

ECONOMIC BULLETIN



PLANNING DEPARTMENT – AP

No. 137 – JULY 2004

<http://www.bndes.gov.br/english/publication.asp/> • e-mail: sinopseeconomica@bndes.gov.br

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Edition closed on: **07/01/2004**

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Macroeconomic Forecasts - Summary Table								
Macroeconomic Variables	Achieved				Financial Market Forecasts		Actual Forecast Compared to Previous	
	2000	2001	2002	2003	2004	2005	2004	2005
GDP (var %)								
Total	4.4	1.3	1.9	-0.2	3.52	3.35	⊙	TM
Agriculture	2.2	5.8	5.5	5.0	5.10	5.05	⊙	⊙
Industry	4.8	-0.5	2.6	-1.0	4.40	4.15	⊙	TM
Services	3.8	1.8	1.6	-0.1	2.50	2.64	TM	TM
Inflation (% pa)								
IPC-FIPE	4.4	7.1	9.9	8.2	6.00	5.00	⊙	←
IPCA	6.0	7.7	12.5	9.3	7.00	5.48	⊙	⊙
IGP-M	10.0	10.4	25.3	8.7	10.50	5.20	⊙	TM
Public Sector								
Primary PSBR (% GDP)	-3.45	-3.64	-3.89	-4.32	-4.25	-4.25	←	←
DLSP (% GDP)	48.8	52.6	55.5	58.16	57.50	56.15	⊙	⊙
Financial Market								
Selic Rate (end of period)	16.19	19.05	23.03	16.91	15.25	13.88	⊙	⊙
Exchange Rate (end of period)	1.96	2.32	3.53	2.89	3.16	3.28	⊙	⊙
Foreign Sector (US\$ millions)								
Trade Balance	-0.8	2.7	13.1	24.8	27.80	25.70	⊙	⊙
Exports	55.1	58.2	60.4	73.1	85.35	90.65	⊙	⊙
Imports	55.8	55.6	47.2	48.3	57.00	64.80	⊙	⊙
Current Account	-24.7	-23.2	-7.7	4.1	4.95	2.65	⊙	⊙
FDI	32.8	22.5	16.6	10.1	9.75	12.50	TM	⊙

* - TM : decrease in comparison to forecast in previous bulletin; ⊙ : increase in comparison to forecast in previous bulletin.

1) Editorial

The improvement of the economy's expected performance in the first semester of 2004

The current expectations for the economy's performance are significantly more optimistic compared to those at the end of 2003. The growth that was observed in the GDP, of 1.6% in the first quarter compared to the previous one, corresponds to a rhythm of 6.8% per year and consolidates the recovery of the economy as of the second quarter of 2003. In spite of the decreased harvest for determined products, mainly soy, agriculture continued to lead growth (3.3% high in the first quarter), leveraged by the good performance of rice and cotton production. For this year, the financial market expects a growth of 3.5% for the GDP, with a highlight for the agriculture's expected growth of 5.1%, as shown in Table 1.

The industrial production has been growing led mainly by the durable and capital consumer goods. In compensation, weak growth remains in the production of non-durable consumer goods, a segment that has been particularly affected by the real average income of workers. As a result, the improvement in the sector's performance tends to take place with the expansion of the segment leaders – durable consumer and capital goods, that are, on average, low job generators – that are able to unchain the

multiplying effects of income and employment in the labor intensive activities (see Economic Activity section). The recent decrease in the IBGE's unemployment rate, of 13.1% in April to 12.2% in May, reinforces this scenario.

With regards to public accounts, the capacity that has been demonstrated by the public sector in broadly meeting the primary surplus goals that were pre-determined with the International Monetary Fund (IMF) stands out. Although this performance has been positively affected by the increase of the tax burden, the contention of current expenses in practically all spheres of government is unequivocal (see Public Finances section). The main exception lies with the increase of pension benefits, mainly the INSS. As a result, the expectation of the financial market is for a decrease in the Debt/GDP comparison of 58.2% in 2003, to 57.5% this year. It should be noted that the performance of public accounts has contributed towards improving the public debt's profile. The significant decrease in the share of exchange titles, from 29% to 15% in the last 12 months, accompanied by an increase of 3.0% to 15% in the share of fixed interest titles is striking.

Table 1.1

Changes in Macroeconomic Forecasts			
Macroeconomic Variables	Financial Market		Current Forecast Compared to Previous
	Forecasts		
	12/03 Bulletin	07/04 Bulletin	
GDP (var %)			
Total	3,45	3,52	⊙
Agriculture	4,58	5,10	⊙
Industry	4,18	4,40	⊙
Services	2,74	2,50	TM
Inflation (% pa)			
IPC-FIPE	5,68	6,00	⊙
IPCA	5,94	7,00	⊙
IGP-M	5,97	10,50	⊙
Public Sector			
Primary PSBR (% GDP)	-4,30	-4,25	⊙
DLSP (% GDP)	56,94	57,50	⊙
Financial Market			
Selic Rate (end of period)	14,09	15,25	⊙
Exchange Rate (end of period)	3,18	3,16	TM
Foreign Sector (US\$ millions)			
Trade Balance	19,02	27,80	⊙
Exports	75,37	85,35	⊙
Imports	55,96	57,00	⊙
Current Account	-2,54	4,95	⊙
FDI	13,23	9,75	TM

The greatest surprise, in the meantime, has been the performance of the trade balance. While in the end of 2003, the financial market's expectation was for a trade surplus of US\$ 19.0 billion in 2004, a result of US\$ 27.8 billion is currently forecast for the year. In fact, exports grew 31% in the first semester of the year compared to the same period in 2003, and have benefited both from the increase of shipped quantities as well as the increase of international prices. It is interesting to note that this good performance has been maintained in spite of the resumption of economic growth. The possibility that a stronger economic recovery compromises foreign sales will depend on the level of the sector's idleness, much decreased in the case of automotive production, although determined exporting sectors have been expressing concern with the need of new investments.

In contrast to the above-mentioned scenario, there has been an upward revision for the expected inflation, without, in the meantime, remaining out of the fixed inflation goal. The growth of inflation has been caused by the acceleration of wholesale prices, especially in the food, raw material and machines, vehicles and equipment groups. In particular, the inflation data points out to the importance for monitoring possible price transfers from wholesale to retail prices.

2) Economic Activity

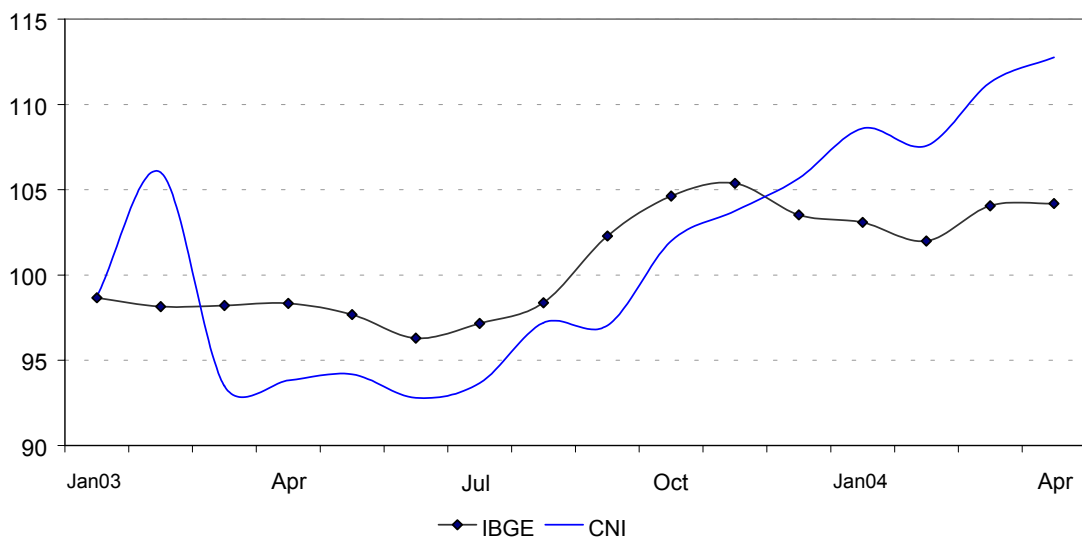
Activity indicators for April

Industrial production registered an increase of 0.1% on April 2004 compared to the previous month, already discounting seasonal effects. Although, at first sight, this result does not seem significant, it confirms expectations for growth of the Brazilian economy in 2004, both in comparison to April 2003 (6.7%), as in the accrued first trimester (6.1%). In addition, the accrued industrial activity increase rate for the last twelve months (2.0%) exceeded the one registered in March (1.1%).

These results are confirmed by the National Industry Confederation's (CNI) economic indicators for the Brazilian industry, according to which, in April compared to March, not only real sales increased (1.33%), but also the number of worked hours (0.64%) and employed personnel (0.05%), after the seasonal adjustment (see graph 2.1). Taking into account the increased base of comparison, since the CNI estimated the increase of real sales by 3.34% in March, the referred indicators suggest that the rhythm of recovery may be considered relevant.

Graph 2.1

Economic Activity Indicators with Seasonal Adjustment – 2002 Average = 100



The analysis of the IBGE's industrial activity indicators by category of use points out towards an increase in the production of all sectors (see Table 2.1). It must be noted that, in the comparison of April 2004 with the same month of the previous year, the industrial growth has been led by the durable consumer goods and capital goods industries, being much greater than the average of the industry as a whole, that registered a growth rate of 6.7% in the same period.

Table 2.1

Industrial Production Indicators by Category of Use - April/2004

Categories of Use	Variation (%)			
	Apr 04/Mar 04 Season. Adj.	Apr 04/ Apr 03	Accrued	
			In Year	12 months
Capital Goods	1.5	22.0	21.4	10.5
Intermediate Goods	0.4	5.2	4.7	2.4
Consumer Goods	0.3	5.8	5.1	(0.1)
Durable (1/3)	2.9	22.7	21.1	10.1
Semi and non-durable	0.2	1.7	1.5	(2.3)
General Industry	0.1	6.7	6.1	2.0

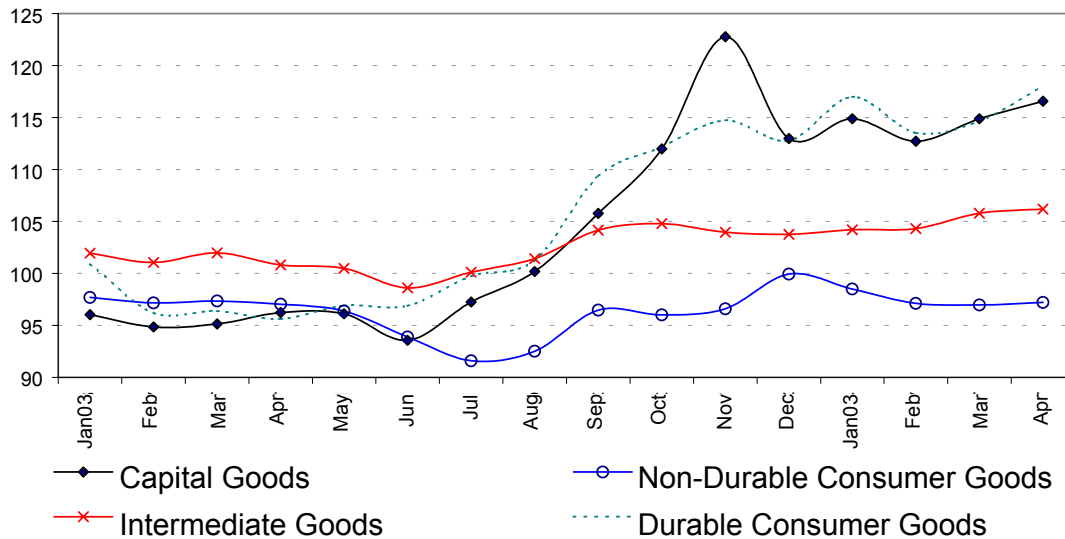
Source: IBGE/DPE/Industry Coordination.

