



in soy prices and export sales stoked by soy-mad China.

- Over the past two years, prices of Brazilian cotton are up 25%, Chilean copper has doubled and Mexican oil prices have more than doubled. That growth is fuelled primarily by an explosion in exports and the price spikes have had a direct and highly beneficial impact on Latin America's economy. Half those exports are commodities such as farm products, minerals, petroleum, fish and timber.



### Latin America

- The year 2005 marks the third consecutive year of growth for the Latin American and Caribbean economies. According to ECLAC (Economic Commission for Latin America and the Caribbean) GDP rose by an estimated 4.3%. This growth phase is an extremely positive development for the region. Favourable conditions prevailing in the world economy, which grew 3.3% in 2005, contributed to these results.
- One of the engines of growth has been exports, with the region's export volumes expanding at about 8%.
- The improvement in economic conditions has begun to carry over into the labour market. Unemployment fell from 10.3% last year to 9.3% in 2005.
- The region is expected to grow at a similar pace in 2006, although the growth rate is likely to be slightly slower (4.1%). The inflation rate is expected to remain stable at about 6% as in 2005.

### **Presidential elections 2006**

- Mexico, Brazil, Colombia, Costa Rica, Ecuador, Peru and Venezuela will hold presidential elections in 2006. In Chile second round elections will be held in January. According to ING Group, Latin America is better positioned to make it through presidential elections this year without suffering declines in currency and bond markets. Few of the candidates who are likely to stand in upcoming elections have signalled they would challenge policies aimed at controlling government spending and inflation, which would undermine investor confidence.

### **Rising commodities**

- Latin America's booming exports of farm products and natural resources are lifting standards of living, creating jobs and offering guarded hope that the region reduces its social ills. Latin American countries are also using their newfound commodities wealth to boost spending on health, education and public-works projects. The most important change is the emergence of China and India. In addition to China's dominance of the region's soy market, it now buys 60% of its frozen orange juice and 30% of its cotton from Brazil. Affluence also reigns Argentina's booming soybean industry. Farmers are cashing in on the 20% rise

### **Argentina**

- Since its steep recession in 2001-2002 Argentina's GDP has been growing each year. With a growth prognosis of 8.6% it is the fastest growing country in the region.
- Foreign Direct Investments (FDI) have risen from US\$ 1.87 bil in 2003 to US\$ 4.25 bil in 2004. This explosive growth rate of over 125% is the highest in Latin America.
- Argentina's rapid growth has lifted the purchasing power of workers. As one of the results, their consumption of beef has increased. The beef sector is one of the most important of the country; Argentina was ranked the world's third beef exporter in 2005.
- The industrial sector, with specific demand in textiles and printing, is expected to grow more than 10%.
- Most significant growth expectation is that of tourism, with opportunities in the local and regional markets. 200 new hotels are being built; total investment US\$ 1.2 bil. Main impulse for growth is the strong increase of the number of foreign visitors. Prognosis for 2006: 4.1 mil tourists, spending US\$ 3.5 bil.

### **Brazil**

- Record trade balance surplus of US\$ 44 bil in 2005; for 2006 a trade balance surplus of US\$ 36 bil is expected.
- GDP growth prognosis for 2006: 4.5%. In 2005 it is expected that a GDP growth of 2.5% will be reported.
- Brazil closed 2005 with a record of international monetary reserves of US\$ 60 bil, the highest level since 1998.
- Brazil anticipated paying back its debt with the IMF and the Club of Paris, decreasing Brazil's external dependence.
- It is expected that the elections of 2006 will take place in a much more quiet environment than was the case in 2002, when Brazil even needed extra help from the IMF.
- In 2005 the year was closed with an euro exchange rate of 2.77; for 2006 an exchange rate that oscillates between 2.70 and 2.90 is expected.
- As inflation is expected to continue low, an increase of purchasing power of the Brazilians is expected for 2006.

- The Brazilian stock market is doing very well. In 2005 the index of the Brazilian Stock Exchange, IBOVESPA, increased 21.71% in 2005 (2004: 17.8%). In 2005 9 IPO's took place.
- The industrial sector has grown, based on investment in infrastructures such as energy, gas and port expansions.
- Investments in the energy sector are still necessary, as specialists are worried that in 2010 new energy production and distribution problems could occur. Mr Franklin Feder, the president of Alcoa for Latin America, recently stated that his company is investing only 30% of what it wishes to invest in Brazil due to their opinion that the energy production and distribution in Brazil is still too uncertain.
- The food & beverage, retail, medical, chemical, pharmaceutical, environmental, infrastructure and electronic appliance sector expect to grow above average in the coming year.
- The food and retail sector are doing well. The world's largest restaurant chain, McDonald's Corp, said its Brazilian unit's revenue has grown 13% in 2005, 3 times more than the company had originally expected.



