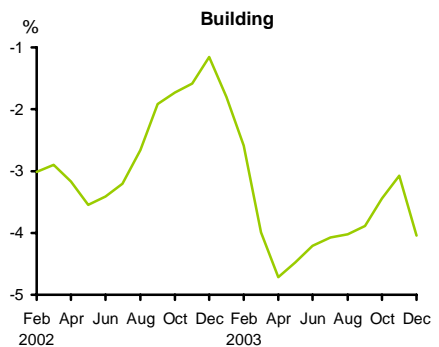
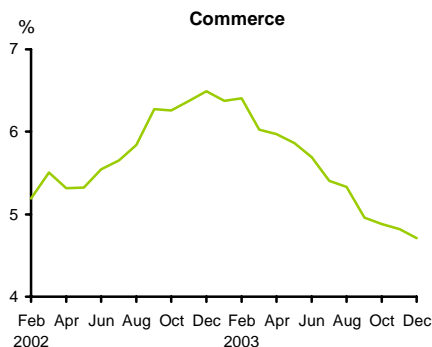
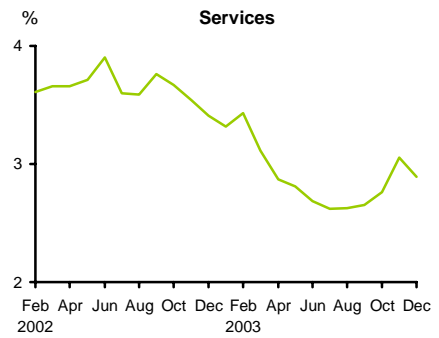
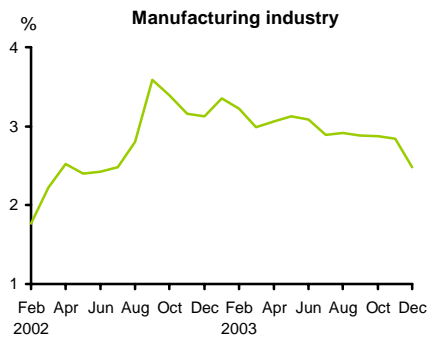
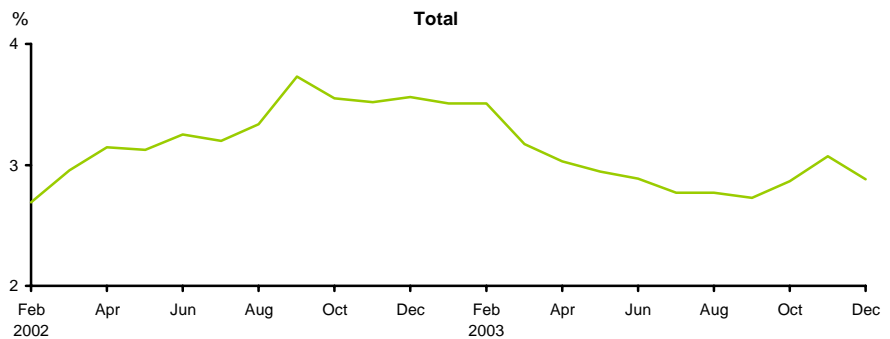
livestock activities with 58 thousand. The only sector to register a reduction in the number of openings in 2003 was the building industry, with elimination of 48 thousand jobs, maintaining a tendency that dates to 1998.

With regard to unemployment compensation, MTE figures indicate growth of 3.2% in the number of persons requesting coverage, when compared to 2002, raising total requests to 5.04 million, of which 4.94 million received affirmative responses. Half of the requests were submitted by workers earning up to one minimum monthly

Graph 1.10

Level of formal employment

Percentage change in 12 months



Source: Ministério do Trabalho e Emprego

wage; 31.5% by those earning from 1 to 3 times the value of the minimum wage; 11.3% in the range of 3 to 5 times the minimum wage; while 6.5% of demand originated with workers earning more than 5 times the minimum wage.