Although all segments by category of use have demonstrated positive results, the continuing weak performance of the non-durable and semi-durable goods – growth of only 0.2% in April 2004 compared to the previous month and 1.7% compared to April 2003 – reflects the continuing retraction of the real average income of Brazilian workers (see analysis below). Evidently, the sustainability of a new growth cycle in the Brazilian economy will be confirmed as, in the absence of a reversal of the currently favorable expectations, the expansion of the sectors that are promoting the recovery – if the durable consumer goods and capital goods are, on average, low generators of

employment - will be able to unchain the multiplying effects of income and employment in labor intensive activities (Graph 2.2).

Graph 2.2

**IBGE Physical Industrial Production with Seasonal Adjustment
(2000 Average = 100)**



Decomposing the production by activity sectors (see Table 2.2), it is noted that the manufacturing industry grew 0.3% in April 2004 compared to the previous month, seasonally adjusted, and 7.1% compared to April of last year. It should be noted that the increase of 1.0% of the extraction industry in April compared to March still was not sufficient to revert the recessive situation of these activities, that continue to demonstrate negative growth rates both compared to April of last year (-1.3%) and in the accrued period of January-April 2004 (-0.9%).

The manufacturing industry areas that registered the highest accrued growth rates between January and April of this year are office machines and information technology equipment (39.1%), electronic material, communications devices and equipment (36.7%) and automotive vehicles (22%). The areas that accrued the worst results in terms of accrued growth in the same period are the pharmaceutical (-7.6%), footwear and leather items (-6.2%) and clothing and accessories (-3.2%), noting the lack of a recovery in the real average income of employed personnel. These results reinforce the evidence that the exports have functioned as the main engine for the slow recovery of Brazilian economic growth in 2004.

Table 2.2
Industrial Production Indicators According to Industry Segments and Activities

Industry Segments and Activities	Variation (%)			
	Apr 04/Mar 04 Season. Adj.	Apr 04/ Apr 03	Accrued in Year	
			In Year	12 months
General Industry	0.1	6.7	6.1	2.0
Extraction Industries	1.0	-1.3	-0.9	1.4
Manufacturing Industries	0.3	7.1	6.5	2.0
Foods	-2.0	1.9	2.8	-0.5
Beverages	5.1	13.5	4.1	-3.1
Tobacco	8.9	11.0	-2.7	-8.5
Textile	3.0	8.7	3.8	-1.6
Clothing and accessories	1.0	3.5	-3.2	-9.4
Footwear and leather items	-3.2	-10.8	-6.2	-9.8
Wood	2.0	12.7	8.8	5.0
Cellulose, paper and paper products	-2.6	3.3	7.2	6.2
Publishing, printing and reproduction of recordings	-10.8	-4.2	-1.2	2.1
Oil and alcohol refining	-1.4	1.2	6.2	1.0
Pharmaceuticals	2.5	-4.8	-7.6	-7.7
Perfumes, soaps, detergents and cleaning products	-4.3	4.9	9.7	4.8
Other chemical products	0.4	5.9	5.4	2.5
Rubber and plastic	1.4	9.4	5.9	-0.4
Non-metallic minerals	0.0	4.4	0.8	-2.9
Basic metallurgy	1.8	1.0	1.0	2.9
Metal products - excluding machines and equipments	-0.4	2.1	2.9	-3.2
Machines and equipments	-2.0	13.4	11.5	6.7
Machines for offices and information technology equipment	-8.1	9.2	39.1	29.6
Electric machines, devices and materials	1.5	10.2	8.6	4.8
Electronic material, communications devices and equipment	5.5	36.2	36.7	17.7
Medical-hospital instruments, optical and other equipment	-1.1	1.3	6.5	2.1
Automotive vehicles	-1.1	27.9	22.0	11.2
Other transport equipment	1.8	15.6	9.1	7.4
Furniture	-1.6	8.8	9.6	-2.2
Diverse	-13.7	10.4	10.4	2.9

Source: IBGE/DPE/Industry Coordination

The Unemployment Rate and Real Earnings in May

According to the Monthly Employment Survey of the IBGE, the unemployment rate for May 2004, estimated in 12.2% (compared to 13.1% in the previous month) represented the first recovery in the employment level observed in the year. Since the unemployment rate registered at 12.8% of the economically active population 12 months ago, the IBGE noted a "statistically significant change between the rate differences", which represents, in the absence of adverse scenarios, favorable expectations with regards to the decrease of unemployment rates in Brazil in the short term.

In May 2004, the real average earnings received by workers, estimated by the IBGE at R\$ 866.10, continued to indicate a retraction both in comparison to the previous month (-0.7%) as in comparison to May 2003 (-1.4%).

3) Inflation

The price indexes in June

Maintaining the trend for highs in prices, the inflation for June registered by the IGP-10 (General Market Price Index - 10), was of 1.5%, higher than in May (1.24%). The IPA-10 (Wholesale Price Index - 10) also increased from 1.62% to 1.77% in June as a result of the increase of agricultural prices (2.28% in June and 0.95% in May). The INCC-10 (Construction Price Index - 10) continued to maintain its high (1.69%), mainly due to the increase of labor costs.

The retail prices – measured by the IPC-10 (Consumer Price Index - 10) – increased from 0.44% in May to 0.72% in June. The greatest variation of the index was registered in the Transport Group, a reflection of the increase of fuel prices (of alcohol and gasoline), validating the expectation observed in the previous month for an increase of products influenced by the oil prices in the international market. This price, however, decreased 1.4% in the third week of June, due to the possibility of an increase in production of 500 thousand barrels/day and of the Norwegian government's intervention in the strike by employees of the sector.

Table 3.1
IGP-10 and its components

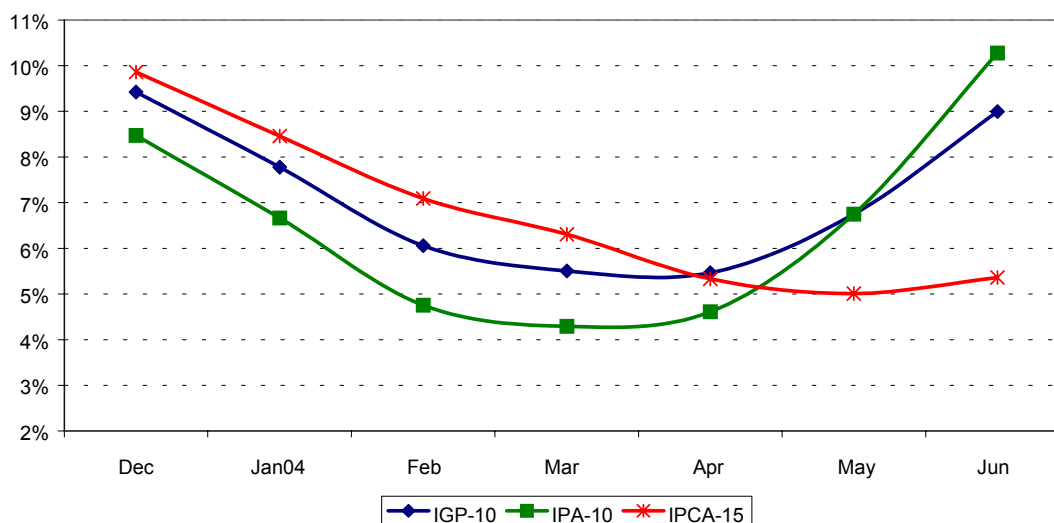
Index	Var(%)	
	May-04	Jun-04
IGP-10	1.24	1.50
IPA-10	1.62	1.77
IPC-10	0.44	0.72
Greatest IPC-M highs in June		
<i>Food products</i>	0.12	1.29
<i>Transport</i>	-0.43	0.48
<i>Health and personal care</i>	0.89	1.02
INCC-10	0.7	1.69

According to the IBGE, the IPCA-15 (Extensive Consumer Price Index – 15) increased from 0.54% to 0.56% in June. Those that were mainly responsible for this increase were Foods, Transport and Clothing, that in spite of having decelerated still contributed towards the index's high. The relief came from the Habitation and Health groups. The year's accrued rate settled at 3.29%.

Accrued inflation in 12 months

Graph 3.1 illustrates the evolution of the inflation accrued over a 12 month period. The data demonstrates that the inflation's growth has been pulled by the acceleration of wholesale prices, especially in the food, raw material and machines, vehicles and equipment groups. While the accrued inflation in retail prices, following a sharp decrease in the first quarter of 2004, increased slightly in June. In summary, the data points out to the importance of monitoring eventual transfers of prices from wholesale to retail.

Graph 3.1
Inflation Accrued over 12 Months (% per year)



4) Public Finances

PSBR in May

The non-financial public sector achieved a primary surplus of R\$ 5.8 billion in May, representing a positive accrued balance of R\$ 38.3 billion (5.87% of the GDP) in the January-May 2004 period, a value that broadly exceeds the goal of R\$ 32.6 billion that was predetermined with the International Monetary Fund (IMF) for the first semester of 2004 (see table 4.1, in which the results are registered as percentages of the GDP, according to the concept of Public Sector Borrowing Requirements – PSBR).

In May, the expenses with interest totaled R\$ 10.7 billion, an amount slightly higher than those incurred in April (R\$ 9.9 billion), due to exchange swap operations. In any way, it should be noted that the expenses with nominal interests have been decreasing consistently, given that, in the period of January through May 2004, they have been in the order of R\$ 51.9 billion (7.96% of the GDP), after reaching the significant amount of R\$ 65.3 billion (10.99% of the GDP) in the same period as the previous year.

The decrease of the accrued nominal deficit between January and May 2004 (R\$ 13.7 billion, or 2.10% of the GDP) compared to the same period of the previous year (R\$ 28.3 billion, or 4.77% of the GDP) should be attributed not only to the large primary fiscal effort, but also to the discrimination of expenses with interest, given the gradual decrease of the SELIC (basic) interest rate. As a result, in addition to the increase of the tax burden that was observed throughout the period, the claim that current expenses in practically all spheres of government, which, with exception of the INSS (National Institute of Social Security), registered primary fiscal surpluses between January – May 2003 and the same period of 2004 is unquestionable. The basic interest rates, in turn, although remaining high in nominal terms (16% p.a.), were decreased significantly since February 2003, when they reached the ceiling of 26.5%

p.a., as a reply to the inflationary impacts that resulted from the bold increase of the Brazil risk and the exchange rate devaluation in that occasion.

