Economic Overview

April, 2014

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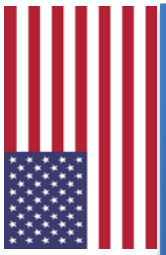
Economies in different paces



The American economy again gave signs of recovery from the adverse effects of a rigorous winter. In spite of the low GDP growth in the first quarter, retail sales grew (1.1% in March), the largest monthly growth since September of 2012, while manufacturing expanded 0.7% in March. The job market's April data was a positive surprise. After 4 months of relative stability, the unemployment rate changed from 6.7% to 6.3%. The strong creation of jobs, 288 thousand jobs, the best result since January of 2012 was also noteworthy.

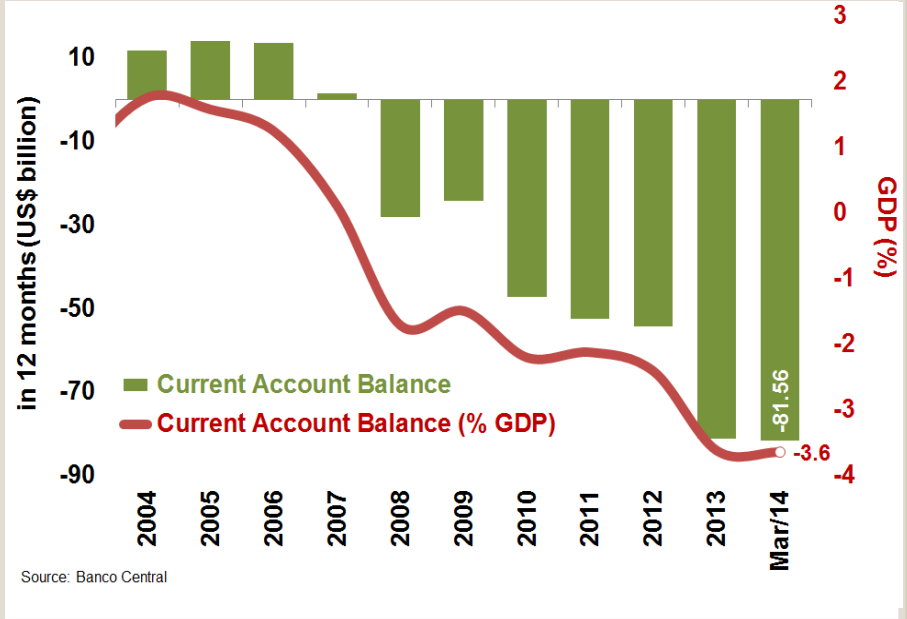
European consumer confidence preview indicates a slight improvement in April. Thus, even with the tension between the Ukraine and Russia, this shows consumer optimism in April. Likewise, the PMI Composite Index preview also shows optimism among purchasing managers, pointing out the index may reach 54 points, from 53.1 in March.

The signs of slowdown in China materialized with the disclosure of the GDP in the first quarter, which closed at 1.4% (qtr/previous qtr, non-seasonal series), an amount slightly below that expected by the market (1.5%). In relation to the same period in 2013, the growth also decreased, changing from 7.7% to 7.4%.

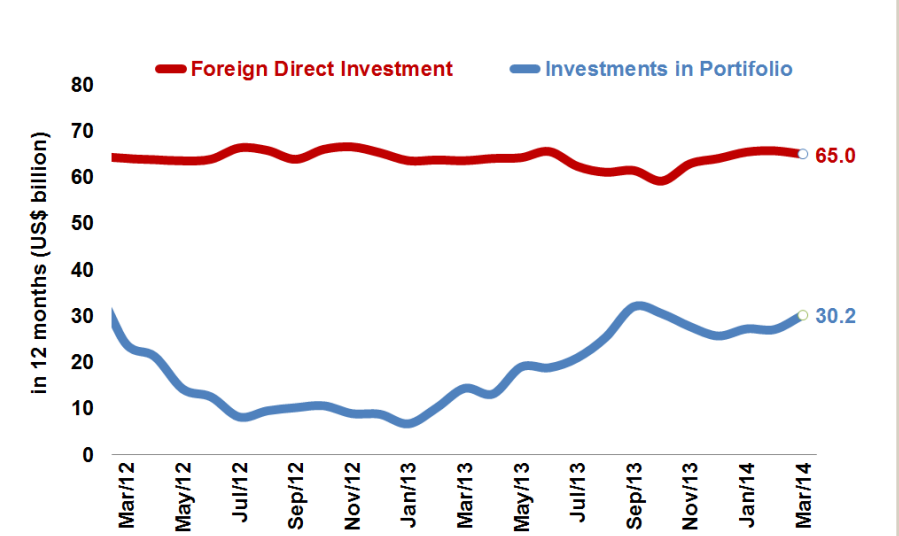
Brazil

International: current account and FDI

- International accounts did not undergo substantial changes from February to March. Thus, the 12-month current account balance accrued a deficit of US$ 81.6 billion (-3.6% of GDP).
- In spite of the high current transactions *deficit*, the balance of payments posted a surplus for the third consecutive month.
- This result is due to strong increase of net incoming funds through the financial-capital account, mainly through the portfolio investments.



