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Cost reduction and investment are key to resume economic growth

Brazil can grow much more than it will in 2012. The resumption of sustained growth in coming years depends on measures to reduce production costs and on necessary investment incentives.

GDP growth in 2012 will be even lower than in 2011, limited to a mere 1.5%, despite the expected recovery in the last months of the year in response to stimulus measures and the new exchange and interest rates. CNI estimates that the industrial sector will post zero growth and manufacturing will record a drop of 1.9% in 2012. As a result of this performance, the post-global crisis average GDP growth rate (2009-2012 period) dropped to 2.8%, close to the level observed in the early years of the last decade.

The weak performance of investments, which will drop by 1.5% over the last year, is at the root of low GPD growth rate. These figures show that there are limits to the consumption-based growth model and to the ability of anti-cyclical policies to alone inject new dynamism into the Brazilian economy and, particularly, industry. Since 2010, after a strong recovery from the crisis, manufacturing production stopped growing and is currently at 3% below the level registered one year ago.

The need for a change in the growth strategy – long noted by the production sector – has been increasing among economic policy makers. The growing importance that is being placed on efforts to reduce production costs in Brazil is a recognition of the competitiveness problem domestic products face. For this reason, policies affecting supply conditions should be given priority.

Major measures taken recently – greater payroll exemptions, lower energy costs, and a new infrastructure model – will only have concrete effects next year. Such measures are essential to restore business confidence, particularly in industry, with direct impacts on the willingness to invest. This scenario is reinforced by a macroeconomic equation more conducive to business, with the new exchange rate level and the decline in the real interest rate.

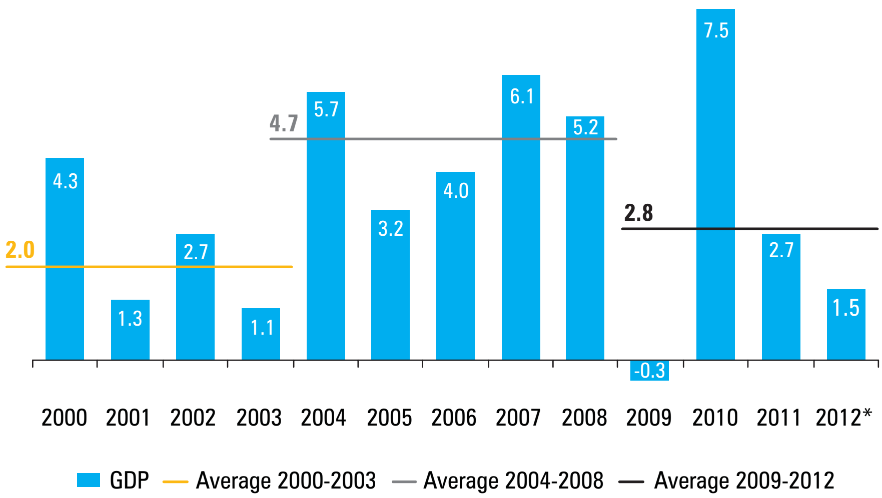
Reducing production costs is an indispensable condition to spur investment in private sector projects. Without a leap in investment, we will not achieve the necessary increase in productivity that characterizes the long growth cycles observed in other countries.

Without any doubt, investment is the most critical macroeconomic variable. The current investment rate (estimated at 18.7% of GDP for 2012) is insufficient to lead to an average growth rate of between 4 and 5%. This rate will only be achieved with a significant increase in investments. This is the major challenge for the Brazilian economy.

GDP

Real annual growth rate (%)

GDP grows once again at a rate similar to that in the beginning of the previous decade



Source: IBGE *Estimate: CNI

Brazilian economy in the third quarter of 2012

economy activity

Industrial GDP stagnated in 2012

Weak industrial activity leads to lower investments

CNI's expectations for economic recovery were not confirmed over the year's first half. Indicators, particularly those related to the industry, did not experience any uptrend in the period. For this reason, the economy is expected to grow by only 1.5% in 2012 in Brazil.

From the third quarter of 2011 to the second quarter of 2012, the Brazilian economy held virtually steady. As a result, GDP rose by merely 0.6% in the first six months of the year as compared to the corresponding period of 2011. Manufacturing GDP, on the other hand, fell by 4.0% in the same comparison basis.

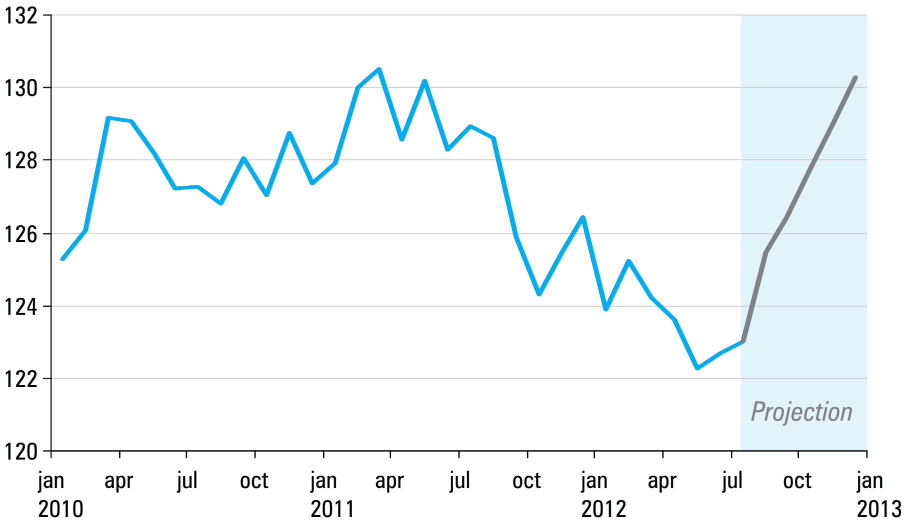
Stimulus measures taken by the government and an expansionary monetary policy were successful in boosting consumption, but they failed to add momentum to investments in the production sector. The decrease in investments over the past four consecutive quarters (GFCF as calculated by the National Accounts Methodology/IBGE) is a direct result of weak manufacturing activity.