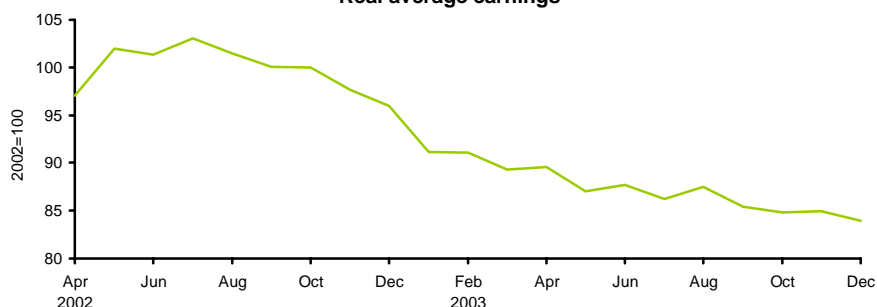
According to the Seade Foundation's Survey of Employment and Unemployment, carried out jointly with Dieese, median overall unemployment in the metropolitan region of São Paulo came to 19.9% in 2003, compared to 19% in the previous year, registering the second consecutive annual increase. Consequently, just as in the figures calculated by the IBGE, the jobs created were not sufficient to meet demand on the part of workers entering the economically active population of the region. Consequently, the ranks of the unemployed closed December at 1.9 million. On a sector-by-sector basis, vacancies in the manufacturing sector declined by 3.2%, while the sector of commerce remained stable and jobs available in the service sector increased by 1.4%

In the industrial sector, the employment level calculated by CNI in twelve states increased by 0.7% in 2003, following a reduction of 0.1% in 2002. Among the sharpest reductions, mention should be made of Rio de Janeiro, with 2.6%; Pernambuco, with 2.3%; and São Paulo, with 1.2%. The other states surveyed registered growth in employment positions in the industrial sector, particularly in Goiás, with 9.3%; Amazonas, with 6.8%; and Ceará, with 5.9%.

Wage and earnings indicators

According to the PME, the nominal median earnings of workers remained unchanged over the course of 2003, mainly reflecting the reduction that occurred in the level of economic activity in the first half of the year. Notwithstanding the fact that, in the second half of the year, the improved economic scenario made it possible for several important worker categories to obtain more favorable wage agreements, at

Graph 1.11
Real average earnings



Source: IBGE

the same time in which inflation subsided, real median habitual earnings³ dropped by 12.6%, compared to 2002. The loss of purchasing power occurred in all job categories and reached a level of 20.8% among the self-employed, 8.4% among registered workers and 7.9% among those working within the informal economy.

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

Percentage change		
Itemization	2002	2003
Total	- 7.3	- 9.5
Job position		
Registered	- 10.9	- 4.9
Unregistered	- 3.0	- 4.1
Self-employed	- 20.9	- 12.1
By sector		
Private sector	- 9.1	- 5.1
Public sector	- 10.3	- 6.5

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 median value of nominal initial wages in the formal sector of the economy increased by 10.1% in 2003, closing at a level of R\$451.90, according to national data released by the MTE. In real terms, when one considers the INPC as deflator, this salary declined by 6.2% in the year. A sectoral analysis revealed a generalized downturn in real wages that was most accentuated under the heading of public utility industrial services, 10%, followed by crop/livestock activities, with 9.9%, and services, with 9.5%.

Real average earnings in the metropolitan region of São Paulo declined by 6.7% in 2003, according to data released by the Seade Foundation and Dieese and deflated by the ICV-Dieese. The loss absorbed by salaried workers came to 4.9%, compared to 10.8% under the heading of nonsalaried employees. On a sector-by-sector basis, the most significant losses occurred under employees of the construction industry and commerce, both of which closed with 7.7%, followed by services, with 6.1%, and industry, with 5.1%.

In the industrial segment, the CNI survey indicated a reduction of 4.2% under real wages in 2003. After registering a lag at the start of the year when compared to the levels in effect in the previous year, wages in the industrial sector began moving

^{3/} Considering the INPC as deflator. Unlike the calculations of effective earnings, when calculating habitual earnings gains with overhours, vacations, etc are not included.

gradually upward and, in the final two months of 2003, surpassed the level in effect in the same period of 2002. On a state-by-state basis, there was a generalized reduction in real wages in 2003, with the exception of Goiás, Bahia and Ceará.

The value of the minimum monthly wage moved from R\$200.00 to R\$240.00 in April 2003. It is important to note that the 25% increase was well above the 17.7% level of inflation registered in the period from April 2002 to March 2003, according to the INPC.

Price indicators

The evolution of prices in 2003 was impacted by the political transition to the new federal administration and, above all else, the effects of the transition on exchange, with repercussions for both government monitored prices and market prices. This movement prevailed during all of the first quarter of the year, a period in which the inflation rate accounted for more than 50% of the level registered by consumer price indices for the entire year. In terms of the general price indices, the period accounted for more than 70% of the final rate. At the same time, restricted supplies of several farm products of importance to the basic food supply exerted additional pressure on food prices in the course of the year.

