

The Brazilian Economy

Economic activity

The activity level in 2004 reflected the ongoing positive evolution of the nation's economic fundamentals since the preceding year. In this context, such realities as compliance with fiscal targets, the positive and persistent performance of foreign trade and a monetary policy aimed basically at preserving the gains inherent to price stability, created an environment for economic recovery practically unmatched in the country's recent history. Among other factors, this is clearly revealed by indicators that point to the highest GDP growth since 1994; a record level of new manpower hirings in the formal sector of the economy; a sharp rise in investment outlays, following years of tepid growth; and a record trade balance surplus.

As the year moved forward, the rate of economic growth declined in a manner consistent with the natural process of leveling off, following the recent relative highs in output levels. In this sense, at the midpoint of the year, utilization of industrial output capacity had risen sharply, moving to a level that could have generated inflationary pressures and threatened the sustainability of the growth cycle. At that moment, monetary policy was adjusted in pursuit of a state of equilibrium between economic growth and preservation of a situation of low inflation.

Consequently, in the month of May, Copom interrupted the process of successive interest rate cutbacks and held the basic rates at 16% per year up to September. At that point, the Committee initiated a process of moderate monetary policy adjustment, gradually raising interest by 1.75 p.p., including the 0.5 p.p. increase adopted at the December 2004 meeting. The decision to move in this direction led to more moderate growth in the second half of the year, at the same time in which ongoing investments matured to a degree sufficient to ward off any pessimism with regard to price growth. Despite these measures, the activity level continued expanding through the end of 2004, closing with the highest rate of annual expansion since 1994.

Viewed in terms of demand, 2004 growth in the activity level was generated by the extraordinary dynamics of the export sector, coupled with recovery on the internal market. Investment growth mirrored the positive economic outlook that marked the

second half of 2003, while growth in consumption was driven by an expanded credit supply, particularly in the first six months of the year, with evident impacts on sales of consumer durables. In the final months of the year, income levels moved steadily upward, fostering increased sales of nondurable consumer goods.

The increased economic dynamism of 2004 was also evident in job market figures, particularly as regards employment. New job opportunities opened in all of the different economic sectors at rates close to the nation's historical highs.

Gross Domestic Product (GDP)

According to the Brazilian Institute of Geography and Statistics (IBGE), GDP expanded 5.2% in 2004, the highest level since the 5.9% figure reached in 1994. In current values, GDP totaled R\$1,769 billion in the year, calculated at market prices.

A breakdown of GDP expansion in 2004 indicates that 4.1 p.p. were generated by a growing internal market and 1.1 p.p. by the external sector. Internal demand had not made a significant contribution to GDP growth since 2000. On a sector-by-sector basis, all of the different sectors turned in positive results, while industry ended with its best performance in the last ten years.

Continuing the process of economic recovery begun in the second half of 2003, GDP expanded 1.8% in the first quarter of the year, compared to the final quarter of 2003. Using the same basis of comparison, the crop/livestock sector expanded 2.5%, due mainly to soybean production, among other major crops, while industrial growth closed at 1.4%, driven primarily by capital goods and consumer durables. Finally, the service sector posted an increase of 1.1%.

The highly positive outlook continued through the second quarter of the year, as GDP expanded 1.5% compared to the previous quarter, based on seasonally adjusted data. Once again, all of the various sectors turned in positive results, with 0.5% in crop/livestock activity, 1.2% in the industrial sector and 1.5% for services.

In the third quarter of the year, GDP expressed in seasonally adjusted figures expanded 1.1% over the previous quarter. This result was impacted by a 1.9% drop in crop/livestock output. Confirming the results of monthly activity level indicators, industry expanded 2.5% using the same basis of comparison. Powered by a steady upward trend in income, the service sector registered the fifth consecutive month of positive growth, with 0.7%.

Table 1.1 – GDP at market price

Year	At 2004 prices (R\$ million)	Real change (%)	Implicit deflator (%)	At current prices ^{1/} (US\$ million)	Population (million)	Per capita GDP		
						At 2004 prices (R\$)	Real change (%)	At current prices ^{1/} (US\$)
1980	1 067 035	9.2	92.1	237 772	118.6	9 000	7.0	2 005
1981	1 021 686	- 4.3	100.5	258 553	121.2	8 429	- 6.3	2 133
1982	1 030 166	0.8	101.0	271 252	123.9	8 315	- 1.3	2 190
1983	999 982	- 2.9	131.5	189 459	126.6	7 900	- 5.0	1 497
1984	1 053 981	5.4	201.7	189 744	129.3	8 153	3.2	1 468
1985	1 136 708	7.8	248.5	211 092	132.0	8 613	5.6	1 599
1986	1 221 847	7.5	149.2	257 812	134.7	9 074	5.4	1 915
1987	1 264 978	3.5	206.2	282 357	137.3	9 215	1.6	2 057
1988	1 264 219	- 0.1	628.0	305 707	139.8	9 042	- 1.9	2 186
1989	1 304 169	3.2	1 304.4	415 916	142.3	9 164	1.4	2 923
1990	1 247 437	- 4.3	2 737.0	469 318	146.6	8 510	- 7.1	3 202
1991	1 260 286	1.0	416.7	405 679	149.1	8 453	- 0.7	2 721
1992	1 253 435	- 0.5	969.0	387 295	151.5	8 271	- 2.2	2 556
1993	1 315 164	4.9	1 996.1	429 685	154.0	8 541	3.3	2 790
1994	1 392 139	5.9	2 240.2	543 087	156.4	8 899	4.2	3 472
1995	1 450 940	4.2	77.5	705 449	158.9	9 133	2.6	4 440
1996	1 489 515	2.7	17.4	775 475	161.3	9 233	1.1	4 807
1997	1 538 242	3.3	8.3	807 814	163.8	9 392	1.7	4 932
1998	1 540 272	0.1	4.9	787 889	166.3	9 265	- 1.4	4 739
1999	1 552 370	0.8	5.7	536 554	168.8	9 199	- 0.7	3 180
2000	1 620 064	4.4	8.4	602 207	171.3	9 459	2.8	3 516
2001	1 641 328	1.3	7.4	509 797	173.8	9 443	- 0.2	2 933
2002	1 672 954	1.9	10.2	459 379	176.4	9 484	0.4	2 604
2003	1 682 071	0.5	15.0	506 784	179.0	9 398	- 0.9	2 831
2004	1 769 202	5.2	8.1	604 876	181.6	9 743	3.7	3 331

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.

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

Percentage

Itemization	2004			
	I	II	III	IV
GDP at market price	1.8	1.5	1.1	0.4
Crop and livestock sector	2.5	0.5	- 1.9	2.0
Industrial sector	1.4	1.2	2.7	0.5
Service sector	1.1	1.5	0.7	0.5

Source: IBGE

It is important to emphasize that, at the end of the first six months of the year, the activity level had already reached a record high, with obvious impacts on installed output capacity, particularly in those industrial sectors that operate on the foreign market. This was the first harbinger of the need for a more moderate pace of growth. As a result, GDP in the fourth quarter of the year turned in seasonally adjusted expansion of just 0.4%, when viewed against the previous quarter, with 2% in the crop/livestock sector and 0.5% in both industry and services.

