2015.9.7

A Severe Winter for the South American Economy

Hiroshi Morikawa, Lead Economist
Institute for International Monetary Affairs

Brazil's second quarter's growth rate dropped below market prediction to -1.9% compared to the preceding quarter. Also, first quarter's growth rate was adjusted downward from -0.2% to -0.7% which resulted on the second quarter's real GDP becoming -2.6% compared to last year.

Not only Brazil but the South American countries are going to face a severe winter. Since the GDP of all the countries have not come out yet we will look at the imports to measure the domestic demand of each country. Chart 1 shows the decrease and increase of imports of the six major countries[1] of Latin America. In the first half of 2015 it drop to -8.7% YoY. If one looks at each country the worsening of the South American countries stand out. The results of South American countries are; Argentina -18.5%, Brazil -13.5%, Chile -15.5%, Columbia -10.9% and Peru -10.7%, all decreased by two digits. In Latin America, Mexico[2] alone is making strenuous efforts. Imports of the first half of this year was -0.6% YoY, maintaining a level almost equal to last year. So if one excludes Mexico, the total imports of the remaining South American countries will be -15.7%, second lowest to 2009's -27%.

The reason for the downfall of South American country's economy is deep is because their reliance on primary products is high. If you look at the ratio of primary products amongst exports, for the South American countries the ratio is 50 to 70%, while it is 14% for Mexico (The percentage is the ratio of agricultural products and crude oil amongst exports).

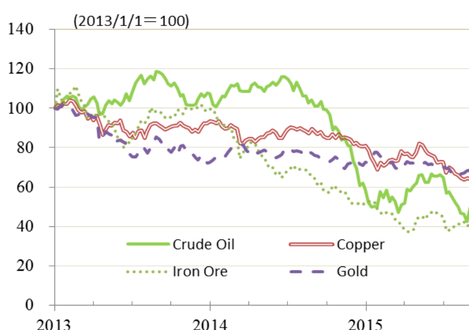
Because of this Mexico's exports for the first half of this year decreased only by -2.4% YoY, while exports of the five South American countries decreased by -16.9%.

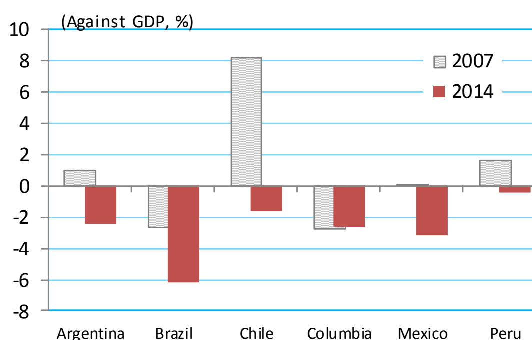
Table 1. % of Primary Products Amongst Exports

Country	%
Argentina	47%
Brazil	49%
Chile	62%
Columbia	71%
Mexico	14%
Peru	67%

Note: Some include half-finished products (Soy bean oil, etc.)
(Source) Statics from each country, Thomson Reuters

The problem is there is no sight of the exit to this tunnel. As the uncertainty of China's economy gets stronger and increases the momentum of the fall in natural resources prices, there seems to be no feeling of bottoming out (Chart 2). Further, there are limits to the countermeasure ability of each country. Compared to 2007, before the Lehman Shock, when natural resource prices dropped, government fiscal conditions, although there is a difference in degree, are worse. Large scale government spending is difficult. Financial countermeasures are the same as well. Needless to say for countries like Argentina and Brazil with high inflation and for countries like Chile, which may have a stable inflation rate, with their Chile Peso dropping; to maintain interest rates is the utmost method for easing. From now when the U.S. raises interest rates, the South American nation will be force to raise theirs. It would not be wise to take an "easy" quick recovery scenario.





[1] Argentina, Brazil, Chile, Columbia, Mexico and Peru. Six countries of Latin America that make up a little larger than 80% of the region's total GDP. If Venezuela is included it would be a little less than 90%.

[1] Mexico is geographically part of North America.

Copyright 2015 Institute for International Monetary Affairs
All rights reserved. Except for brief quotations embodied in articles and reviews, no part of this publication may be reproduced in any form or by any means, including photocopy, without permission from the Institute for International Monetary Affairs.