

Economic Review

Americas

March, 2009

Thomas White International, Ltd.

Thomas White Global Investing

It has never been more important for you to understand what is occurring in the world beyond your country's borders. Whether you realize it or not, we are now all fellow citizens...Global Citizens.

The Thomas White organization was founded 1992 with the goal of bringing the benefits of globalization to investors around the world. We believed that once investors understood that globalization was a positive force, they would also see the advantages of adding international equities to their portfolios. It only makes common sense that professional investors would begin searching the globe for the most attractive opportunities. Researching a wider universe of companies should improve long-term performance. Moreover, broad diversification typically lowers return volatility. Multinational corporations have been using this global strategy for years; why shouldn't investors do the same?

Now 15 years later, our firm growth and strong subsequent portfolio performance has confirmed our investment premise. Currently, Thomas White professionals are performing research and managing over one billion dollars in close to 50 countries. We believe one reason for our success is that the nationalities of these analysts are as globally diverse as our portfolios.

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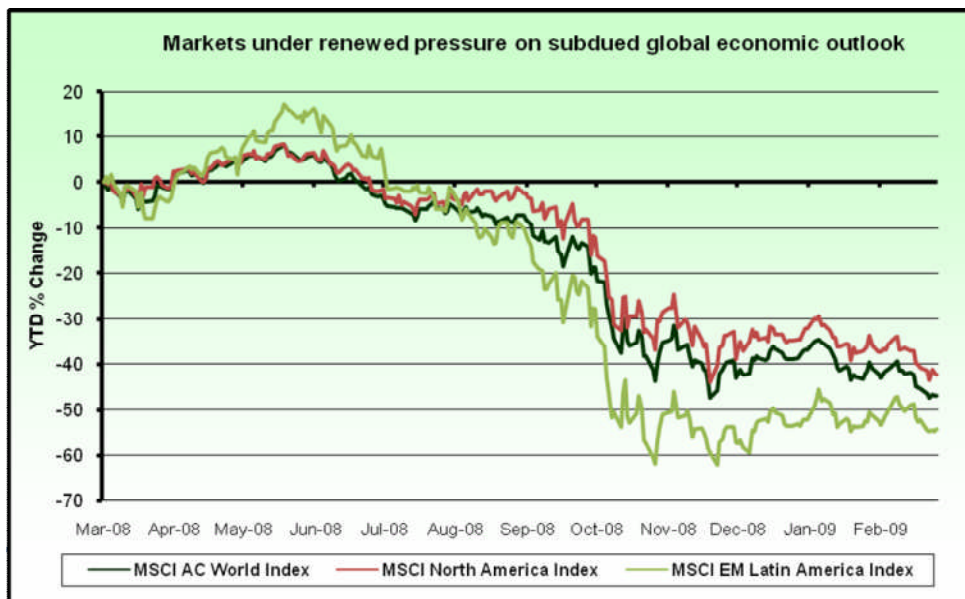


As world leaders get ready for the G-20 summit early next month, focus has shifted to the need for coordinated efforts to lift global demand. While no concrete proposals have come out so far, joint stimulus programs are likely to top the agenda as country-level initiatives have so far been less successful than expected.

Initiatives are also expected on restructuring the global financial system and framing new regulations for financial markets.

Meanwhile, the World Bank said it now expects the global economy to contract this year, as the decline in output in most developed economies and some emerging economies will be more than earlier estimates. The United States announced more stimulus initiatives in the government budget. Most other governments in the region are implementing, and some are even expanding, their own plans announced earlier. As the economic slowdown deepens, major economies in the Americas have continued down the path of aggressive monetary easing. Interest rates are at historic lows in many countries, and close to zero in some, and central banks are now actively considering other measures.

The weakened economic outlook added to the pressure on equity markets last month and many benchmark indices retested their lows. However, better than expected U.S. retail sales and positive signals from some of the largest banks have helped the markets recover some ground.