Table 1.3 – GDP real change rates – Under the prism of production

Percentage			
Itemization	2002	2003	2004
GDP	1.9	0.5	5.2
Crop and livestock sector	5.5	4.5	5.3
Industrial sector	2.6	0.1	6.2
Mineral extraction	6.7	2.9	- 0.7
Manufacturing	3.6	1.1	7.7
Building	- 1.8	- 5.2	5.7
Public utility industrial services	3.0	2.7	5.0
Service sector	1.6	0.6	3.7
Commerce	- 0.2	- 1.9	7.9
Transportation	3.4	1.4	4.9
Communications	9.8	1.8	2.0
Public administration	1.7	1.0	1.6
Other services	1.1	0.5	5.6
Financial institutions	2.1	0.6	4.3
Rents	0.6	1.3	1.8
Financial dummy	2.3	0.6	4.4

Source: IBGE

A sector-by-sector analysis of 2004 GDP growth demonstrates that expansion in the year disseminated out into other areas of the economy. The crop/livestock sector, which has been powered by exports in recent years, turned in 5.3% growth in the year, reflecting continued expansion in livestock output and positive grain harvest figures, particularly under rice, coffee and soybeans. One should stress here that 2004 marked the seventh consecutive year of positive expansion in the sector, with total output growth of 37.6% in the period. The increased profitability of the farm sector in recent years has clearly broadened the sectors self-financing capacity, while fostering greater investments, primarily in machines and equipment.

The industrial sector expanded 6.2% in 2004, reflecting positive performances in all of the various subsectors, with the sole exception of mining. Manufacturing grew 7.7% in

the year. For the most part, this expansion was caused by an increased credit supply which leveraged growth in the output of consumer durables for the internal market, coupled with continued strong growth in exports of manufactured products. Following three consecutive years of decline, the building industry registered strong 5.7% growth, partly as a result of increased investment outlays. The sector of public utility industrial services, composed basically of electricity generation, expanded 5%, clearly evincing the ongoing process of economic recovery. Mining output dropped 0.7% in 2004, with a falloff of the 0.9% in oil production, according to the National Petroleum Agency (ANP).

Output of the service sector increased 3.7% in 2004, with positive results in all of the different segments and particularly strong performances in the subsectors of commerce, 7.9%, and transportation, 4.9%. The segments of other services and financial institutions also registered high levels of growth, with 5.6% and 4.3%, in that order. The subsectors of communications, rentals and public administration expanded by respective rates of 2%, 1.8% and 1.6%.

Viewed under the prism of demand, GDP results in the year were a clear demonstration of internal market recovery. Analyzed in real terms, household consumption and investments, excluding inventory alterations, turned in growth of 4.3% and 10.9%, respectively, reflecting an increased credit supply and positive expectations regarding the economy over the course of the entire year, among other factors. Foreign sales increased 18% in the year, further intensifying the ongoing process of expansion that began in 1997, while imports closed with 14.3%, the highest level of the last seven years. Growth in government consumption reached 0.7% in 2004.

Table 1.4 – GDP real change rates – Under the prism of expenditure

Percentage			
Itemization	2002	2003	2004
GDP	1.9	0.5	5.2
Family consumption	- 0.4	- 1.5	4.3
Government consumption	1.4	1.3	0.7
Gross fixed capital formation	- 4.2	- 5.1	10.9
Exports of goods and services	7.9	9.0	18.0
Imports of goods and services	- 12.3	- 1.7	14.3

Source: IBGE

Table 1.5 – Gross Domestic Product – At current value

In R\$ million

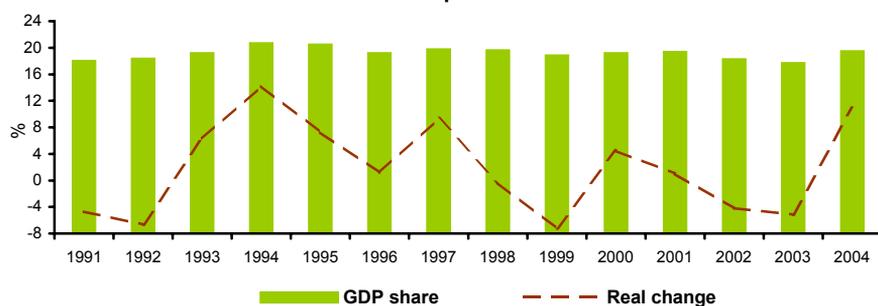
Itemization	2001	2002	2003	2004
Gross Domestic Product	1 198 736	1 346 028	1 556 182	1 769 202
Under the prism of product				
Crop and livestock sector	89 287	104 908	138 191	159 749
Industrial sector	401 174	459 306	540 890	615 988
Service sector	627 960	710 263	791 184	881 623
Under the prism of expenditure				
Final consumption expenditure	956 501	1 052 139	1 192 613	1 310 323
Family consumption	725 760	781 174	882 983	977 991
Government consumption	230 741	270 965	309 631	332 332
Gross capital formation	254 137	265 953	307 491	376 408
Gross fixed capital formation	233 384	246 606	276 741	346 258
Changes in inventories	20 753	19 348	30 750	30 151
Exports of goods and services	158 501	208 489	254 832	318 387
Imports of goods and services (-)	170 403	180 554	198 754	235 917

Source: IBGE

Investments

Continuing the upturn that marked the end of 2003, investments expanded sharply in 2004. According to the Quarterly National Accounts, released by IBGE, gross fixed capital formation, which is defined as investment outlays excluding inventory variations, expanded 10.9% in real terms in 2004. Following two consecutive years of sharp negative rates, this was the best result since 1994. The participation of investments in GDP moved from 17.8% in 2003 to 19.6% in 2004.

Graph 1.1
Gross fixed capital formation



Source: IBGE

Table 1.6 – 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	56.4	28.4	5.2	10.0	17.8	19.8
2004	19.6	21.3

Source: IBGE

Table 1.7 – Selected capital goods production

Itemization	Percentage change		
	2002	2003	2004
Capital goods	- 5.8	2.2	19.7
Industrial	6.5	4.7	16.1
Serial	4.0	6.7	20.2
Non-serial	...	- 4.8	- 6.6
Agricultural	10.7	21.9	6.4
Agricultural parts	...	28.6	- 7.5
Building	7.6	- 7.6	38.0
Electric energy	...	10.0	12.5
Transportation	9.1	7.4	25.6
Mixed	- 12.5	- 3.5	14.8

Source: IBGE

Based on data purged of seasonal factors, production of inputs for the building industry expanded 5.7% in 2004, registering the best results in the second and third quarters of the year, 2.5% and 3.8%, respectively, compared to the immediately previous quarters.

Output of capital goods expanded 19.7% in 2004. Over the course of the year, seasonally adjusted data indicate steady though declining growth rates in the second, third and fourth quarters of the year, with 6.5%, 1.2% and 0.6%, respectively, compared to the previous quarters. In the first quarter of the year, this heading registered a downturn of 1.2%, using the same basis of comparison. A breakdown of data on capital goods output in 2004 shows positive expansion under goods for the building industry, 38%; transportation equipment, 25.6%; machines and equipment for the industrial sector, 16.1%; electricity supply equipment, 12.5%; and farm machinery and equipment, 6.4%. Output of parts for farm equipment was unable to keep pace with the positive performance under crop/livestock production, registering a decline of 7.5% in the year, following strong 28.6% growth in 2003.

Disbursements by the BNDES System – National Bank of Economic and Social Development (BNDES), the Special Industrial Financing Agency (Finame) and BNDES Participações S.A. (BNDESpar) – totaled R\$39.8 billion in 2004, registering real growth of 8.6% compared to 2003, deflated by average growth in the General Price Index – Internal Supply (IGP-DI), which is released by the Getulio Vargas Foundation (FGV). A breakdown at the level of activity shows real growth of 37.9% under resources channeled to the crop/livestock sector and 21.9% in the funding targeted to the sector of commerce and services, together with a 10.9% reduction under financing channeled to the manufacturing sector.

The Long-Term Interest Rate (TJLP), which represents the basic cost of financing contracted with the BNDES system, was cut to 10% per year in the first quarter of 2004 and to 9.75% per year in the subsequent quarter, where it remained during the final two quarters of the year.