Excessive industrial stocks and reduced capacity utilization in the industrial complex will make it difficult for investments to recover more strongly in 2012. This GDP component will probably decline by 1.5% in 2012.

Manufacturing production

2002 index = 100 - seasonally adjusted

Even considering a strong growth rate, manufacturing production in 2012 will be lower than year before



Source: IBGE - Projection CNI

The scenario of undesired stocks and weak demand growth for industrial products led to greater idleness in the manufacturing industrial complex. The actual-usual capacity utilization index (Industrial Survey - Manufacturing and Mining/CNI) shows that capacity utilization in industry has been below usual levels – indicator below 50 points – since December 2010.

Stocks of industrial finished products have been above planned levels since early 2011. However, the process of adjusting these stocks seems to be coming to an end, especially in sectors for which the reduction of the Tax on Industrial Products (IPI) was extended, such as Automotive vehicles. In August, the indicator for actual-planned stocks (Industrial Survey - Manufacturing and Mining/CNI) fell to 51.8 points, moving further toward the 50-point dividing line.

Delay in industrial recovery prevents sector's GDP from growing in 2012

Data for manufacturing production (Monthly Survey of Industry - Physical Production – PIM-PF/IBGE) show a clear downward trend in the 12 months ending in May. In spite of a 0.3% month-on-month growth in June and July, the indicator is down by 3.0% as comparing the figure in the last month to that registered in July 2011.

Manufacturing production will likely keep growing at a faster pace in coming months. Industrial business confidence (BCI/CNI) posted growth in

August and September on a month-on-month basis.

Other leading indicators for August point to the highest monthly growth in manufacturing production in the year. However, the fact that it took too long to take place precludes a positive GDP result for this sector in 2012.

Even if manufacturing production were to grow by 2.0% in August from the previous month and the average growth totaled 1.0% per month from September to December (seasonally adjusted data), GDP for this industrial sector would still decline by 1.9% in 2012 year on year basis.

The construction industry is no longer experiencing the momentum observed in 2011. According to the Construction industry Survey (CNI/CBIC) for August, activity in the sector has been below usual levels for the fourth month in a row. Considering a growth of 2.0% in GDP for manufacturing and mining and quarrying and a 3.4% increase for the public utility industrial service sector, CNI is projecting zero growth for total industrial GDP in 2012.

On the GDP supply side, the services sector showed the best performance. Were it not for the growth in this sector, GDP would stagnate in 2012. In the first seven months of 2012, trade sales rose on average by 8.8% from the same period in the previous year.

Continued growth in household consumption is crucial to ensure a positive performance of the services sector. Since the lower income population bought more durables as a result of tax exemption measures for sectors that produce such goods, these families are increasingly focusing on purchasing services.

GDP still very much dependent on household consumption

Household consumption grew at a rate of 2.1% in the first half of the year from the same month last year. Signs exist that household demand will grow more strongly in the second half of 2012 than in the first, as the default indicator stopped growing in the three months ending in July. Furthermore, the labor market continues to create new jobs and consistently reduces the unemployment rate, leading to a steady increase in workers' real earnings. Household consumption will therefore continue to be the driver of economic growth on the demand side.

The positive impact of the depreciation of the real in Brazilian exports was softened by a worsening in the foreign scenario. Notwithstanding the recent depreciation of the Brazilian currency, exports dropped by 0.3% and 3.9% in the first and second quarters of the year, respectively, quarter on quarter. CNI is expecting exports to grow in the next two quarters of this year. However, this will not be sufficient to ensure growth for this GDP component in 2012, which will likely held steady.

CNI revised its estimate for import growth in 2012 downward from 6.4% to 4.0%. This downward revision resulted from a reduction in investments, as the estimate for household consumption remained unchanged. As a result, the foreign trade sector will make a negative contribution of 0.5 percentage points to GDP growth.

CNI's GDP growth estimate
Percentage variation and components' contribution to GDP growth

	GDP components	2012 Growth rate (%)	2012 Contribution (p.p.)
Demand side	Household consumption	3.5	2.1
	Government consumption	3.0	0.6
	Gross formation of fixed capital	-1.5	-0.3
	Exports	0.0	0.0
	(-) imports	4.0	-0.5
Supply side	Agriculture/livestock	-2.5	-0.1
	Industry	0.0	0.0
	Mining and quarrying	2.0	0.1
	Manufacturing	-1.9	-0.3
	Construction	2.0	0.1
	Public administration. health. and public education	3.4	0.1
	Services	2.4	1.6
	GDP	**1.5**	

employment and income

Lower economic activity affects labor market

Jobs growing at a slower pace

The scenario of a stagnant Brazilian economy between late 2011 and the first half of 2012 led to a slowdown in the job creation pace.

Metropolitan employment grew at a 1.5% rate in August as compared to the same month a year ago. This slowdown has been experienced since 2010, when the Brazilian economy grew by 7.5%.

A lower employment growth rate has a strong impact on informal jobs in the private sector, as formal jobs continue on the rise.

According to data from the Monthly Job Survey (PME/ IBGE), non registered jobs have steadily declined since September 2010. In fact, this type of employment was the most affected by the downturn in the Brazilian economy.