Source: Banco Central



Source: Banco Central do Brasil

Exchange rate

The uncertainties concerning the next steps of US and European monetary policy have provided a less adverse environment for emerging economies.

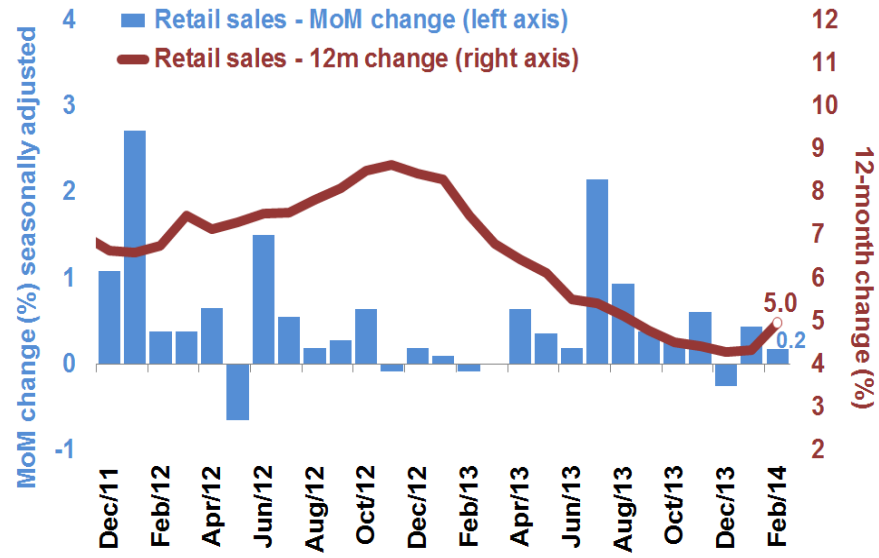
This is being reflected on an increase of financial investment flow (variable and fixed income) in emerging markets.

In Brazil's case, this process is intensified by interest differences between the domestic and international markets.

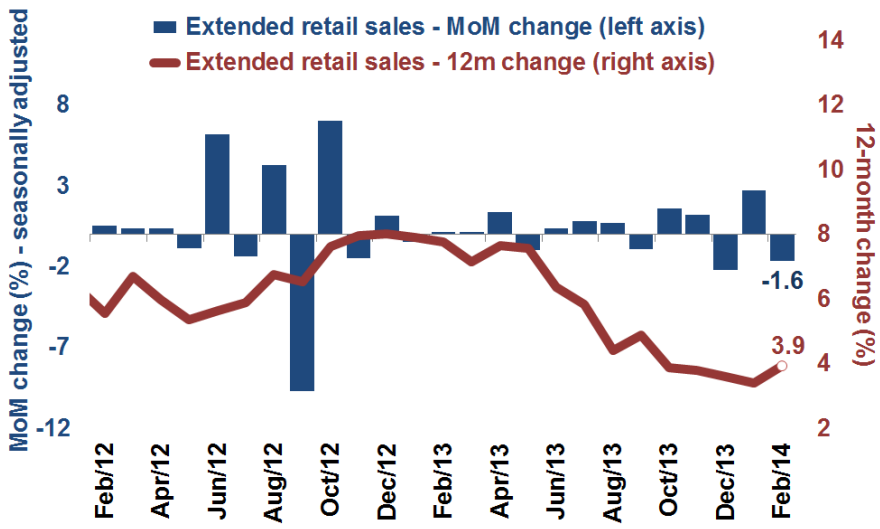
This movement explains the domestic foreign exchange appreciation trend, which changed from an average rate of R$ 2.33 /US$ in March to R$ 2.23/ US$ in April.

Retail sales

- Retail sales grew 0.2% in February, changing from 0.4% in January.
- In the accrued 12-month, sales grew 5.0%, interrupting, momentarily, the sales slowdown trend observed since early 2013.



Source: IBGE
* Excludes vehicles, motorcycles, parts, accessories and construction

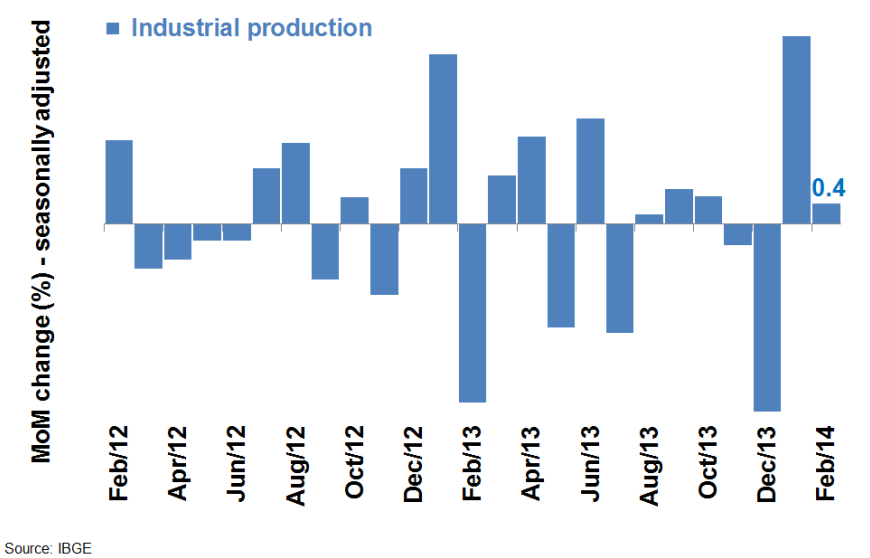


Source: IBGE
* Includes vehicles, motorcycles, parts, accessories and construction