At this point, one should underscore the success of the monetary policy measures adopted at the start of the year, with the objective of restricting the possibility of increases in prices in sectors directly impacted by exchange being transmitted to the other segments of the economy. The reach of these measures can be noted in the behavior of the prices of nontradables, particularly services, when compared to the prices of tradables, as well as in the reversal of market expectations in relation to the inflation trajectory over all of 2003. In this sense, at the start of the year, estimates for annual IPCA growth fluctuated in the range of 12%, dropping to 10% at the end of July and 9.6% at the end of the third quarter.

Once inflationary pressures had been overcome, price indices began registering relatively stable monthly rates of about 0.4%, a level fully consistent with inflation targets. The falloff in internal demand coupled with exchange appreciation and its repercussions on the prices of products impacted by the rate of exchange, especially gasoline, industrialized goods and meats, were the factors responsible for this behavior. With this, the Broad National Consumer Price Index (IPCA) came to 3% in the final eight months of the year, compared to 6.2% in the first four months.

Table 1.18 – IPCA items share in 2003

Percentage change

Groups	Weight ^{1/}	IPCA			Index share ^{2/}
		Accumulated in the first half-year	Accumulated in the second half-year	Accumulated share in the year	
IPCA	100.0	6.6	2.5	9.3	100.0
Foodstuffs and beverages	23.4	6.5	0.9	1.8	19.1
Housing	16.6	8.0	4.0	2.0	21.4
Housing products	5.6	5.9	1.0	0.4	4.3
Apparel	5.2	5.8	4.1	0.5	5.8
Transportation	21.2	6.7	0.5	1.6	17.0
Health and personal care	10.5	7.3	2.6	1.1	11.3
Personal outlays	9.0	4.0	5.3	0.9	9.5
Education	4.7	8.8	1.4	0.5	5.2
Communication	3.8	5.6	12.4	0.7	7.0

Source: IBGE

^{1/} In December 2003.^{2/} It is obtained by dividing the accumulated share in the year by the accumulated change in the year.

General price indices

The General Price Index – Internal Supply (IGP-DI), calculated by the FGV, which is composed of changes in the prices measured by the Wholesale Price Index – Internal Supply (IPA-DI), accounting for 60% of the index, and by the Consumer Price Index – Brazil (IPC-Br), with weight of 30%, and finally by the National Cost of Construction Index (INCC) with weight of 10%, expanded by 7.7% in 2003. This rate was below the level registered by the other indices, due to lesser growth in prices at the wholesale level, which were more sensitive to exchange appreciation over the course of the year. Consequently, the IPA-DI increased by 6.3% in the year, reflecting growth of 4.6% in the prices of farm products and 6.9% in industrial prices, while the IPC-Br expanded by 8.9% and the INCC shot upward by 14.4%, basically as a consequence of a rise of 17.4% in labor costs.

Consumer price indices

The IPCA, which reflects changes in prices for families with monthly earnings between 1 and 40 times the minimum monthly wage and is used as the parameter for the inflation targeting system, accumulated 9.3% growth in 2003. Though it closed above the target (adjusted) of 8.5% defined for the year, the change in the IPCA was significantly below expectations of more than 12% that had prevailed in the early

part of the year. At the start of the year, the trajectory of the indicator reflected not only accentuated pressure for exchange depreciation in 2002, stressing that the IPCA expanded by 6.2% in the first four months, but also the upward movement in government monitored prices, also as a result of alterations in the rate of exchange, and items from the grouping of foodstuffs. Among these, the largest pressures were generated by the prices of semi-elaborated foodstuffs, which increased by 9.3%; rice, 25.2%; poultry, 13%; and beef, 9,4%.