Clear downward trend in formal job creation

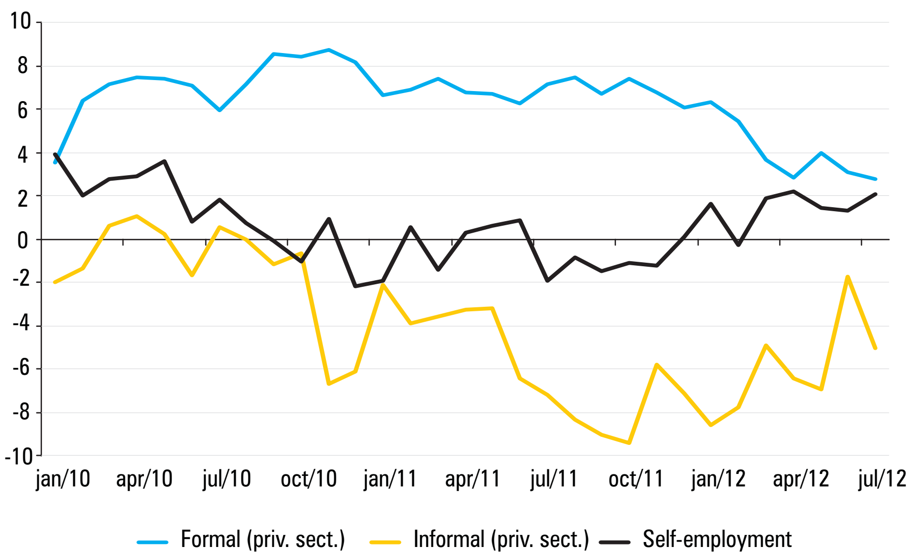
Formal metropolitan jobs have been on a downward trend. However, this kind of employment continues to grow at a faster pace than GDP. In August, registered jobs in the private sector increased by 3.2% from the same month in the previous year. As a comparison, the Central Bank's Economic Activity Index (IBC-BR), which measures month-on-month economic activity, recorded a 2.3% growth between July 2011 and July 2012 (latest data available).

On the other hand, the marked drop in non registered jobs in the private sector deserves special mention. This type of employment fell by 3.0% between August 2011 and the same month of 2012. Self-employment also dropped during the same period (-0.5%). The increase in registered jobs, in a scenario of a drop in non registered jobs, continues to push labor formalization up.

Occupation by category

(%) variation from the same month in the previous year

Increase in registered jobs and drop in non registered employment lead to higher metropolitan labor formalization



Source: IBGE

Labor formalization hits record high

The formality index, which is calculated by the sum of all registered, military and statutory jobs divided by all occupations, hit the mark of 64.9% in August. The indicator hit its highest level since the historical series of the Monthly Job Survey began, in March 2002. As a comparison, the figure is 4.1 percentage points higher than the one registered in August 2011.

Data from the General Registry of Employed and Unemployed Persons (CAGED/ MTE), which focuses on changes in registered employment numbers throughout Brazil, also points to the slowdown in job creation verified by the Monthly Job Survey. The 12-month figure for registered jobs has been growing at a slower pace since March 2011, down from 2 Million in February 2011 to 1.1 Million in July 2012.

Industrial jobs at last year's level

As opposed to total employment, the industrial labor market has experienced more significant effects of lower activity in the sector. Still based on CAGED data, the four industrial segments created 187,000 jobs in the last 12 months ending in August 2012.

This was a marked drop as compared to the 938,000 jobs created in August 2010, also in the 12-month period.

Manufacturing industry created 25,000 jobs in the 12 months to August 2012. The slowdown in manufacturing led to a sharp decline in the number of jobs created in the sector. By comparison, a total of 577,000 jobs were generated in the 12 months ending in August 2010 – which corresponds to a figure 23 times higher than that registered in July 2012 on the same comparison basis.

The construction industry created 137,000 jobs until August this year, while mining and quarrying industry generated 14,000 and the public utility industrial services created 10,800.

Unemployment rate down despite lower number of new jobs

In spite of lower employment growth, the metropolitan unemployment rate (PME/IBGE) is still on the decline. In August, this indicator stood at 5.3%, a difference of 0.7 percentage point from the figure observed in the same month last year.

The unemployment rate declined as a result of the labor force growing less than total occupation. The labor force expanded by only 0.7% between August 2011 and 2012 – half the employment growth rate.

Real average earnings growing at slower pace

Real average earnings of metropolitan workers experienced a strong year-on-year growth from late 2011 until the beginning of the second quarter of 2012. This indicator rose from 0.3% in October 2011 to 6.2% in April 2012. In May, the indicator interrupted its upward trend and started to lose momentum, until it achieved a 2.3% variation in August from the same month a year ago.

The slowdown in the growth rate of workers' average real earnings makes sense with lower employment growth resulting from reduced economic activity. But it seems that this deceleration will not continue in the next months.

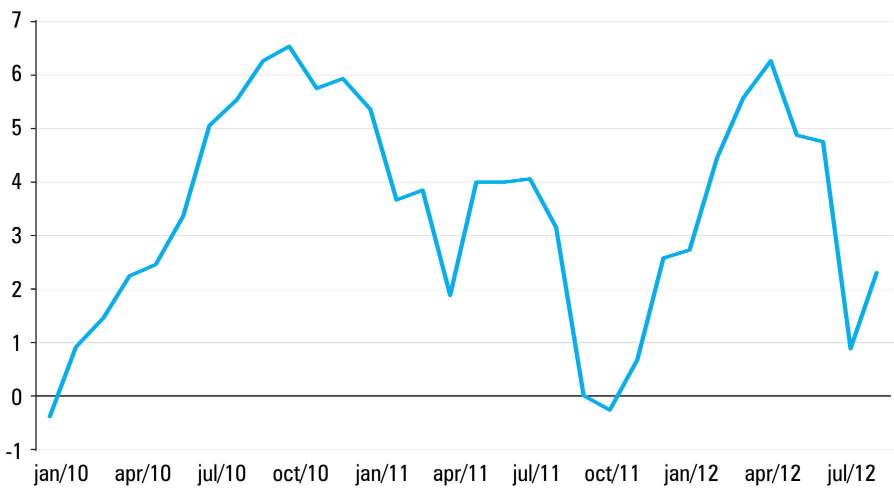
CNI believes that GDP will accelerate its growth rate in the next quarters, which will bring more dynamism to the labor market.