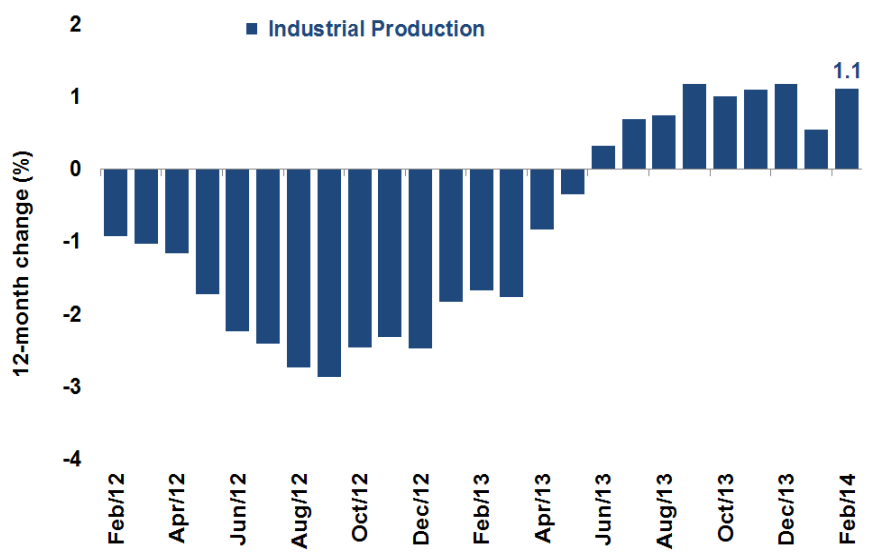
- Extended retail sales, which includes vehicles and construction material, dropped 1.6% in the month, mostly due to the 7.4% vehicle sales reduction.
- In spite of this drop, the 12-month indicator inverted the decreasing trend, in place since 2013.

Industrial Production

- Industrial production increased 0.4% in February.
- With January's performance (3.8%), the accrued production in the first 2 months of 2014 (4.2%) offset the losses from the last 2 months of 2013 (4.2%).
- In the last twelve months, the April production has been keeping the growing trend of about 1.0%.
- Out of 27 industries analyzed, 19 had positive margin evolution, especially vehicles, which posted the second consecutive monthly increase, accruing a growth of 16.8% in the first 2 months of 2014.

