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¿IS THE CONSUMPTION PARTY OVER?

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Since the beginning of the year, the figures which reflect economic activity performance have begun to differ quite noticeably from those observed during 2007. Consumption is a good example of this, which increased by 8.9% during the first quarter of 2008, on a year-to-year basis, a figure that is much lower than the average growth rate increase observed during 2006 (16.4%) and 2007 (14.8%).

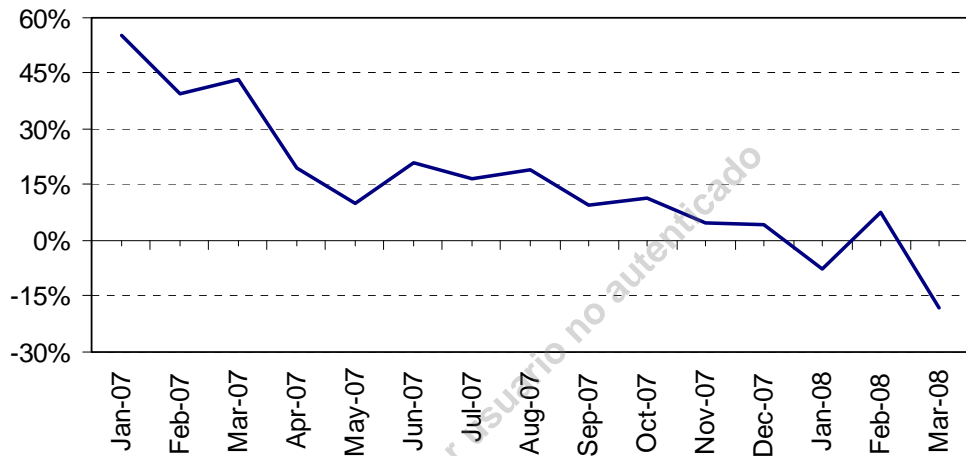
So too, different sectors of the economy have begun to report a slowdown. Information released by *Consecomercio* highlights that during the first four month of the year, commerce increased by 4.8% compared to the 20% it increased during the same four month period in 2007. Supermarket sales dropped by 6% at the close of June, and up until the month of May, food consumption had dropped by 4.2%.

The Central Bank of Venezuela (BCV) confirms these figures: the volume of whole sale sales, which for all of 2007 showed high year-to-year variation rates, began to drop in 2008. The latest figures available, which

Weekly Report

correspond to the month of March, indicate that sales dropped by 18% in one year. In March 2007, sales had increased by 47%.

Sales volume Index



Sources: BCV and Ecoanalitica

The importance of consumption

It's important to point out that historically, consumption has played an important role in the structure of the local economy, and over time, this importance has become more and more pronounced. In 2004, consumption represented 74% of GDP and this percentage increased to 86.6% at the close of 2007 and 87.8% for the first quarter of 2008. There is no doubt that the 11.9% average economic growth that has been registered for the last four years has been spearheaded by high oil prices which in turn have led to a consumption "boom" and increased dynamics in economic activity. During this period, total consumption spending increased by an average rate of 15.5%.

The commerce sector increased at a rhythm of 21.4% between 2004 and 2007. This positive performance in economic activity has had an important impact on the rest of the general economy, since it usually represented, on average, 10% of GDP and 14% of the non-oil sector GDP.

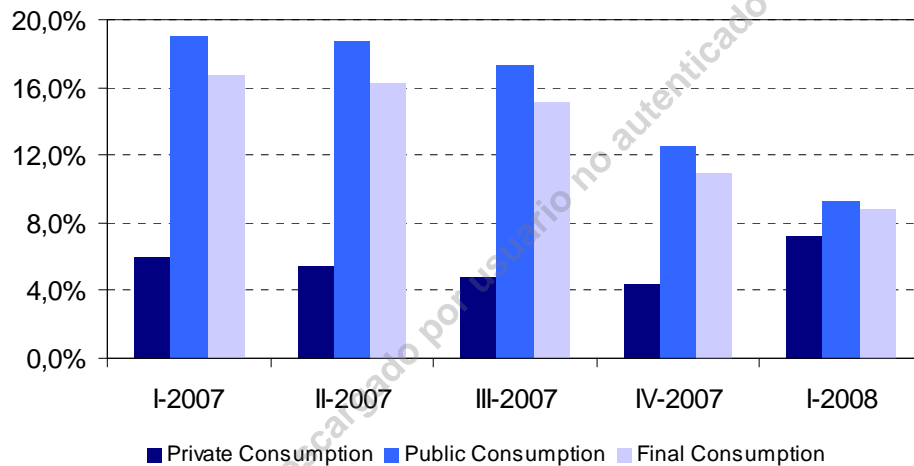
The scene changed in the first quarter of 2008