Table 1.8 – BNDES disbursement^{1/}

In R\$ million

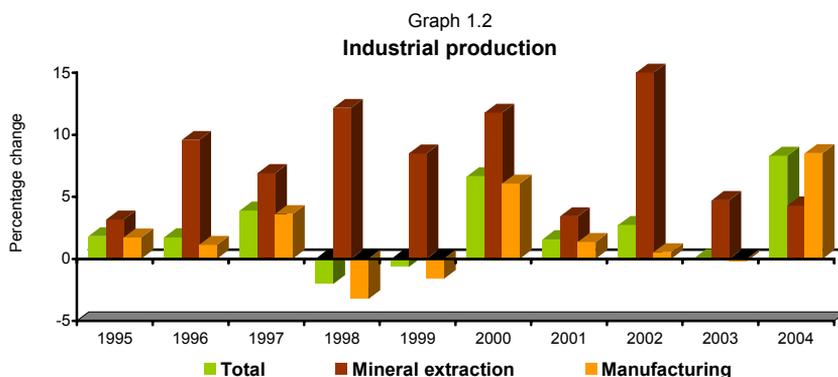
Itemization	2002	2003	2004
Total	37 419	33 534	39 834
By sector			
Manufacturing industry	17 178	15 937	15 539
Commerce and service	15 482	12 844	17 122
Crop and livestock	4 509	4 595	6 930
Extraction industry	250	157	243

Source: BNDES

^{1/} Includes BNDES, Finame and BNDESpar.

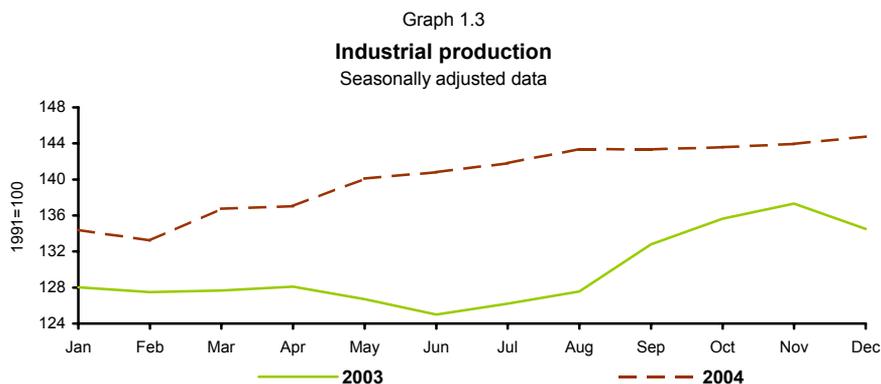
Industrial output indicators

According to IBGE's Monthly Industrial Survey (PIM), industrial output set a new record, with growth of 8.3% in 2004, compared to 2003. This figure surpassed such previous outstanding annual performances as those achieved in 1993, 7.5%, and 1994, 7.6%, and was the highest growth figure registered since 1986, when the sector expanded by 10.9%. Industrial growth in 2004 was generated by 8.5% expansion in the manufacturing sector and 4.3% in the mining industry.



Source: IBGE

The performance of industry was not uniform throughout the year. Based on seasonally adjusted data, the first quarter of the year was marked by a decline of 0.6%, compared to the final quarter of the previous year. This performance was, to some extent, caused by a natural falloff in capital goods investments, in the wake of the strong growth registered in the second half of 2003. Industrial output in the second and third quarters turned sharply upward once again, 3.3% and 2.4% compared to the previous quarters, respectively. In the fourth quarter, production expanded 0.7% using the same basis of comparison.



Source: IBGE

Analysis of industrial activity broken down according to the use categories of the final products reveals the factors that had the greatest impact on performance over the course of 2004. Output of consumer durables increased 21.8% in the year, second only to the 1993 result, and was driven by the automotive and electric-electronic segments. These sectors were the first to reveal signs of recovery in internal demand in the second half of 2003, driven mainly by growth in the credit supply and the continued dynamics of the export sector.

Table 1.9 – Industrial production

Itemization	Percentage change		
	2002	2003	2004
Total	2.7	0.1	8.3
By category of use			
Capital goods	- 5.8	2.2	19.7
Intermediate goods	4.2	2.0	7.4
Consumer goods	1.5	- 2.7	7.3
Durable	4.7	3.0	21.8
Semi and nondurable	1.1	- 3.9	4.0

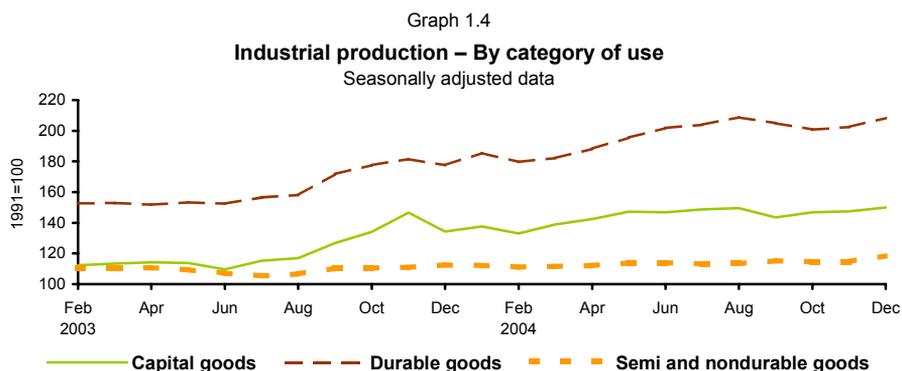
Source: IBGE

Expanding credit generated increased confidence among economic agents, enhancing their likelihood of assuming commitments in the future. Aside from this, more intensive use of payroll loans and declining default rates, among other factors, tended to push interest rates on operations with individual borrowers downward. By way of example, average annual interest rates levied on individuals in operations involving acquisitions of goods (vehicles and others) dropped from 48.7% in 2003 to 39.3% in 2004. Exports of consumer durables were driven by an expanding world economy and gains in the productivity of the Brazilian industrial sector. Export volume in this category expanded 30.4% in 2004, according to data released by the Foreign Trade Studies Center Foundation (Funcex).

Capital goods output registered strong 19.7% expansion in 2004. This was the highest rate since 1986 and was sustained primarily by growth in investments in the economy. This sector also benefited from the increased credit supply, including both non earmarked and earmarked resources, particularly operations channeled through the BNDES, as well as from growth in exports which, according to Funcex data, registered volume growth of 71.1% compared to 2003.

Growth in the output of nondurable consumer goods closed at 4% in 2004, the highest mark since 1995. This result was in keeping with the expectations of the sector, since

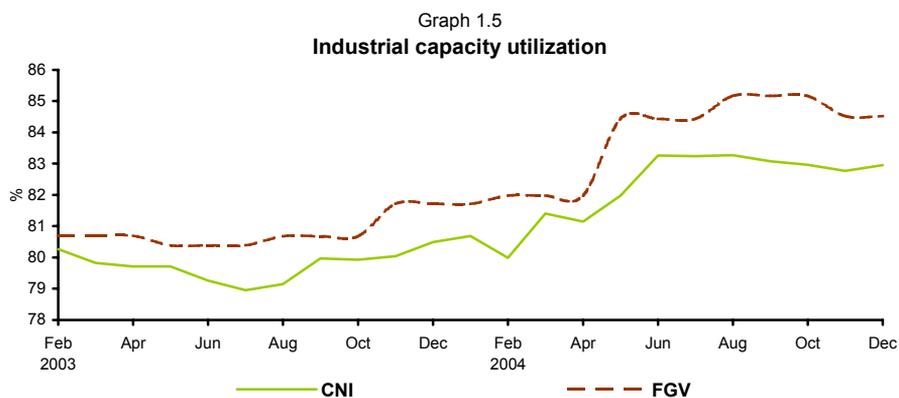
the major factor underlying this growth is the evolution of income and, more specifically overall wages. According to the National Confederation of Industry (CNI), overall wages expanded 9% in real terms in 2004, when compared to the previous year.



An analysis of output by segments of activity showed across-the-board expansion in 25 of the 26 segments of the manufacturing sector used in the PIM survey. Of these, ten turned in growth above 10%.

