

Ifo/FGV Economic Climate for Latin America

English Version

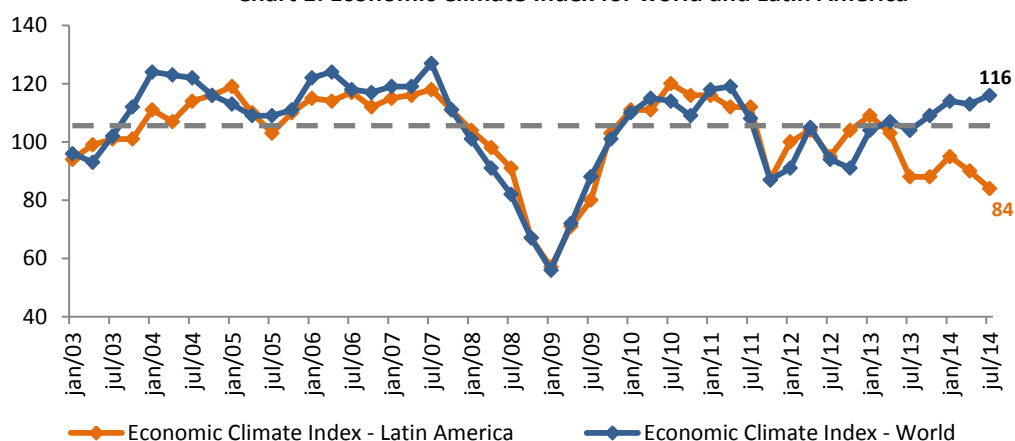
August 13th 2014

The economic climate in Latin America is the worst since July 2009

The Ifo/FGV Economic Climate Index for Latin America (ECI) of July - developed in partnership between the German Ifo Institute and the FGV taking as a data source the *Ifo World Economic Survey (WES)* – decreased to 84 from 90 points between April and July, reaching the lowest level since July 2009, when it recorded 80 points. The decline in the margin was mainly influenced by the evolution of the Present Situation Index (PSI) which, in the same period, fell to 72 from 82 points, the lowest level since October 2009, while the Expectations Index (EI) remained relatively stable, going to 96 from 98 points. For the second consecutive quarter, the three synthesis indicators of the survey remained in the unfavorable economic climate zone¹.

The fall of 7% in the ECI for Latin America can not be explained by the worsening in the international scenario: the aggregate global ECI advanced 3% between April and July, driven by improved assessments compared to the economies of the United States and Asia. In the European Union the ECI decreased in July, although keeping in the favorable zone of the cycle.

Chart 1: Economic Climate Index for world and Latin America



The favorable climate of the world should be interpreted with caution. A special item included in the Ifo Institute Survey for July reported that 70% of the experts consulted assess that the recent intensification of the problems in Ukraine imposes a considerable risk of increasing the price of energy in the near future, with potential negative effects on the economic climate. In Latin America, however, the experts interviewed have not assessed this point as an additional risk factor. Therefore, the worsening of ECI in the Latin region is due to domestic problems.

What is the explanation for the worsening of ECI in Latin America? Remember that indicators are weighted by the share of total trade (exports plus imports) of each country in the region. After Mexico, accounting for 35%, Brazil comes with 23%, Argentina, Venezuela and Chile, all with a share of 7%. The ECI of Mexico increased by 4% between April and July and now is in the favorable zone. Brazil, the second largest economy in terms of current trading, recorded worsening in all indicators and ECI declined 22% between April and July. Considering the interannual metric, the ECI dropped 27% between July 2013 and 2014. Argentina and Chile have also reported worsening in ECI.

¹Numbers below 100 are classified as *unfavorable* and above 100 as *favorable*. See methodological note at the end of this report, as well as tables with all indicators.