The latest BCV figures clearly show that commerce only increased by 5.7% during the first quarter of 2008, compared to the previous year. Total consumption reflected a variation of only 8.9%, the lowest since the end of 2003. Here, it's important to point out that contrary to the tendency

Weekly Report

that had been observed, private consumption slowed down, increasing by only 9.2% during the first quarter of 2008 compared to the 17.2% average growth it had been registering during the past four years. Meanwhile, Government consumption increased by 7.2% during the first quarter of 2008, slightly compensating the drop in private consumption.

Public and Private Consumption



Sources: BCV and Ecoanalítica

The cause lies in the Government's exchange and anti-inflationary measures

The slowdown in consumption that is being observed is directly related to a series of measures that the Government has been implementing since the last quarter of 2007 aimed at solving two of the economy's biggest problems: inflation and the unofficial market's high foreign exchange rate.

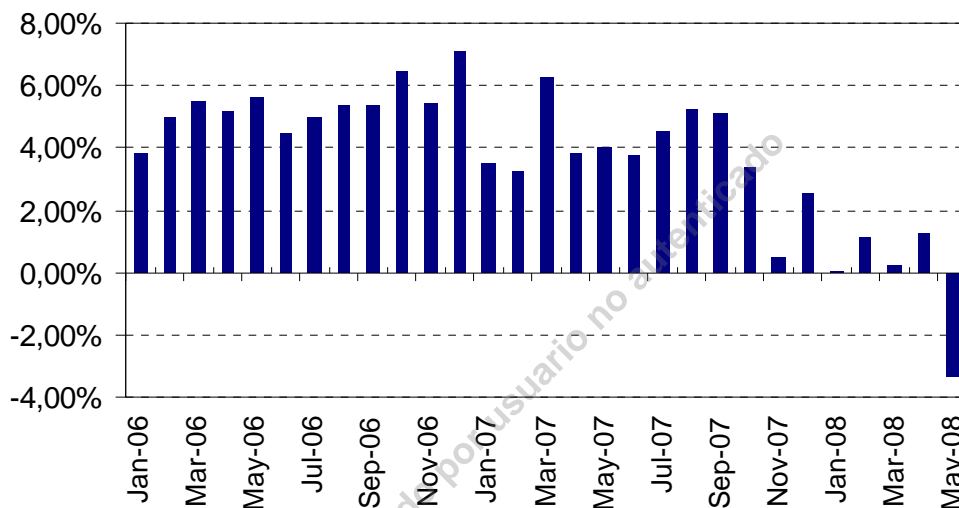
Among the measures which were employed to battle these two problems are: migrating public funds from the private financing system to State banks; reorganizing the National Treasury payments orders and converting the payments to some State contractors into US-dollars. All of these measures have had an important impact in terms of a moderate increase in monetary liquidity.

Plus, increasing interest rates have had their effect on slowing down consumption. Progressively increasing interest rates introduced by the BCV have played a key role in cooling down the request for loans offered by the national banking system. Specifically, consumer loans, which

Weekly Report

increased by 27%, in real terms, during the month of May, showed a significant slowdown, compared to the 80% increase, in real terms, registered in May 2007.

Consumption Credit Portfolio



Sources: BCV and Ecoanalitica

Administrative obstacle have also contributed to the situation

The limited supply of goods has also contributed to the slowdown of consumption. Business sector representatives allude to the fact that production has been mostly affected by all the obstacles companies have to face when trying to import materials. The delays CADIVI presents in authorizing and releasing foreign currency is the most inconvenient of these delays.

Other producers now point to the “mobilization guidelines,” a recently imposed mechanism by National Superintendence Office for Silos, Warehouses, and Agriculture Product Storage (SADA), to control the transportation of certain food items to their final destination which has begun to generate serious delays in supply.