#### Chile

- GDP growth for Chile will be 6.0% in 2005 and 5.5% in 2006. Chile is one of Latin America's fastest growing countries.
- Chile will sign a trade agreement with Mexico for association in January 2006.
- On January 15th, Chile will have its first woman president if Michelle Bachelet wins the second runoff.
- The next few years Chile is likely to be Latin America's fastest-growing economy. However, there is one big potential brake: energy. Chile urgently needs more reliable energy suppliers and is looking to other countries to diversify.
- Apart from the industrial and food sector, Chile's maritime sector offers great opportunities, the country's coastline being of over 4000 km.

#### Mexico

- Over 2005, Mexico's GDP is expected to grow 3.0%. Growth for 2006 is projected at 3.5%.
- Export growth over 2005 is estimated at 4.6%.
- Particularly competitive sectors for Mexico in 2006 will be automotive/suppliers, home appliance, electronics, medical devices and aerospace.
- Mexico's retail sector has seen a major presence from companies as Wal-Mart, Office Depot, The Home Depot and Sam's Club. Further growth is expected in 2006 with expansion plans from Starbucks Coffee, Carquest Auto Parts, and Safeway, as well as prospective global investors such as AIG, GE Capital, JP Morgan and ING Lion Fund.

#### Top growers

- The countries enjoying the most growth in Latin America are Argentina (8.6%), Uruguay (6%), Chile (6%), Peru (6%), Panama (6%).

#### GDP growth in %, 2005-2006\*

Country	2005 E	2006 P
Argentina	8.6	6.0
Brazil	2.5	4.5
Chile	6.0	5.5
Mexico	3.0	3.5
Spain	3.4	3.1
Portugal	2.0	2.5
France	1.75	2.0

\*2005 E= estimate, 2006 P= projection



#### Europe

- The Euro-economies are expected to register an average growth of around 1.75% over 2005, similar to 2004, before picking up slightly to around 2% in 2006. Spanish growth however, should remain more robust at around 3% on average in 2006-2007. Portugal should also stay above average, with 2% for 2005 and 2.5% projected for the year after. French GDP growth will increase from around 1.75% in 2005 to around 2% in 2006.

#### Spain

- Growth is expected to be around 3.4% in 2005, which is nearly double the European average (1.75%) for the 12<sup>th</sup> consecutive year. The economy should remain strong in 2006 and 2007, close to potential rates (slightly above 3%), driven by steady consumer spending and a pick up in both investment and exports, following recovery in Europe.
- GDP is predicted to weaken from 3.4% of 2005 to 3.1% in 2006. Since inflation will also slow down this will lessen the drag of the trade deficit.
- The Spanish Administration announced a "historic budget surplus" of nearly 1% of GDP (aprox. € 14.8 bil), mainly thanks to the increase in Social Security revenues due to the mass legalization of immigrants in 2005, and to extra revenue from both direct & indirect taxes.
- The prices of Spanish houses are set to rise 'just' 10% in 2006, described as a soft landing by economists.

### Portugal

- Driven by exports and private consumption the Portuguese economy started to recover in the first half of 2005, resulting in GDP growth picking up to around 2% in 2005 and 2.5% in 2006. Real GDP growth is expected to gain momentum in 2006 and 2007, but is likely to lag the average growth in the euro area, with the economy still operating well below its potential.
- A research of the Economist Intelligence Unit shows that Portugal scores better than 5 years ago in doing business and investment. Whilst the international average index is 7.04, Portugal settles at 7.57.
- Portuguese Prime Minister Sócrates launched the Technological Plan (Plano Tecnológico) to encourage technological development and create more opportunities for business and investment.
- The demand for medical products is growing, with an average growth of 3 to 5% per year, for the past few years.
- The year 2005 has proven to be a good year for mining industry in Portugal. The interest for this sector is growing, thanks to the rising prices of metal minerals on the international market. Also the environmental sector draws a lot of attention.



### France

- The recovery that appears to have gained hold in the second half of 2005 should continue into 2006. Domestic demand is expected to pick up slightly and exports should recover. Modest employment gains will permit a small drop in unemployment. Inflation is likely to fall back somewhat as the "second-round" effects of higher energy prices appear to be small.
- A new government includes leaders on both sides of the debate about the extent of economic reform. Social unrest calls for policies to improve prospects for the excluded. Fundamental labour market reforms, including liberalising regulations that restrict job opportunities for the low-skilled, should be a key component.
- Inflation picked up sharply in mid-2004 but has since moderated somewhat and should average below 2% in 2005 in most scenarios. The budget deficit looks set to remain at around 3% of GDP in 2005-2006.
- To combat the strong dependence on petroleum, increase the diversity in energy sources and to help the environment, France has decided to stimulate the development of hydroelectricity, biomasses and wind energy. Goal for 2010 is to increase the share of sustainable energy from 14% to 21% of total energy production.
- Specialised fashion chains dominate the distribution of textile in France. Their market share has grown from 2% to 20.3% during 2001-2005.
- The French cosmetic market shows new tendencies. The national consumers show more interest for products with ecological and ethical qualities.



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