Ifo/FGV Economic Climate Index for Latin America¹

90 (April/2014) → 84 (July/2014)

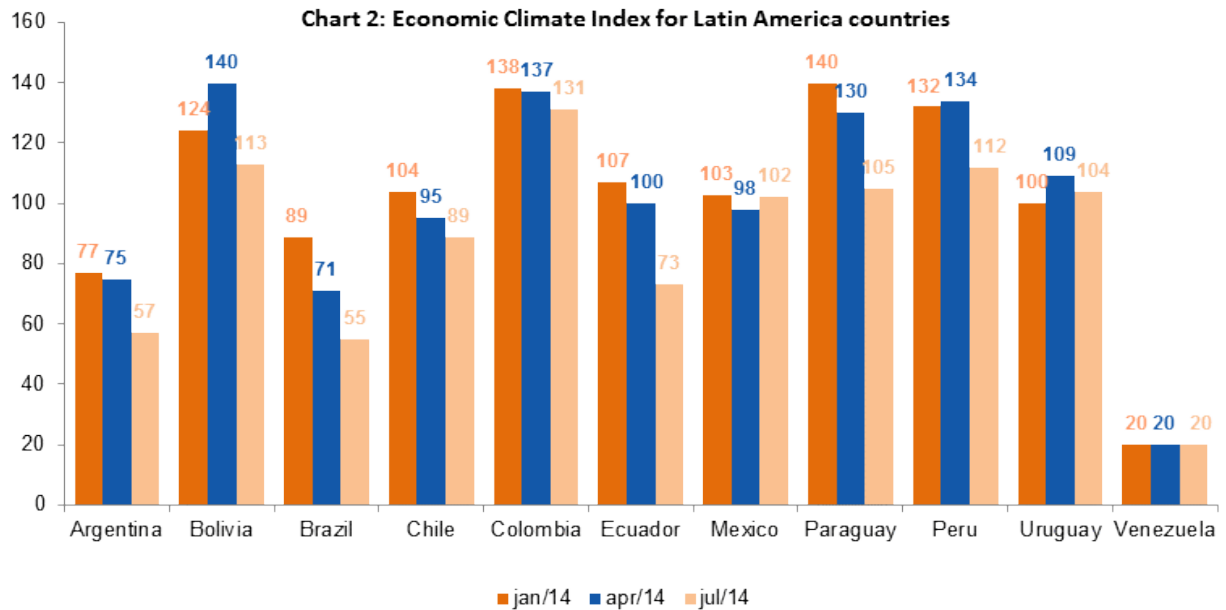
Present Situation

82 (April/2014) → 72 (July/2014)

Expectations

98 (April/2014) → 96 (July/2014)

■ April/2014
■ July/2014



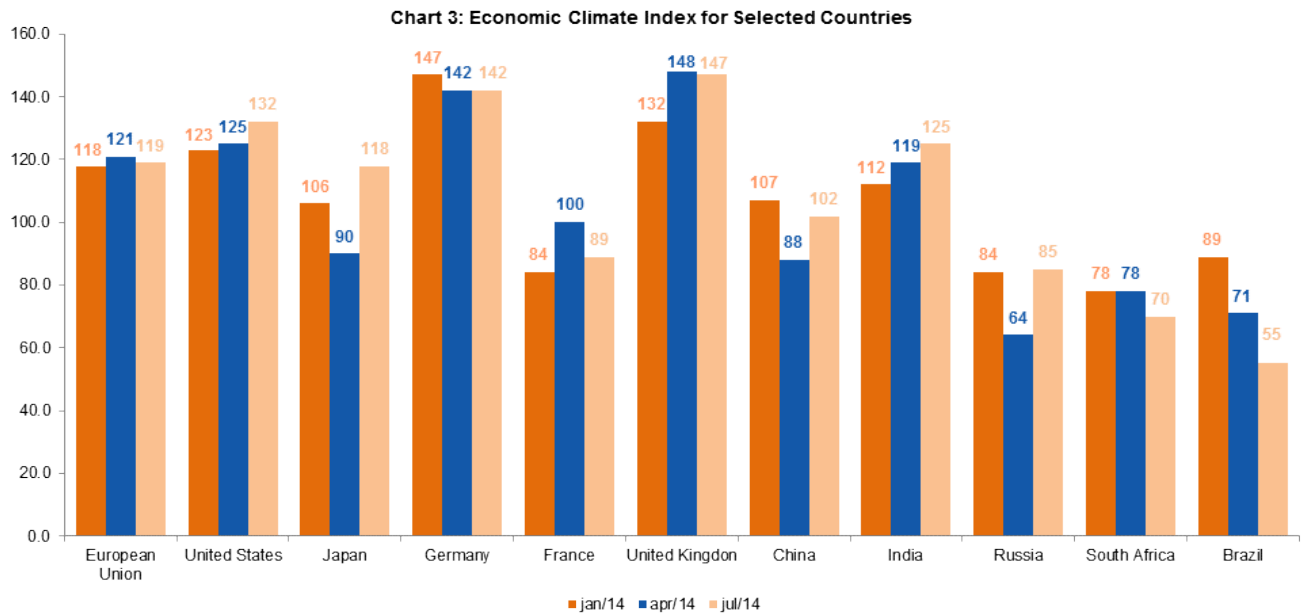
Only Colombia and Bolivia reported improvement in the assessment of the current situation, 58% and 11% respectively, between July 2013 and 2014. On this same basis for comparison, there was a worsening of 61% and 36% for Argentina and Brazil, respectively. The situation in Argentina can be explained by the economic crisis and the uncertainties brought by the problems faced in external debt renegotiation with so-called "Vulture Funds". In the case of Brazil, the assessment of the current situation has been deteriorating since January, with worsening on expectations and assessment of the economic situation in general.