This “could” get better

Regarding the delay in receiving foreign currency from CADIVI, the next few months could see a slight improvement concerning this matter. Recent new procedures introduced which allow foreign currency requests of US\$ 50,000 or less to import capital goods, food, and medicines to be made without going through the normal process, could improve matters. Also, it was announced that BCV will give CADIVI US\$ 3.80 billion

Weekly Report

monthly to cover foreign currency requests, and it has been assigning the entity additional resources during the past few weeks in order to alleviate its backlog of severely delayed orders. According to the president of CADIVI, Manuel Barroso, the extraordinary resources that have been assigned to the entity have allowed improvements to be made regarding the liquidation of orders from the food and health sectors. But, delays still persist in other areas.

Also, as we have pointed out in previous editions, at **Ecoanalítica**, we expect that the exchange market will become a bit more flexible in the medium term since the demand for foreign currency will not be able to be completely satisfied by CADIVI, and therefore, the Ministry of Finance will implement a new mechanism designed specifically to supply US-dollars to the non-priority sectors of the Government.

Despite the slowdown in consumption that has been observed, we at **Ecoanalítica** estimate that it will recover during the second semester of 2008, and that it will continue to be one of the main engines for economic growth in the immediate.

As we mentioned in our previous report (Fiscal Expansion that is on the Way), it's to be expected that public spending will increase considerably during the second semester; the main reason for this being the upcoming regional elections to be held at the end of the year. We'll see the Government issuing more direct transfers to the population, and that it will substantially increase its public spending in order to win-over as many votes as possible. Since oil prices continue to remain at historically high levels, and therefore, public "savings" funds like FONDEN continue to increase, the Government is sure that it has more than enough resources to substantially increase public spending to higher levels than they are already at.

Taking Venezuelan consumer patterns into account, we hope that the main sector to benefit from the increased consumption that is expected in the commerce sector, where greater economic activity will be observed in the shopping centers and in the sale of electrical appliances, clothing and footwear, hardware, and food items. The telecommunication sector will also benefit, given the upcoming implementation of new 3G technology and the release of the Iphone in the local market.

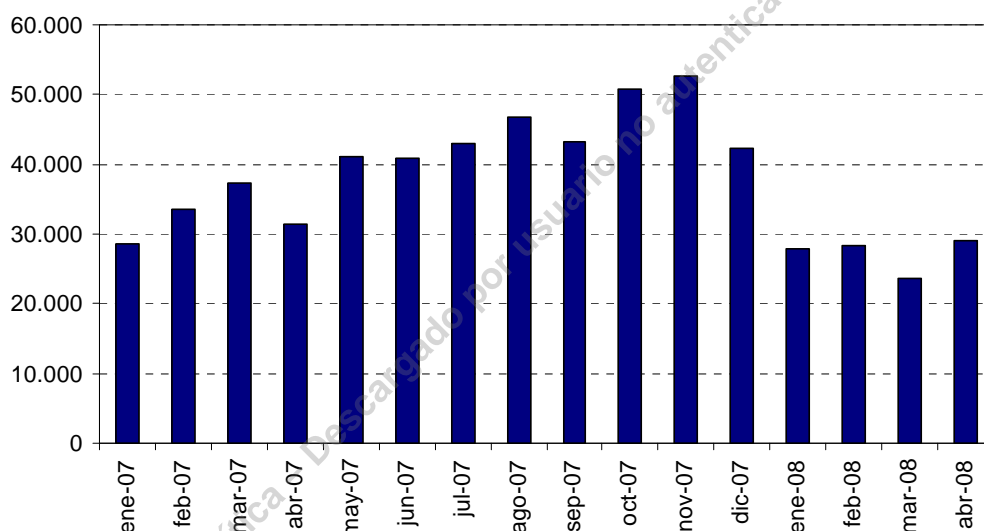
Public spending will determine how much consumption will "bounce back" during the rest of the year

Who will benefit?

Weekly Report

A sector that is likely to continue to slide is the automobile industry. After the high sales figures the sector registered in 2007 and having been particularly favored by the official foreign currency authorization process, this year sales have dropped considerably. This is not due to the slow down in consumer activity, but to new Government regulations introduced which now require import licenses to bring in these types of goods.

Monthly Vehicle Sales



Sources: CAVENEZ and Ecoanalítica

Imports will continue to cover the gap between local supply and demand

Another factor that will influence how consumption will evolve is limited production, which combined with demand leave a gap, which must be covered by imports. If imports can't keep pace with the gap, the market will adjust by increasing prices (high inflation), and in the case of price controlled goods, shortages will occur again. Since inflation and shortages are highly unpopular, the Government will do everything it can to avoid them; and if it had to choose one of them, it would choose to suffer inflation rather than shortages, since it's easier to manage politically.