Table 1.19 – IPCA items share in 2003

Percentage change						
Groups	IPCA					
	Weight ^{1/}	Accumulated variation in first semester	Accumulated variation in the year	Accumulated share in first semester	Accumulated share in the year	Index share ^{2/}
IPCA	100.0	6.6	9.3	6.6	6.6	100.0
Managed	28.9	8.9	13.2	2.6	3.8	56.6
Agricultural	16.5	9.1	9.0	1.3	1.5	22.4
Exchange	14.2	4.3	6.6	0.6	0.9	14.3
Services	20.2	4.3	7.3	1.0	1.5	21.8
Others	20.2	5.7	8.2	1.2	1.6	24.8

Source: IBGE

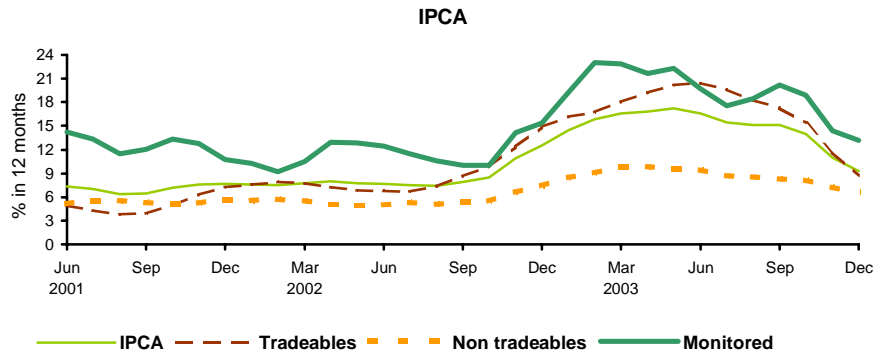
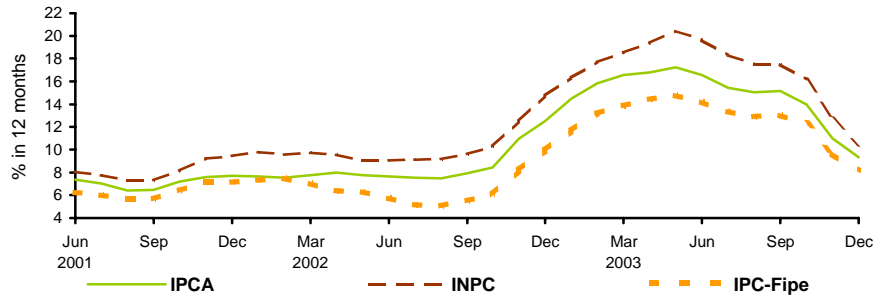
^{1/} In December 2003.

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

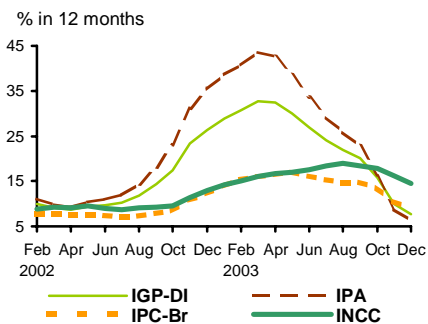
The INPC, which is also calculated by the IBGE, accumulated 2003 growth of 10.4%. This indicator differs from the IPCA, principally in that which concerns its target public, which corresponds to families with monthly earnings between 1 and 8 times the minimum wage. The higher growth in the INPC in the year when compared to the IPCA is explained by its weighting structure, which gives greater importance to the groupings of foodstuffs and government monitored prices, particularly public transportation and electricity, both of which exerted strong inflationary pressures during the entire year.

The IPC-Fipe, which is calculated for families with earnings between 1 and 20 times the minimum wage in the Metropolitan Region of São Paulo (RMSP), registered inflation of 8.2% in 2003. The IPC-Br, which is calculated by the FGV, encompasses twelve state capitals and accumulated growth of 8.9%. Among the major impacts on inflation in the year, mention should be made of increases in outlays on housing, with 10.5%, and diverse expenditures, with 15.9%.

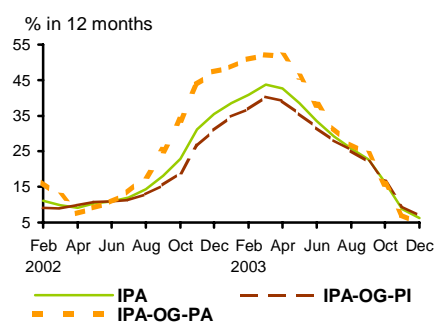
Graph 1.12
Consumer price indices



IGP-DI and components



IPA according to origin



Source: IBGE, Fipe and FGV

Government monitored prices

In 2003, government monitored prices⁴ expanded by 13.2% and accounted for approximately 40% of the change in the IPCA in the year, corresponding to 3.76 p.p.

⁴/Monitored prices are understood as those which are directly or indirectly defined by the federal, state or municipal governments. In certain cases, readjustments are set by contracts between producers suppliers and their corresponding regulating agencies as, for instance, in the cases of electricity and fixed telephone systems.