Table 4.1

PSBR (1) - Without Exchange Rate Devaluation Accrued in Year (in % of GDP)			
	2003		2004
	Jan-May	Year	Jan-May
Nominal	4.77	5.22	2.10
Central Government	2.04	4.10	0.17
Regional Governments	2.64	1.78	2.00
State Companies	0.09	-0.67	-0.08
Nominal Interest	10.99	9.58	7.96
Central Government	6.83	6.66	4.81
Regional Governments	3.97	2.69	3.30
State Companies	0.19	0.23	-0.15
Primary	-6.22	-4.37	-5.87
Central Government	-4.79	-2.56	-4.63
INSS	1.30	1.74	1.57
Regional Governments	-1.33	-0.91	-1.30
State Companies	-0.11	-0.90	0.07

Source: Brazilian Central Bank.

Note: (1) (-) = surplus.

Share of public securities by indicator

The small increase in the share of federal securities indexed to the exchange rate between April and May of this year (from 8.2% to 8.3%) occurred fundamentally as a result of the exchange rate devaluation of 6.3% that took place in the period. As a result, in the operations with securities that were performed in May, the Central Bank continued to promote net rescues for papers with clauses providing for exchange rate corrections. Net rescues of 30.5 billion in LFT, R\$ 1.8 billion in NTN-D and R\$ 1.7 billion in NBCE, against net issues of R\$ 1.8 billion in NTN-C stood out in the month of May.

Table 4.2

Share of Federal Titles by Index (%)							
Indexes	1999	2000	2001	2002	2003	2003(May)	2004(May)
Exchange	24.2	22.5	29.5	33.6	20.5	28.6	14.8
SELIC (Basic Interest Rate)	61.1	52.7	54.4	41.9	46.6	47.5	45.5
Fixed	9.2	14.9	8.1	2.0	11.6	3.0	14.7
Price Indexes	2.4	6.0	7.2	11.4	12.6	12.2	13.1
Others	3.1	3.9	0.8	11.1	8.8	8.7	11.9
Total	100	100	100	100	100	100	100

Source: Brazilian Central Bank

The data from Table 4.2 registered a significant change in the profile of the federal securities debt throughout the last twelve months, noting that, on one side, a significant decrease in the share of exchange rate securities (from 28.6% to 14.8%) and, on the other hand, a consistent increase in the relative share of titles with fixed interest clauses (from 3.0 to 14.7%), which demonstrates an improvement in the market's credibility in the future outlook of the public debt.

In the meantime, it should be noted that the Government continues to find difficulties to decrease the average term of titles (weighed by the interest rate) of the federal securities debt. Proof of this is the fact that the average duration of securities issued in public offerings increased from 11.57 months to 12.17 months.

Public sector net debt

The public sector net debt registered a slight increase in May (R\$ 946.7 billion, or 56.8% of the GDP) compared to the previous month (R\$ 926.4 billion, or 56.5% of the GDP). This increase is mainly explained by the 6.3% devaluation of the Real in comparison to the Dollar. In fact, from the increase of R\$ 20.3 billion observed in May, R\$ 14.7 (72.4%) resulted from the exchange rate devaluation.

Table 4.3

Public Sector Net Debt - End of Period (% GDP)						
Composition	1999	2000	2001	2002	2003	2004 (May)
Domestic debt (1)	34.4	35.5	38.0	36.6	41.6	42.1
Central Government	17.7	19.3	20.3	18.6	22.0	22.8
State and municipal gov't's	15.5	15.3	17.2	17.1	19.0	18.8
State companies	1.2	0.9	0.4	1.2	0.7	0.6
Foreign debt	10.4	9.7	10.4	14.3	11.9	10.7
Central Government	8.0	7.5	8.2	12.5	10.2	9.1
State and municipal gov't's	0.9	0.9	1.0	1.4	1.2	1.2
State companies	1.5	1.3	1.2	0.5	0.5	0.4
Total debt	44.8	45.2	48.4	50.9	53.5	52.8
Central Government	25.7	26.8	28.5	31.1	32.2	31.9
State and municipal gov't's	16.4	16.2	18.2	18.5	20.2	19.9
State companies	2.7	2.2	1.6	1.7	1.1	1.0
Monetary base	4.6	4.2	4.2	4.6	4.7	4.0
Total debt w/ monetary base	49.4	49.4	52.6	55.5	58.2	56.8

Note: (1) Excludes monetary base. Source: Central Bank

With regards to this increase in May compared to April, when compared with December 2003, a decrease in the amount of public sector net debt (including the monetary base) of 58.2% of the GDP to 56.8% of the GDP is noted. Such performance is explained by the recovery of economic growth and by the already mentioned fiscal stringency.

5) Foreign Sector

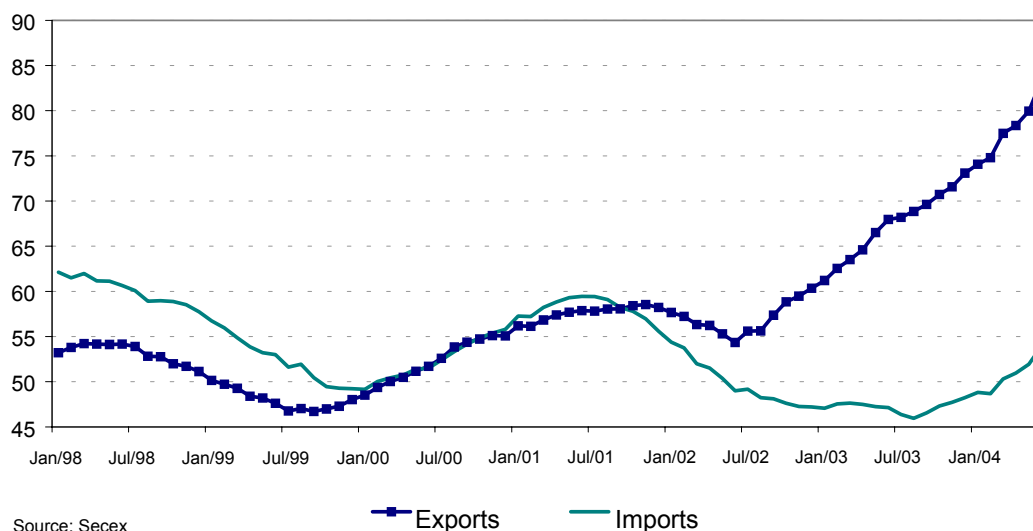
The Trade Balance in June 2004

Exports in June added-up to US\$ 9.3 billion, an increase of 51.2% compared to June 2003 and 17.5% compared to May 2004. Since May 2004 already registered a historic monthly record, June's value continued to cause surprise. Imports, in turn, reached US\$ 5.5 billion, the year's highest value, resulting in a trade surplus of R\$ 3.8 billion.

Though Graph 5.1, it is possible to see the growth for exports and imports in the 12 accrued months. While exports accrued an increase of 22.1% in the period, imports

had an increase of 13.8%. In the margin, however, the difference between the growth rate of exports compared to imports has decreased significantly. If we consider the January-June (6 months) period instead of 12 months, the difference in the increase rate of exports and imports decreases from 8.3 percent to 3.1 percent – which is consistent with the resumption of growth that is currently noted. In the following analysis we seek to discuss the impacts that the (although modest) resumption of growth has gained over foreign accounts.

Graph 5.1
Trade Balance (US\$ billions – accrued in 12 months)



In principle, the economy's recovery has impacts both on imports (positive) as well as exports (negative). It is the case that sensibility in both cases depends much on the economy's sector and the level of unused capacity in it. In a more constant scenario, the purchases of intermediate inputs and raw materials are usually more sensible to the increase of domestic income, among imports. With exports, on the other hand, the sale of agricultural commodities is generally little affected by domestic income while the sale of manufactured goods (mainly durable) tends to have great sensibility to resumptions of growth.

Non-Aggregate Exports and Imports

The exports for the three product categories (manufactured, basic and semi-manufactured) registered, both in value as in the daily average, record results for all months. As is shown in table 5.1, if we consider the accrued variation in the first semester of 2004 with the same period of 2003, we see growth in all categories. This growth was once again driven by basics, which increased by 42%, while industrialized products increased 27.7%.

Table 5.1
Exports by Aggregated Factor - Accrued in year (US\$ million - FOB)

Items	Jan-Jun				Jan-May 2004	Jan-May 2004
	2004	2003	Variation (%)	Daily Average (%)	Variation (%) Price	Variation (%) Quantum
Basics	13,663	9,621	42.0	39.7	22.6	7.4
Industrialized	28,973	22,685	27.7	25.7	n.a.	n.a.
Semi-manufactured	5,950	4,966	19.8	17.9	8.1	7.3
Manufactured	23,023	17,719	29.9	27.8	3.0	21.6
Special Ops.	670	696	-3.7	-5.3	n.a.	n.a.
Total	43,306	33,002	31.2	29.1	9.1	14.6

Source: SECEX, FUNCEX.

Exports in June benefited both from the increase in shipped quantities as from the increase of foreign prices. Highlights among these prices were the increase of oil, iron/steel semi-manufactured, meats and soy (bran, grain and oil) prices.

It is interesting to note that although basics continue to lead, the contribution of the other sectors to the increase of exports has also been significant. In fact, when comparing the data for June 2004 with the same month of 2003, the basics grew more: 75.6%, while manufactured products grew 44.0% and semi-manufactured 31.4%. This is relevant news as greater consistency is noted in the movement of manufactured products, which are less likely to experience price variations and phytosanitary barriers. As was demonstrated in recent experience, the export of determined basics was harmed both by the price variations of some commodities, as by localized problems such as the sale of soy to China and the claims of cattle contaminated by foot-and-mouth disease.

The numbers above suggest that the recovery of growth that is currently starting has not, up to this moment, damaged the performance of exports, except for one or another product that has seasonal sale peaks, such as cellular phones (see special report). Some products that are in principle very sensitive to domestic income, such as automobiles and laminated plans, continued to register a significant variation in June: 26.7% and 119.0%, respectively. This does not indicate, in the meantime, that a possible stronger recovery will not compromise foreign sales. In large part, the impact of the domestic recovery on foreign sales will depend on the level of used capacity by the sector, which is low in the case of the automotive sector. It should be noted that in this respect several exporting sectors have demonstrated a concern with the need for new investments.

While there are no clear signs of the negative influence by a recovery of growth on exports, the domestic purchases have behaved as expected. In reality, the imports were the first clear sign that the economy was recovering, as was reiterated several times in this Bulletin.

Table 5.2 demonstrates the fact that the sectors that have been leading the growth of imports have been that of fuels and lubricants. These are items that are very vulnerable to price variations, although a significant increase in quantum is also taking place. The variation was of 18.1% in the January-May 2004 period compared to January-May 2003 (last available data).

Table 5.2

Imports by Category of Use - Accrued in year (US\$ millions - FOB)						
Items	Jan-June				Jan-May 2004	Jan-May 2004
	2004	2003	Variação (%)	Média Diária (%)	Variation (%) Price	Variation (%) Quantum
Capital goods	5,536	4,852	14.1	12.3	-3.0	7.1
Raw materials and intermediate goods	15,141	11,947	26.7	24.7	4.9	16.2
Consumer goods	3,167	2,614	21.2	19.2	n.a.	n.a.
Non-durables	1,672	1,461	14.4	12.6	6.7	6.8
Durables	1,495	1,153	29.7	27.6	-5.7	10.9
Automobiles	289	308	-6.2	-7.7	n.a.	n.a.
Fuels and lubricants	4,413	3,191	38.3	36.1	9.1	18.1
Total	28,257	22,604	25.0	23.0	3.9	14.6

Source: SECEX, FUNCEX

Other items that registered a significant increase were the purchase of raw materials and intermediate goods, that accrued a variation of 24.7% in the January-June 2004 period compared to the same period of 2003, and of durable goods (27.6% in the same comparison). In both cases, the quantum variation is very significant, being that the decrease of prices in the case of durable goods contributed towards the increase of demand. These sectors are particularly sensitive to the increase of internal income. On the other hand, the purchase of capital goods, which indicate a pre-disposition to increase to local productive capacity, is the item with the lowest variation in the period, although it still registered an increase of 12.3%.