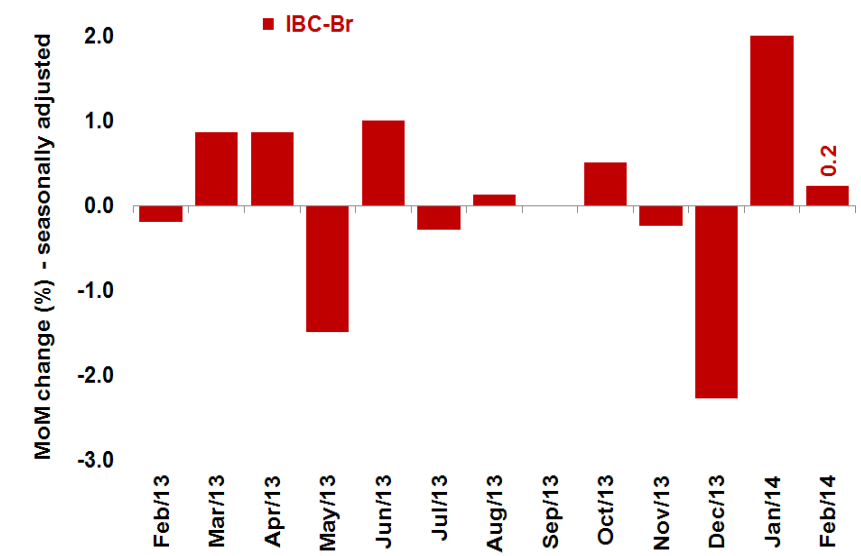


Source: IBGE

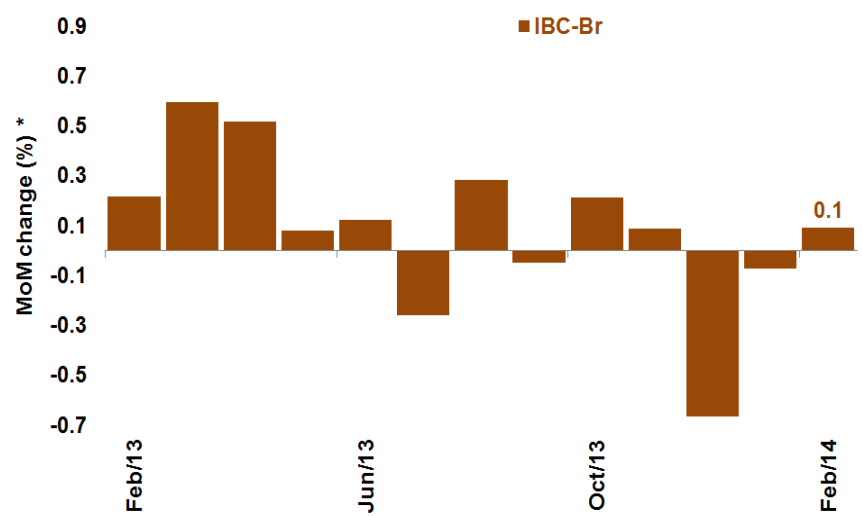


Source: IBGE

Economic Activity Index: IBC-Br



Source: BCB

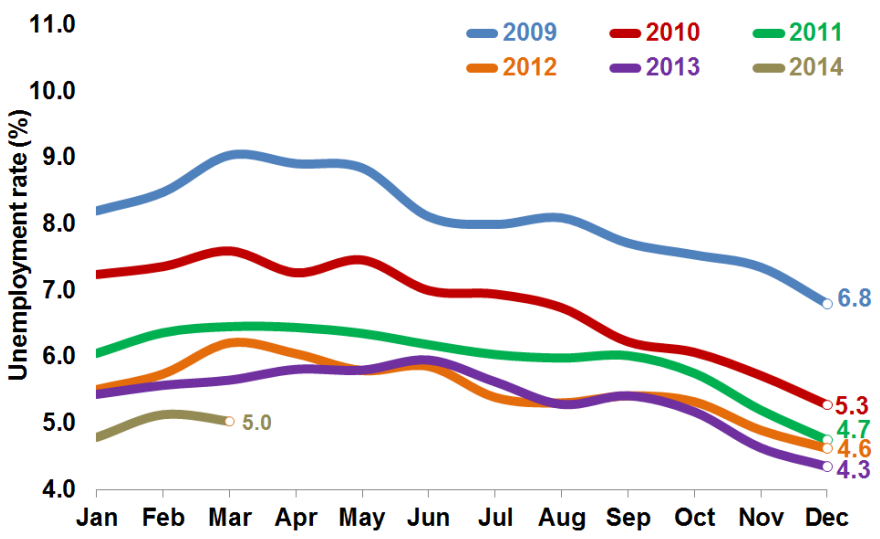


Source: IBGE

- The moderate performance of manufacturing and retail had a reflection on the central Bank's Economic Activity Index (IBC-Br), the monthly GDP *proxy*.
- In February, the IBC-Br increased 0.2%, after posting a major increase in January (2.4%).
- In spite of the monthly slowdown, the mobile 3-month IBC-Br average became positive again (+0.1%), however, still insufficient to counteract the slowdown observed in the last two months.

Job market: employment and income

- Considering the more modest growth of economic activity, the job market data from March indicate the unemployment rate continues to be historically low.
- The unemployment rate measured by the Monthly Employment Survey (PME) reached 5.0% in March, the lowest percentage for this month in the entire series, that began in March of 2002.
- The average real income, estimated at R$ 2,026.60 in March, remained practically at the same level as February (R$ 2,033.60).