According to seasonally adjusted data released by the CNI, the vigorous pace of industrial expansion generated a new record in the level of utilization of installed industrial capacity in June 2004. From that point forward, this indicator moved gradually downward, primarily as a consequence of the maturation of investments made as of the third quarter of 2003. This is evident in the fact that industrial output continued expanding in the second half of the year, albeit at a less accentuated pace.

Statistics released by the FGV on the various use categories in 2004 indicate that the level of utilization of installed industrial capacity registered its highest growth in the segment of capital goods and construction industry inputs, with average growth figures of 7.4 p.p. and 4.3 p.p., respectively, as compared to 2003. Consumer goods and



intermediate goods registered average annual growth of 2.2 p.p. and 1.7 p.p., in that order. Despite lesser growth in the period, the category of intermediate goods closed with the highest level of utilization of installed industrial capacity at the end of the year, 87.8%, with exceptionally high levels in the segments of rubber, 96.2%; metallurgy, 93.1%; paper and cardboard, 91.5%; and mechanics, 90.1%.

Table 1.10 – Industrial capacity utilization^{1/}

Itemization	2002	2003	2004
Manufacturing industry	79.4	80.9	84.0
Consumer goods	74.9	76.3	78.5
Capital goods	70.6	73.9	81.4
Building material	80.8	79.1	83.5
Intermediate goods	85.4	86.1	87.8

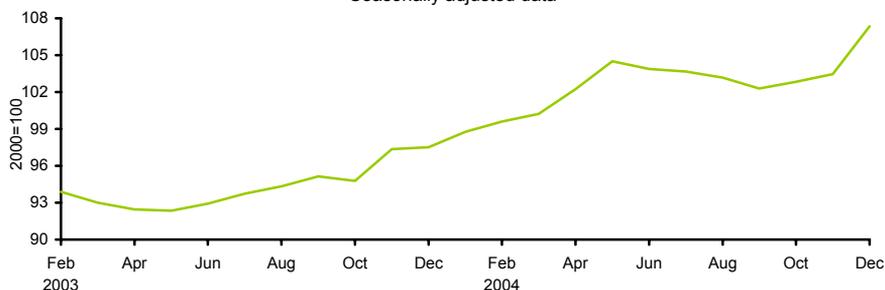
Source: FGV

^{1/} Quarterly survey. Average in the year.

Trade indicators

According to the Monthly Survey of Trade (PMC), released by the IBGE, the Retail Sales Volume Index registered a high of 9.2% in 2004, the highest rate of annual growth since the survey was first taken. All of the various segments turned in positive growth, including durable and semidurable consumer goods, which are more sensitive to credit conditions, and nondurable consumer goods, a segment that depends more intensively on income growth. Sales in all of the different areas of activity increased in 2004 and were particularly strong under furniture and home appliances, 26.4%; hypermarkets and supermarkets, 7.2%; fabrics, apparel and footwear, 4.9%; and fuels and lubricants, 4.6%. Sales of automobiles, motorcycles, parts and spares, which are not included in the general index, increased 17.8% in 2004.

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



Source: IBGE

Analysis of the 27 states included in the survey shows that only Roraima registered declining sales in 2004, 8.7%. The strongest growth occurred in Mato Grosso, 22.4%, Rondônia, 22.2%, Amazonas, 18.3%, Espírito Santo, 16.2%, and Maranhão, 15.4%.

Nominal Sales Revenues expanded 13% in 2004. This result was generated by a combination of increases of 9.2% in sales volume and 3.4% in retail prices. It should be stressed that, compared to 2003, average prices in 2004 increased 6.6% according to IPCA results released by the IBGE. This index includes not only the retail sector but also the prices of services. In the period under consideration, all segments of the retail trade sector registered nominal revenue growth above the average IPCA, with the exception of fuels and lubricants, which are subject to regulated prices. Special mention should be made of growth in nominal revenues on furniture and home appliances, 29.9%, and automobiles and motorcycles, 30.6%, both of which were impacted by the rise in the prices of metallurgical products.

Other indicators confirmed the excellent performance of consumption in 2004. According to the São Paulo Trade Association (ACSP), the number of consultations with the Credit Protection Service (SPC) and the Usecheque system increased 6% and 2.2%, respectively, when viewed against 2003.

Default indicators turned in downward growth in 2004. The ratio between the number of checks returned due to insufficient backing and total checks cleared in all parts of the country closed December at 4.8%, the lowest level of the year. In the São Paulo Metropolitan Region, the net rate of default measured by the ACSP closed 2004 at 4.2%, compared to 5.2% in 2003. To some extent, this reduction was a consequence of a 13.4% rise in the number of arrears settled, reflecting the fact that resources were being channeled into payments of debts. In December 2004, the number of arrears canceled surpassed the number of new occurrences, for the first time since December 1967.

Consumer expectation surveys showed positive results in 2004. The Consumer Confidence Index (ICC), released by the Trade Federation of the State of São Paulo (Fecomercio SP), closed the year at 13.5%, well above the 2003 average. This result reflected increases of 8.9% in the Consumer Expectation Index, which accounts for 60% of the general index, and 23.9% in the Index of Current Economic Conditions, which is responsible for the rest of the general index. It should be stressed that, on average, the ICC closed the final months of 2004 at the highest level since the index was first created in June 1994.

Crop/livestock output indicators

According to IBGE, national grain production totaled 119.1 million tons in 2004, 3.7% below the previous harvest. The area planted increased 7.5%, while average productivity

declined 11.8%. The major cause of this falloff was poor weather; particularly in the states of Goiás, Mato Grosso, Mato Grosso do Sul, Paraná and Rio Grande do Sul. The hardest hit crops were soybeans, corn, beans and wheat. Aside from the negative impact of the climatic adversities, producers also had to cope with rising production costs as a consequence of higher prices for petroleum-based inputs, particularly fertilizers. Despite these factors, however, the rice, cotton seed and coffee harvests turned in significant output growth.

Graph 1.7
Consumer Confidence Index (ICC)



Source: Fecomercio SP

Table 1.11 – Agricultural production – Major crops

Products	2003	2004
Grain production	123.6	119.1
Cotton seed	1.5	2.3
Rice (in husk)	10.3	13.3
Beans	3.3	3.0
Corn	48.0	41.9
Soybeans	51.5	49.2
Wheat	6.0	5.8
Others	3.1	3.6
Change in grain production (%)	27.2	- 3.7
Other crops		
Bananas	6.5	6.5
White potatoes	3.1	2.9
Cocoa (beans)	0.2	0.2
Coffee (manufactured)	2.0	2.5
Sugarcane	389.9	409.6
Tobacco (in leaf)	0.6	0.9
Oranges	16.9	18.3
Cassava	22.2	26.1
Tomatoes	3.6	3.4

Source: IBGE

Grain production in the southern region of the country declined 17.4% in 2004 and was responsible for 41% of the nation's total production. In the other regions of the country,

the grain harvest expanded by 8.1% in the southeast and 6.1% in the central-west region. The north and northeast regions of the country accounted for a joint total of 10.8% of annual grain production, with growth between 21.2% and 19.8%, respectively.

The soybean crop totaled 49.2 million tons in 2004 corresponding to a drop of 5.2% compared to the previous year. The area planted increased 15.9% and average productivity declined 18.2%, mainly as a consequence of the drought that affected the southern region and the state of Mato Grosso do Sul and the heavy rains and occurrences of Asian rust in the states of Goiás and Mato Grosso, the major production state.

Corn output dropped 13.4% in the year and closed at 41.9 million tons. This result reflected drought in the states of Paraná, the leading producer state, and Rio Grande do Sul, among other producer regions. Furthermore, it is important to mention the migration of producers from corn to other crops with greater profit potential, such as soybeans, the increased cost of imports and lower international prices.

