The economic climate in Latin America worsened as the expectation of an improvement in international economic conditions had dissipated. South America has worsened more than Latin America as a whole.

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AFTER TWO CONSECUTIVE quarters that demonstrated improvement, the Economic Climate Index (ECI) for Latin America recorded a fall in July. The two indices that constitute the economic climate—the current situation and expectation indexes—both fell. However, the decrease was greater in the current situation index, which had been favorable for some time but is now unfavorable. Last April, the European crisis seemed headed for a solution, and there was some optimism about the recovery of the U.S. economy, though there was uncertainty about China's growth projections. By July, the expectation of an improvement in international economic conditions had dissipated, and experts consulted for the survey had revised their projections for economic growth downward.

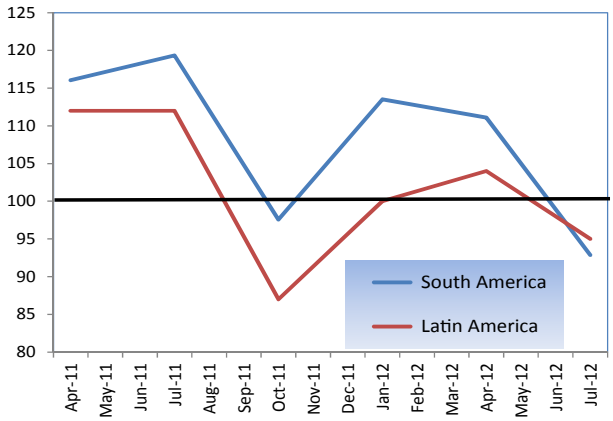
Until April 2012, the indices for South America were consistently better than those for Latin America as a whole. However, in July this situation changed when the South America indexes fell farther than the Latin American ones. Although indices in both regions were unfavorable in July, South America seems to be in a relatively worse position.

The reason was that the two largest economies in both regions, Mexico and Brazil, saw their ECIs heading in opposite directions. Mexico's current situation index has remained moderately favorable and its expectation index, though still unfavorable, has improved, helping bring about a slight improvement in the ECI as a whole. However, note that the small improvement in Mexico's ECI may be a reflection of the presidential elections in July. In contrast, Brazil's current situation index dropped 22 points, from favorable to unfavorable, while its expectations index, though remaining positive, fell 16 points. As a result, Brazil's ECI fell 16% between April and July, to 104 points. In South America, only Bolivia and Paraguay have improved their ECIs, but they are both neutral, close to 100.

The Latin America Economic Climate Index (ECI) is a quarterly survey conducted by Getulio Vargas Foundation and the German Ifo Institute for Economic Research based on information provided by 149 economic experts in 20 countries. http://portalibre.fgv.br/main.jsp?lumChannelId=402880811D8E34B9011D92BBCC431F08

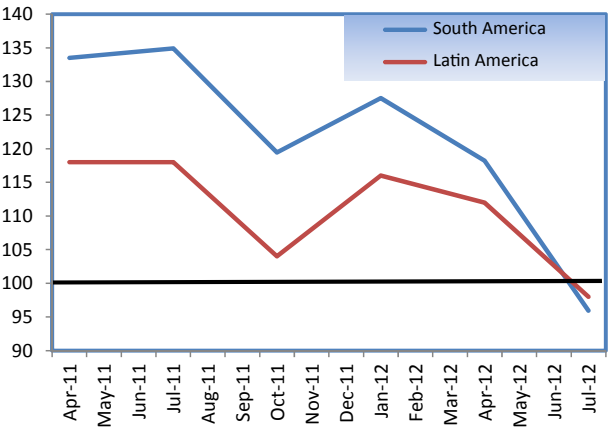
Economic climate index

(Above 100 favorable)



Sources: Getulio Vargas Foundation and the German Ifo Institute.

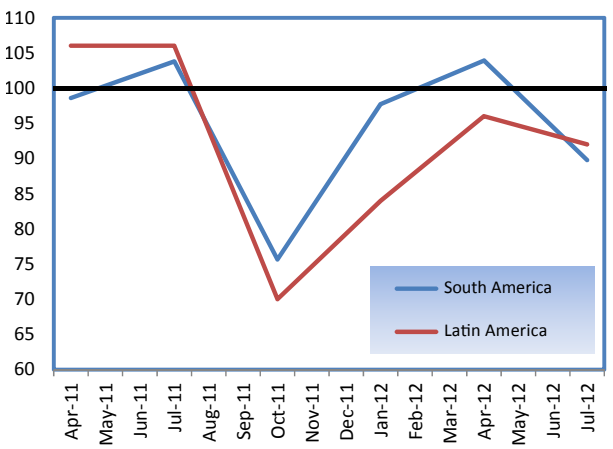
Current situation index



Sources: Getulio Vargas Foundation and the German Ifo Institute.

Expectation index

(Above 100 favorable)



Sources: Getulio Vargas Foundation and the German Ifo Institute.