Thus, employment growth is expected to gain momentum and ensure the continued growth of household consumption, the main component on the demand side driving economic growth in Brazil.

Real average earnings

(%) variation from the same month in the previous year

Real average earnings to grow at higher rates in coming months



Fonte: IBGE

Inflation, credit, and interest rates

Adverse scenario signals new reduction to *Selic* rate

Food price shocks push National Index of Price to the Ample Consumer (IPCA) up

Inflation began to increase once again in Brazil in recent months. The IPCA, based on which the inflation target is set, had been declining since September 2011, when it amounted to 7.31% in the 12-month period. In June 2012, the 12-month figure shrank to 4.92%.

However, inflation accelerated once again after this positive inflationary trend, which allowed for new reductions to *Selic* (Brazilian basic interest rate). In August, the 12-month IPCA hit the mark of 5.24%, moving away from the central target of 4.5% per year.

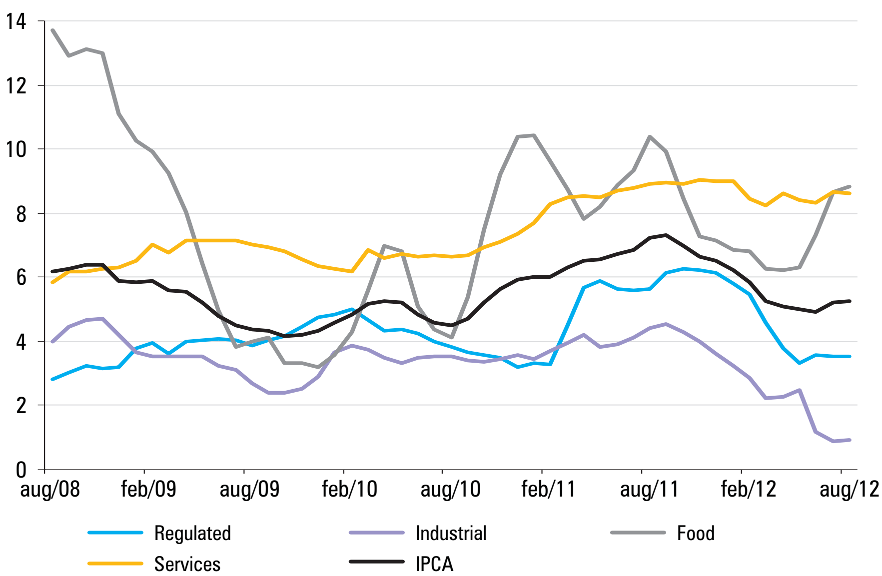
There are two different explanations for the stronger drop in June and the reacceleration observed in the months that followed, namely: a reduction to the Tax over Industrialized Products (IPI) on automobiles in June, which affected the prices of industrial products, and international problems with the current harvest, which led to a hike in food prices.

Industrial product prices, the least responsible group for pushing Brazilian inflation up, have been slowing down in recent months. The 12-month figure for the group amounted to 0.9% in August, compared to 4.4% in the same month last year. Part of this slowdown can be explained precisely by the reduction of the IPI on automobiles, which had an impact of almost 1.0 p.p. on industrial product prices and of 0.26 p.p. on the IPCA.

IPCA by groups

12-month figure (%)

Unusual drop in food prices in July and August



Source: IBGE *Preparation: CNI

Food products experienced an unusual rise in prices in July and August. This resulted in an average growth of 0.55 p.p. above the usual figure registered in those months, owing to crop losses in North America.

As a result, the 12-month figure for the group, which totaled 6.3% in July, rose to 8.8% in August. Currently, this group is the main force behind inflation. In the last 12-month period, this was the only group for which the rate remained above that observed in January, when it was 6.9%.

Regulated prices kept on a moderate path, with the 12-month figure standing at 3.5% in August 2012 (below the central target). Price adjustments are expected to remain lower than those seen in 2011 until the end of the year, which will cause the group's 12-month figure to total about 3.4%.

The hike in service prices also stabilized, but at a high level: the group's 12-month figure amounted to 8.6%, contributing, together with the food product group, to sustaining the IPCA above the mark of 4.5% per year. The growth rate is expected to drop slightly by the end of the year, but to continue above 8%.

We are expecting to see a slight change in the performance of prices for each group over the four remaining months of the year, but this will have little effect on IPCA's overall level. The reactivation of the IPI on automobiles, expected to take place in late October, will likely lead to an increase in the IPCA in November.

This growth will cause the 12-month figure for industrial product prices to once again reach about 2.3% at the end of the year. Since it is a reactivation, the final effect for the IPCA is likely to be null.

As for food prices, the increase observed in recent months resulting from an international supply shock may not be equalized later this year. These prices are still expected to continue to increase in November and December on account of year-end celebrations, but at a lower rate.

Under this scenario, CNI revised its forecast for the IPCA for late 2012 upward from 5.0% to 5.3%. This level is virtually the same as that registered in August, but still above the inflation central target.