Performance by Sector

According to the last Funcex Sector Bulletin (April, May and June), in the first quarter of 2004 compared to the first quarter of 2003, the most common case in the behavior of exports was the combination of the increase of quantum with the increase of prices. This happened in 16 out of 28 sectors under consideration. In 12 of them, the quantum growth rate was greater than that of prices, with a highlight for Agriculture and Machines and tractors. The only items that had losses in exported value were Oil Refining and Petrochemicals, Other Metallurgic Products and Electronic Equipment. Table 5.4 that is included in the Bulletin illustrates the behavior of several sectors in the period of January-May. In it, we highlight the growth in the sale of transport materials (53%).

With regard to imports, the same publication by Funcex demonstrated that most sectors had an increase for both quantum and prices in the comparison of the first quarter of 2004 with 2003. In this way, 21 out of 29 considered sectors registered a growth rate greater than 20% in value, which demonstrates the extremely depressed levels in which they were in the beginning of 2003. As it is commonly known, 2002 and 2003 were marked by significant decreases in Brazilian exports (the quantum index accrued a loss of 15.4% in the period). The recovery trend for imports is also very clear when considering the shifting average for the 4 quarters, since 18 sectors registered positive variation rates compared to the 12 previous months.

Table 5.3

Exports by Sectors: Comparative 2003-2004 (US\$ millions)			
Sector (CNAE - 2 digits)	Jan-May 2003	Jan-May 2004	Variation (%)
Agriculture and Cattle Ranching	2,744.3	3,672.4	34%
Forest Exploration	7.3	5.5	-25%
Fishing and Aquaculture	0.9	1.7	96%
Mineral Coal	0.1	0.1	-
Oil and Gas	866.3	994.9	15%
Metallic Minerals	1,470.5	1,778.1	21%
Other Minerals	183.7	176.3	-4%
Food and Beverage Products	4,468.6	5,934.1	33%
Tobacco	75.7	77.9	3%
Textiles	436.9	517.1	18%
Clothing and Accessories	102.4	130.3	27%
Leather and Footwear	1,095.8	1,290.7	18%
Wood	761.3	1,067.3	40%
Cellulose and Paper	1,152.0	1,166.4	1%
Publishing, Printing and Reproduction	50.6	48.5	-4%
Oil and Coke Refining	1,295.0	1,232.8	-5%
Chemicals	1,711.1	1,968.2	15%
Rubber and Plastic	458.0	532.5	16%
Metallic Mineral Products	413.5	507.1	23%
Basic Metallurgy	2,854.8	3,701.3	30%
Metal Products except mach. and equip.	242.2	323.4	34%
Machinery and Equipment	1,506.3	2,159.7	43%
Equip. for Offices and Computing	102.4	114.3	12%
Electric Machines and Devices	411.8	527.1	28%
Electronics and Communication	746.3	626.6	-16%
Medical and Precision Equip.	123.4	147.3	19%
Automotive Vehicles	2,553.7	3,279.1	28%
Transport - others	879.0	1,348.9	53%
Furniture and others	367.5	500.1	36%
Others	26.2	30.5	16%
Total	27,107.3	33,859.8	25%

Table 5.4 demonstrates the behavior of sectors in the January-May 2004 period compared to the same period in 2003. Highlights include the purchases of metallic minerals (187%) and Oil and Gas (61%).

Table 5.4

Imports by Sectors: Comparative 2003-2004 (US\$ millions)			
Sector (CNAE - 2 digits)	Jan-May 2003	Jan-May 2004	Variation (%)
Agriculture and Cattle Ranching	775.4	593.4	-23%
Forest Exploration	8.6	11.8	36%
Fishing and Aquaculture	0.9	1.0	11%
Mineral Coal	297.7	256.5	-14%
Oil and Gas	1,697.7	2,731.3	61%
Metallic Minerals	82.1	235.5	187%
Other Minerals	208.0	317.0	52%
Food and Beverage Products	703.6	750.8	7%
Tobacco	4.5	4.0	-11%
Textiles	242.4	305.1	26%
Clothing and Accessories	47.8	66.0	38%
Leather and Footwear	80.0	92.2	15%
Wood	22.0	29.0	32%
Cellulose and Paper	207.2	278.1	34%
Publishing, Printing and Reproduction	45.0	44.7	-1%
Oil and Coke Refining	1,100.7	859.5	-22%
Chemicals	3,893.8	4,766.3	22%
Rubber and Plastic	535.8	633.9	18%
Metallic Mineral Products	165.8	196.7	19%
Basic Metallurgy	679.5	823.6	21%
Metal Products except mach. and equip.	316.7	391.8	24%
Machinery and Equipment	2,180.9	2,272.6	4%
Equip. for Offices and Computing	475.3	564.8	19%
Electric Machines and Devices	1,074.8	922.8	-14%
Electronics and Communication	1,537.2	2,103.7	37%
Medical and Precision Equip.	730.6	939.3	29%
Automotive Vehicles	1,310.7	1,456.6	11%
Transport - others	524.9	768.8	46%
Furniture and others	116.9	127.7	9%
Others	0.9	2.0	118%
Total	19,067.5	22,546.7	18%

Balance of Payments and Capital Accounts

The result of current transactions in May had a surplus of US\$ 1.5 billion, a record monthly value. After a deficit of US\$ 735 million in April, the balance of current transactions recovered the trend of highs driven by elevated surpluses in the Trade Balance. While in the relation between Current Transactions/GDP in 2003 (after an improvement in foreign accounts) was of 0.02%, in the accrued period of January-May, today it is of 1.06%. The improvement in the path of current transactions is even more significant in absolute numbers. The accrued number for 12 months reached US\$ 6.4 billion, with this being the best result registered in the country's Current Transactions.

It should also be noted that the net expenses with services have been decreasing. In May, they added-up to US\$ 227 million, retracting by 50.3% in comparison to May 2003 (driven by the retraction of expenses with transport, and also by the increase of revenues with international travel). Although the services account has registered a significant improvement, the net remittances of income to aboard increased y 22.4%

(compared to May 2003), reaching US\$ 1.7 billion. The great majority of net remittances on income take place in the form of profits and dividends.

Table 5.5

Balance of Payments (US\$ millions)				
	2003*		2004*	
	May	Jan-May	May	Jan-May
Trade balance (FOB)	2 518	8 044	3 118	11 243
Service and revenues	- 1 857	- 9 034	- 1 941	- 10 127
Unilateral current accounts (net)	212	1 033	300	1 310
Current Accounts	874	43	1 478	2 426
Capital and financial account	488	4 597	- 2 171	- 600
Direct investems (net)	541	3 315	207	3 307
Portfolio investments	852	2 109	- 894	- 3 059
Gobal balance result	1 162	3 991	- 276	2 183
Current accounts/GDP (%)	-	0.02	-	1.06
FDI/GDP (%)	-	1.64	-	1.45
Medium and long term amortizations	1 422	8 688	1 821	13 490
Paid	1 111	8 228	1 798	13 124
Refinanced	-	-	-	-
Converstions	311	460	23	366

* Preliminary Data.

Source: Brazilian Central Bank

The only category that registered a disappointing performance in the Balance of Payments was that of Net Foreign Direct Investments. In May, the FDI only added up to US\$ 207 million – the worst result since June 2003 – in spite of the recent improvement of several indicators in the Brazilian economy. Since the Investment decisions are long-term decisions, it is possible to argue that the current data still does not reflect the economy's (slow) recovery. Nevertheless, several market analysts are reviewing their FDI expectations for 2004 downwards.

6) Financial Market

Selic (Basic Interest Rate)

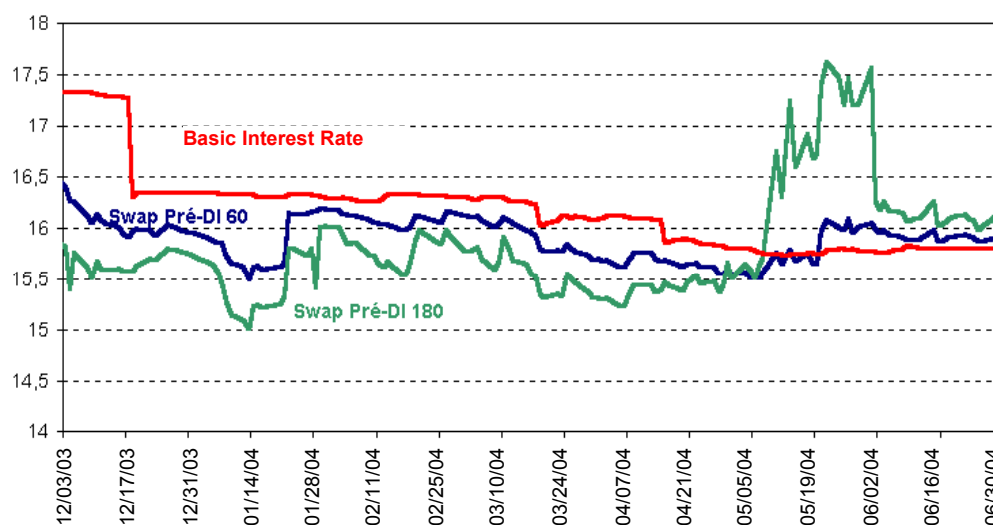
The discussion of the macroeconomic scenario between April and May was centered in the transitory nature or lack thereof in foreign restrictions (increase in oil prices and the North American interest rate), that would determine the magnitude of the impact on the price levels as well as a possible decrease in production and the deterioration of financing conditions in emerging countries.

In the meantime, independent of its duration, this environment resulted in a context of uncertainty that was sufficient to affect the expectation of financial agents, which then sought to take defensive positions ahead of time. The reallocation of investment portfolios in a way to avoid the risk of emerging countries, ended up materializing the adverse conditions by devaluating the exchange rate, increasing the country risk and stimulating pressure on the short-term price indexes. For such reasons, in June, The Central Bank maintained the basic interest rate at 16% p.a. This time, the decision of the members of the Copom was by consensus.

In the end of the first semester of 2004, the discussion on which should be the economy's basic interest rate remains. For this reason, it is interesting to evaluate which would have been the real profitability, in this first semester, for an investment in National Treasury Financial Bills – LFT's. This real profitability may be determined by deducting the gross interest, both the tax burden as well as the variation of any price index. If the selected price index is the IPCA, the real profitability will have been equivalent to 5.2% per year for investments by private individuals and 2.5% per year for investments performed by legal entities.

