LATIN AMERICA: Tepid recovery on the cards for 2015

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Abstract

According to the UN Economic Commission for Latin America and the Caribbean (ECLAC) yesterday, regional growth will slow to 1.1% this year, recovering to 2.2% in 2015.

Although growth was above 3% in most Latin American and Caribbean (LAC) countries in 2014, the regional average was dragged down by two heavyweights -- Brazil (growth of just 0.2%) and Argentina (a contraction of 0.2%). An uptick in world growth in 2015 should ensure that Latin American economies rebound after a poor 2014, marked by the slowest growth rate since the global financial crisis of 2008-09.

Full text

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SIGNIFICANCE:Although growth was above 3% in most Latin American and Caribbean (LAC) countries in 2014, the regional average was dragged down by two heavyweights -- Brazil (growth of just 0.2%) and Argentina (a contraction of 0.2%). An uptick in world growth in 2015 should ensure that Latin American economies rebound after a poor 2014, marked by the slowest growth rate since the global financial crisis of 2008-09.

ANALYSIS: Impacts.

The drop in the regional investment rate to 19.2% of GDP in 2014, its lowest level since 2009, will remain a drag on growth.

The narrowing of the region's current account deficit in 2014 reverses a four-year run of deficit expansion.

The poor growth outlook in Brazil and Argentina will continue to dampen regional expansion in 2015, despite recovery elsewhere.

The drop in regional growth in LAC from 2.7% in 2013 to just 1.1% this year, estimated by ECLAC in its Preliminary Overview of the Economies of Latin America and the Caribbean 2014, represents the continuation of a steady deceleration since 2010, when year-on-year growth was 6.1%. ECLAC had initially predicted growth of 2.6% this year (see LATIN AMERICA: Modest growth on the cards next year - December 16, 2013). It blamed the much-lower-than-forecast growth rate on "a lacklustre performance of developed economies and the slowing of emerging ones, especially China", allied to continued falls in commodities prices.

Trade and commodities prices.

Commodities prices (as measured by ECLAC's basket of commodities) fell 10.5% this year following a drop of 5.2% in 2013. Metals prices fell by 2.3%, having tumbled 16.7% in 2013, while energy prices slumped by 17.0%. Terms of trade continued to deteriorate accordingly, and fell 2.6% in the region in 2014, although there are significant intra-regional disparities (see LATIN AMERICA: Trade obstacles cut growth prospects - October 13, 2014:

The upturn in the US labour market underpinned a surge in remittances to Mexico and Central America.

Conversely, South American countries felt the effects of slack demand for their goods in Europe and China.

The value of imports into LAC dropped by 1.0% in 2014 -- their first fall since 2008-09. This reflects a slowdown in the consumer spending that helped prop up the regional economy in recent years. In many countries, imports also fell by volume:

In Chile, volumes dropped 7.8% this year and the fall was spread across all durable good sectors, including machinery and equipment.

In Brazil, import volumes slipped 2.6% and in Peru 2.0%.

By contrast, import volumes rose in Mexico, Colombia and most of the countries of Central America, albeit at a slower pace than in 2013.

Domestic economic performance.

Despite the slowdown, levels of public debt, unemployment and international reserves remain steady, although inflation is on the rise.

Public debt.

In Latin America, public debt remains steady at about 32% of GDP, with an external component of around 15% of GDP. In the Caribbean countries it is much higher -- close to 80% with a substantial external component. In general, debt levels did not rise in 2014, despite slower growth. This is due to more favourable borrowing conditions in many countries and an improvement in the cost and maturity profile of public debt.

Labour market.

Although job creation remains weak due to slower growth, the labour situation in LAC remains relatively benign.

A slowdown in job creation was cancelled out by a fall in participation in the labour market. Wages increased by around 1.3% in real terms in 2014. Nevertheless, slower job creation is affecting women more than men, ending a previous trend in which the gender gap was narrowing.

Inflation .

Average annualised inflation through October was 9.4%, compared with 7.6% in the year to December 2013, and driven up significantly by double-digit inflation in Argentina and Venezuela. The rise also reflects both a sharp increase in food prices in the second half and a hike in core inflation.

Country performance.