The EI suggests that the scenario is not positive for most Latin countries by the end of the year. Only Chile and Mexico reported improvement in comparison between April and July and between the months of July 2013 and 2014. Some countries had strong deterioration of expectations in the interannual comparison: Peru (-20%); Colombia (-27%) and Ecuador (-43%). In Brazil the drop was 19% (July 2014/July 2013) and 8% between April and July 2014.

The results of the survey show that the economic climate of Latin American countries do not follow the same trajectory. Noteworthy is that the economic climate has improved only in Mexico between April and July, as a likely consequence of the improvement in the indicators in the United States, a country that accounts for 80% of its total trade. The indicator of expectations is relevant to assessing the possible trajectories of short-term. In this case, except for Mexico, only Chile indicates an outlook of improvement at the moment.

If after the 2008 crisis the Latin countries exporting *commodities* showed better indicators of economic climate than the rest of the world, now the situation is reversed. Indicators point out unfavorable developments in the coming months in almost all the selected countries in the region.

Brazil, Argentina and Venezuela maintained their positions in the ranking of the worst averages in ECI for the last four quarters.



RANKING OF COUNTRIES

Previous Position	Present Position	Country	Average ECI of the last 4 quarters	
			apr/14	jul/14
2	1	Colombia	128	130
1	2	Paraguay	136	126
3	3	Peru	124	124
4	4	Bolivia	120	121
5	5	Uruguay	102	102
7	6	Mexico	99	98
8	7	Chile	98	98
6	8	Ecuador	102	95
9	9	Brazil	83	78
10	10	Argentina	75	72
11	11	Venezuela	20	20

APPENDIX

PRESENT SITUATION INDEX (IN POINTS)												
PSI	jan/12	apr/12	jul/12	oct/12	jan/13	apr/12	jul/13	oct/13	jan/14	apr/14	jul/14	Average 10 years
LatinAmerica	116	112	98	102	98	102	90	80	88	82	72	103
Argentina	126	100	60	72	78	60	88	74	74	44	34	101
Bolivia	86	100	100	140	116	114	114	116	148	180	126	97
Brazil	126	112	90	98	92	94	66	84	84	68	42	121
Chile	140	152	130	154	172	164	140	140	132	108	86	138
Colombia	166	166	106	122	118	112	106	110	140	146	168	123
Ecuador	150	146	140	120	100	140	120	126	140	120	100	95
Mexico	104	106	104	100	100	114	100	66	82	78	78	89
Paraguay	100	42	84	60	122	158	154	134	140	130	110	100
Peru	152	154	140	136	154	152	140	128	138	128	112	145
Uruguay	168	156	148	120	144	110	130	112	114	136	126	144
Venezuela	66	68	52	52	20	20	20	20	20	20	20	64