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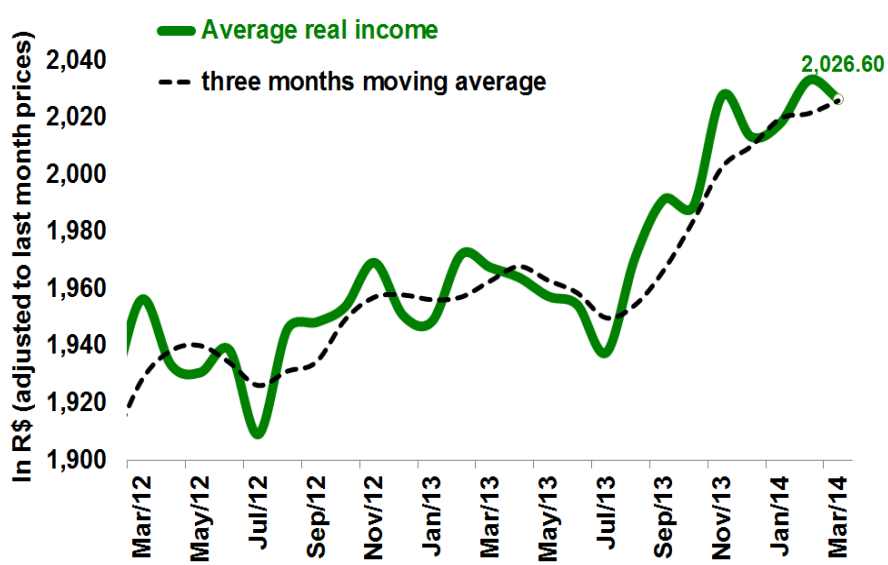
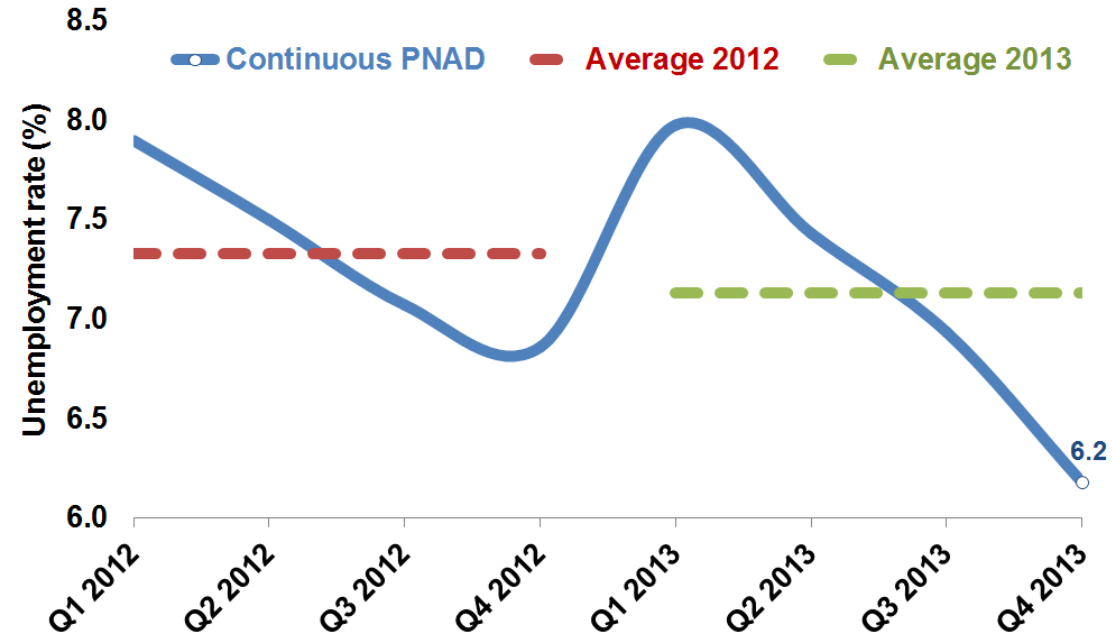


Source: IBGE

Job Market: Continuous PNAD

The unemployment rate calculated by the Continuous National Household Sample Survey (PNAD) reached 6.2% in the 4th quarter of 2013, a 0.7 point drop compared to the last quarter of 2012. Thus, the average unemployment reached 7.1% during 2013 and remained below the 2012 average (7.3%).

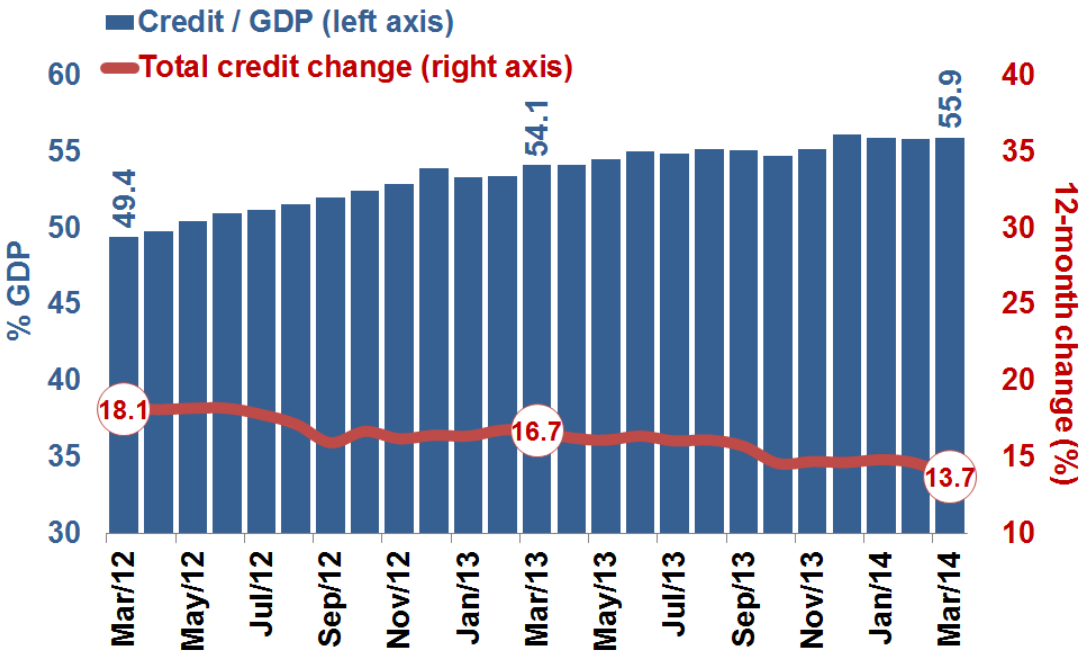


Source: IBGE

The Continuous PNAD is a nationwide survey , quarterly, showing a broader overview of the job market in the country, allowing a better understanding of the employed and unemployed population for each region of the country.

