Growth in Latin America, Caribbean unexpectedly slows

Jerry Haar

No region in the United States is as commercially tied to Latin America and the Caribbean as South Florida. Therefore, it behooves us to closely follow economic conditions in the Americas and trends that can impact us significantly.

Let's have a mid-year look.

For those who believed in January that Latin America and the Caribbean would witness accelerated growth this year, results to date have been disappointing. In fact, the region has experienced much slower growth than the past two years.

Nevertheless, it would be fair to call Latin America's economic performance a mixed bag, with notable winners and losers and a lot of countries in between.

According to the latest International Monetary Fund report on the Western Hemisphere, Gross Domestic Product growth last year dropped from 3% to 2.75% and will slip further this year to 2.5%. Weaker domestic demand, lower commodity prices, tighter financial conditions and supply constraints will retard recovery.

While external demand will pick up, investment growth will slow and political uncertainty (especially in the largest nations of the Hemisphere) will hamper growth despite a faster recovery in the advanced industrialized nations.

How the region fares for the rest of the year will be influenced heavily by the "market makers," so to speak: Brazil, Mexico, Colombia and Peru.

The Writer

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In the case of Brazil, most economists have cut their 2014 growth forecast to 2%, the slowest ever, as the central bank raises interest rates to tame inflation. Low productivity, declines in investment and business confidence, a high debt-to-GDP ratio, falling competitiveness and high borrowing costs do not bode well for Brazil.

Having gone into hock over expenditures for the Olympics and World Cup, these costly "beauty contests" will produce little lasting economic impact on the nation. A severe recession (post-2016) could lead to a major fall in the real and, therefore, Brazilian tourism to Miami and a sell-off of Brazilian-owned condos in South Florida.

Mexico, on the other hand, is and will be the bright light among the big market economies, expecting to rebound to a 3% growth rate propelled by loose fiscal policy, US economic recovery, and energy and telecom reform.

Three other nations that have excellent prospects are Colombia, Peru and Panama. Among the first two, private consumption-led growth, low unemployment and continuing demand for commodities, albeit at lower levels than previously, are driving growth.

In the case of Panama, financial services, the canal expansion project and construction and real estate are fueling that economy.

As for the Caribbean, the region is and will continue to be dependent on tourism, remittances, natural resources and agriculture, not to mention the drug trade in certain countries. An end to the US embargo of Cuba, permitting travel to the island, will have strong negative impacts initially on the tourism sectors of the Dominican Republic, Puerto Rico and the English-speaking Caribbean such as Jamaica.

Looking beyond the macroeconomic numbers, other forces and drivers are shaping the outlook for the region. One vitally important one is the tapering of US Federal Reserve policy, which will channel more money into US treasuries. Commodity producing nations with high public debt will be seriously affected, prompting them to raise interest rates.

This situation has been brought about by the slowdown in China and will impact Argentina, Brazil, Chile, Peru, Ecuador and Venezuela. This situation will not be remedied anytime soon, as China is faced with an increasingly serious debt problem – at the municipal level $3 trillion (30% of GDP), at the federal level 53% of GDP, and corporate debt is twice that amount.

Wealthy Chinese have sent billions of dollars offshore, a sign of their waning confidence in their country's economy.

In the social and political spheres, urban crime and violence as well as political instability will continue to drive capital flight (human as well as physical) from Venezuela and Argentina. South Florida will be the prime beneficiary of these unfortunate circumstances.

On the positive side for the region, poverty is declining, standards of living are improving, and explosive growth among the middle class, upper middle class, and increased middle-class purchasing power of the lower classes, combined with greater access to credit, have created a consumer "fiesta." Travel and tourism, within and outside the region, have made big gains, and business and consumers are optimistic about the future.

It is fortuitous for South Florida that our community serves as both a safe haven when things go bad in the Americas and an opportunity destination when things go well in the region. Keeping a careful eye on developments to our south will allow us to position ourselves to maximize the benefits of our ties to Latin America.

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