February | 2012

# Monthly Economic Outlook

# U.S. Economy Shows Moderate Reaction to Monetary Policy Stimulus

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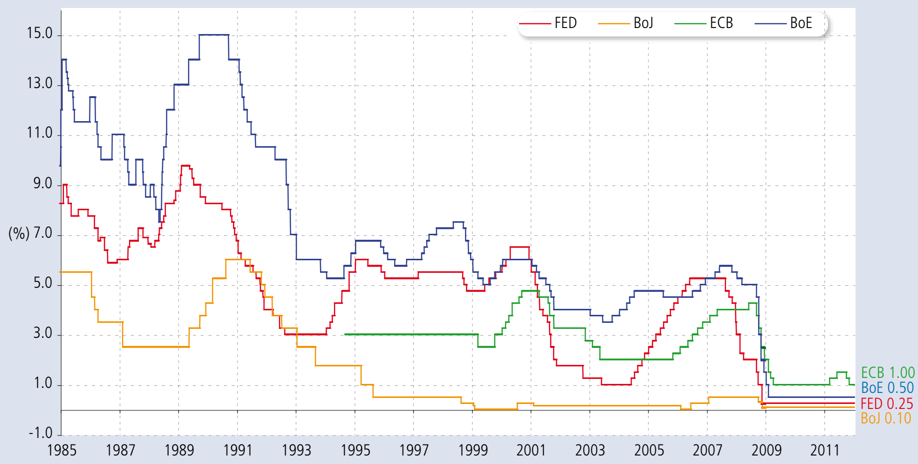
Since December 16th of 2008 the U.S. economy has coexisted with a federal funds rate that has been hovering close to zero. In addition to the greatest possible economic stimulus that could be fostered by conventional economic policy, the Fed also carried out two rounds of non-conventionaleconomic stimulus in 2009 and 2010 by raising the amount of assets on its balance sheet from US$ 900 billion in 2008 to approximately US$ 2.9 trillion currently. On January 25th of this year the Chairman of the Federal Reserve, Ben Bernanke signaled that even more stimulus could be on the way when he said "another round of quantitative is being evaluated". Just hours before that the monetary policy committee made the following statement: "economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least until late 2014".

**Interest Rates of the Major Central Banks**
evolution since 1985




Source: Bloomberg. | Elaboration: Votorantim Wealth Management & Service.

Despite this unprecedented level of economic stimulus the Gross Domestic Product (GDP) in the United States registered only a moderate increase of 1.7% in 2011 and it is expected to see only modest growth of around 2.0% in 2012. Therefore in the aftermath of the Great Recession of 2008 and 2009 the U.S. economy is still functioning at a level of inactivity that has reassured the Fed that there are still no significant inflationary risks in the United States. The unemployment rate remains above 8.0%, which is a level that has not been seen since the recession of 1981, and industrial production and capacity utilization currently stands at 78.1%, which is still below the historical average of the last forty years.

If inflation is still far from being the central concern of the Fed, the risks of a double-dip recession still seem to worry that monetary authority. In addition to high unemployment the Fed describes the real estate sector (the origin of the whole crisis in 2008) as still "depressed". Private investment has shown signs of slowing, and the Fed's principal concern expressed in the January communiqué was that "strains in global financial markets continue to pose significant downside risks to the economic outlook". Despite some short-term relief, the central concerns persist in the fiscal situation of the countries of the eurozone.

The upside is that U.S. economic indicators have been showing some improvement over the last few months. Even though the unemployment rate remains high (8.3% in January), the tendency towards its reduction continues to persist with the creation of new jobs that has taken place in recent months (see graph). Retail sales continue to point to a steady recovery even though U.S. industries (like those in Brazil) have only been able to partially benefit from this resurgence of domestic demand. Finally, leading indicators like the ISM, point to the continued recovery of GDP, albeit at a moderate pace. Therefore the international scenario continues to benefit from the gradual recovery of the U.S. economy. Nevertheless, structural problems and risks arising from the ongoing fiscal and financial crisis in Europe, still call for a good deal of caution, not only for the Fed but also for the market as a whole.

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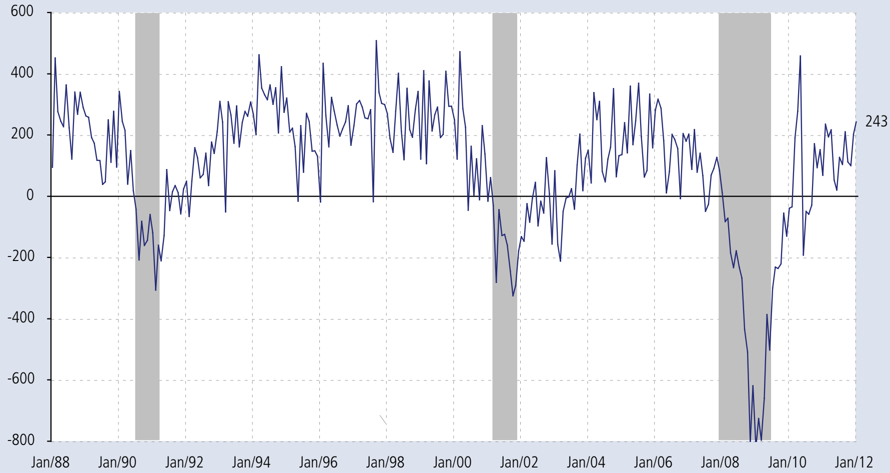
**USA: Net Change in Payroll Employment**
(US Change in Nonfarm, Payrolls)




Note: The shaded areas denote periods of recession in the US economy.
Source: BSL and NBER