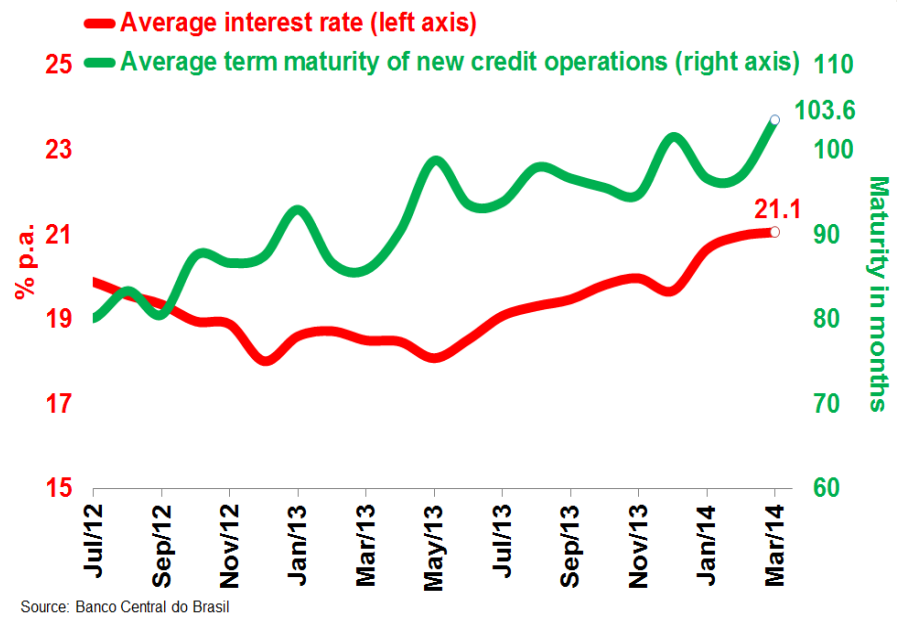
Credit: total volume

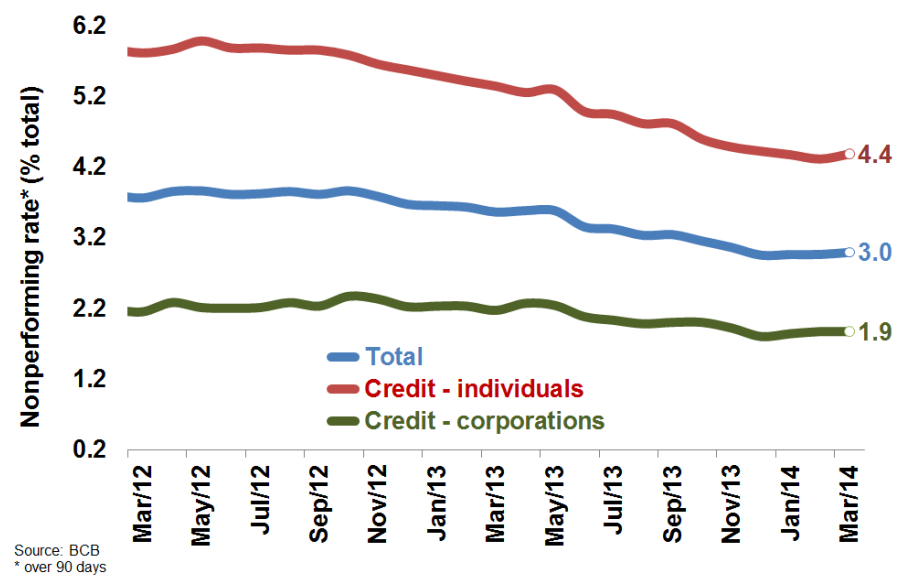
- The financial system loan volume reached R$ 2,759.5 billion in March, a 1.0% increase in relation to February.
- However, the positive monthly result was not capable of holding the 12-month variation slowdown, which changed from 14.6% to 13.7%.
- In terms of GDP perce ntage, the credit advanced marginally from 55.8% to 55.9%.



Source: Banco Central

Credit: financing conditions

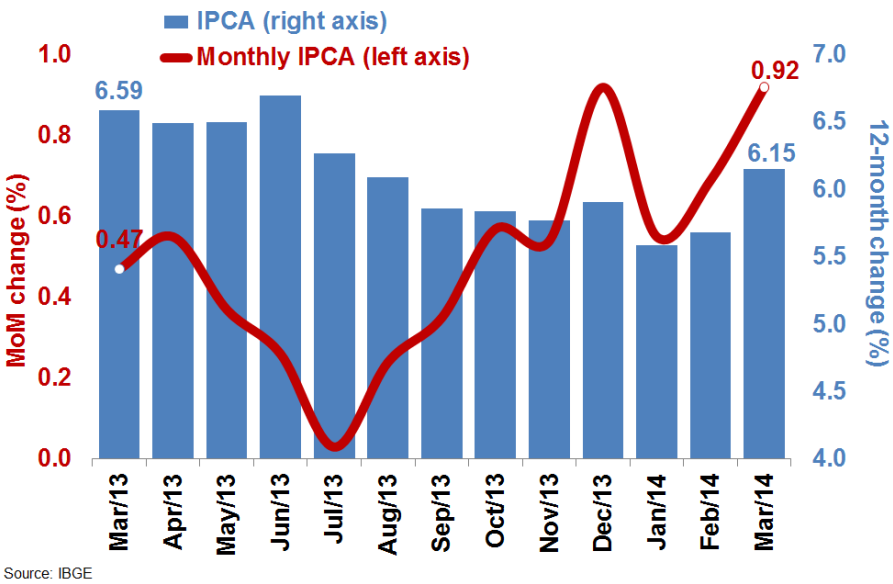




- The financing conditions, in general, remained relatively stable in March:
  - The average loan extension term changed to 103 months in March;
  - The general interest rate increased marginally, from 21.0% to 21.1% a year between February and March;
  - The default remained at the same level as February.