The need to cover growing demand and a Government that wants to keep the voters happy, have led to imports increasing and possibly reaching the levels registered in 2006 and 2007.

Weekly Report

Government contradiction: necessary consumption

The recently appointed Minister of Finance, Alí Rodríguez Araque, has pledged to control inflation, which he has said is caused by “an imbalance between supply and demand.” Having said this, the Minister’s solution is to reduce demand and promote production. Furthermore, he emphasized that cutting back on public spending was not part of his plan to fight inflation. On the other hand, President Chávez has said on numerous occasions that socialists must stop adopting capitalist practices and promote what he has called “necessary consumption.”

We, at **Ecoanalítica**, believe that the policies announced by the Government and the objectives it has introduced are a bit contradictory. This situation reminds us of an old saying that says: the economy is like a piece of dry leather, if you step on it on one end, the other end comes up. To us, it seems like the Government doesn’t have a clue as to where the piece of leather is going to come up at.

Economic Tips

Argentinean bonds continue to be sold. The Ministry of Finance is continuing to sell Argentinean bonds to financial institutions. During the last two weeks, US\$ 400 million have been issued to them, and weekly sales of US\$ 200 million are expected to continue.

Global 27 increasing in price. The most traded Venezuelan foreign debt bond in the market, the Global 27, went up in prices going from 88.3% to 96.4% between the 8th of May and the 13th of June, spurred on by the rumor that the Venezuelan Government was going to pay to buy it back ahead of time. It closed the third week of June dropping 92.95% due to a lack of confirmation from the Government.

IMF projects 25.7% inflation. According to statement made by the director of the International Monetary Fund (IMF), Dominique Strauss-Kahn, Venezuelan inflation will close the year out at 25.7%. Strauss highlighted that inflation is the main problem all Latin American countries face.

Public spending down in 2008. Government public spending increased from VEF32.90 billion during the first quarter of 2007 to VEF 36.00 billion during the same period this year. Despite the 9% increase in spending, public spending is down if you

Weekly Report

compare it to spending during the same period between 2006 to 2007 which was at 18%.

Fiscal revenues at half what was budgeted. During the first five months of the year, approximately VEF 70.00 billion in revenues have been registered, which is equal to 51% of what was budgeted for this year. This is mainly due to high oil prices plus important tax contributions that have already been collected.

Mercosur with advantages. Mercosur is seen as having certain advantages with regard to facing the current worldwide food crisis and the growing demand for alternative energy, like biofuels, since its two main members are included among the worlds biggest grain exporters.

International reserves. At the close of the fourth week of the month of June, international reserves increased by 1.39 percentage points to settle at US\$ 33.31 billion, thereby breaking its five week-in-a-row upward trend.

Interest rate. For the third week in June, lending interest rates for the six main banks in the country increased by 3.65% to settle at 22.70%, while fixed term deposits increased by 0.47% and closed that week out at 17.26%.

Monetary liquidity. For the second week-in-a-row, monetary liquidity for the month of June was at VEF 154.627 million, up 1.12 percentage points compared to the previous week.

Oil Tips

Venezuelan basket passes US\$ 120. Last week, the Venezuelan crude oil basket once again passed US\$ 120 per barrel averaging US\$ 120.90, which represents an increase of US\$ 1.10 compared to the previous week. This places the accumulated mean for the month of June at US\$ 118.70 and for the year at US\$99.40.

Historic levels. Last Thursday, for the first time ever, the price of a barrel of oil surpassed the US\$ 140.00 per barrel mark, this after the US-dollar fell on the world market and OPEC announced that oil prices could reach US\$ 170.00 this year. The barrel of August delivery WTI closed the trading session at US\$ 139.60 and Brent reached US\$ 139.80.

Weekly Report

The week closed at record levels. Last Friday, the price of WTI reached new record levels of almost US\$ 143 per barrel, after the US-dollar weakened before the Euro. After reaching a peak price of US\$ 142.90, a barrel of August delivery closed at US\$ 140.20. Brent crude oil increased by US\$ 0.40 to close at US\$140.30.

Oil prices not likely to fall. OPEC leaders once again rejected requests to increase production during a yearly meeting with the European Union. They also stated that they didn't think market prices would fall even if production increased, underlining that future oil prices will depend on the evolution of the US-dollar in the coming months.