Inflation within the upper limit of the target allows for new reduction to *Selic*

The monetary policy adopted since last year has been expansionary, with the aim of avoiding a further slowdown in the Brazilian economy. Yet, inflation will remain within the upper inflation target limit in 2012 (6.5% per year), albeit above the center (4.5% per year), allowing for an ongoing reduction process in the *Selic* rate. As a result of the two last decisions, the *Selic* rate reached 7.50% per year in August, the lowest historical nominal rate.

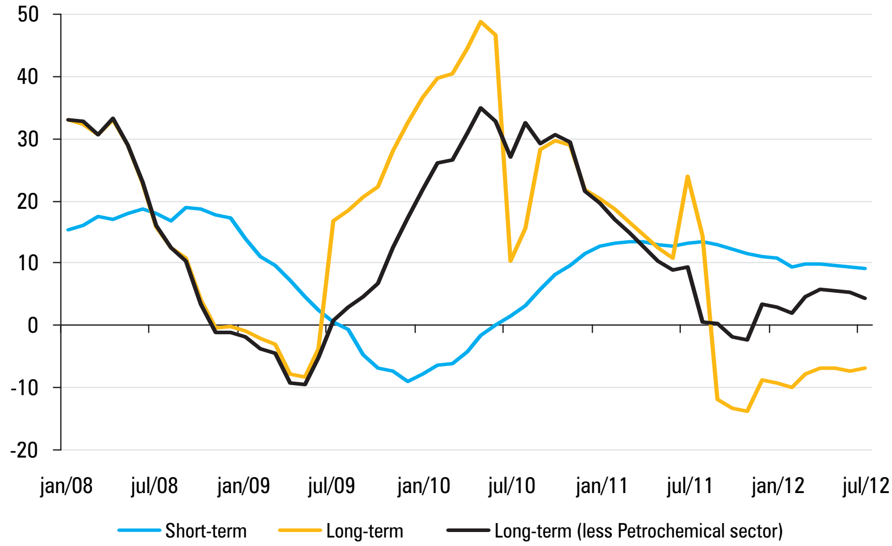
The downward cycle has probably not yet come to a halt, as economy is still experiencing low activity levels. CNI is therefore estimating that the *Selic* rate will be reduced by 0.25 p.p. in the next October meeting, to be held in October. The rate would then amount to 7.25% per year, remaining at that level by the year end.

Under this scenario and considering inflation at 5.3% in 2012, the real average interest rate in the year will drop to 3.2%.

Lending to corporations

Average figure in the last 12 months compared to the 12 previous months

Long-term loans growing at lower rates than short-term ones



Source: Central Bank of Brazil - Preparation: CNI

Lending growth is timid in face of the drop in interest rates

The reductions to the *Selic* rate had an impact on interest rates on loans and financing. The average annual fixed rate on individuals, which stood at 45.1% in January, dropped to 36.2% in July. As for corporations, the rate fell from 28.7% to 23.6% over the same period.

These reductions, however, have not been fully matched by an increase in lending. The growth rate of non-earmarked loans to individual borrowers, which amounted to 11.4% per year in January, dropped to 10.4% per year in July (last 12 months compared to the 12 previous months). Corporations in turn experienced a slight acceleration, up from 7.7% per year in January to 8.3% per year in July.

Specifically as regards corporations, it can be seen that performance varied significantly between the two types of loans (short- or long-term). In January, short-term financing grew at a rate of 10.7% per year, and shrank to a 9.2% per year rate in July.

Long-term lending (including BNDES disbursements) in turn went from a 12-month drop of 9.3% in January to a 6.8% decrease in July, performing slightly better.

Without considering the impacts of the Petrobras capitalization operation in September 2010, long-term disbursements moved from a 2.9% per year growth in January to an increase of 4.4% in July. However, industrial disbursements in the last twelve-month period (excluding the Petrochemical sector) are still 9.6% below the figure registered in the 12 previous months.

fiscal policy

Lower revenues lead to reduction in primary surplus

Expenditures strongly up in attempt to boost economy

The marked decline in the tax revenue growth rate explains the reduction in the primary surplus (revenue less expenditure, except interest expenses) during the second quarter of 2012. Spending in turn continues to grow well above GDP, though it has experienced a slight downturn in recent months. This scenario is likely to remain pretty much the same until the end of the year. The spending growth rate is expected to increase slightly, which would be offset by a recovery in revenues. For this reason, the primary result would remain close to current levels (2.5% of GDP).

Federal Government's net revenue posted growth of 1.7% is real terms between January and July 2012 from the same months in 2011. This result points to a strong reduction when compared to a 5.7% real growth registered in the first five months of 2012. Much of this drop can be explained by extraordinary revenues obtained in June and July 2011 which were not seen in the same months in 2012. In addition, lower corporate profitability and reduced economic activity levels contributed significantly to low tax revenue growth in the first seven months of the year.

As with the Federal Government, the growth rate of revenues in states and municipalities slowed down in recent months. Revenues, which had grown by 4.7% by April, dropped to 3.1% comparing the first seven months of 2012 with the corresponding period in 2011. This decline is explained by a slowdown in transfers from the Federal Government and in other revenue sources, except for the Tax on Circulation of Goods and Services (ICMS).

Expenditures significantly up in Federal Government and regional governments

The growth rate of Federal Government's spending has slowed down. Total expenditures, which recorded real growth of 7.0% in the January-May 2012 period from the same period in 2011, increased at a rate of 6.3% in the year's first seven months. In spite of this upturn, the growth rate of Federal Government's spending signals a strongly expansionary fiscal policy, mainly as compared to a mere 0.6% GDP growth in the first half of 2012 from the same period in 2011.