The items that exerted the strongest pressures on inflation in the period were lotteries and urban bus fares, fixed telephone, water, sewage and electricity services, which were responsible for about 72% of the overall growth in government monitored prices in the year. At this point, mention should be made of the very small increases registered under gasoline (1.2%) and bottled gas (2.9%), both of which reflect short-term changes in the rate of exchange. These two items are quite different from electricity prices, since changes in this case are still being impacted by the depreciation that occurred in 2002. Also with regard to fuels, emphasis should be given to the 12.6% drop in alcohol prices, as a result of the good sugar cane harvest.

Table 1.20 – Major items included in the IPCA during 2003

Itemization	IPCA		
	Weight ^{1/}	Accumulated variation	Accumulated share
Index (A)	100.0	9.3	9.3
Non-monitored prices	71.1	7.8	5.5
Monitored prices	28.9	13.2	3.8
Selected monitored items			
Urban transportation	5.1	20.9	0.9
Electric energy	4.6	21.4	0.8
Barreled cooking gas	1.7	2.9	0.1
Gasoline	4.1	1.2	0.1
Lottery games	0.2	43.1	0.1
Telephone	3.3	19.1	0.5
Water and sewage rate	1.8	21.0	0.3
Health care	2.4	8.7	0.2
Total (B)	23.1	...	3.0
Share (B/A)			32.6

Source: IBGE

^{1/} In December 2003.

Urban bus fares, which are stipulated at the municipal administration level, were the item that exerted the greatest pressure on the IPCA in the year. On average, these fares increased by 21% in 2003.

With regard to fixed telephone services, price changes are authorized by the National Telecommunications Agency (Anatel) every twelve months, after due analysis of the impact of changes in the IGP-DI on overall services provided. In 2003, a judicial decision determined that the index used to adjust these prices would be the IPCA accumulated in the 12 month period ended in May. The change in rates during the year came to an average of 19.1%.

In 2003, median increases in electricity rates came to 21.4%, varying from 6.1% in Curitiba to 44.1% in Belo Horizonte. These increases follow a schedule elaborated by the National Electric Energy Agency (Aneel), which specifies the period for the annual price increase permitted to the concession companies. The percentage authorized by Aneel takes due account of manageable costs, which are adjusted principally according to the IGP-M accumulated in the twelve month period prior to the increase, and the nonmanageable costs, such as electricity purchased and power transmission costs which, among other factors, reflect exchange rate variations.

Water and sewage rates increased by 21% in 2003, reflecting increases in 10 of the 11 regions surveyed, while the prices of lottery tickets expanded by 43.1%. Among the six games that make up the heading of lotteries, two were increased by 100%, though it is important to stress that these prices had not been adjusted since August 1999, when the costs of lotteries began to be collected by the index.

Cores

The core is formed by excluding government monitored prices and food taken at home from the IPCA. With the exception of March, these rates declined up to the month of July. From August to November, the indicator remained stable in the range of 0.4%, while December was marked by a sharp rise, basically as a result of increases in the prices of apparel and changes in cigarette prices. In 2003, the core expanded by 8.17%, compared to 8.3% in the previous year.

Table 1.21 – Consumer prices and core inflation in 2003

Itemization	2002	2003		
		1 H	2 H	In the year
IPCA	12.5	6.6	2.5	9.3
Exclusion	8.3	5.5	2.5	8.2
Trimmed means				
Smoothed	8.8	6.6	4.2	11.1
Non smoothed	8.5	5.7	2.5	8.3
IPC-Br	12.2	6.6	2.2	8.9
Core IPC-Br	8.8	6.5	3.0	9.7

Source: IBGE and FGV

Based on the method of rounded smoothed medians, the core accumulated a high of 11.11% in the year. This median is obtained by eliminating the items with the highest and lowest changes, until the items complete 20% of the weight at each extremity, and by 12-month forward distribution (smoothing) of specific items with

increases concentrated in just a few months of the year, such as education, electricity and communications. Due precisely to the smoothing process, this measurement registered the highest rate in 2003, since it was clearly contaminated by inflation in 2002.

Based on nonsmoothed rounded medians, the core increased by 8.35% in the year. In the first five months of 2003, the core registered accentuated deceleration, signaling the future price trajectory more efficiently than the other secondary measurements. This performance is basically attributed to the fact that the indicator was not contaminated by past inflation.