AT A GLANCE

United States: In its first budget, the Obama administration has included substantial initiatives in education, energy, healthcare, and infrastructure. Despite higher taxes on the affluent and a proposed tax on carbon emissions, the fiscal deficit is set to remain high for many years. Though most economic signals remain subdued, there were some positive developments like the better than expected February retail sales.

Canada: The Bank of Canada cut its benchmark interest rate to a historic low and said the economy may contract this year. The economy expanded just 0.5% last year and unemployment rose to 7.7% as businesses continued to shed jobs.

Brazil: GDP growth for the last quarter of 2008 was lower than expected and more recent data indicates that the trend may continue in this quarter. The central bank announced a substantial 150 basis point cut in its interest rate.

Mexico: The Bank of Mexico eased its interest rate by 50 basis points for the second time in as many months, and admitted that economic output will decline this year. The country's current account deficit has widened on lower exports and remittances.

Chile: The central bank cut its interest rate by an aggressive 250 basis points for the second successive month as the country's economic outlook has weakened. The government will spend \$4 billion from its fiscal reserves to build infrastructure.

Peru: As exports continue to decline, the central bank of Peru cut its interest rate again by 25 basis points. There are signs of a slowdown in domestic consumption, though the country's economy may do better than most others in the region.

Colombia: The country remains vulnerable to the price of oil, its major export. The central bank lowered its GDP growth forecasts for this year and cut the benchmark interest rate by a more than expected 100 basis points

United States: Ambitious budget expands the stimulus initiatives, despite the fiscal strain

Following the substantial \$789 billion American Recovery and Reinvestment Plan and the \$500 billion Financial Stability Plan, the Obama administration unveiled an ambitious economic agenda in its first budget. **Major initiatives for education, clean energy, infrastructure, and healthcare, including a \$634 billion allocation for health reform, have been included in the budget.** Apart from the allocations made in the earlier initiatives, an additional \$250 billion has been set aside to provide support to the financial markets. The budget builds on the earlier stimulus measures and will increase taxes on more affluent taxpayers, while offering additional tax credits to the rest.

To increase government revenues, a cap-and-trade tax on carbon emissions has been proposed. Part of the funds from this initiative will finance clean energy programs while most of it will be utilized to provide tax relief to individuals. Some businesses will see the tax rate go up as some of the tax credits will be withdrawn. Despite these measures, the **fiscal deficit is forecast to rise to 12.5% of GDP this year** before declining to 6% of GDP by 2011.

Retail sales declined a lower than expected 0.1% in February, from the previous month. More significantly, monthly **retail sales growth for January was revised higher** to 1.8% from 1% earlier. However, the steep fall in the Conference Board Consumer Confidence Index in February suggests that there will be further pressure on consumer spending in subsequent months. Though the University of Michigan Consumer Sentiment Index increased marginally in March, it still remains near the all-time low. The ISM Manufacturing Index rose marginally in February, but the Non-Manufacturing Index declined, and both indices continue to indicate a slump in activity.

The bigger than expected 6.7% fall in imports, mostly due to lower oil imports, saw the **January trade deficit narrow by 9.7%**. However, lower global demand for manufactured products forced a 5.7% decline in exports as well. Also, excluding oil imports, the trade gap widened in January.

The U.S. economy lost 651,000 jobs in February, taking the total job losses over the last four months to 2.4 million. The **unemployment rate rose further to 8.1%** from 7.6% during the previous month. Almost all sectors, except education and health services, saw a decline in payrolls and the increase in government jobs was modest. **Consumer inflation was 0.3% in January**, slightly above expectations, and helped ease concerns about deflationary risks.

Meanwhile, the decline in last quarter GDP was more than earlier estimates. The **U.S. economy contracted at a faster rate of 6.2%**, more than the earlier estimate of 3.8%, during the fourth quarter of 2008. Business inventories fell during the quarter, instead of rising as calculated earlier. Consumer spending and exports were lower than initial estimates, which led to the downward revision in the GDP for the quarter.