Graph 6.1

Selic and Swap Interest Rates for 60 and 360 days (% per year)



In June, as shown in Graph 6.1, a reversal in the trend of rates for the Pre-DI Swaps was observed both for 180 days and 360 days. It should be noted that movement of

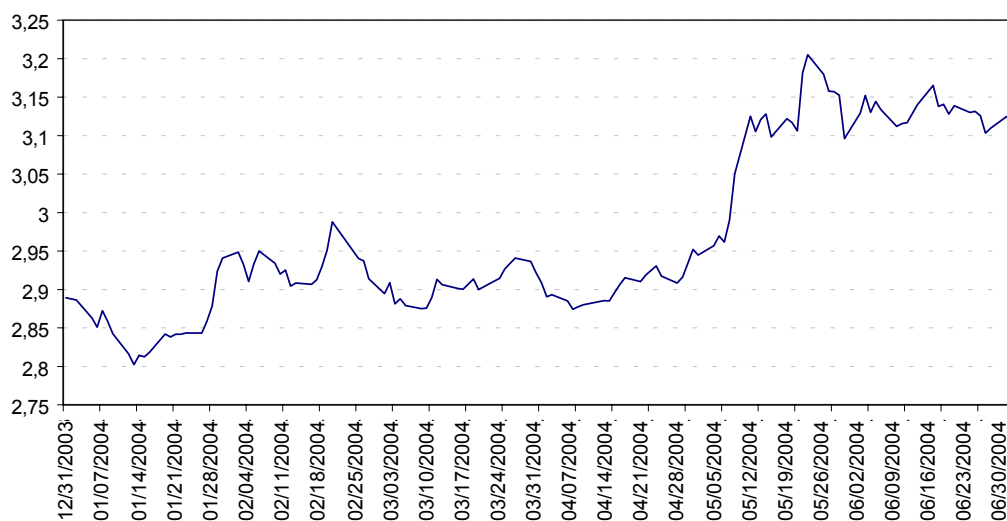
highs between April and May accompanied the exchange rate depreciation (graph 6.2) and the increase of the Brazil risk (Graph 6.3).

Exchange Rate

In the end of June, the rate of the North American Dollar settled at R\$ 3.11, with an appreciation of the Real of 0.69% in the month. Therefore, in the year's accrued rate, the Real registered a devaluation of 7.56%.

The analysis of Graph 6.2 allows to observe the depreciation of the real, that started in the beginning of the second half of April (R\$ 2.95/US\$) and reached its maximum in the middle of May (R\$ 3.2/US\$). The partial rescue of swaps and exchange titles that expired in the month, and the issue of US\$ 750 million in bonus with floating interest rates by the National Treasury contributed towards stabilizing the exchange rate throughout the month of June.

Graph 6.2
Evolution of Dollar's Upfront Rate



Brazil Risk

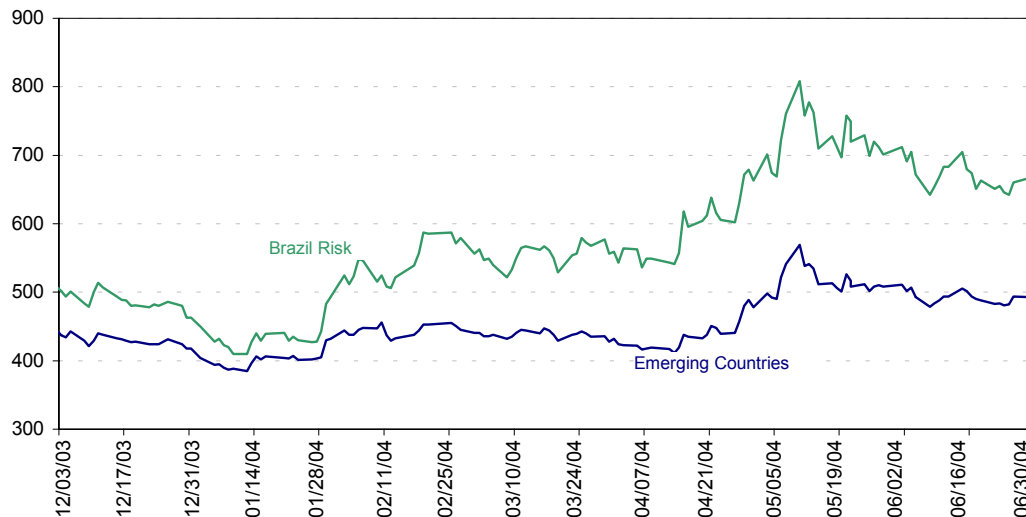
The Brazil Risk (graph 6.3) registered at 650 base points in the end of June, with a decrease of 70 base points compared to the previous month, corresponding to a decrease of 9.7% in the month. In the year, the Brazil risk increased 187 base points, with a variation of approximately 40.39% compared to the end of 2003.

AN increasing difference between the Brazil risk and the risk of emerging countries had been observed since December 2003. This difference, that in May reached 45%, decreased in the end of June to 32%. The announcement of an increase of only 25 base points in the North American interest rate represented a strong stimulus for

emerging countries such as Brazil. The trend that the Fed will adopt a gradual policy in the following months, restored the confidence of investors that once again started to demand securities issued in Brazil.

In June, the National Treasury issued US\$ 750 million in bonus with floating interest rates. A new issue was announced on June 7th, which should also be of US\$ 750 million.

Graph 6.3.
Brazil and Emerging Countries' Risk



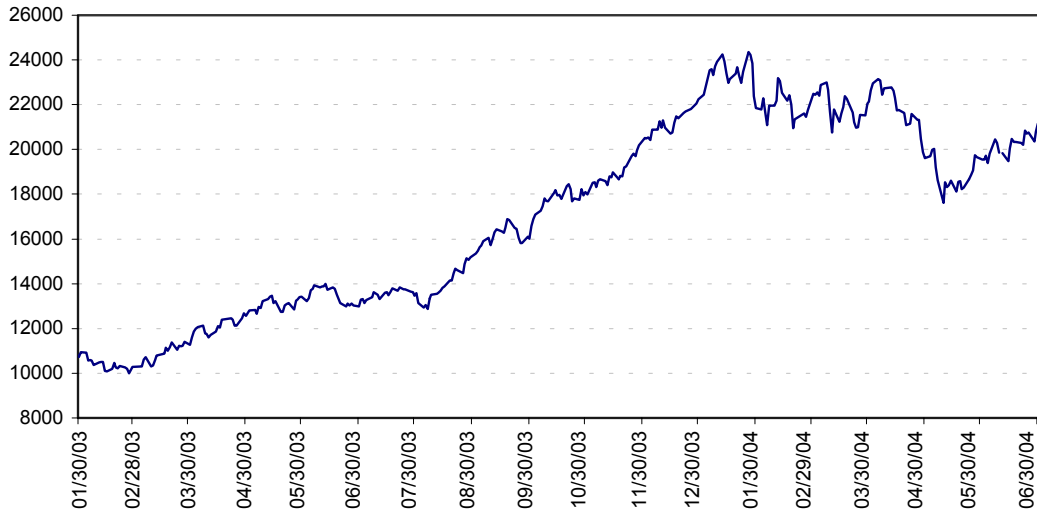
Stock Market

The Ibovespa passed the barrier of 21 thousand points and ended June with an increase of 8.2% compared to the previous month, in contrast to the negative performance of 4.9% in the year. In the last 12 accrued months, the evolution of the index reached 63% (graph 6.4).

The recovery of the Ibovespa, that had its origins in the middle of May, reflects the expectation of large financial agents that the North American monetary policy should be more gradual than previously expected.

In the first semester, three companies made successful public share offerings in the São Paulo Stock Market – BOVESPA. The first operation took place in May, with the issue of shares by *NATURA*. In June, it was *GOL* and *ALL – American Latina Logística's* turn.

Graph 6.4.
Evolution of Bovespa Index



7) Macroeconomic Forecasts

Table 7.1 FORECASTS FOR THE GROWTH OF THE GDP (%)								
INSTITUTIONS	Total		Agriculture		Industry		Services	
	2004	2005	2004	2005	2004	2005	2004	2005
Citibank	3.5	4.0	5.2	5.3	5.2	5.4	2.6	3.3
CSFB Garantia	3.5	3.5	6.1	4.8	4.4	4.7	2.1	2.4
HSBC	3.7	-	3.2	-	5.1	-	2.8	-
LCA Consultores	3.5	3.2	6.1	5.6	4.3	3.6	2.2	2.3
MB Associados	3.0	-	5.0	-	3.4	-	2.4	-
West LB	3.7	3.1	4.6	4.5	4.4	3.2	3.6	2.9
Average	3.5	3.4	5.1	5.0	4.4	4.2	2.5	2.6
Standard Deviation	0.26	0.40	1.08	0.49	0.65	1.01	0.54	0.47
BCB Report (1)	3.5	3.5	4.9	4.5	4.5	3.9	2.5	2.7

(1) Average market expectatins collected by the Brazilian Central Bank on 06/25/2004

Table 7.2 INFLATION FORECASTS (% per year)						
INSTITUTIONS	IPC-FIPE (1)		IPCA (2)		IGP-M (3)	
	2004	2005	2004	2005	2004	2005
Citibank	5.70	5.00	7.00	5.00	9.00	5.00
CSFB Garantia	6.50	5.00	7.20	5.46	11.55	6.50
HSBC	-	-	7.00	-	10.50	-
LCA Consultores	5.70	5.00	6.70	5.50	9.80	4.00
MB Associados	6.00	-	7.20	-	10.50	-
West LB	6.00	5.50	7.00	5.50	10.60	5.40
Average	6.00	5.00	7.00	5.48	10.50	5.20
Standard Deviation	0.33	0.25	0.18	0.24	0.86	1.04
BCB Report (4)	6.00	5.00	6.96	5.50	10.97	6.00

(1) Average market expectatins collected by the Brazilian Central Bank on 06/25/2004

Table 7.3 PUBLIC SECTOR AND FINANCIAL MARKET FORECASTS

INSTITUTIONS	Primary PSBR		DLSP (2)		Selic Rate (%) (3)		Exchange Rate	
	(% GDP)		(% PIB)		End of Period		End og Period	
	2004	2005	2004	2005	2004	2005	2004	2005
Citibank	-4.25	-4.25	57.6	56.3	14.0	12.0	3.20	3.35
CSFB Garantia	-4.25	-4.25	58.0	56.0	16.0	14.0	3.20	3.30
HSBC	-4.25	-	57.5	-	15.0	-	3.10	-
LCA Consultores	-4.25	-4.25	57.2	56.3	15.3	13.8	3.12	3.25
MB Associados	-4.30	-	57.5	-	15.3	-	3.20	-
West LB	-4.25	-4.25	56.2	55.1	15.5	15.0	3.10	3.25
Average	-4.25	-4.25	57.5	56.2	15.3	13.9	3.16	3.28
Standard Deviation	0.02	0.00	0.61	0.58	0.66	1.25	0.05	0.05
BCB Report (1)	-4.25	-4.25	57.00	55.40	15.0	13.5	3.10	3.25

(1) Average market expectatins collected by the Brazilian Central Bank on 06/25/2004

Table 7.4 FORECASTS FOR THE FOREIGN SECTOR (US\$ billions)