The wheat harvest totaled 5.8 million tons in 2004, representing a decline of 5.5% compared to the previous year. Average productivity dropped 13.5% and the area under cultivation increased 9.3%.

Output of rice totaled 13.3 million tons, for an annual increase of 28.3% in volume. The area under cultivation expanded 17.3% and average productivity rose 9.4%, primarily as a result of favorable climatic conditions and improved crop technology. The harvests in the southern and central-west regions accounted for a joint total of 77.8% of national production. It should be stressed that output in the states of Rio Grande do Sul and Mato Grosso set new records, with respective totals of 6.3 million tons and 2.2 million tons, corresponding to growth of 34.9% in the first case and 73.4% in the second.

Production of beans totaled 3 million tons, a decrease of 9.8% compared to the 2003 harvest. For the most part, this result was caused by relatively low prices and adverse weather conditions, particularly in the second of the three bean harvests. The area planted diminished 1.9%.

In 2004, the national coffee crop produced 2.5 million tons of coffee beans, an increase of 24.1% over the preceding year. One of the factors underlying this performance was the high point in the two year cycle of this crop. Consequently, despite a reduction of 0.5% in the area under cultivation, average productivity increased 24.7%.

Sugar cane output in the year totaled 409.6 million tons for growth of 5.1% in the year. Among the factors that contributed to this result, one should emphasize the increase in international sugar prices and expanded international demand for alcohol. The area under cultivation expanded 4.1% and average yields were up 0.9%.

With regard to transition stocks, the quantities of rice and beans increased at the end of 2004, compared to the previous year. This evolution favored internal supply of these products since they generated evident repercussions on the behavior of price indices.

Table 1.12 – Agricultural production, harvested area and average earnings – Major crops

Percentage change						
Products	Production		Area		Average earnings	
	2003	2004	2003	2004	2003	2004
Grain production	27.2	- 3.7	8.5	7.5	17.3	- 10.4
Cotton (seed)	1.4	64.4	- 8.2	- 2.5	10.4	68.6
Rice (in husk)	- 1.2	28.3	1.1	17.3	- 2.3	9.4
Beans	7.8	- 9.8	- 1.2	- 1.9	9.1	- 8.0
Corn	34.5	- 13.4	10.3	- 4.3	21.9	- 9.4
Soybeans	23.3	- 5.2	13.2	15.9	8.9	- 18.2
Wheat	98.1	- 5.5	21.6	9.3	62.9	- 13.5

Source: IBGE

Livestock

According to the Quarterly Survey of Animal Slaughters, released by the IBGE, 2004 production came to 5.9 million tons of beef, 7.1 million tons of poultry and 1.9 million tons

Table 1.13 – Grain stock – Major crops

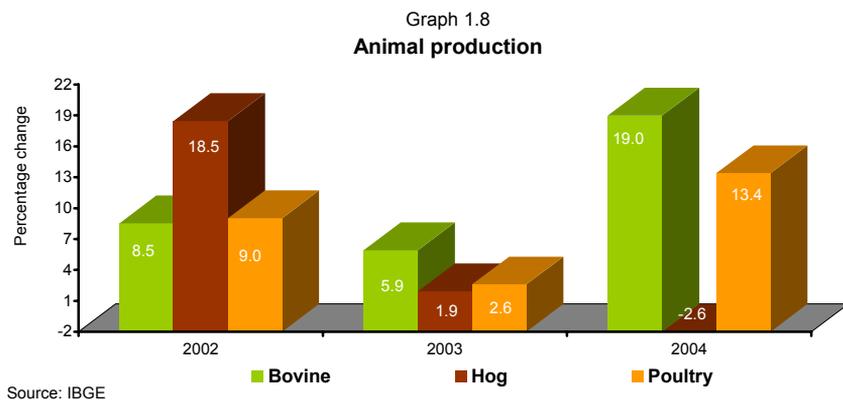
Thousands of tons			
Products	2001/2002	2002/2003	2003/2004
Grain production			
Rice (in husk)			
Beginning of the year	1 321.7	663.2	358.4
End of the year	663.2	358.4	1 576.6
Beans			
Beginning of the year	89.9	139.0	414.5
End of the year	139.0	414.5	434.5
Corn			
Beginning of the year	4 322.9	1 047.0	6 595.2
End of the year	1 047.0	6 595.2	4 916.7
Soybeans			
Beginning of the year	688.2	230.3	3 076.5
End of the year	230.3	3 076.5	2 297.2
Wheat			
Beginning of the year	716.5	770.5	593.9
End of the year	770.5	593.9	626.3

Source: Companhia Nacional de Abastecimento (Conab)

of pork, for growth of 19% and 13.4%, in the first two cases, and a drop of 2.6% in the third, when viewed against 2003. Exports of beef, poultry and pork came to an overall total of 925.1 thousand tons, 2.4 million tons and 471,000 tons in 2004, for respective rates of growth equivalent to 49.2%, 26.1% and 2.8% compared to 2003.

Farm policy

According to the 2004/2005 Agriculture and Livestock Plan (PAP), released by the Ministry of Agriculture, Livestock and Supply (Mapa), the availability of credit for the 2004/2005 harvest came to R\$39.5 billion, of which R\$28.8 billion were targeted to current expenditures and marketing operations and R\$10.7 billion to investments, representing growth of 45.5% in relation to the resources released in the previous harvest year. At the same time, the National Program for Strengthening Family Farming (Pronaf), which is managed by the Ministry of Agrarian Development (MDA), made an additional R\$7 billion available corresponding to 30% more than in the previous year.



In the framework of the Mapa-BNDES investment program, R\$3.5 billion were targeted to the Farm Tractor and Associated Implements and Harvester Fleet Modernization Program (Moderfrota); R\$600 million to the Agricultural Modernization and Natural Resources Conservation Program (Moderagro); R\$700 million to the Irrigation and Storage Incentive Program (Moderinfra); R\$550 million to the Agricultural Production Value Added Cooperative Development Program (Prodecoop), which targets resources into investments by farm cooperatives; and R\$600 million into the Agribusiness Development Program (Prodeagro).

Among the measures taken to expand credit to the farm sector, special mention should be made of the 10% increase in the share of compulsory investments in rural credit on the part of Banco do Brasil. At the same time, regulations were issued on funding for rural savings accounts to be used in credit operations with the sector by cooperative

banks – Banco Cooperativo do Brasil S.A. (Bancoob) and Banco Cooperativo Sicredi (Bansicredi). Furthermore, improvements were introduced into some of the new funding instruments used to obtain internal and external savings, such as the Certificate of Agribusiness Receivables (CRA), the Crop/Livestock Deposit Certificates (CDA) and the Crop/Livestock Warrant.

With respect to the traditional marketing and income guarantee support instruments, the following were maintained: Federal Government Acquisitions (AGF), the Special Marketing Credit Line (LEC), Sale Option Contracts, repurchase or transfer of these contracts, the premium and product outflow value (respectively, PEP and VEP), the Rural Producer Bill (CPR), as well as operations with Promissory Notes (NP) and Rural Invoices (DR). With respect to Federal Government Loans (EGF), the demand for a lien on the merchandise financed in the operation without substitution of guarantees was instituted.

Productivity

In the primary and secondary sectors of the economy, productivity indicators turned in similar results in 2004. Understood as the ratio between the physical production index of the sector, as released by the IBGE and the indicator of hours paid in production, calculated by the CNI, industrial productivity increased 2.2%, against a reduction of 0.5% in the previous year. In regional terms, three of the ten states surveyed registered declines with 3.6% in Espírito Santo, 1.5% in Minas Gerais and 0.4% in Rio Grande do Sul. The strongest growth occurred in Paraná, with 10.5%; Bahia, 10.2%, and Santa Catarina, 4.7%. In São Paulo, industrial productivity expanded 3.7%, while Rio de Janeiro registered 1.7%.