The Federal Reserve now expects the [U.S.](#) economy to contract between 0.5% and 1.3% this year and the unemployment rate to rise near 9% by the end of the year. However, the **Fed is hopeful of a recovery in the second half of the year** and expects economic growth of between 2.5% and 3.3% next year.

Canada: Interest rate at historic low as economic weakness persists

The Bank of [Canada](#) cut its benchmark overnight rate again this month by 50 basis points to 0.5%, the lowest rate ever. This is the second rate cut by the central bank in as many months. The bank said it is prepared to 'provide additional monetary stimulus through credit and quantitative easing', if required, The Canadian economy may contract in 2009 by more than its earlier forecast of 1.2%, the central bank said, adding that a recovery may not occur until early 2010.

The **Canadian economy declined 3.4% annualized during the last quarter of 2008**, as investments, consumption, and exports declined. Consumer demand fell 1.2%, though government spending increased because of the stimulus initiatives. GDP growth for 2008 was 0.5%, substantially lower than 2.7% during 2007. **Consumer inflation slowed to 1.1% in January, from 1.2% in December**, mainly due to cheaper fuel and automobiles.

The **unemployment rate rose to 7.7% in February** from 7.2% for the previous month, as job losses were higher than expectations. The **Canadian economy lost 82,600 jobs in February**, lower than the 129,000 positions lost in January, but still higher than estimates. **Canada's trade deficit widened in January** as exports fell 9% and imports declined by a lower 7.9%. The country was running a comfortable trade surplus until August of last year, but the steep fall in commodity prices and lower foreign demand for manufactured products like automobiles have led to deterioration in the trade account. The Conference Board Consumer Confidence Index declined marginally in February, but is essentially unchanged over the last few months as overall consumer sentiment remains sluggish.

Brazil: Interest rates cut again as economic data remains subdued

Brazil's economic output growth slowed to 1.3% in the fourth quarter of 2008, from a year ago. When compared to the third quarter, the country's GDP contracted 3.6% as international commodity prices and global demand for resources have declined substantially. Subsequent data releases indicate that the subdued trend is likely to persist in the current quarter as well. **Industrial output in January was lower by 17.2%** from last year and automobile production continued to decline for the fifth month in February. Exports were again lower in February, both from the previous month and a year ago, and the Brazilian real continued to decline against the dollar.

The weaker than expected economic data prompted **The Central Bank of Brazil** to follow-up its 100 basis point interest rate cut in January with **another 150 basis point reduction to 11.25%** this month, its biggest rate move in recent years. In its statement, the central bank said it will consider the 'cumulative effects of the 250 basis point cut in the interest rate, before deciding further steps. The bank's interest rate setting body will meet again by the end of April. **Consumer inflation was clocked at 5.9% annualized in February**, higher than 5.84% in January but below the October peak of 6.41%. Inflation is expected to decline close to 4.5% by the end of this year, and remain there next year as well, according to the central bank's most recent market survey.

Unemployment increased to 8.2% in January from 6.8% in the previous month, as some of Brazil's largest businesses cut jobs. The rate may rise even further as more job cuts have been announced since then. In addition to the stimulus programs announced earlier, the Brazilian government is expected to soon launch a program to build an additional 1 million homes and expand mortgage lending for low-income borrowers. **GDP growth is now expected to slow to 1.2% this year**, before gaining pace to 3.5% next year, the central bank's survey showed.

Mexico: Interest rate lowered again as economy may contract this year

GDP growth in Mexico slowed to 1.3% during 2008, from 3.3% for the previous year. During the last quarter of 2008, the economy contracted 1.6%. In 2008, Mexico's current account deficit widened to 1.4% of GDP, or \$15.5 billion, on lower investment flows and remittances from Mexicans working overseas. Remittances declined 3.6% in 2008, and FDI fell to \$18.6 billion from \$27.2 billion in 2007, but tourism earnings were more than 3% higher from the previous year. Reflecting these weak trends on the external account

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and rising fiscal deficits, the Mexican peso has been the worst performing major currency against the dollar. Despite active intervention by the Bank of Mexico, the currency has lost more than 30% over the last two quarters.