	2012	2013	2014			2015
			April forecast	August forecast	December forecast	
Argentina	0.9	2.9	1.0	0.2*	-0.2	1.0
Bolivia	5.2	6.8	5.5	5.5	5.2	5.5
Brazil	1.0	2.5	2.3	1.4	0.2	1.3
Chile	5.4	4.1	3.7	3.0	1.8	3.0
Colombia	4.0	4.7	4.5	5.0	4.8	4.3
Ecuador	5.1	4.5	5.0	5.0	4.0	3.8
Paraguay	-1.2	13.6	4.5	4.5	4.0	4.0
Peru	6.0	5.8	5.5	4.8	2.8	5.0
Uruguay	3.7	4.4	3.5	3.0	3.5	3.5
Venezuela	5.6	1.3	-0.5	-0.5	-3.0	-1.0
Mexico	4.0	1.4	3.0	2.5	2.1	3.2
Caribbean	1.1	1.7	2.1	2.0	1.9	2.2
Latin America	2.9	2.7	2.7	2.2	1.1	2.2

GDP growth in Latin America (selected countries, %)
*pre-default
Source: ECLAC

In 2014, growth slowed in nine of the ten South American countries covered by the report (except Colombia) but accelerated in Mexico and four Central American countries, thanks in part to the US recovery. Most of the deceleration in LAC's overall growth rate was explained by Brazil and Argentina, the first and third largest economies in the region, respectively.

In December last year, ECLAC forecast GDP growth of 2.6% for Brazil this year so its current estimate of 0.2% is well below expectations, reflecting a continued slump in domestic demand and a stagnant export sector (see PROSPECTS 2015: Brazil - November 17, 2014). Venezuela's economic contraction of 3.0% also weighed on the average.

Other LAC countries that have seen an important deceleration include Chile and Peru, both of which have been hit hard by the sharp fall in metal prices since 2011 (see PROSPECTS 2015: Chile - November 14, 2014). However, ECLAC expects both economies to rebound in 2015 as metals prices stabilise and in some cases rise.

Outlook.

For 2015, ECLAC is forecasting higher or stable growth rates in nine of the ten South American countries (Colombia is again the exception with an expected slowdown of 0.5 percentage points) and in five of the six Central American countries as well as in Mexico. It expects a growth rate of 2.2% for both Latin America and for the Caribbean.

LAC's improved performance in 2015 should be underpinned by stronger world growth, which should reach 3.1%, up from 2.6% this year, with only a small deceleration in China to 7.0%, down from 7.3% this year.

ECLAC anticipates that commodity prices will stabilise somewhat, with energy prices dropping by just 4.6% after 2014's drop of 17.7%, and metals prices reversing the falls of the past two years and climbing by 1.2%. Nevertheless, with the global economic recovery still tepid, external demand will remain weak, placing a greater burden on domestic demand and, in particular, investment to drive regional expansion.

According to ECLAC, the falling regional investment rate has been a key factor in the 2014 slowdown; the region's greatest challenge in 2015 is therefore to increase public and private investment rates.

Some uncertainties remain regarding the withdrawal of monetary stimulus in the United States, although these appear to be receding somewhat, with ECLAC predicting "no major changes or turmoil" in 2015.

Although the US Federal Reserve is likely to raise interest rates later in the year, US monetary policy will remain accommodative, while the European Central Bank is likely to maintain -- or even expand -- its quantitative easing programme in the euro-area.

CONCLUSION: Another solid -- if unspectacular -- performance from the US economy next year should benefit Mexico, Central America and the Caribbean by boosting manufactured exports and tourism. A continued slowdown in Chinese growth will likely dampen demand for South American commodities exports, although the prices of many commodities (including energy and metals) should stabilise after sharp falls in the past two years.

Details

Subject	Economic conditions; Industry; Agriculture; Debt; Employment; Fiscal policy; Food processing industry; International trade; Economic growth; Investment policy; Metal industry; Mining industry; Prices; Commodities
Location	Latin America, Caribbean area, Argentina, Brazil, Central America, Chile, China, Colombia, Mexico, United States, US, Venezuela
Company	European Union
Classification	9173: Latin America 1110: Economic conditions & forecasts 1300: International trade & foreign investment
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