Emergency meeting. The meeting held last Sunday between crude oil producers and consumers didn't stop the price of crude oil going up. During the meeting it was suggested that technical measures be adopted in order to stabilize the oil market, but there was no announcement of a joint increase in production.

Explanations. The office of Statistics, International Prices, and Economy of the ministry of Energy and Petroleum stated that oil price increases are mainly due to production problems faced by the North Sea fields as well as those in Nigeria, the tension building between Israel and Iran, and the weakening of the US-dollar before the Euro.

Not due to a lack of supply. According to OPEC members, the main causes for oil prices increasing as they have been doing are: financial speculation in the wake of the U.S. mortgage crisis, the weakening US-dollar, and geopolitical conflicts, but not a lack of supply. The OPEC has repeatedly insisted that the market is well supplied and that it doesn't plan to review its production levels until September 9th, when the group meets again. This means that production will remain stable at 29.7 million barrels a day.

Searching for an explanation. The 19th World Petroleum Congress between the main crude oil producers and countries making oil transactions will be held in Madrid. The Congress will try to come up with an explanation for the seemingly unstoppable increase in oil prices. They will be searching for answers that go beyond the fundamentals of the market (supply and demand). Oil producing countries, which have been doing what they can to increase production this year, blame high oil prices on "speculation."

Weekly Report

Speculators carry out 71% of operations. According to a study carried out by the U.S. House of Representatives, speculators are currently responsible for 71% Nymex transactions compared to 37% in 2000.

PDVSA revenues. If calculations are made based on an export volume of 2.2 million barrels a day, one could say that so far this year, PDVSA has received around US\$ 25.20 billion extra in revenues. Most of this will end up in FONDEN.

Exports going down. According to the Energy Information Administration figures, Venezuelan oil deliveries to the United States have dropped by 11.4% during the first four months of the year compared to the same period last year. This translates to a drop of 150,000 b/d. Also, while Venezuela sold 1.3 million b/d of crude oil and oil by-products between January and April 2007, during the same period this year it only supplied 1.1 million b/d.

Uruguay accepting bids for refinery improvements. Daniel Martínez, Minister of Industry and Energy of Uruguay, announced that its Government has decided that the improvements it wished to make to its refinery will not be done by Venezuela, thereby avoiding any possible future political confrontations. Therefore, the state-run company ANCAP is receiving bids to see who will finance this project.

PDVSA considering pulling out of the project. According to sources within the oil industry, PDVSA is considering pulling out of the project to expand the refinery in Montevideo due to delays in its negotiations with ANCAP that have been going on for a year now. PDVSA is considering building a refinery in another country if the delays persist.

Business Sector Tips

The demand and consumption of electric power increases. The National Management Center announced that the peak demand for electric power from the National Electric System for the month of May increased by 4.17% compared to the same month last year. Electric power consumption is also up by 2.93% compared to 2007. In order to satisfy increased electric power demand and consumption, EDELCA (*Electrificación del Caroní*) had to increase its output of electric power for the month by 8.59%.

Weekly Report

Rationing. Due to high electric power demands and problems generating it, electric power sector authorities have designed a rationing plan for some states, mainly in the Eastern and Western regions of the country, in order to alleviate the pressure on the electric system.

Gas station strike in Bolívar state. The gas station worker's union for the state of Bolívar announced a strike to be carried out in stages of all the gas stations in the state. The union's demands include reactivating collective bargaining talks, which have been bogged down for four years; to include food tickets in their pay, to issue overtime for extra hours worked and Sunday pay; to improve work conditions, and to request that the Administration declare gas stations to be a public interest.

Venezuela and Brazil agreement to cooperate with steel. The Minister of Basic Industry and Mining, Rodolfo Sanz, and the Ambassador of Brazil in Venezuela, Antonio José Ferreira, signed a memorandum of understanding aimed at promoting cooperation to develop the steel industry infrastructure.

Intelligent credit cards in 2009. The president of the Banking Association of Venezuela (ABV), Víctor Vargas, announced that banks expect to have intelligent credit cards working in the system by the first or second quarter of 2009. These credit cards will have a security chip which will help prevent fraud and card cloning.

