The economic climate in Latin America and Brazil is worsening amid news of the slowdown in Chinese growth and its effects on commodity prices.

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The economic climate indicator for Latin America (ECI-AL) deteriorated in July and is below the historical average of the past 10 years. The deterioration in the indicator was due to both a less favorable assessment of the current situation and lowered expectations for coming months.

The deterioration in Brazil’s economic climate reflects mainly unfavorable assessments of expectations since last April; the assessment of the current situation has been unfavorable since July 2012. Between April and July, the expectation index declined by 35%. Increasing inflation, an accumulation of trade deficits, and continuous downward revisions of the growth of the Brazilian economy in 2013 may have contributed to the deterioration in Brazil’s economic climate.

In Latin America the economic climate has worsened in 7 of 11 countries surveyed. Only Colombia and Uruguay showed improvement. Expectations of a slowdown in Chinese growth and its effects on commodity prices have had a powerful impact in several Latin countries that heavily rely on commodity exports, such as Chile and Peru. So it is no surprise that the worsening economic climate in Asia, particularly in China, has been followed by similar behavior in Latin America.

The Economic Climate Indicator is a quarterly survey conducted by the German Ifo Institute for Economic Research—the Ifo World Economic Survey (WES)—and the Brazilian Institute of Economics of the Getulio Vargas Foundation. The ECI is an average of the assessment of the current situation and expectations for the next six months based on the answers of country experts to questions on key macroeconomic data (consumption, investment, inflation, trade balance, interest and exchange rates). The indicators are weighted by the share of trade of each country in the region.

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