Inflation: IPCA

- The official inflation targets regime, IPCA, accelerated in March, changing 0.92%, from 0.69% in February.
- With greater pressure in March in the last twelve months, the index's increasing trend continued, reaching 6.15%.



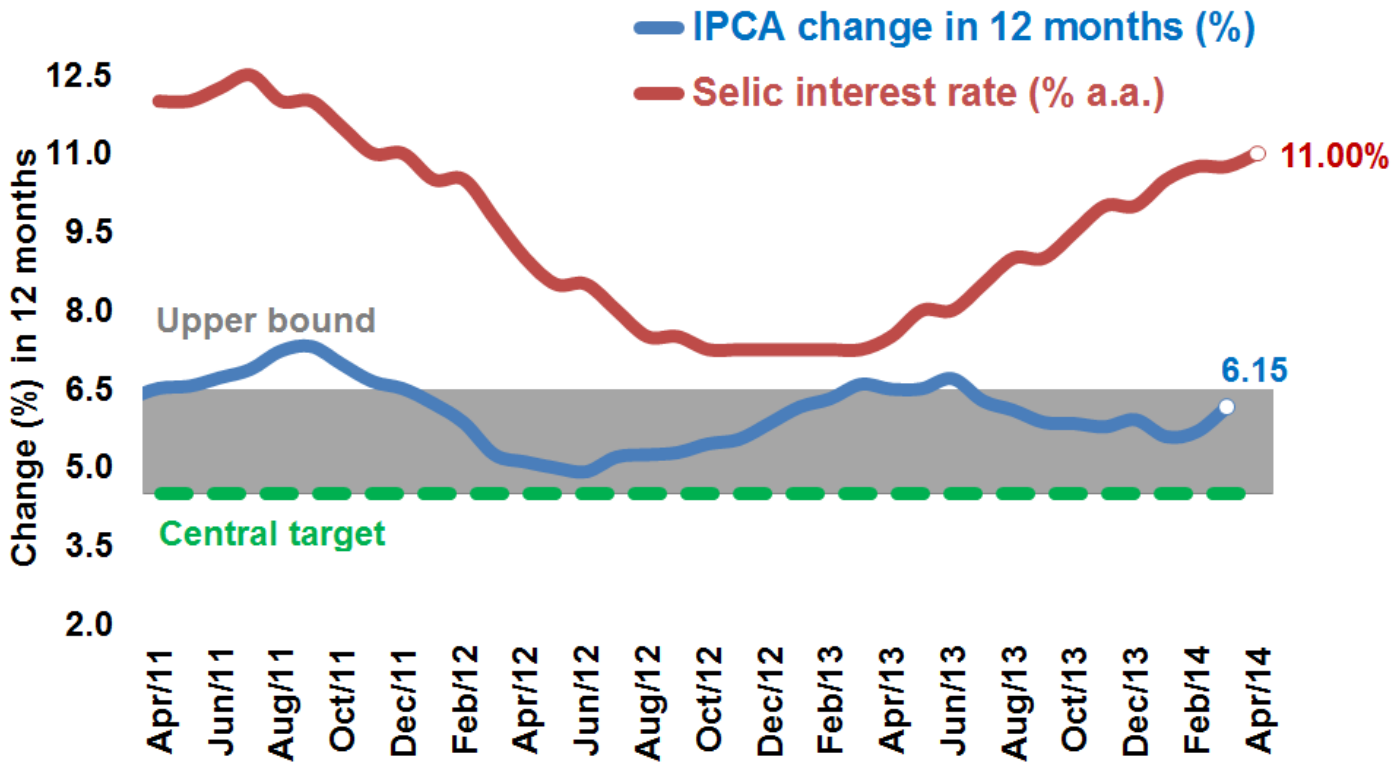
Wholesale agricultural prices advanced in the first quarter, due to response to *commodities* prices in the international market and the effects of drought in the beginning of the year, which should continue to have an impact on retail prices for some time

The main pressure on the month's inflation has been the increase of food and beverage expenses...

...while the items communication, education, housing and household goods decreased.