Restructuring the agriculture debt. The draft of the decree-law of the Agriculture Debt Restructuration states that banks will be forced to carry out the necessary technical evaluations in order to approve a debt restructuring request form which may only be requested after the debt has been delinquent for more than 60 days.

Cemex sold at book value price. Cemex announced that the sale of its assets in Panama, Dominican Republic, Trinidad and Tobago, and Guadalupe closed at US\$ 467 million, an amount which translated to the book value price of the shares.

Cemex wishes to stay in Venezuela. Even if the Administration were to set a 60 day period for all negotiations to be completed regarding its participation in the cement industry, the Mexican company CEMEX announced its willingness to remain doing business in the country and to search for new business opportunities jointly with the Government.

Unemployment. Figures published on the Integrated System of Social Indicators of Venezuela (Sisov), indicate that during the second half of 2007, a portion of the population equal to 32% that was unemployed took more than six months to find a job. Of this percentage of people, it took 16.6% of them between one and two years

Weekly Report

to find a job. On the other hand, 59.4% of those unemployed, found new jobs in less than six months.

Public sector jobs increase. According to figures released by the National Statistics Institute, including the month of May, 18.5% of the working population (2.17 million people), are working in the public sector. This is the highest level this has been for a number of years. The private sector employs 81.5% of the workforce (7.3 million people). Nine years ago, the public sector employed 14.6% and the private sector 85.4%.

Private education under the gun. The president of the Venezuelan Chamber of Private Education, Octavio de Lamo, denounced that it was being harassed by the INDECU, entity which is in charge of monitoring whether the school registration/tuition costs are keeping within the newly issued maximum limits. The problem is that when the new cost regulation was issued, many schools had already made their yearly budgets and notified parents and some were already registering students, and if they were now to follow the INDECU regulation, many of them would go bankrupt.

Inspections begin. The INDECU began inspecting Caracas Metropolitan area schools after having received 496 reports by parents claiming that school tuition had increased more than the legal limit.

TSJ clarifies statement about Income Tax declarations. On June 17th, the Supreme Tribunal of Justice stated that Income tax declarations should be made based on a normal salary, as of last year, 2007, and not based on total yearly earnings. Later, the Tribunal published its statement again making a correction indicating that this clarification goes into effect as of the 2008 tax year, and not the 2007 tax year.

Plentiful supply of food. The Minister of Food, Félix Osorio, announced that in order to guarantee food supplies, the Government would create a 700,000 ton food reserve which would equal one months supply. It's expected that by 2009, the reserve will have up to a 3 months supply.

Milk only for PDVAL. The *Empresa Nacional Lácteos Los Andes* (dairy company) produces pasteurized milk under the "Cebú" brand exclusively to be distributed by PDVAL, in order to satisfy the needs of the population who exclusive access that chains products.

Weekly Report

Transportation workers protest in Táchira. Transportation workers have closed down one of the major roads in Táchira state, used to transport food and fuel, in protest about the poor conditions the region's roads are in.

Trade between Venezuela and Colombia increased. Despite the political tension that exists between both countries, the president of the Chamber for Venezuelan-Colombian Economic Integration announced that during the first four months of the year, trade between the two countries has increased by 30.1 % compared to the same period last year.

Consecomercio denounces the exclusion of the private sector. During its 38th Yearly Assembly, the president of Consecomercio questioned the Governments attitude in thinking that just because it is taking in extraordinary sums in oil revenues that it can completely write off private investment and take control of all the means of production.

Ternium-SIDOR "almost" in the hands of the State. The Venezuelan State must soon take control of all of SIDOR's company activities. According to President Chávez, the State has "almost reached an agreement with regard to the price of the shares." The President didn't offer any other details but said that the Argentinean company Techint decided to keep 10% of company shares.

Coca-Cola conflict persists. Coca Cola workers demanded that President Chávez intervene in the conflict between the bottling company and former workers. Despite the fact that the TSJ has already declared mediation finished, these workers have closed down a number of facilities and are keeping thousands out of work.

Agreement between Venezuela and Brazil. The president of *Petróleos de Venezuela*, Rafael Ramírez, and the president of Petrobrás from Brazil, yesterday signed a couple of preliminary agreements by which Venezuela agrees to supply liquefied natural gas to Brazil through the *Gran Mariscal de Ayacucho* project which is under construction in Güiria.

Insufficient agriculture loans. The Superintendence Office of Banks reflects in its May report that loans earmarked for agriculture represent 16.24% of total loans issued and this doesn't fulfill the minimum quota required (18%) of banks by the Ministries of Finance and Agriculture.