INSTITUTIONS	Trade Balance		Exports		Imports		Current Account		FDI	
	2004	2005	2004	2005	2004	2005	2004	2005	2004	2005
	Citibank	27.5	26.7	83.8	87.6	56.3	60.9	4.6	4.0	10.0
CSFB Garantia	29.0	27.0	86.0	89.0	57.0	62.0	5.9	3.8	10.0	12.0
HSBC	28.5	-	88.5	-	60.0	-	5.8	-	12.5	-
LCA Consultores	27.8	24.7	84.7	92.3	56.9	67.6	4.9	1.2	9.5	13.0
MB Associados	26.5	-	83.5	-	57.0	-	3.3	-	9.0	-
West LB	27.8	23.5	86.9	93.8	59.1	70.3	5.0	1.5	9.0	12.0
Average	27.8	25.7	85.4	90.7	57.0	64.8	5.0	2.7	9.7	12.5
Standard Deviation	0.86	1.66	1.93	2.88	1.47	4.50	# 0.94	1.48	1.30	1.41
BCB Report (1)	27.5	23.6	84.7	88.0	57.0	64.4	4.2	0.0	10.5	13.0

(1) Average market expectatins collected by the Brazilian Central Bank on 06/25/2004

8) Statistical Appendix

COMPARATIVE EVOLUTION OF INDICATORS

	IGP-M/ FGV			Commercial Dollar (var.%(1)			UMBNDDES (2)		
	month	year	12 months	month	year	12 months	month	year	12 months
Mar-03	1.53	6.26	27.78	-5.90	-5.10	44.29	-5.79	-4.67	48.94
Apr-03	0.92	7.24	30.61	-13.82	-18.22	22.31	-13.83	-17.85	25.47
May-03	-0.26	6.97	32.49	2.62	-16.07	17.57	2.97	-15.41	20.14
Jun-03	-1.00	5.90	32.97	-3.16	-18.72	0.96	-3.38	-18.27	1.98
Jul-03	-0.42	5.46	31.53	3.26	-16.07	-13.52	2.96	-15.86	-12.81
Aug-03	0.38	5.86	28.24	0.03	-16.04	-1.86	0.38	-15.53	-0.91
Sep-03	1.18	7.11	25.26	-1.45	-17.26	-24.95	-0.21	-15.71	-22.99
Oct-03	0.38	7.52	22.88	-2.30	-19.16	-21.65	-2.11	-17.49	-19.38
Nov-03	0.49	8.04	21.42	3.26	-16.53	-18.91	3.56	-14.55	-16.35
Dec-03	0.61	8.70	17.34	-2.07	-18.25	-18.26	-1.27	-15.64	-15.64
Jan-04	0.88	0.88	21.42	1.79	1.79	-16.63	1.97	-13.98	-13.85
Feb-04	0.69	1.58	12.10	-0.92	0.85	-18.26	-1.47	-15.24	-16.24
Mar-04	1.13	2.73	5.08	-0.18	0.67	-13.29	0.56	-14.77	-10.60
Apr-04	1.21	3.97	5.38	1.24	1.92	1.86	0.05	-14.73	3.80
May-04	1.31	5.33	7.04	6.26	8.30	5.48	6.44	-9.24	7.30
Jun-04	1.29	6.90	10.13	-0.69	7.56	8.17	-0.42	-9.61	10.60

Source: BNDES and Gazeta Mercantil.

(1) General Market Price Index. (2) Rate at end of period. (2) Exchange variation of the BNDES currency basket (UMBNDDES)

BNDES - Disbursements in April by Sectors			
Sectors	R\$ Millions		Var. % 2004/2003
	2004		
	this year	% year	
Agriculture	2,499	20	128
Industry	6,094	49	60
Metallurgy	449	4	17
Mechanics	482	4	289
Transport Materials (1)	2,841	23	105
Cellulose and Paper	323	3	82
Chemicals and Petrochemicals	286	2	17
Textile	123	1	15
Agro-industry	986	8	71
Extractive Industry	84	1	108
Others	519	4	12
Infrastructure	3,074	24	30
Construction	510	4	171
Electric Energy	927	7	8
Water Transport	208	2	243
Other Transport	1182	9	19
Telecommunications	113	1	295
Others	134	1	76
Commerce and Services	771	6	1
Education and Health	129	1	19
Subtotal	12,568	100	53
Secondary Market Investments	150		93
Total	12,718		54

Source: AP/DEORÇ

<http://www.bndes.gov.br/empresa/download/bol.pdf>

Note: (1) vessels, railroad equipment and aircraft

	Country risk spread			
	Monthly Averages			
	Brazil (1)	Argentina (1)	Latin America (2)	Emerging (3)
1999	1,233	901	852	1,110
2000	895	857	669	752
2001	1,044	1,556	859	841
2002	1,590	6,412	1,062	804
Apr-03	1,111	6,208	784	614
May-03	902	6,020	710	560
Jun-03	889	4,261	683	534
Jul-03	946	3,635	688	541
Aug-03	999	3,509	669	528
Sep-03	872	3,896	619	486
Oct-03	751	4,148	593	462
Nov-03	728	5099	583	462
Dec-03	598	3664	543	432
Jan-04	490	3658	497	399
Feb-04	713	4634	552	442
Mar-04	748	5145	548	437
Apr-04	803	3912	543	432
May-04	913	3293	656	529
Jun-04	897	3199	609	492

Source: CSFB and Macrodados

Notes: (1)Par-bond;(2) Emerging Markets Bond Index+; Argentina, Brazil, Colombia, Mexico, Panama, Peru, Ecuador and Venezuela;(3) EMBI+; Latin America (2), Bulgaria, Egypt, Malaysia, Morocco, South Africa, Turkey, Ukraine, Poland, Russia, Nigeria and Philippines

REAL RETURN ON FINANCIAL ASSETS (1)							
Month	SP Stock Exch.	Deposits	Over	Gold-Spot	US\$ Parallel	US\$ Commercial	CDB (2)
Jun/03	-2.37	1.94	2.89	-6.49	-0.97	-2.18	2.51
Jul	5.05	1.47	2.51	3.98	0.42	3.69	2.11
Aug	11.38	0.52	1.39	6.01	0.62	-0.35	1.07
Sep	4.28	-0.34	0.49	-0.75	-2.15	-2.61	0.11
Oct	11.89	0.44	1.26	-1.10	-1.37	-2.67	0.94
Nov	11.69	0.19	0.85	4.85	0.52	2.76	0.60
Dec	8.56	0.08	0.75	0.71	0.38	-2.67	0.50
Accrued 2003	79.97	2.20	13.46	-10.14	-24.05	-24.80	8.87
Jan/04	-2.59	-0.25	0.39	-2.67	0.12	0.90	0.19
Feb	-1.12	-0.15	0.39	-3.05	-2.33	-1.60	0.17
Mar	0.64	-0.45	0.24	5.03	-0.46	-1.30	-0.05
Apr	-12.51	-0.62	-0.03	-8.49	-1.20	0.03	-0.26
May	-1.61	-0.64	-0.08	7.52	3.97	4.89	-0.32
Accrued 2004	-16.55	-2.08	0.91	-2.48	0.00	2.82	-0.27

Source: Gazeta Mercantil.

(1) Deflated by the IGP-M. (2) Certificate of Deposit

COST OF CREDIT (1)							
Month	TJLP (2)	LIBOR (3) (6 months)	Fixed rate working capital (4)	ACC(5)	BNDES Transfers (6)		
					Automatic BNDES/FINAME	Agricultural FINAME	
Jun/03	-	1.08	39.07	5.65	1.0 to 4.5	1.0 to 4.5	
Jul	12.00	1.12	38.73	5.15	1.0 to 4.5	1.0 to 4.5	
Aug	-	1.20	37.76	5.30	1.0 to 4.5	1.0 to 4.5	
Sep	-	1.19	35.00	5.05	1.0 to 4.5	1.0 to 4.5	
Oct	11.00	1.20	34.19	5.30	1.0 to 4.5	1.0 to 4.5	
Nov	-	1.29	34.12	4.95	1.0 to 4.5	1.0 to 4.5	
Dec	-	1.24	31.92	4.99	1.0 to 4.5	1.0 to 4.5	
Jan/04	10.00	1.19	32.48	4.86	1.0 to 4.5	1.0 to 4.5	
Feb	-	1.19	33.77	4.85	1.0 to 4.5	1.0 to 4.5	
Mar	-	1.16	32.19	5.26	1.0 to 4.5	1.0 to 4.5	
Apr	9.75	1.28	32.47	4.91	1.0 to 4.5	1.0 to 4.5	
May	-	1.52	31.50	4.69	1.0 to 4.5	1.0 to 4.5	
Jun	9.75	1.84	31.37	4.60	1.0 to 4.5	1.0 to 4.5	

Source: Central Bank.

Notas: (1) Working capital, Res. 63, Invoice Discount, Export notes and ACC (Anticipation of Exchange Contracts), calculated from data obtained from SISBACEN. (2) Long term interest rate, (3) % per annum. (4) % per annum plus exchange rate correction. (5) Anticipated rate - % per month (monthly average). (6) % per annum + TJLP [Long Term Interest Rate]. As of August 1997: % per annum + TJLP [Long Term Interest Rate] + risk spread of financial agent. (7) The significant variations of the rates for this item in most recent months are the result of methodological issues in reference to the number of researched institutions. For more information, refer to SISBACEN.

ECONOMIC INDICATORS										
month	Price variation rate(%)						Referential Interest Rate (%)	Exchange Rate - Sell SP R\$/US\$		
	IPCA (1)	IPC (2) (FIPE)	IGP-M (3) (FGV)	IGP-DI (3) (FGV)	IPA-DI (4) (FGV)	IPA Ind (4) (FGV)		Commercial Average	Commercial (1)	Parallel (1)
	Apr/03	0.97	0.57	0.92	0.41	0.07				
May	0.61	0.31	-0.26	-0.67	-1.68	-1.15	0.47	2.96	2.97	3.06
June	-0.15	-0.16	-1.00	-0.70	-1.16	-1.21	0.42	2.88	2.87	3.00
July	0.20	-0.08	-0.42	-0.20	-0.59	-0.66	0.55	2.88	2.97	3.00
August	0.34	0.63	0.38	0.62	0.70	0.29	0.40	3.00	2.97	3.03
September	0.78	0.84	1.18	1.05	1.29	0.40	0.34	2.92	2.92	3.00
October	0.29	0.63	0.38	0.44	0.50	0.18	0.32	2.86	2.86	2.97
November	0.34	0.27	0.49	0.48	0.46	0.54	0.18	2.91	2.95	3.00
December	0.52	0.42	0.61	0.60	0.74	0.80	0.19	2.93	2.89	3.03
Accrued 2003	9.30	8.17	8.71	7.67	6.26	6.91	4.65	-	-	-
Jan/04	0.76	0.65	0.88	0.80	0.75	1.20	0.13	2.85	2.94	3.03
February	0.61	0.19	0.69	1.08	1.42	2.29	0.05	2.93	2.91	2.98
March	0.47	0.12	1.13	0.93	1.09	0.94	0.18	2.91	2.91	3.00
April	0.37	0.29	1.21	1.15	1.57	1.86	0.09	2.91	2.94	3.00
May			1.31							
Accrued 2004	2.23	1.25	5.33	4.02	4.92	6.42	0.44	-	-	-

Source: Gazeta Mercantil.

(1) Extensive Consumer Price Index; (2) Consumer Price Index; (3) General Market Price Index; (4) Wholesale Price Index; (5) Price at end of period.

