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Latin America 2011: Solid Outlook

Latin America is expected to see another year of solid macro economic results, with Brazil leading the way.

BY JOACHIM BAMRUD

Latin America's economy is slated for another strong year, helped by both local demand and exports to markets like China.

The region's economy will likely grow by 4.2 percent this year, according to estimates from the United Nations Economic Commission for Latin America and the Caribbean (ECLAC). Panama will lead the way with 7.5

percent growth, followed by Peru, with 6 percent economic expansion.

"Driving growth will be global economic recovery ... countercyclical measures, expansive monetary policy, and the continuing insatiable demand of China and India for commodities from the region," says Jerry Haar, associate dean and professor in the College of Business Administration at Florida International University. Increases in private consumption—especially for consumer goods—and an upswing in investment, both local and foreign, create a bright picture for the coming year."

Last year, Latin America made an impressive recovery from the global crisis, growing an estimated 6 percent, according to ECLAC. Brazil's economy expanded the most in real terms, while Paraguay posted the highest growth in percentage terms.

While the growth this year marks a slowdown compared to last year, it still places Latin America as one of the top growth areas worldwide – in stark contrast with the sluggish expansion in the United States and Europe.

"That [Latin American growth] will definitely be more than our own growth rate or that of Europe," points out Peter Rösler, deputy general manager of Lateinamerika Verein, a business organization of leading German multinationals operating in Latin America. "That is an impressive performance that entices many German companies to expand their activities in the region."

Also Asian companies are looking to Latin America for business. "The outlook for Indian companies in Latin America in 2011 is brighter than 2010," says R. Viswanathan, India's ambassador to Argentina, Paraguay and Uruguay and India's foremost Latin America expert. "The way the Latin American economies have withstood the global financial and economic crisis and have resumed their growth have given renewed confidence to Indian companies," Viswanathan says. "They are even more optimistic seeing that the Latin American growth is to a large extent driven by domestic demand which means the growth will be more sustainable. Indian companies will increase their investment in the region especially in areas such as IT, BPOs, manufacturing, mining, agribusiness and energy sectors."



Brazilian President Dilma Rousseff at a cabinet meeting on January 6, 2011. (Photo: Roberto Stuckert Filho/PR)

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Meanwhile, Latin America's inflation is set to decline to 5.8 percent from last year's estimated rate of 6.1 percent, according to the International Monetary Fund (IMF). Venezuela and Argentina are expected to see the highest rates, while Peru and Panama will see lowest price changes.

And the good news is that experts foresee sustained growth in Latin America. "As the dust from the financial crisis settles, we foresee a long period of sustainable growth," says Rogelio Caceres, Latin America vice president, Frontier Strategy Group. "Our view is informed by our focus on four drivers: decreased exposure to commodities shocks, growth of domestic consumption, policy continuity, and low inflation -- by historical standards."

Although China will be the key driver for Latin America's trade growth this year, its top trading partner – the United States – is also seeing a recovery in two-way trade with the region. Meanwhile, German and Indian companies are also expected to boost their trade this year.

In the first half of 2010 alone, German exports to Brazil grew by 61 percent, according to Rösler.

India's trade with Latin America, which had gone down in 2009, has recovered growth in 2010 and is expected to grow by about 20 percent in 2011, Viswanathan says.

Here is a country-by-country overview.

ARGENTINA

Argentina's economy, Latin America's third-largest, is set to grow by 4.8 percent this year. Last year, it likely ended with an 8.4 percent expansion, according to ECLAC.

Inflation is set to reach 11 percent this year, according to estimates from Barclays Capital. Last year it reached an estimated 23.8 percent, according to Credit Suisse.

BOLIVIA

Bolivia's economy, South America's second-smallest, should expand by 4.5 percent this year following an estimated 3.8 percent increase last year, according to ECLAC.

Inflation is expected to 4.1 percent this year, following an estimated 1.7 percent last year, the IMF says.

BRAZIL

Brazil's economy, Latin America's largest, will likely see a 4.6 percent increase this year. That follows an impressive 7.7 percent expansion last year, according to ECLAC.

"Brazil is poised to have a stellar year," says Haar.

From a macroeconomic perspective, Brazil will enjoy strong growth in 2011 and may see record FDI for several reasons: China is still spending heavily on Brazil's natural resources and shifting from a purely trading relationship to investing in-country, the World Cup and Olympics are drawing nearer, and more oil blocs are being auctioned off, says Caceres.

Inflation is set to reach 4.6 percent, according to the IMF. Last year it reached 5 percent, according to official figures.

"There are growing concerns about Brazil's quickening inflation rate," BCP Securities head of research Walter Molano wrote in a commentary yesterday.

Brazil's new president Dilma Rousseff pledged in her inauguration speech to continue fighting inflation despite the economic pace. "To make the current cycle of growth last, it is necessary to guarantee stability, especially price stability," she said. "Our recent culture involves the conviction that inflation disorganizes the economy and erodes the worker's income. It is absolutely certain that we will not allow this poison to return to corrode our economic fabric and castigate the poorest families."

CHILE

Chile's economy, Latin America's sixth-largest, is set for a 6 percent increase this year. That follows an 5.3 percent expansion last year, according to ECLAC. Last year's rate was impressive in light of the February earthquake that hit the country.