Calculated as the ratio between output and area under cultivation, the average yield of the grain sector closed with a reduction of 10.4%, compared with an increase of 17.3% in 2003. Basically, this reduction was a consequence of adverse climatic conditions in 2004. Fertilizer utilization remained practically stable during the year, thus interrupting a growth trajectory that had marked recent years. In this case, the final result was a drop of 0.1% in physical sales of fertilizers, according to the National Association of Fertilizer Dissemination (Anda). Sales of farm machines and equipment expanded 13.9%, according to data released by the National Association of Automotive Vehicles (Anfavea).

Energy

Oil production, including Liquefied Natural Gas (LNG), declined 0.9% in 2004, according to the ANP, thus reversing a growth tendency dating back to 1992. Production closed the year at 1,539 thousand barrels/day, as against 1,553 thousand barrels/day in 2003.

The largest monthly total was registered in September with a daily average of 1,587 thousand barrels, while the lowest occurred in May, with 1,482 thousand barrels. The decline in annual output was explained by programmed stoppages for maintenance purposes at several drilling platforms. Natural gas output expanded 7.2% in 2004, closing at 292 thousand barrels/day.

Total oil processed at the nation's refineries increased 6.7% in 2004, coming to 1,705 thousand barrels/day, reflecting a reduction of 4 p.p. in the participation of national petroleum, to 75%. Oil imports increased 27.6% in the year, closing at 437.3 thousand barrels/day. Exports diminished 4.5%, closing at 229.6 thousand barrels/day, which was compatible with the falloff in national production in the period.

Internal sales of petroleum derivatives expanded 3.5% in 2004, with increases in all of the various consumption segments, with the sole exception of fuel oil, which dropped 13.4%. The strongest growth occurred under diesel oil, 6.3%; gasoline, 4.7%, and liquid petroleum gas (LPG), 2.3%. Overall consumption of alcohol increased 17.2% with growth of 7.4% in sales of anhydrous alcohol, which is mixed into the gasoline supply, and 33.5% in sales of hydrated alcohol.

Table 1.14 – Apparent consumption of oil derivatives and fuel alcohol

Daily average (1,000 b/d)

Itemization	2002	2003	2004
Petroleum	1 363	1 290	1 336
Fuel oil	132	107	93
Gasoline	296	281	294
Diesel oil	652	632	672
Liquid gas	209	196	201
Other derivatives	74	73	75
Fuel alcohol	159	147	172
Anhydrous	93	91	98
Hydrated	65	55	74

Source: ANP

According to Centrais Elétricas Brasileiras (Eletrobrás), national electricity consumption expanded 4.5% in 2004. With growth of 7.2% in the industrial segment; 4.5% under commerce and 3% in residential consumption. The consumption of other segments not cited here, including public lighting, dropped 1.1% in the same period.

Employment indicators

As the pace of economic activity expanded, job market indicators turned in highly positive results in 2004. In this context, despite higher growth in the overall labor force

than in recent years, unemployment dropped as a consequence of increased hirings. Growth in employment levels in 2004 occurred in every month of the year and involved all of the various sectors of the economy.

The average rate of open unemployment in 2004 came to 11.5%, as against 12.3% in 2003, according to data included in the Monthly Employment Survey (PME), calculated by the IBGE in six metropolitan regions (São Paulo, Rio de Janeiro, Belo Horizonte, Salvador, Recife and Porto Alegre). Compared to 2003, the reduction in unemployment was more accentuated in the second half of the year, with an average rate of 10.7%, against 12.5% in the corresponding period of 2003. The reduction in unemployment in 2004 reflected increases of 3.2% in the number of persons employed and 2.2% in the overall labor force. The decrease in the number of persons unemployed corresponded to 5%.

Table 1.15 – Electric energy consumption^{1/}

GWh			
Itemization	2002	2003	2004
Total	289 868	306 987	320 772
By sectors			
Commercial	45 256	47 531	49 686
Residential	72 660	76 162	78 470
Industrial	127 626	136 221	146 065
Other	44 326	47 073	46 551

Source: Eletrobrás

^{1/} Self-producers not included.

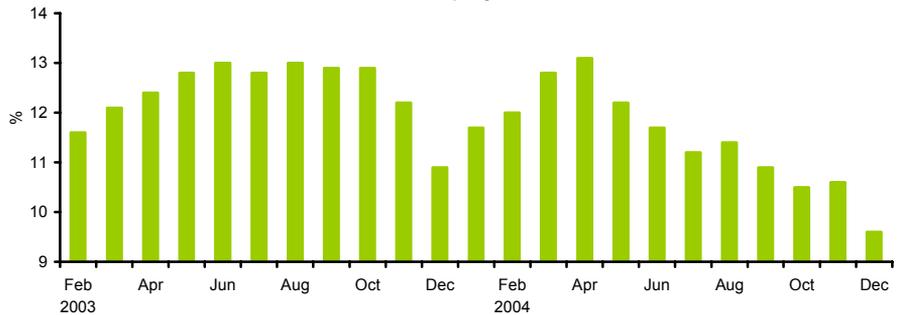
A breakdown by categories shows growth in both formal and informal employment. According to the PME, the greater availability of employment opportunities in 2004 occurred in the segment of nonregistered workers, with an increase of 6.1%. Using the same basis of comparison, the number of registered workers increased 1.9% and the self-employed rose 4.9%, while the number of employers diminished 1.3%.

An evaluation at the level of metropolitan regions points to a reduction in the average rate of unemployment in the entire region's surveyed. In absolute terms, the sharpest drop, 1.4 p.p., occurred in the metropolitan region of São Paulo, and the lowest, 0.2 p.p., in the metropolitan region of Rio de Janeiro.

Looking at the country as a whole, formal employment registered strong growth in 2004. According to the Ministry of Labor and Employment (MTE), 1,523 thousand jobs were created in the formal sector of the economy, the highest rate of growth in a single year. A sector-by-sector analysis indicates that the manufacturing sector generated the most jobs, with 505 thousand, followed by the different service sectors, with 470 thousand, and commerce, 404 thousand. None of the various segments registered a reduction in

the number of jobs. It should be stressed that employment in the building industry expanded by 51 thousand positions, turning in the first positive results since 1997.

Graph 1.9
Median unemployment rate



Source: IBGE

Based on MTE figures, the number of persons requesting unemployment insurance in 2004 dropped 3.2% compared to 2003, closing with 4.8 million requests, of which 4.8 million were granted.

According to the Employment and Unemployment Survey (PED) carried out by the State Data Analysis System Foundation (Seade), together with the Interunion Department of Statistics and Social Economic Studies (Dieese), the average rate of overall unemployment in the São Paulo metropolitan region came to 18.8% in 2004, compared to 19.9% in the previous year. The number of persons employed expanded from 7,817 thousand in 2003 to 8,066 thousand, while the number of those unemployed dropped from 1,940 thousand to 1,868 thousand individuals.

In the industrial sector, the employment level calculated in twelve states by the CNI increased 3.5% in 2004, following an increase of 0.7% in 2003. In regional terms, the number of persons employed declined only in Rio de Janeiro, 1.7%. In the other states surveyed, growth in employment levels occurred in the industrial sector, particularly in Goiás, 12.2%; Amazonas, 8.5%; and Pernambuco, 6.7%.