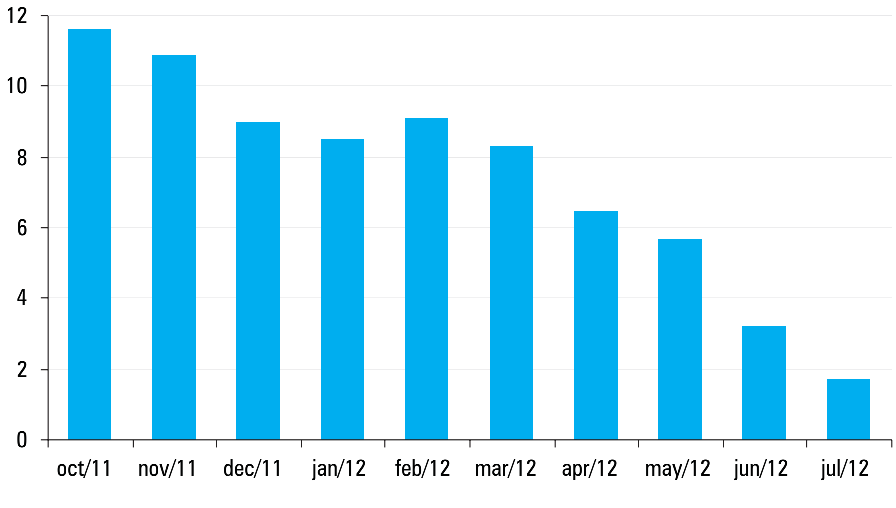
The significant increase in discretionary spending – 11.6% in the seven first months of 2012 – was a major responsible for the growth in Federal Government's expenditures and deserves special mention, showing a clear attempt to use the fiscal policy as a means to spur economic activity. Among these expenditures, special mention should be made of the acceleration in investments in the last two months (data from the Federal Government Integrated System for Financial Management - SIAFI), which went from a real drop of 4.5% between January and May 2012 to an 8.6% growth in the year's seven first months.

Expenditures by states and municipalities have grown at an unchanged rate in recent months. The 5.9% real growth, which had been observed in the January-April period, held steady in the period

Growth of Federal Government's net revenue

Real growth rate in the year to the month (%)

Growth rate of Federal Government's net revenue down due to non-repetition of extraordinary revenues obtained in 2011



Source: National Treasury - Preparation: CNI (IPCA deflator) from January to July 2012 from the same period last year. The upcoming municipal elections and the fact that governors are in their second year of office – the first year is traditionally marked by lower spending – explain this behavior of expenditures in 2012.

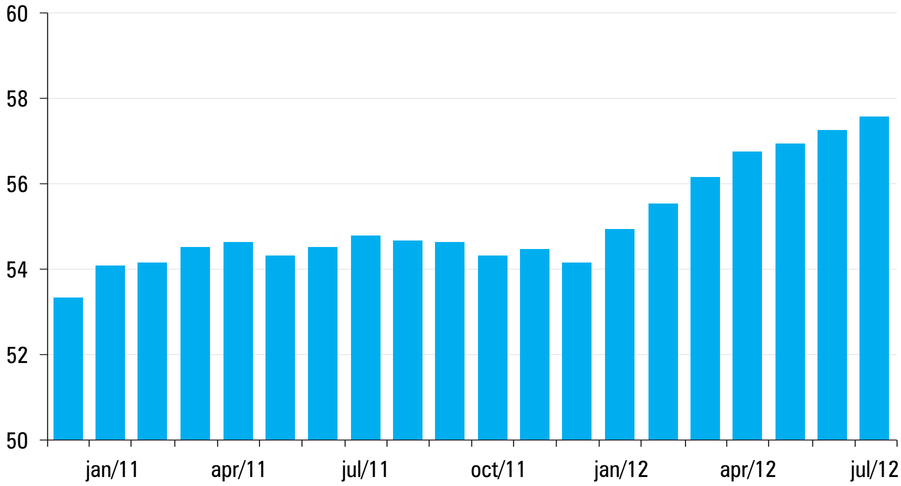
The relative stability in the growth rate of the public sector spending, coupled with a strong slowdown in the revenue growth rate, has led to a significant reduction in the primary surplus. The 12-month primary result for the Federal Government dropped from 2.2% in May to 1.8% of GDP in July 2012.

In states and municipalities, the primary surplus fell from 0.8% to 0.7% of GDP on the same basis of comparison. As a result, the consolidated public sector primary surplus dropped from 3.0% in May to 2.5% of GDP in July.

The reduction in the primary surplus caused the 12-month nominal deficit to grow from 2.4% to 2.75% of GDP between May and July. This growth took place in spite of a drop in interest expenses from 5.4% to 5.3% of GDP between those months. The increase in the nominal deficit was made up for exchange rate adjustments to domestic and foreign debts, and the net debt/GDP ratio held virtually steady, down from 35.0% in May to 34.9% in July 2012. The gross debt/GDP ratio remains on the rise and hit the mark of 57.6% of GDP in July, against 34.2% of GDP in December 2011.

Evolution of Public Sector's Gross Debt
in relation to GDP (%)

Gross Debt-to-GDP ratio accumulates growth of 3.4 percentage points of GDP in 2012



Source: Central Bank of Brazil

Lower interest spending reduces nominal deficit

The fiscal policy is expected to become more expansionary in coming months, with a slight increase in the spending growth rate of Federal Government and of regional governments. On the other hand, the recovery in revenues, especially at federal level, will contribute toward sustaining the primary surplus.