Inflation is expected to reach 3.0 percent this year, the IMF estimates. That follows an estimated 2.8 percent last year, according to official data.

COLOMBIA

Colombia's economy, Latin America's fifth-largest, should grow by 4 percent this year – the same as last year, according to ECLAC.

Inflation is expected to reach 2.6 percent this year, the IMF predicts. That follows a 3.2 rate last year, according to the official statistics agency DANE.

COSTA RICA

Costa Rica's economy, Central America's richest in per capita terms, will likely see an increase of 3 percent this year, following last year's GDP expansion of 4.0 percent, according to ECLAC.

Inflation is expected to reach 4.2 this year, following an estimated 5.6 percent last year, according to the IMF.

DOMINICAN REPUBLIC

The Dominican economy, the largest in the CAFTA trade block and 9th-largest in Latin America, should see an increase of 5 percent this year. That follows a solid 7.0 percent expansion last year, according to ECLAC.

Inflation is expected to reach 4.3 percent this year, the IMF estimates. That follows an estimated 6.2 percent last year, according to the Dominican Central Bank.

ECUADOR

Ecuador's economy, Latin America's eighth-largest, will likely see an expansion of 3.5 percent this year – the same as last year, according to ECLAC. "Despite the economic rebound observed across most of Latin America during 2010, Ecuador ... [posted] only mediocre gross domestic product growth..., the trade balance is back deep into negative territory for the first time in eight years, and the public sector's financing sources have nearly dried out," local consultancy Analytica wrote in its Ecuador Weekly Report. "If only this nightmare would have ended on New Year's Eve! But 2011 doesn't look more promising, despite favorable external conditions and improving business sentiment."

Inflation is expected to reach 3.5 percent this year, the IMF estimates. That compares with an estimated 3.3 percent last year, according to official statistics.

EL SALVADOR

El Salvador's economy is set for an increase of 2.0 percent this year. While low, that's twice as much as the economy grew last year, according to ECLAC.

Inflation is expected to reach 2.8 percent this year, following an estimated 4 percent last year, according to the IMF.

GUATEMALA

Guatemala's economy, Central America's largest, likely will expand by 3 percent this year, which was better than last year's increase of 2.5 percent, according to ECLAC.

Inflation is expected to reach 4.5 percent this year after an estimated 3.9 percent rate last year, the IMF says.

HONDURAS

The Honduran economy, the third-smallest in Latin America, will likely grow by 2 percent this year after expanding by 2.5 percent last year, according to ECLAC.

Inflation is expected to reach 5.5 percent this year after an estimated 4.6 percent last year, the IMF says.

MEXICO

Mexico's economy, Latin America's second-largest, is set for an increase of 3.5 percent this year after growing an estimated 5.3 percent last year, according to ECLAC.

Inflation is expected to reach 3.2 percent this year after an estimated 4.2 percent last year, the IMF says.

Despite a slew of challenges such as a violent war against drug traffickers, Mexico remains a key investment target for multinationals. "Mexico is interesting because of its internal market and its function as a gateway to the U.S. market," says Rösler from Germany's Lateinamerika Verein.

PANAMA

Panama's economy, Latin America's six-richest in per capita terms, should grow by 7.5 percent this year, ECLAC estimates. Panama's president Ricardo Martinelli is more bullish, predicting growth of 8 to 9 percent. Last year, the economy grew an estimated 6.3 percent, according to ECLAC.

Inflation is expected to reach 3.0 percent this year after an estimated 3.4 percent last year, the IMF says.

PARAGUAY

Paraguay's economy, South America's smallest, is set for a 4 percent increase this year. That follows last year's impressive 9.7 percent expansion – the highest in Latin America, according to ECLAC.

Inflation is expected to reach 5.2 percent this year after an estimated 4.6 percent last year, the IMF says.

PERU

Peru's economy, Latin America's seventh-largest, will likely expand by 6 percent this year – the second-highest rate in the region. That follows last year's estimated 8.6 percent growth.

Inflation is expected to reach 2.5 percent this year, the lowest rate in Latin America. Peru will also likely have the region's lowest inflation the next five years, according to a Latin Business Chronicle analysis of forecasts from the International Monetary Fund.

Last year, Peru had an estimated inflation rate of 1.7 percent.

URUGUAY

Uruguay's economy, Latin America's fourth-richest in per capita terms, is expected to increase 5 percent this year. That follows the high 9 percent growth last year, according to ECLAC.

Inflation is expected to reach 6.4 percent this year after an estimated 6.5 percent last year, the IMF says.

VENEZUELA

Venezuela's economy, Latin America's fourth-largest, should be able to return to economic growth this year after last year's recession. However, its economy will likely expand by a mere 2 percent, according to ECLAC. That's the lowest rate in Latin America (along with El Salvador and Honduras). Last year, the economy declined by an estimated 1.6 percent, according to ECLAC.

Inflation is expected to reach 32.2 percent this year, the IMF estimates. Last year, it reached 27.2 percent, according to Venezuela's central bank. Both rates are the highest in Latin America. And Venezuela is expected to continue having the region's highest price increases the next five years as well, according to a Latin Business Chronicle analysis.

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