March | 2012

Monthly Economic Outlook

VotorantimAsset

The Dangerous Recovery of the Global Economy

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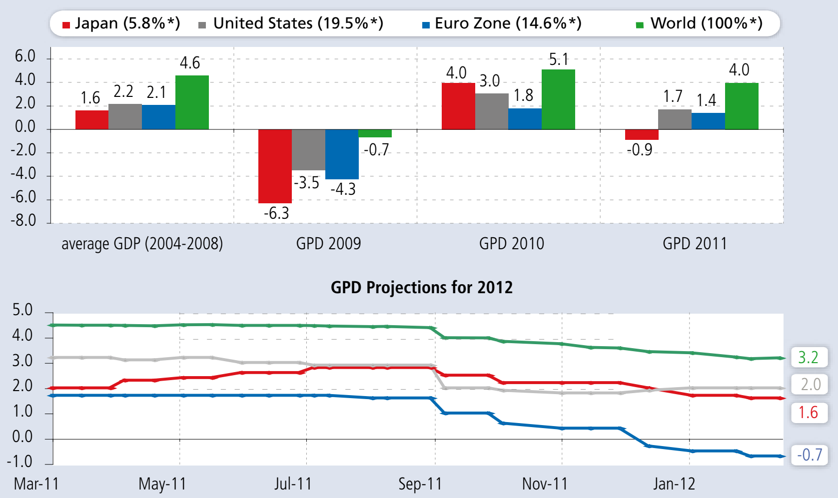
The graphs on this page illustrate the dangerous recovery of the global economy following the 2009 collapse (0.7% drop in global GDP, the worst performance in the post-World War II era). If 2010 demonstrated an elevated rate of recovery in global GDP growth of 5.1%, (the third largest growth since 1976) that was driven by the performance of the emerging countries and by the ample monetary stimulus injected into the developed countries, then 2011 demonstrated a significant deceleration in growth to a level of 4.0%. For 2012, the risks arising mainly on the European front penalize the projections for global growth yet again, lowering them to around 3.2%.

Europe, Japan and USA: GDP Growth
Annual variation in GDP between 2004 and 2010 and projections for 2011 and 2012.



Sources: *Participation in the Global GDP (PPP) 2010, The Economist, FMI and Bloomberg.
Prepared by VAM.

Regarding the European crisis, when we observe the evolution of growth projections for Europe, the strong deterioration which has occurred on that front since last September is quite evident (see graph). The structural problems associated with the high indebtedness of European governments together with the perspective of anemic economic growth over the long term, and the political difficulties encountered by the pan-European institutions, which have been unable to implement the necessary adjustments, have caused projections for the 2012 GDP to drift from a positive 1.7% to a negative (recessionary level) 0.7%. Over the short term, the European Central Bank's strong performance in providing liquidity to local banks (in excess of one trillion euros since the end of 2011), has helped stem the worsening of the 2012 economic outlook. However, the structural problems mentioned above are still present, and the difficulties related to the most vulnerable countries in the region (the PIIGS - Portugal, Italy, Ireland, Greece and Spain) still have considerable potential to raise new concerns over the coming months.

As has been the rule in recent years, emerging countries will continue to be the greatest source of global GDP growth. However, we have observed that in light of this more adverse international environment, even the BRICs (Brazil, Russia, India and China) have been presenting recurring reductions in their growth projections for 2012. One significant indication of this downward trend came in a speech made by the Chinese Premier on

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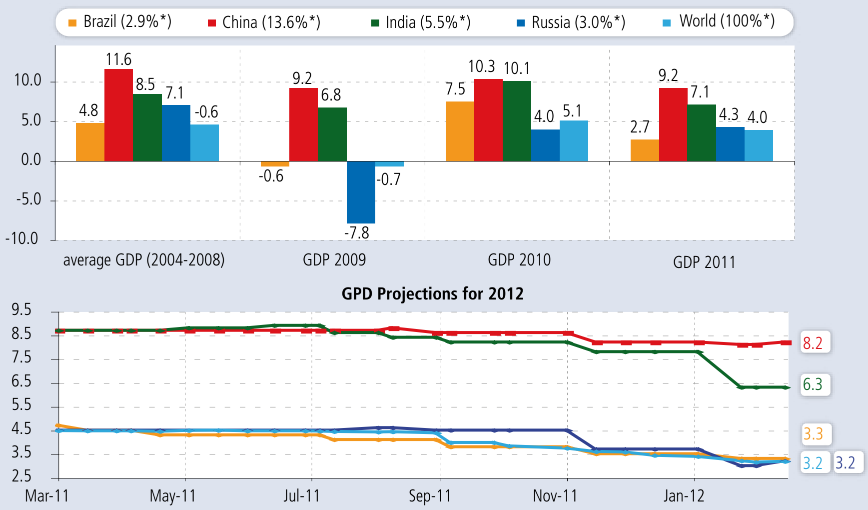
March 5th, in which the target growth projection for 2012 was reduced to 7.5%, abandoning the magic number of 8% that had prevailed over the last seven years. Of course this target is obviously symbolic in nature due to the fact that real growth has always come in higher than the rate set each year by the government. However, the most relevant message was that in light of the current international scenario the GDP over the last three decades, based on investment and exports, has led to an "unbalanced, uncoordinated and unsustainable" development which should now be altered through the increased participation of domestic household demand in the composition of China's Gross Domestic Product.

As a backdrop for the economy and for the Brazilian markets, the current international outlook, though troubling, is still far from being completely negative. The current rate of growth in emerging countries still maintains the prices of the products exported by Brazil (mainly commodities) at high levels. While on the other hand, the low interest rates in the developed countries not only add upward pressure to the prices of these commodities, but also provoke a strong flow of international capital into Brazil. Such capital inflows present a risk of overvaluation of the Brazilian currency, which in turn hampers the competitiveness of some important sectors of the Brazilian economy. Nevertheless, this abundance of international capital has helped Brazil become one of the major destinations for productive inflows of foreign direct investments. The main concern regarding the international scenario is that a renewed worsening of the European fiscal crisis could once again undermine the prospects for global growth, and clog the arteries of the international financial system.

BRICs: GDP Growth
Annual variation in GDP between 2004 and 2010 and projections for 2011 and 2012.



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