We are projecting a real growth of 6.5% in Federal Government's spending in 2012 as compared to 2011. With respect to revenues, in turn, the fact that the negative effects of an extraordinary tax revenue in 2011 will not be seen again in coming months and increased estimates for dividend revenues, own revenues and financial compensations will probably lead to a 4.0% real growth in 2012. Under this scenario, the primary surplus for the Federal Government and its state-owned enterprises is projected to hit the mark of R$ 84.0 billion in 2012 (1.9% of GDP as estimated by CNI).

In regional governments, the primary result is likely to keep falling until the end of the year. Expenditures will probably grow at a slightly higher rate and revenues are not likely to experience the same reaction expected for the Federal Government, which will be based on revenues not shared with states and municipalities. We are therefore projecting a primary surplus of R$ 26.0 billion (0.6% of GDP) for regional governments.

As a result, the public sector's primary surplus is estimated to reach R$ 110.0 billion (2.5% of GDP) in 2012. This result would be lower than both the full target for 2012 (R$ 139.8 billion) and the figure registered in 2011 (3.1% of GDP).

Even though the primary surplus is expected to drop significantly, the nominal deficit for

2012 (2.5% of GDP) will likely be lower than in 2011 (2.6% of GDP).This will occur due to the sharp drop in interest expenses, which are to fall from 5.7% in 2011 to 5.0% of GDP in 2012. The decrease in the nominal deficit and exchange rate adjustments in the debt will likely lead the net debt/GDP ratio to drop from 36.4% in 2011 to 35.3% in December 2012.

foreign trade sector and exchange rate

Lower international prices affect exports

Exchange rate stabilized at new level

After the depreciation trend in the March-May period and the volatility observed in June, it can be seen that the exchange rate is converging toward a more stable path, with an average daily rate of R$ 2.03/US$.

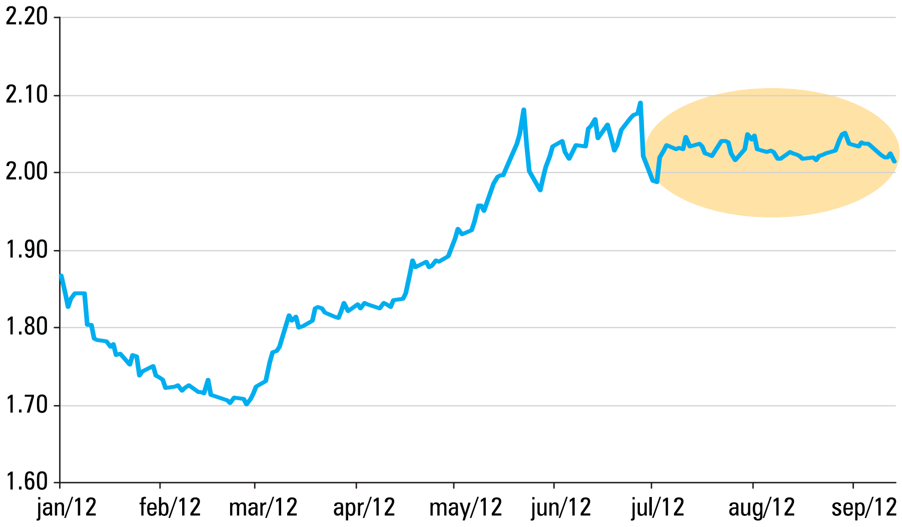
Although the foreign scenario is still uncertain, it is likely that the exchange rate will experience the same stable trend observed in the last three months in the remainder of the year. Government is still committed to reducing the real interest rate and, where appropriate, has intervened in the foreign currency market to prevent the exchange rate from appreciating to less than R$ 2.00/US$.

For this reason, unless there are more abrupt changes in the international market, CNI projects an average exchange rate of about R$ 1.94/US$ in 2012.

Exchange rate (Real/Dollar) evolution

PTAX daily closing exchange rates

More stable exchange rate in third quarter



Source: Central Bank of Brazil

Lower prices weaken exports

In the January-August period, Brazilian exports totaled US$ 160.6 billion, which, based on the daily average, represents a drop of 4.8% as compared to the same period in 2011. This downturn was experienced by all three product groups classified by aggregate factor: manufactured (-3.0%), commodities (-4.9%) and semi-manufactured products (-10.2%).

The negative external scenario, which affects many of Brazil's trading partners, has curbed international demand, hence reducing the prices of tradable goods. This becomes clear when one analyzes the variations in volumes and, particularly, prices of national exports. In the year through July, export volumes rose by only 0.7% – commodities (4.7%), semi-manufactured (-3.0%) and manufactured goods (-3.1%) – from the corresponding period in 2011. Prices fell by 2.0% on the same comparison basis, with emphasis on commodities, which posted a negative growth of 5.6%. It should be stressed that commodities have a major share in Brazilian exports, and thus the reduction in the international price of these products has hindered the recovery of the country's exports.

China, the greatest importer of Brazilians products, imported about 25% less iron ore from Brazil as comparing the cumulative figure from January to August 2012 (daily average) with the same period in 2011. Likewise, the European Union also experienced a significant reduction (8.5%) in the total value of imports from Brazil on the same comparison basis.

With regard to Argentina, even after efforts were made to break down barriers to Brazilian exports, the situation has not changed. A reduction of more than 19% was observed in the value of exports to that country, when comparing the daily average figure for the period from January to August 2012 with the corresponding months in 2011.

In the opposite direction, exports to the USA rose by 11.7% in the first eight months of 2012 from the same month in 2011, based on the daily average. Albeit positive, this result is not enough to change the negative expectation for Brazilian exports as a whole in 2012.

Based on this information, CNI estimates that exports will close 2012 at about US$ 254.7 billion, down by 0.5% in relation to 2011.