Copom: Interest Rate

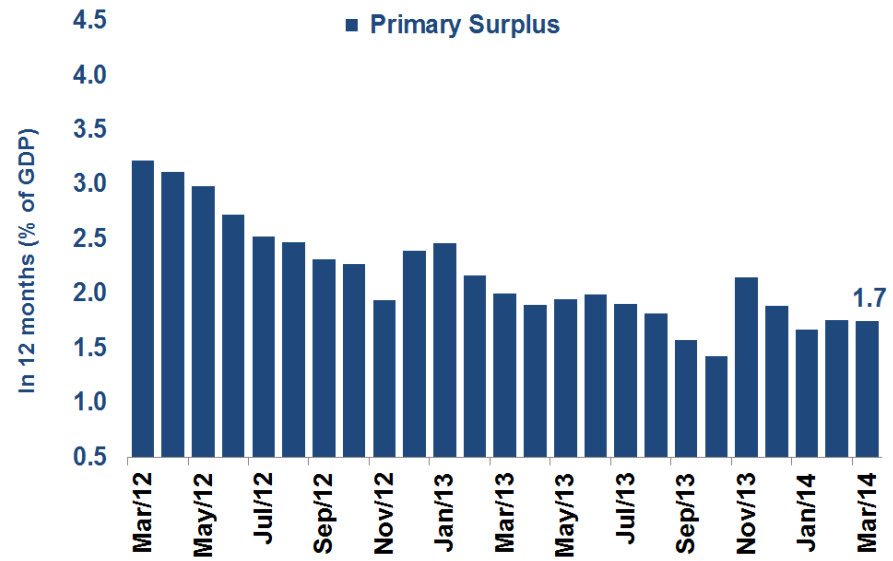
In a scenario in which the inflationary risk balance remains unfavorable, the Monetary Policy Committee (Copom) continued increasing the basic interest rate and unanimously decided to increase the basic interest rate 25 base points in the April meeting. As a result the Selic reached 11.00% a year.



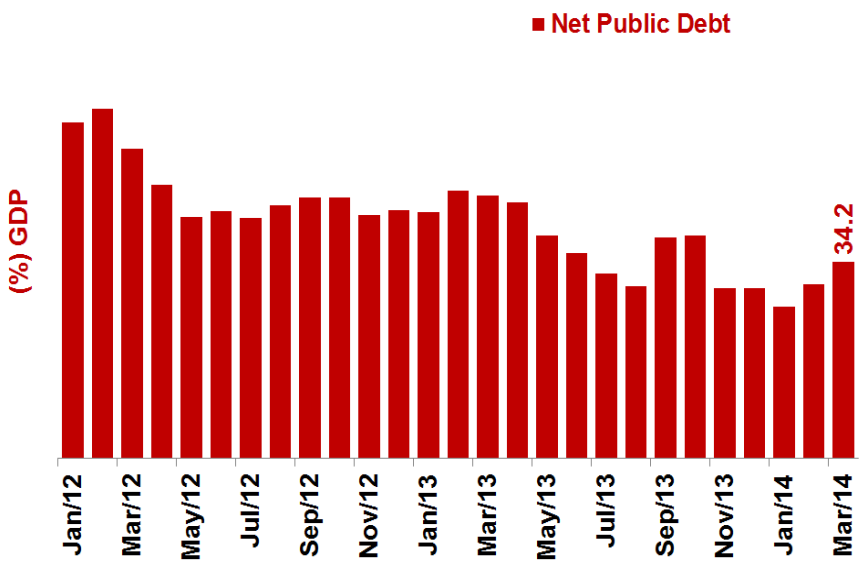
Source: IBGE

Fiscal Policy: NPB/GDP and primary surplus

- In regards to fiscal policy, the non financial public sector primary *surplus* reached R$ 3.6 billion in March, against R$ 3.5 billion in the same month of 2012.
- As a result, in the last twelve months, the fiscal result remained stable at 1.7% of the GDP.



Source: BCB



Source: BCB

- The net public debt grew 0.5 p.p. In relation to February and reached 34.2% of the GDP.
- The increase of the NPD between february and marc was mainly a reflection of the 3.0% foreign exchange appreciation during the period.

Market Expectations

- The last market projections indicate marginal adjustments compared to March.
- The highlight was the Trade Balance, which changed from an expected US$ 4.6 billion in March 2014, to US$ 3.0 billion in April, with negative reflections on the current transaction balance.

	2012	2013	2014	2015
GDP				
real growth (%)	0.90	2.25	1.65	2.00
Exchange rate and balance of payments				
Exchange rate end of period (R$/US$)	2.04	2.34	2.45	2.50
Trade balance (US$ bi)	19.3	2.6	3.0	10.0
Exports (US$ bi)	242.6	242.2	246.5	265.0
Imports (US$ bi)	-223.1	239.6	-243.5	-250.0
Current account balance (US$ bi)	-54.2	-81.4	-77.1	-75.6

Sources: IBGE and BCB (Market expectations 04/25/2013)

	2012	2013	2014	2015
Fiscal				
Primary balance (% GDP)	2.38	1.90	1.50	2.00
Public sector net debt (% GDP)	35.13	33.80	34.85	35.00
Interest rate and inflation				
SELIC - at the end of period (% p.a)	7.25	10.00	11.25	12.00
SELIC - average of the year (%)	8.46	8.44	11.06	12.00
IPCA (% YoY)	5.84	5.91	6.50	6.00
IGP-DI (% YoY)	8.11	5.53	7.34	5.50
Real SELIC ex-post - % (IPCA)	2.48	2.39	4.28	5.66

Sources: IBGE and BCB (Market expectations 04/25/2013)

- The inflation measured by the IPCA and IGP-M, both for 2014 and 2015, also deteriorated, indicating the market sees inflationary threats on the horizon.