Performance of Brazilian Exports to the United States, in the 1995-2003 Period

Fernando Pimentel Puga*

1. Introduction

The recent performance of Brazilian foreign trade attracts the attention both for its successive export records, as well for the diversification of consumer markets. In fact, Brazilian exports grew 21% in 2003, accompanied by an increase of 33% in sales to Asia and 29% to Eastern European countries. In China alone, Brazilian sales increased 80%. In other non-traditional markets, such as South Africa, Bulgaria and Romania, the increases were greater than 50%. On the other hand, the performance of Brazilian exports had been more modest in the case of sales to the United States, a country that has traditionally been the country's main consumer market. In 2003, such sales increased 8.8%. In the first five months of 2004, this performance was even lower, with an increase of 1.1% compared to the same period of 2003, while total Brazilian exports increased by 25% in the period.

This note's objective is the gain a better understanding of the behavior of Brazilian exports to the United States in the last years, highlighting the analysis of the product range's composition. In addition to this introduction, the study has three sections. Section 2 traces an overview of the trade balance between the two countries and compared the performances of the total Brazilian exports with sales to the United States. Section 3 analyzes the composition of the product range and highlights the analysis on the sales behavior of determined products. Section 4 summarizes the note's conclusions.

2. Overview of Brazil – United States Trade

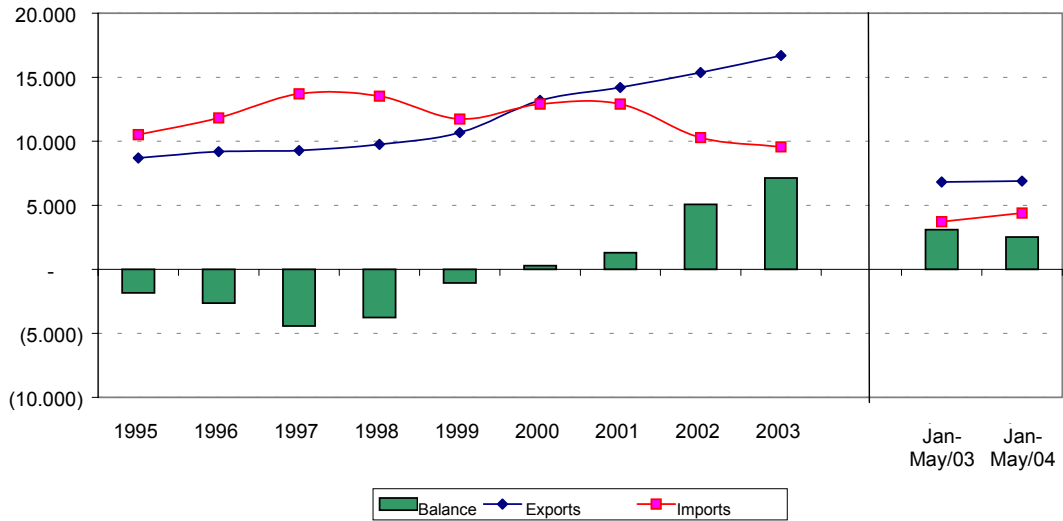
In 2003, Brazilian exports to the United States totaled US\$ 16.9 billion, compared to US\$ 15.5 billion in 2002. The recent result maintained the United States as the main consumer market for Brazil, but caused the country to occupy the second place in the statistic, when considering the countries of the European Union as a block (exports to the European Union increased from US\$ 15.1 billion in 2002, to US\$ 18.1 billion in 2003)¹.

The United States, in the meantime, passed to be the main responsible for Brazil's positive trade balances. In fact, as of 2001, Brazil started to accrue significant trade surpluses with the United States, as is demonstrated in Graph 1, reverting a significant deficit in the balance. In 2003, the balance was positive by US\$ 7.2 billion (29% of Brazil's balance of US\$ 24.8 billion). In the last years, there was a significant increase in Brazilian exports to the country, as well as a decrease in imports. This scenario changed in the first five months of 2004, with Brazilian imports growing 18% as exports to the United States remained at practically the same level that was registered in the same period of 2003.

* The author extends his gratitude for the comments of Francisco Marcelo Rocha Ferreira and Lavinia Barros de Castro.

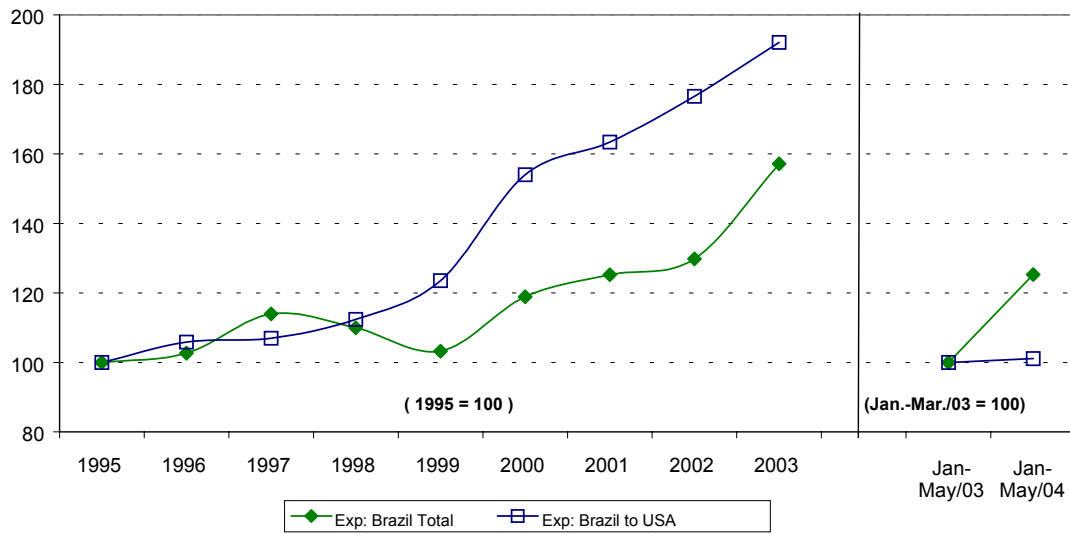
¹ In the last years, the United States and the European Union, switched positions as the main consumer market for Brazilian exports.

Graph 1
Trade Balance: Brazil – United States (US\$ millions)



Brazilian exports to the United States have grown continuously since 1996. In 1998 and 1999, the increase in sales to the American market offered partial compensation for the decrease in exports to other countries. In all, in 2003 the performance of exports to the United States remained below the total growth. In the first five months of 2004, this difference in performance became sharper, as is illustrated in Graph 2.

Graph 2
Growth of American Imports and Brazilian Exports to the United States



3. Range of Brazilian Exports to the United States

The analysis of the range of Brazilian products exported to the United States reveals a larger concentration in products of medium and high technological intensity, when compared to the composition of total Brazilian exports. Table 1 highlights the main exporting sectors to the United States, responsible for approximately 64% of the sales value to the country in 2003, and purchases with the respective share in the total Brazilian exports.

Table 1
Importance of United States in Brazilian Exports, by Product - 2003

Products	Export to USA		Total from Br. Exp.		USA Share
	(US\$ million)	(%)	(US\$ million)	(%)	(%)
Food and Beverages	974	5.8	13,451	18.4	7.2
• Meat and Fish	367	2.2	4,503	6.2	8.2
• Juice and fruit conserves	245	1.4	1,505	2.1	16.3
• Other	362	2.1	7,443	10.2	4.9
Leather and Footwear	1,181	7.0	2,779	3.8	42.5
• Leather	94	0.6	1,059	1.4	8.9
• Leather Items	77	0.5	97	0.1	79.4
• Footwear	1,010	6.0	1,622	2.2	62.3
Oil and Alcohol	1,273	7.5	1,811	2.5	70.3
• Fuel Oil	1,263	7.5	1,658	2.3	76.2
• Other	10	0.1	153	0.2	6.5
Metallurgy	1,750	10.4	7,647	10.5	22.9
• Semi-finished steel	827	4.9	2,691	3.7	30.7
• Non-ferrous metals metallurgy	653	3.9	2,560	3.5	25.5
• Other	270	1.6	2,396	3.3	11.3
Machinery and Equipment	1,122	6.6	4,388	6.0	25.6
• Compressors, motors, pumps,...	481	2.8	1,155	1.6	41.6
• Extraction and Construction Ind. Mach.	196	1.2	733	1.0	26.7
• Other	445	2.6	2,500	3.4	17.8
Electronic and Communications Materials	1,274	7.5	1,964	2.7	64.9
• Basic Electronic Materials	95	0.6	333	0.5	28.5
• Transmission Devices (cellulars, ...)	997	5.9	1,296	1.8	76.9
• Reception Devices (TV, radio,...)	127	0.8	163	0.2	78.0
Automotive Vehicles	1,681	9.9	7,152	9.8	23.5
• Autoparts	804	4.8	2,366	3.2	34.0
• Automoboes, station wagons and utility vel	550	3.3	3,115	4.3	17.6
• Busses, trucks and car bodies	327	1.9	1,672	2.3	19.5
Aviation, Railroad, Vessels and Motors	1,850	10.9	2,288	3.1	80.9
• Medium-sized aircraft	1,693	10.0	1,880	2.6	90.1
• Other	157	0.9	408	0.6	38.4
Other and Not Classified	5,797	34.3	31,605	43.2	18.3
Total	16,901	100.0	73,084	100.0	23.1

The absence of the agricultural sector in the table is striking, the sales of which to the United States registered at only US\$ 623 million in the year (8.0% share of the sector's total exports). In fact, the United States appears mainly as Brazil's competitor in third markets, instead of being demanders for Brazilian agricultural products. Brazilian exports are also affected by the American protection and high subsidies to the sector.

The remainder of this section analyzes in greater detail Brazilian exports for the following products: footwear, transmission devices and autoparts.

• Footwear

The United States is, by far, the main foreign consumer of Brazilian shoes. In the meantime, Brazilian exports of the product to this market have remained at around US\$ 1 billion (see Graph 3). In the first five months of 2004, sales to the United States registered a slight decrease, while exports to other countries increased. Brazil has been affected mainly by competition with China in the American market, which exports the product for a slightly lower price than that of the Brazilian product. Between 1995 and 2002, the average price of shoes sold from Brazil to the United States remained at US\$ 12.76, above the value of US\$ 11.35 of Chinese shoes.

Graph 3
Brazilian Footwear Exports, by Destination (US\$ millions)

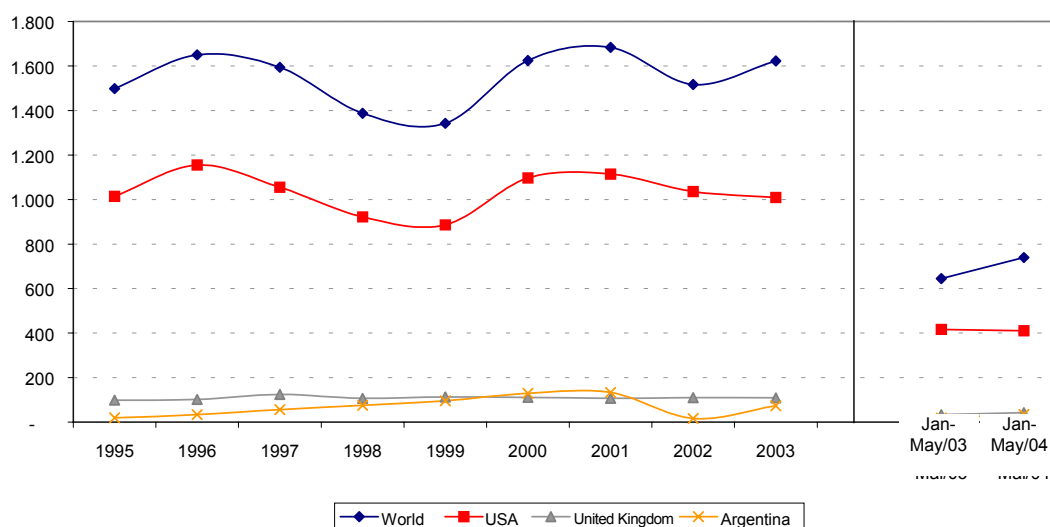


Table 2 illustrates Brazil's share in American shoe imports. The data shows that Brazilian sales of the product were not very dynamic, although American imports have grown significantly in the last years. In this way, Brazil's share of shoes purchased by the United States decreased from 8.1% in 1995 to 6.2% in 2003. The increase of American imports was basically aimed at Chinese footwear, whose participation in that market increased from 45% in 1995 to 63% in 2002.