Graph 1.10
Level of formal employment
Percentage change in 12 months

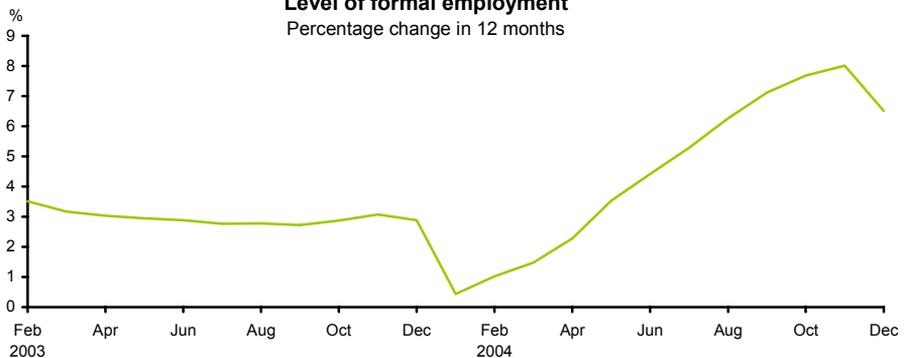


Table 1.16 – Formal employment – New jobs openings

1,000 employees			
Itemization	2002	2003	2004
Total	762.4	645.4	1 523.3
By sectors			
Manufacturing industry	161.2	128.8	504.9
Commerce	283.3	225.9	403.9
Services	285.8	260.3	470.1
Building	- 29.4	- 48.2	50.8
Crop and livestock	103.6	58.2	79.3
Public utilities	5.3	3.1	4.6
Others ^{1/}	- 47.3	17.3	9.7

Source: Eletrobrás

1/ Includes mineral extraction, public administration and others.

Wage and income indicators

According to the PME, the nominal average income habitually received¹ by worker families expanded 5.2% in 2004. Using the National Consumer Price Index (INPC) as deflator, real average habitual income dropped 0.7% using the same basis of comparison. Here, it is important to note that the average for the fourth quarter of 2004 was 2.4% greater than in the corresponding period of 2003.

The average value of the nominal initial wage in the formal employment sector increased 9.8% in 2004, closing at R\$496.96, according to national statistics released by the MTE. In real terms, this wage item increased 3.3% in the year, using the INPC as deflator.

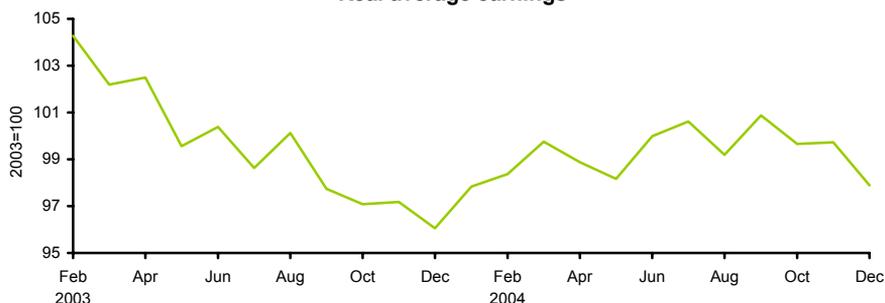
In the São Paulo metropolitan region, real average earnings expanded 1.9% in 2004, according to figures released by Seade and Dieese and deflated by the Cost of Living Index (ICV), calculated by Dieese. Overall real earnings increased 5.1%.

In the industrial segment, the CNI survey showed growth of 9% in real overall wages in 2004 with increases in all of the states. The sharpest growth was registered in Bahia, 13.1%; Goiás, 12.6%; and Santa Catarina, 12.6%. Average industrial wages understood as the ratio between real overall wages and employment in the sector, expanded 5.3% in 2004.

The minimum wage was raised from R\$240.00 to R\$260.00 in April 2004. The increase corresponded to 8.33%, which was higher than inflation measured from April 2003 to March 2004, 6.6% according to the INPC.

1/ Earnings with overhaours, delayed payments, vacations are not included in the calculations of habitual earnings.

Graph 1.11
Real average earnings



Source: IBGE

Table 1.17 – Average earnings of occupied people – 2004

Percentage change

Itemization	Nominal	Real ^{1/}
Total	5.2	- 0.7
Job position		
Registered	6.2	0.3
Unregistered	5.6	- 0.2
Self-employed	5.7	- 0.2
By sector		
Private sector	5.7	- 0.2
Public sector	3.9	- 1.9

Source: IBGE

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

Price indicators

Inflation in 2004 reflected the success of the monetary policy measures adopted during the year with the aim of avoiding the possibility of localized price increases disseminating into other segments of the economy, in a context of expanding internal demand. In this context, which benefited from deceleration under both market and regulated prices, inflation closed at a level below 2003. In the year, the IPCA, which is calculated by the IBGE, closed at 7.6%, well within the upper and lower parameters defined for inflation in 2004 by the CMN.

The factors that resulted in lesser growth in market prices in 2004 were, among others, an abundant supply of farm products and exchange appreciation. In the first case, the decline in the prices of such goods as rice, perishable foodstuffs and soybean oil exerted a strong downward influence on the overall prices of the grouping of food products. The impact

of exchange appreciation is clear in more accentuated deceleration in the prices of internationally tradeable goods *vis-à-vis* nontradeable goods.

The evolution of exchange and the deceleration registered under price indices were also caused by a lesser high under regulated prices – particularly fixed telephone services and electricity rates – despite the powerful impact of rising international oil prices on internal fuel prices during the entire year.

General price indices

The IGP-DI, calculated by the FGV, increased 12.1% in 2004. This index aggregates the changes in prices measured by the Wholesale Price Index – Internal Supply (IPA-DI), by the Consumer Price Index – Brazil (IPC-Br) and by the National Cost of Construction Index (INCC), with respective weights of 60%, 30% and 10%. This rate was higher than the other indices and reflected more accentuated expansion in wholesale prices, particularly in the industrial sector. The major factors underlying the latter growth were increases in international commodity prices during the entire year or, more specifically, in the prices of petroleum derivatives and metallic goods. Thus, the IPA-DI rose 14.7% in the year, reflecting expansion of 2.7% in the prices of farm products and 19.5% in those of industrial products. The IPC-Br rose 6.3% and the INCC increased 11%, basically as a result of a 15.5% rise in the costs of materials and services.

Consumer Price Index

The IPCA, which reflects changes in the prices paid by families with monthly income between 1 and 40 times the minimum wage and is used as the parameter for the inflation targeting system, accumulated growth of 7.6% in 2004. This result was sharply lower than the 9.3% figure for the previous year. Regulated prices increased 10.2% in 2004, against 13.2% in the previous year and market prices increased 6.5%, compared to 7.8% using the same basis of comparison. Among market prices, those that exerted the greatest pressures were the prices of courses, with an increase of 11.2%; new automobiles, 13.7%; used cars, 12.4%; and meals away from home, with 9.3%. It should be stressed that the increase in the first item reflects the annual adjustment of these prices, based on inflation in the previous year. Vehicle prices were impacted mainly by higher prices for inputs, particularly iron and steel.

The INPC, which is calculated by the IBGE, posted cumulative growth of 6.1% in 2004. This indicator differs from the IPCA in that its target population covers families with monthly income between 1 and 8 times the minimum wage. Lesser growth in the INPC during the year, when compared to the IPCA, is explained by the lesser weight attributed

to the headings of transportation, education and communication, in the weighting structure of the index, since these were the headings that turned in the highest increases in the period under consideration. Aside from this, upward movement in food prices, the item of greatest weight in the INPC, closed at 2.94%, well below the growth registered in the general index.

The Consumer Price Index, calculated by the Institute of Economic Research Institute Foundation (IPC-Fipe), referring to families with earnings between 1 and 20 times the minimum wage in the metropolitan region of São Paulo, closed 2004 with inflation of 6.6%.

Regulated prices

In 2004, growth in regulated prices² closed at 10.2%, accounting for 39% of the change in the IPCA in the year or 2.94 p.p. The items that generated the greatest pressure on inflation in the period were gasoline, alcohol, health plans and fixed telephone, water and sewage and electricity rates, representing approximately 76% of the growth registered in regulated prices. More specifically, sharp price increases occurred under gasoline, 14.7%, and alcohol, 31.6%, compared to 1.2% and a falloff of 12.6% in 2003, in the same order.