EXPECTATIONS INDEX (IN POINTS)												
EI	jan/12	apr/12	jul/12	oct/12	jan/13	apr/12	jul/13	oct/13	jan/14	apr/14	jul/14	Average 10 years
LatinAmerica	84	96	92	106	120	104	86	96	102	98	96	102
Argentina	60	34	44	122	130	74	56	80	80	106	80	87
Bolivia	86	100	114	100	100	100	100	100	100	100	100	92
Brazil	120	134	118	146	144	128	84	106	94	74	68	113
Chile	54	94	86	80	92	90	36	68	76	82	92	109
Colombia	100	100	46	78	94	100	138	116	136	128	94	107
Ecuador	90	122	60	80	60	100	80	74	74	80	46	81
Mexico	58	86	90	94	126	114	112	112	124	118	126	102
Paraguay	66	78	116	158	158	166	136	122	140	130	100	112
Peru	104	132	94	94	126	114	82	110	126	140	112	118
Uruguay	82	100	100	90	108	80	80	78	86	82	82	124
Venezuela	112	68	84	84	40	36	20	20	20	20	20	75

ECONOMIC CLIMATE INDEX (IN POINTS)												
ECI	jan/12	apr/12	jul/12	oct/12	jan/13	apr/12	jul/13	oct/13	jan/14	apr/14	jul/14	Average 10 years
LatinAmerica	100	104	95	104	109	103	88	88	95	90	84	103
Argentina	93	67	52	97	104	67	72	77	77	75	57	94
Bolivia	86	100	107	120	108	107	107	108	124	140	113	95
Brazil	123	123	104	122	118	111	75	95	89	71	55	117
Chile	97	123	108	117	132	127	88	104	104	95	89	124
Colombia	133	133	76	100	106	106	122	113	138	137	131	115
Ecuador	120	134	100	100	80	120	100	100	107	100	73	88
Mexico	81	96	97	97	113	114	106	89	103	98	102	96
Paraguay	83	60	100	109	140	162	145	128	140	130	105	106
Peru	128	143	117	115	140	133	111	119	132	134	112	132
Uruguay	125	128	124	105	126	95	105	95	100	109	104	134
Venezuela	89	68	68	68	30	28	20	20	20	20	20	70

Methodological Note

The Latin America Economic Survey aims for monitoring and forecasting of economic trends, based on quarterly information supplied by economy experts in their respective countries. The survey is - simultaneously - applied with the same methodology in all countries of the region, a method that allows the construction of an agile and comprehensive picture of the economic situation in countries and economic blocks. In July 2014, were consulted 1146 economic experts in 121 countries.

The survey generates information of both qualitative and quantitative nature. The Economic Climate Index (ECI), is the synthesis indicator, comprised of two items of qualitative nature, the Present Situation Index (PSI) and the Expectations Index (EI), which deal, respectively, with the general economic situation in the country at the moment and for the upcoming six months.

The individual responses are combined for each country without any weighting. For the average value of each index to be reached, 9 points are assigned to positive responses (+), 5 to indifferent responses (=) and 1 to negative responses (-). The ECI represents an arithmetic mean of the two indices that comprise it.

The process of aggregating data for a particular group of countries or continent is made according to the relative share of foreign trade (exports + imports) in each country regarding the total in the region.

According to specific criteria of the survey, the phase of the business cycle the country is at the moment is determined by a combination of PSI and EI. When the two indices exceed the average limit of 5 points, the economy is in the "boom" phase. When both are below 5 points, there is recession. The phase of decrease occurs when the PSI is higher and EI is lower than 5 points. And the recovery phase with a higher EI and the PSI lower than 5 points.

Indicators on this report are presented considering the value 5 as 100. Thus indicators above 100 are in the favorable zone and below 100 in the negative zone.