School supplies expected to increase. Rafael Pérez, president of the Venezuelan Association for Paper Supplies and Related Items announced that for the next school

Weekly Report

year, supplies are expected to increase by 20% to 25% due to a lack of domestic supply and delays in imports.

Political Tips

New president for BANDES. President Hugo Chávez named Alejandro Andrade as the new president of the Economic and Social Development Bank (BANDES), replacing Rafael Isea, who was in charge of the office since January 2007. Andrade will be in charge of this office as well as continue as director of the National Treasury Office and the vice-ministry of Finance.

Ineligibility maintained. The President declared his support of the Comptrollers decision regarding the list of people he has declared ineligible to run for public office on Tuesday, June 30th. The National Assembly also joined in this approval.

They are legal. According to the president of the Supreme Tribunal of Justice (TSJ), Luisa Estella Morales, the General Comptroller's Office Law contemplates political ineligibility as a mechanism by which public officials who have made serious mistakes during their term in office may be sanctioned.

Russián list to increase. The Comptroller General of the Republic, Clodosbaldo Russián, during a press conference yesterday before foreign journalists, defended his office's decision to declare these individual ineligible. He reiterated that "there will probably be more individuals declared ineligible before the elections..."

Kicked-out of the PSUV. The United Socialist Party of Venezuela (PSUV) decided to kick-out of its ranks the Governors of Guárico and Carabobo, Eduardo Manuitt and Luís Felipe Acosta Carlez, as well as the Mayor of Maturín, Numa Rojas, for not following the party's directives.

Want to put Chávez on trial. Within the framework of the campaign to "Try Chávez", promoted by the organization *Plataforma de Venezolanos en Madrid* (Venezuelans in Madrid), a request has been made that the Venezuelan President be tried by the

Weekly Report

International Criminal Court, located in The Hague, because of his supposed connections to the FARC.

INCES official. The decree-law making the National Institute for Training and Socialist Education (INCES) official has already been published in the *Gaceta Oficial*. The INCES will offer educational programs promoting social formation.

Other Tips

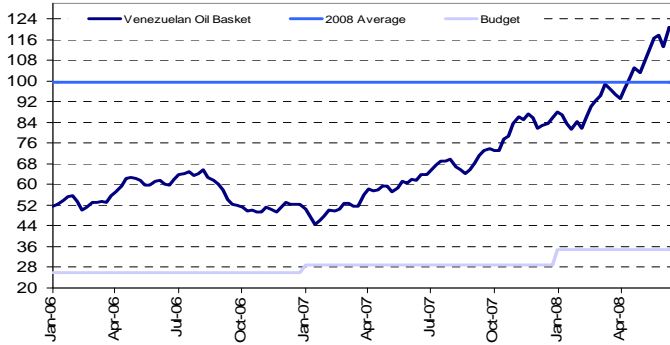
Leading company in the world. ExxonMobil maintains its first place as the leading company in the world registering a market value of US\$ 452.51 billion in the list of 500 most important companies in the world published by the Financial Times magazine. ExxonMobil was followed by PetroChina with US\$ 423.99 billion and General Electric with US\$ 369.59 million.

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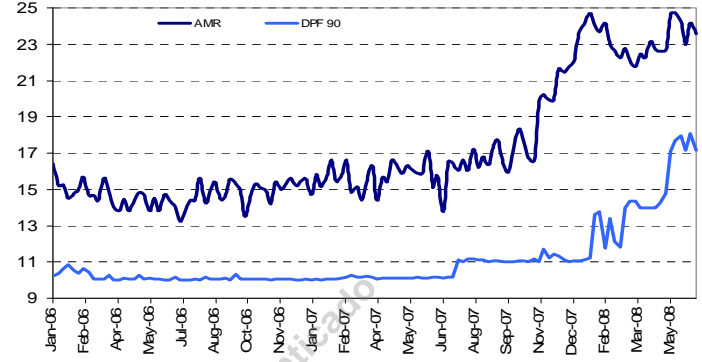
Weekly Report

