World economic climate improves; Latin America’s worsens.

Lia Baker Valls Pereira  
Center for International Trade Studies, IBRE  
lia.valls@fgv.br

THE IFO-FGV ECONOMIC CLIMATE IN Latin America indicator (ICE) has been headed downward since April 2013. In July, the index fell 6.7% from April as both the assessment of the current situation and expectations deteriorated. Because the indicators are weighted by the share of total trade (exports plus imports) of each country in the region, they also reflect the large weights of Mexico (35%) and Brazil (23%). More detailed analysis also suggests that countries in the region are having different experiences. Mexico was the only large economy that saw its economic climate improve. Brazil’s performance was as bad as Argentina’s, and both were worse than the region as a whole. Mexico’s ICE increased by 4%; Brazil’s fell by 22% and Argentina’s by 24%.

Brazil’s own economic climate indicator has been deteriorating since July 2013. According to a separate survey conducted twice a year on the main obstacles to economic growth, Brazil’s performance reflects both a lack of confidence in government policies and a loss of international competitiveness.

Although Chile’s economic climate declined by 6%, the expectations have improved, which suggests that the economy is recovering. All of Argentina’s indicators worsened, and all of Venezuela’s have been at the bottom since July 2013.

The worsening of some of the major economies in the region explains why the world and the Latin America economic climates have been diverging since April 2013. Improvement in the world economic climate in July was led by the United States and Asia, particularly China and India. The good news in the U.S. may thus be a factor in Mexico’s favorable performance indicators. But then we would expect that the improvements in China’s economic performance would have a positive impact on major commodity exporters like Brazil. What’s going on?

Signs of improvement in China’s economy have not translated into increases in commodity prices, as they did in 2007–11, so we do not expect the positive income shock that would be associated with an increase in revenue for major commodity exporters. Domestic issues, among them inflation, low investment, and controls on energy prices, will continue to depress the economies of Brazil, Argentina, and Venezuela.