Table 1.18 – IPCA items share in 2004

Percentage change

Groups	Weight ^{1/}	IPCA			Index share ^{2/}
		Accumulated change in 2003	Accumulated change in 2004	Accumulated share in 2004	
IPCA	100.0	9.3	7.6	7.6	100.0
Foodstuffs and beverages	23.1	7.5	3.9	0.9	11.8
Housing	16.6	12.3	7.1	1.2	15.5
Housing products	5.6	6.9	5.4	0.3	4.1
Apparel	5.2	10.2	10.0	0.5	6.8
Transportation	21.2	7.3	11.0	2.3	30.7
Health and personal care	10.5	10.0	6.9	0.7	9.5
Personal outlays	9.1	9.6	6.9	0.6	8.3
Education	4.8	10.2	10.4	0.5	6.4
Communication	3.8	18.7	13.9	0.5	6.8

Source: IBGE

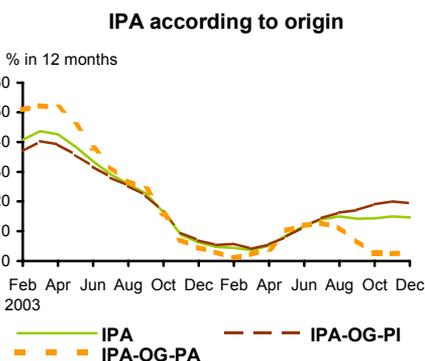
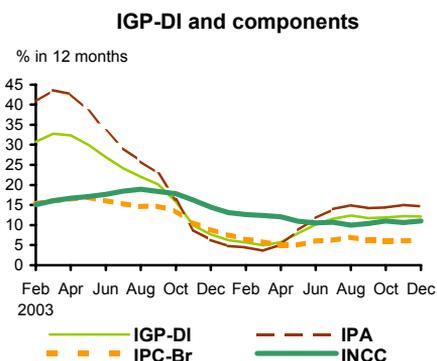
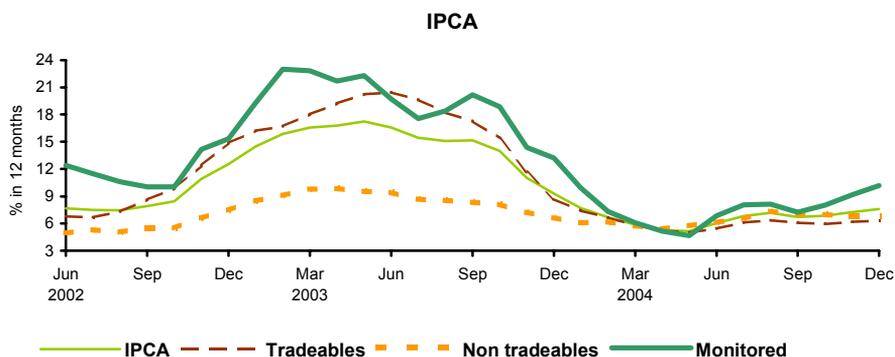
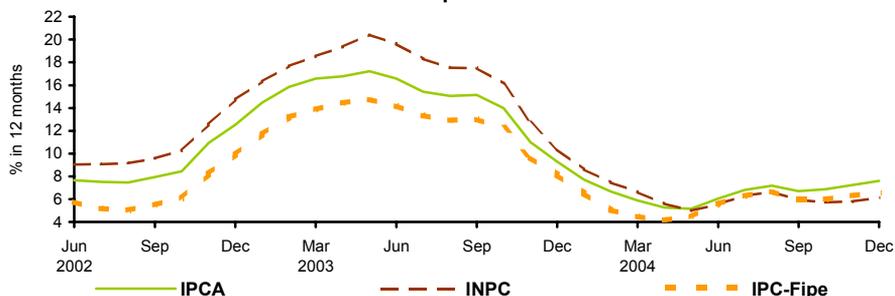
^{1/} Average weight in 2004.

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

^{2/} Regulated prices are those directly or indirectly defined by the federal, state or municipal governments. In some cases, readjustments are set through contracts between producers/suppliers and the corresponding regulating agencies as, for instance, in the cases of electric energy and fixed telephones.

With regard to fixed telephone rates, increases are authorized annually by the National Telecommunications Agency (Anatel), through application of the IGP-DI to overall services rendered. In 2004, aside from the annual increase, two other increases were introduced in September and November as a consequence of a judicial decision with the objective of compensating the previous year's increase, which had been based on the IPCA. The increase in rates in the year closed at an average of 14.8%.

Graph 1.12
Consumer price indices



Source: IBGE, Fipe and FGV

The average change in electricity rates came to 9.6% in 2004, ranging from -1.4% in Belém to 22.2% in Curitiba. These increases were granted according to the schedule elaborated by the National Electric Energy Agency (Aneel), which determines the date of the annual increase allowed to each one of the concession companies. The percentage authorized by the Agency is based on such manageable cost factors as purchased energy and transmission costs which, among other headings, reflect alterations in exchange rates.

Table 1.19 – Major items included in the IPCA during 2004

Itemization	IPCA			
	Weight ^{1/}	Accumulated change in 2003	Accumulated change in 2004	Accumulated share in 2004
Index (A)	100.0	9.3	7.6	7.6
Non-monitored prices	71.1	7.8	6.5	4.7
Monitored prices	28.9	13.2	10.2	2.9
Selected monitored items				
Urban transportation	5.0	20.9	4.7	0.2
Electric energy	4.7	21.4	9.6	0.4
Water and sewage fees	1.8	21.0	10.4	0.2
Real estate tax	1.1	13.7	9.6	0.1
Gasoline	4.0	1.2	14.7	0.6
Alcohol	0.9	- 12.6	31.6	0.3
Barreled cooking gas	1.7	2.9	7.1	0.1
Health care	2.5	8.7	10.5	0.3
Telephone	3.3	19.1	14.8	0.5
Total (B)	24.9			2.7
Share (B/A)				35.7

Source: IBGE

^{1/} Average weight in 2004.

Water and sewage rates increased 10.4% and the prices of health plans rose 10.5% in the year.

Cores

The IPCA core registered declining rates in the first three quarters of the year. In the final quarter, however, the core turned upward once again, primarily as a result of increases in the prices of clothing, new automobiles and cigarettes. This indicator, which excludes increases in regulated prices and food away from home, expanded 7.9% in 2004, as against 8.2% in the previous year.

Using the smoothed trimmed-means method, the core registered a high of 7.5% in the year, quite close to the IPCA result. However, the deceleration observed during the year was more accentuated than in the case of the IPCA, since these indices had increased 11.1% and 9.3% in 2003, respectively. This result for the core is obtained by eliminating the items with the highest and lowest rates of growth until elimination of those items responsible for 20% of the weight at each extremity. At that point, the result of those items in which increases are concentrated in just a few months of the year is distributed twelve months ahead (smoothing). Among these items, one should cite education, electricity and communications. Thus, the growth registered in 2003 also reflected the high 12.5% rate of inflation registered by the IPCA in 2002.

Application of the trimmed-means method without smoothing resulted in a core increase of 6.4% in 2004, compared to 8.3% in the previous year. Annual growth in 2004 reflected half-yearly rates of 3% and 3.3%, respectively, compared to 5.7% and 2.5% in 2003, indicating acceleration in the second half of the year.

The IPC-Br core, calculated through application of the trimmed-means method with smoothing of specific items, increased 5.9% in 2004, in contrast to 9.7% in 2003, according to data released by the FGV.

Table 1.20 – Consumer prices and core inflation in 2004

Percentage change				
Itemization	2003	2004		
		1 H	2 H	In the year
IPCA	9.3	3.5	4.0	7.6
Exclusion	8.2	4.5	3.3	7.9
Trimmed means				
Smoothed	11.1	3.8	3.6	7.5
Non smoothed	8.3	3.0	3.3	6.4
IPC-Br	8.9	3.7	2.5	6.3
Core IPC-Br	9.7	3.3	2.5	5.9

Source: IBGE and FGV