ECONOMIC OVERVIEW

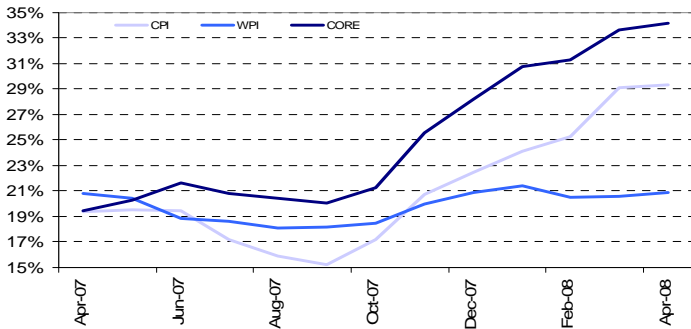
Oil Price
(Venezuelan Basket US\$/pb)



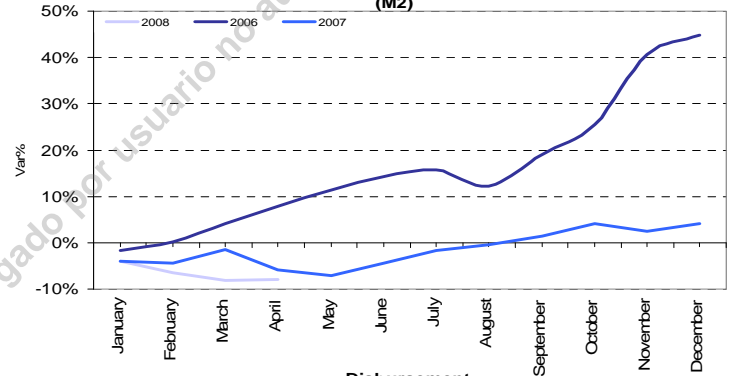
Interest Rate
(Six Principal Banks)



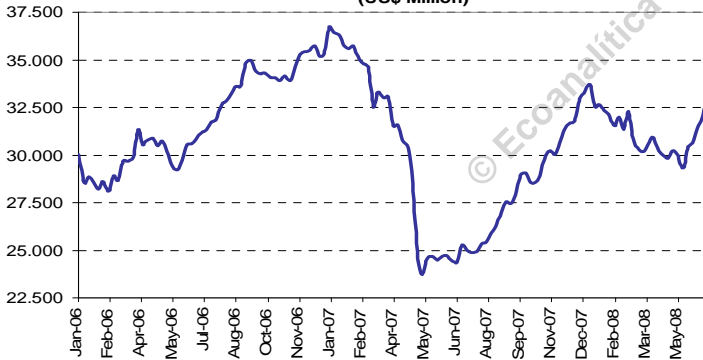
Inflation
(Last 12 Months)



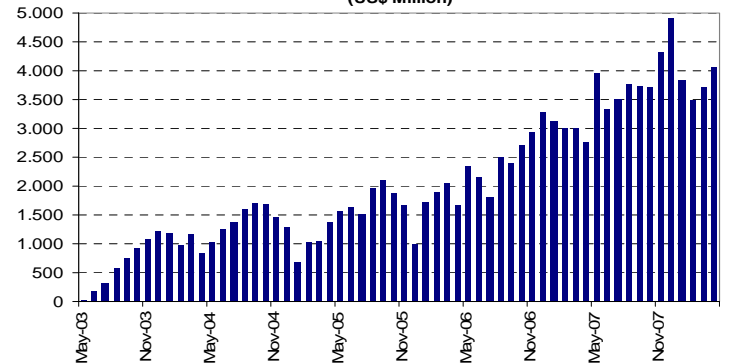
Real Expansion
(M2)



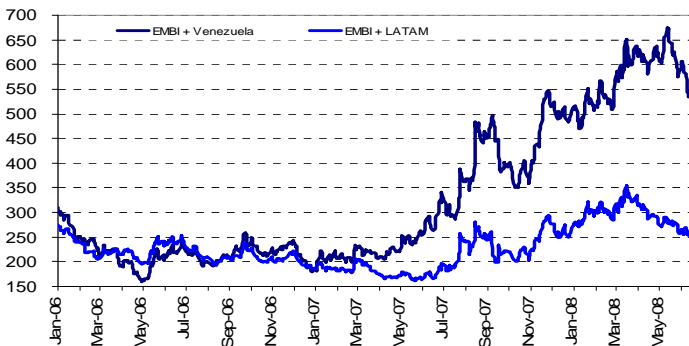
Fx Reserves - BCV
(US\$ Million)



Disbursement
(US\$ Million)



EMBI



Central Government
(VEB Billion)

