

Brazil Expecting 7% Inflation for 2004

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The Cost of Living index in the municipality of São Paulo, Brazil's largest city, rose 0.69% in August, compared to 1.21% in July, reports the union-linked socio-economic study institute Dieese (Departamento Intersindical de Estatística e Estudos Sócio-Econômicos). Dieese says the September index should be about the same as August. A spike in Food prices, up 1.34%, drove the index and inflation up in August. Other pressure came from Health prices (up 1.18% because of the rising costs of health plans) and Transportation (up 1.05% because of jumps in fuel prices, with alcohol up 9.59%).

Cornélia Nogueira Porto, who coordinates the Dieese price survey, says that the increases are within the bounds of government inflation targets. The official inflation target for the year is 5.5%, give or take 2.5 percentage points. "By December inflation will be around 7%," says Porto.

The Cost of Living Index (ICV) in the municipality of São Paulo rose 1.21% in July, the second biggest increase this year, second only to January's figure of 1.46%.

The ICV for July was 0.09% higher than in June. Last July (2003) the index was 0.35%. The largest increases in July occurred in electric bills, telephone services, fuel, insurance, and health plans.

The ICV in the capital of São Paulo was 9.55% in 2003. The rate in 2003 was less than it was in 2002 (12.93%).

According to the coordinator of the study, Cornélia Nogueira Porto, the largest increases registered last year were for services, such as telephone service, water, electricity, and schools.

Contractual readjustments were the origin of the increases. "These contractual readjustments are based on past inflation. Since inflation in 2002 was rather high, the result was a big increase in this type of service," Porto explained.

Consequently, the products that rose greatly in 2002 contributed to a drop in inflation in 2003.

Health (15.16%) was responsible for part of the inflationary pressure, due to increases in the prices of remedies and health plans.

"Health insurance and health coverage, which were readjusted as a result of changes in the legislation, suffered increases of around 19%, a rate which is much higher than a level of inflation under 10%," she affirmed.

Food, for its part, rose less than inflation, which, according to Porto, occurred because the food group underwent significant increases in 2002. "Since the increases were great in 2002, there was no need to raise prices in 2003," she said.

In January, the expectation for 2004 was for an increase of 5-6%. In the coordinator's assessment, the dollar should remain stable and should not exert any pressure on the prices of goods and services

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