Slow economic pace reflected in imports

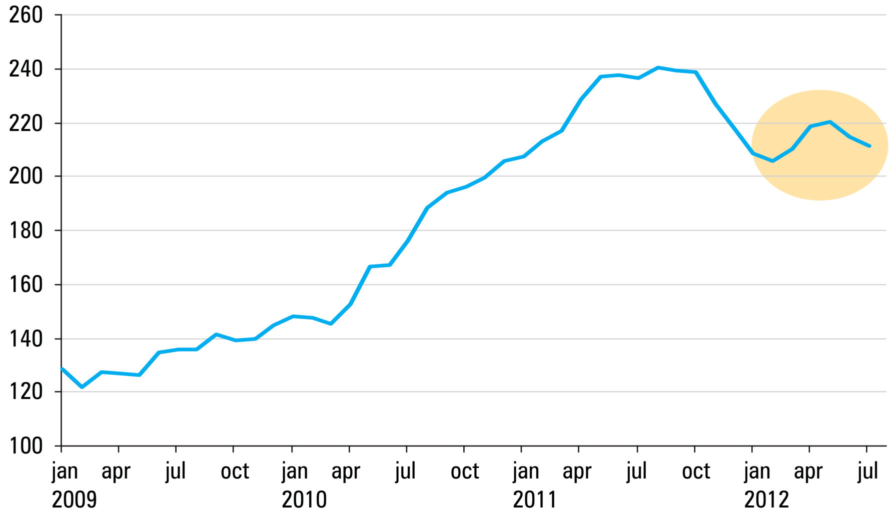
Imports totaled US$ 147.4 billion in the year to August, 0.7% less than the figure registered in the corresponding period in 2011 (daily average). By analyzing the products by category of use on the same comparison basis, special mention should be made of the increase in imports of non-durable consumer goods (7.9%) and the drop in imports of durables (-8.0%).

As opposed to exports, the main drivers of the increase in import value are prices. In the year through July, prices grew at a rate of 2.3% from the same period in 2011. Prices of capital goods, consumer durables and fuels and lubricants are up by 4.5%, 5.1% and 7.2%, respectively.

Import volumes recorded growth of about 0.9% from January to July 2012 as compared to the corresponding period the year before. The analysis by category of use draws our attention to the following data: 9.3% growth in import volumes of fuels and lubricants, 12.1% drop in import volumes of non-durable consumer goods, and the lowest volume (-1.6%) of intermediate products. This last datum shows the difficulties faced by the domestic industry, which has decreased the

Prices of commodity exported
Index 2006 = 100

Commodity prices do not recover



Source: FUNCEX

use of inputs on account of excessive stocks and low capacity utilization.

As a result of the current exchange rate and the fact that domestic market conditions are less favorable to purchases of imported products, the growth rate of imports is expected to be lower than that recorded in 2011. This is largely a result of low economic activity levels in the first half of the year. For this reason, imports will likely total US$ 236.4 billion this year, equivalent to a 4.5% growth from 2011.

CNI is therefore projecting the trade balance at approximately US$ 18.3 billion in 2012, against US$ 29.8 billion registered last year.

Lower balance of trade contributes to higher current account deficit

In the year through July, the current account deficit stood at US$ 29.0 billion, compared to US$ 29.6 billion in the same period in 2011. The deficit in the 12 months to July 2012, in turn, totaled US$ 52 billion.

The balance of services is expected to hold reasonably steady, slightly up as compared to 2011. In contrast, the balance of income will probably drop significantly, reflecting a more depreciated exchange rate as well as a more sluggish domestic demand.

Considering these statistics and the positive trade balance result (US$ 18.3 billion), CNI estimates that the current account deficit will close 2012 at about US$ 55.3 billion, compared to US$ 52.9 billion in 2011.

This figure is still below that for Direct Foreign Investments, which dropped in a moderate fashion in the first seven months of 2012, but are still sufficient to finance the above-mentioned deficit.

prospects for the Brazilian economy

	2010	2011	2012 *previous projection July/12*	2012 *projection*
Economic activity				
GDP (annual variation)	7.5%	2.7%	2.1%	**1.5%**
industrial GDP (annual variation)	10.4%	1.6%	1.6%	**0.0%**
Household consumption (annual variation)	6.9%	4.1%	3.5%	**3.5%**
Gross fixed capital formation (annual variation)	21.3%	4.7%	2.5%	**-1.5%**
unemployment Rate (annual average - % of the labor force)	6.7%	6.0%	5.5%	**5.5%**
Inflation				
Inflation (IPCA - annual variation)	5.9%	6.5%	5.0%	**5.3%**
Interest rates				
Nominal interest rates				
(average rate in the year)	9.90%	11.76%	8.68%	**8.63%**
(year end)	10.75%	11.00%	7.50%	**7.25%**
Real interest rate (annual average and deflated rate: IPCA)	4.6%	4.8%	3.3%	**3.2%**
Public accounts				
Nominal public deficit (% of GDP)	2.48%	2.61%	2.40%	**2.50%**
Public primary surplus (% of GDP)	2.70%	3.11%	2.50%	**2.50%**
Net public debt (% of GDP)	39.1%	36.4%	35.1%	**35.3%**
Exchange rate				
Nominal exchange rate - R$/US$				
(average in December)	1.69	1.83	2.00	**2.00**
(average in the year)	1.76	1.67	1.94	**1.94**
Foreign trade sector				
Exports (US$ billion)	201.9	256.0	263.2	**254.7**
imports (US$ billion)	181.6	226.2	243.0	**236.4**
Trade balance (US$ billion)	20.3	29.8	20.2	**18.3**
Current account balance (US$ billion)	-47.5	-52.9	-56.0	**-55.3**

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