Retail sales were 3% lower in December and a consumer confidence index tracked by the central bank declined for the third successive month in February. December industrial output was lower by 6.7%, on lower domestic and export demand, and automobile production slipped 38% in February. **The Mexican economy may contract 1.9% in 2009**, according to the survey conducted by the central bank.

The Bank of Mexico brought down its benchmark interest rate again in February, but by a lower than expected 25 basis points to 7.5%. The central bank had cut the rate by 50 basis points in January, after holding it steady for a while, and is expected to keep lowering the rate this year. **Inflation continues to decline** after peaking at 6.53% annualized in December, and was 6.2% in February. Core inflation moved up marginally to 5.78% in February from 5.76% during the previous month. Though lower commodity and energy prices have led to lower inflation, the weak currency may offset part of those gains through higher import prices.

Chile: Aggressive rate cuts continue as growth expectations are lowered further

The Central Bank of Chile cut its policy interest rate by another 250 basis points this month to 2.25%, bringing the total rate cut so far this year to 600 basis points. **The Chilean economy contracted at an annual pace of 1.4% in January**, according to Central Bank of [Chile](#) estimates. Based on available information, the Bank added that economic output likely contracted during this quarter. February exports were more than 40% lower, mostly because of a nearly 60% decline in copper prices. The over 30% drop in imports and the 0.4% monthly fall in February consumer prices both suggest that domestic demand, which had remained robust through last year, has also slowed down.

According to the central bank's most recent survey of economists, **expectations for Chile's GDP growth for all of 2009 declined to 0.2%**, from 1.2% last month. However, the respondents remain optimistic about subsequent years and expect the economy to expand 3% and 3.5% in 2010 and 2011. Annual inflation is forecast to be around 3% for the next three years. The central bank's index of economic activity declined 1.2% in January from last year.

Fiscal surplus declined to \$9 billion or 5.2% of GDP during 2008, as compared to 8.8% and 7.7% for the previous two years, because of lower export earnings. The government has announced a \$4 billion economic stimulus program and will spend part of the reserves built up during earlier years on infrastructure.

Peru: Interest rate eased again as economic outlook affected by lower exports

The Central Reserve Bank of [Peru](#) cut its reference interest rate by **25 basis points**, for the second successive month, to 6%. The bank had last month cut the rate for the first time in more than three years, by a quarter point. Consumer inflation declined further to 5.49% annualized in February, from 6.53% in January. But the central bank said it is more concerned about the slowing pace of growth. Prices declined 0.07 in February, from the previous month.

Exports from Peru declined 37% in January from a year ago, while imports were lower by 19%. The trade account slipped into a deficit of \$176 million during the month. Import of consumer goods declined 3% in January, after expanding 42% in 2008, probably suggesting a decline in domestic demand. The modest recovery in copper prices and strong gold prices may help exports in subsequent months.

Colombia: Interest rate cut more than expected as economy slows

Colombia's central bank, **Banco de la Republica**, cut the benchmark overnight interest rate by a more than expected **100 basis points to 8%**. Though consumer inflation of 6.47% for the month of February was well above the central bank's target range of 4.5% - 5.5%, the latest rate decision reflects the deterioration in economic outlook. The central bank has lowered the top end of its GDP growth forecast range for the current year to 3% from 4% earlier. Economic growth slowed to 3.2% last year, from 7.5% in 2007.

The slowdown in global demand has affected Colombia's economic outlook in recent quarters. **The steep fall in the price of oil, Colombia's biggest export, has hurt badly**. Among the country's major export markets, consumer demand remains restricted in the U.S. while neighboring Venezuela is struggling with lower earnings from oil exports. [Colombia](#) raised \$1 billion from a bond issue in the international markets earlier this year.

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