Monthly Economic Outlook

Aug | 2012

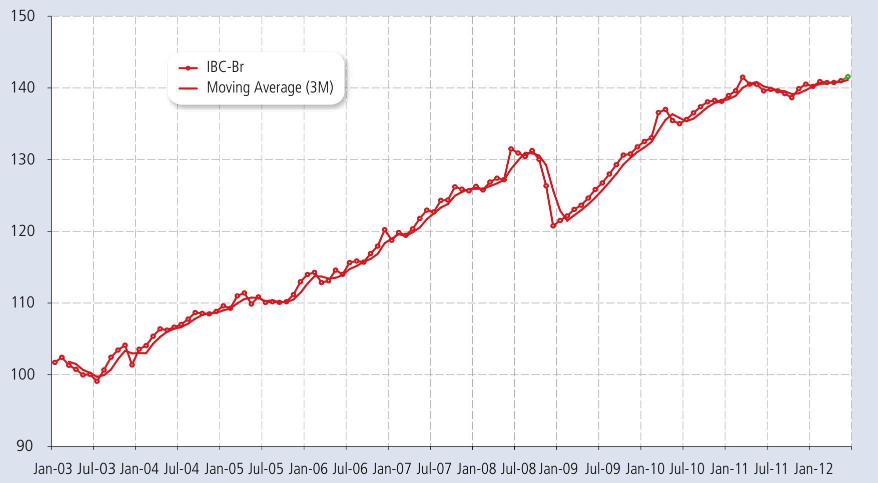
VotorantimAsset

Brazilian Economy Shows Moderate Reaction to Monetary and Fiscal Stimulus

As a result 3Q11 GDP registered a decline of 0.1% from previous quarter

Over the last four quarters the Brazilian economy has been practically stagnant, with GDP surprising to the downside since 3Q11, due to the worsening of the European crisis and the high benchmark Selic rate that was in place during the preceding months. As a result 3Q11 GDP registered a decline of 0.1% from the previous quarter. The pace of recovery has been disappointing since then, with two quarters of timid expansion of 0.2%. Following a strong injection of monetary stimulus (the Selic was reduced from 12.50% to its current historic low of 8.0%) and fiscal stimulus (the exemption of the IPI industrial products tax on automobiles and white goods) the expectation was that the economy would signal a more significant recovery in 2Q12. However, the economic indicators that were recently released are signaling that IBGE's announcement of this quarter's GDP on August 31st might once again be disappointing. Our projection models are pointing to growth that is only marginally better than the weak performance of the first two quarters. Currently we are expecting a more relevant acceleration of economic growth for 3Q12 and 4Q12 of (1.2% and 1.3% respectively, corresponding to an annualized GDP of more than 4%). Nevertheless, even with this projected recovery during the next two quarters, the GDP for 2012 is likely to come in below the disappointing performance of 2011. We are forecasting a 2012 GDP expansion of only 1.5%, following last year's GDP growth of 2.7%. The upside is that on the political front there are positive signs that these weak growth numbers will provoke the passage of measures that will contribute to making the Brazilian economy more competitive.

Brazil's IBC-Br Economic Activity Index
(Monthly series seasonally adjusted)



Note: Monthly variation seasonally adjusted

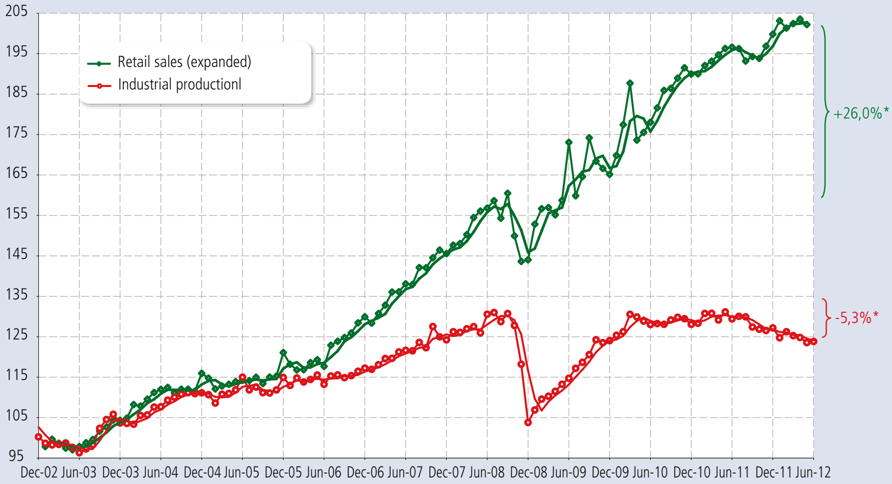
Source: Central Bank of Brazil | Preparied by VAM

This second graph shows that, far from being generalized, the stagnation of Brazilian economic activity ever since the middle of last year continues to present sectorial performances which are quite uneven. It is increasingly evident that the difficulty of the Brazilian industrial sector to resume stronger growth is not due to a lack of demand for products. This graph illustrates the performance of the Brazilian retail market, with a cumulative high of 26% since the onset of the international crisis in 2008. It is also increasingly evident that the greatest challenge for Brazilian industrial production is to attain the competitive advancements that are needed in a global environment of ever more intense competition. With the rising costs of producing industrial goods in Brazil, the bulk of this growth in demand has "leaked" to other countries by way of increased importation. In this regard, it is a positive sign that the government has been implementing measures to reduce the cost of domestic production. In addition to specific tax cuts, there are signs that over the coming months the government should announce measures to reduce the cost of electricity as industrial input. These measures to increase national competitiveness are essential in order for Brazil to sustain higher rates of growth over the coming years.

In addition to specific tax cuts, there are signs that over the coming months the government should announce measures to reduce the cost of electricity as industrial input

IBGE: Retail Sales vs Industrial Production

Monthly series seasonally adjusted (base index 2003=100)



*cumulative variation compared to the level of 3Q08

Source: IBGE