Table 2

Brazilian Share in Footwear Imports by the United States

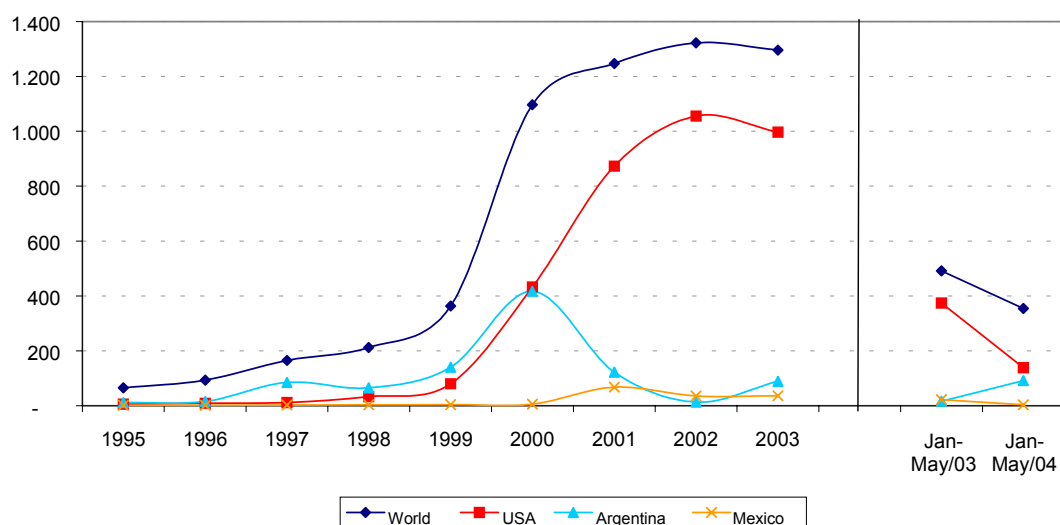
	1995	2000	2003
Imports by the United States			
• Total	12,584	15,575	16,325
• Originating from Brazil	1,015	1,098	1,010
Brazilian Share	8.1%	7.0%	6.2%

- **Transmission Devices**

Brazilian exports of transmission devices, mainly cellular phones, increased significantly in the last years, favored by the arrival of multinational companies to the country. Initially, sales were aimed mainly at Argentina. As of 2000, in the meantime, the United States became the main consumer market. The concentration of sales to this country became significantly sharper in the two following years, with the worsening of the economic situation in Argentina. In 2003, and especially in the first five months of 2004, this trend was reversed. In fact, while sales to Argentina increased, exports to the United States decreased sharply. Sales of portable cellular telephony transmission devices, for example, decreased from US\$ 329 million in the first five months of 2003, to US\$ 105 million in the same period of 2004.

Graph 4

Brazilian Exports of Transmission Devices, by Destination (US\$ millions)



Brazil's share in American imports of transmission devices increased significantly in the period of 1995 to 2002, accompanying the growth movement of the product's Brazilian exports. In 2002, Brazil was responsible for 4.3%, a historic record, of American purchases in the sector. On the other hand, this share decreased in 2003, with the decrease in Brazilian exports, in spite of the growth of imports by the United States.

Table 3

Brazilian Share in Imports of Transmission Devices by the United States						
	1995	...	2000	2001	2002	2003
Imports by the United States						
• Total	11,146	...	26,360	24,568	24,275	26,486
• Originating from Brazil	6	...	433	873	1,056	997
Brazilian Share	0.1%	...	1.6%	3.6%	4.3%	3.8%

- **Autoparts**

The American market was responsible for 34% of Brazilian autopart exports in 2003. In contrast with the two segments analyzed above, Brazil's sales to the United States have increased continuously since 2001, as is illustrated in Graph 4. When analyzing a longer period, however, a worse performance is noted for the sale of autoparts to that market (average annual growth of 2.4%, from 1995 to 2003), even when compared to the performance of total Brazilian exports in the sector (average annual growth of 3.0% in the period).

Graph 4

Brazilian Exports of Autoparts, by Destination (US\$ millions)

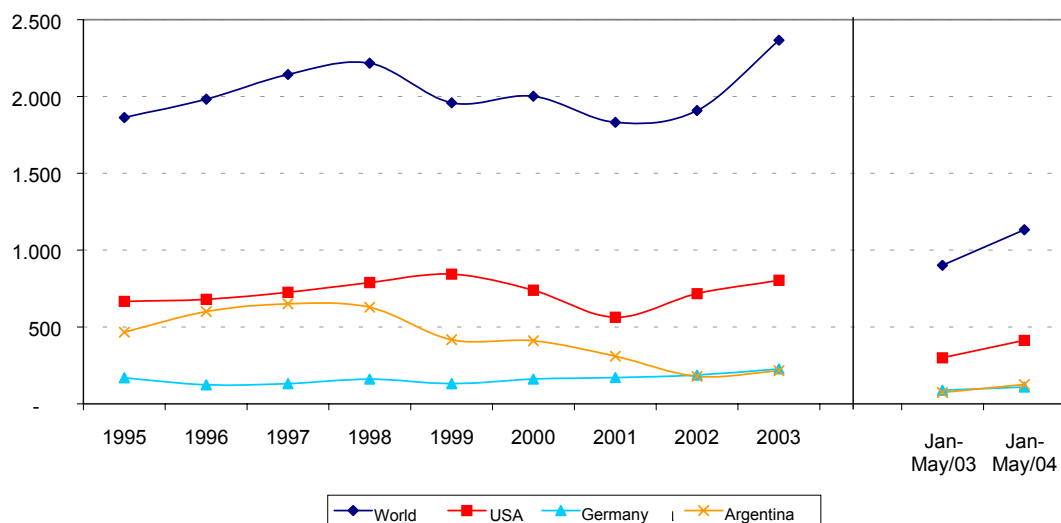


Table 11 shows that the low growth of Brazilian autopart exports to the United States was accompanied by a decrease in Brazil's share in that market. After being responsible for 2.9% of American imports for the product in 1998, the share decreased to levels around 2.0% in the last years.

Table 4

Brazilian Share in Autopart Imports by the United States						
	1995	...	2000	2001	2002	2003
Imports by the United States						
• Total	24,757	...	34,747	32,421	35,777	39,362
• Originating from Brazil	666	...	739	563	717	804
Brazilian Share	2.7%	...	2.1%	1.7%	2.0%	2.0%

- **Regional Aviation**

The United States has remained as the main consumer market for medium-sized aircraft (weight between 2 and 15 tons). However, Brazilian sales to the American market since 2001 have decreased significantly, although this decrease has been lower compared to the performance in other markets.²

Graph 4

Brazilian Exports of Medium-Sized Aircraft, by Destination (US\$ millions)

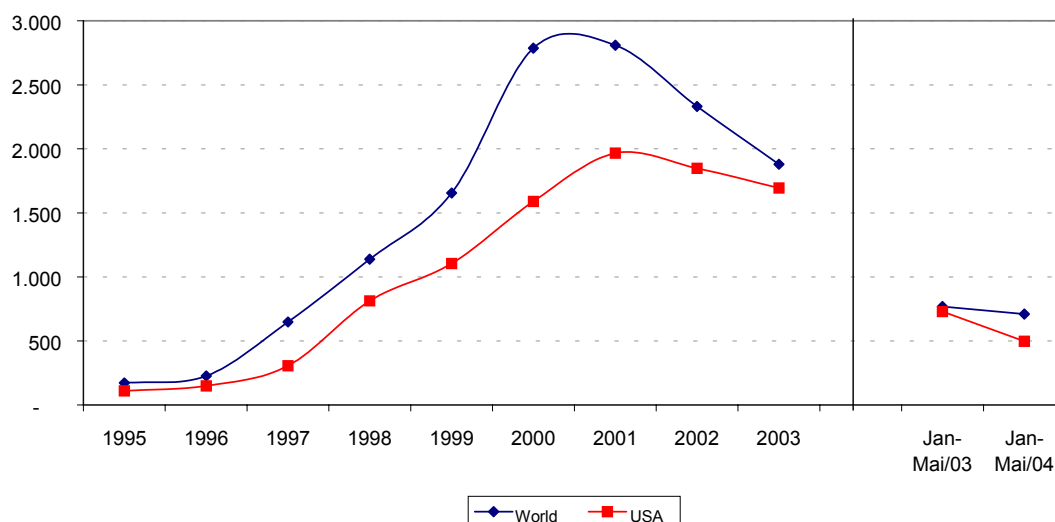


Table 5 shows that this decrease in Brazilian medium-sized aircraft exports to the American market was accompanied by a decrease in the share of imports by the United States. It should be noted that the American medium-sized aircraft imports have grown in the 2002/2003 period, in spite of September 11th. This growth, in the meantime, translated mainly in an increase of aircraft imports from Canada. Its share in the American market for medium-sized aircraft increased from 36% in 2000 to 49% in 2003.

² It should be noted that the decrease in aircraft sales in the period should not be seen as a decrease in Embraer's exports, that also sells aircraft parts. In fact, the company's exports increased 6.7% in 2003, compared to the previous year.

Table 5

Brazilian Share in Imports of Medium-Sized Aircraft by the United States						
	1995	...	2000	2001	2002	2003
Imports by the United States						
• Total	1,692	...	5,371	6,579	6,554	6,395
• Originating from Brazil	110	...	1,589	1,967	1,848	1,693
Brazilian Share	6.5%	...	29.6%	29.9%	28.2%	26.5%

4. Conclusion

The study highlights the low performance of Brazilian exports to the United States. Since 2003, but mainly in the first five months of 2004, Brazil expanded its foreign sales significantly, mainly to non-traditional markets for the country. In the meantime, the country's performance has been much more modest with regards to the United States, its main consumer market.

The table above is notable mainly when observing that Brazilian exports to the United States tend to be medium and high technology products. In 2003, the American market was responsible for more than 75% of Brazilian aircraft and transmission device (mainly cellular telephony) exports. In both cases, there was a significant decrease in sales to the United States in the first five months of 2004, compared to the same period of 2003.

The situation is more troublesome when put in contrast with China's (Brazil's third largest consumer market) current strategy to promote the strengthening of its productive structure. The country has increased its exports of more elaborated products and demanded increasingly more products in the raw stages of the production chain. In Brazil, this effect is very clear when noting, for example, the significant increase of grain soy exports (see special report in March's Economic Bulletin). In summary, the study alerts towards the importance of offering greater attention at the American market, seeking to avoid a strong concentration of Brazilian exports in primary products, that are vulnerable to price fluctuations and phytosanitary barriers.