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Delta Economics | Regional Trade Profiles | Latin America

2nd Quarter 2013

About Delta Economics

Delta Economics is a pre-eminent source of specialist forecasting and economic research. We provide unique global market insight and analysis through our trade, trade payments and GDP forecasts and conduct economic research that allows our clients to anticipate market developments across a comprehensive range of sectors and continents.

About the Delta Economics World Trade Outlook

Delta Economics looks at the world from the perspective of the drivers of trade. Unlike other forecasts, we look at the things that affect businesses when they decide to trade abroad: the costs of trade in terms of capital, people and locating in a different country. We also look at reasons for trade: for example, differential economic conditions, investment and comparative advantage (including skills and education, innovation and ease of doing business) and indicators of long term economic development such as population growth and the Human Development Index.

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Regional Profile | Latin America



Latin America | Overview

There has been no significant change in this quarter's forecast compared with last forecast. This is as a result of slightly slower or static growth in the region's top economies offset by faster growth in Latin America's smaller economies.

It is encouraging that the region's growth rates are forecast to remain at a high level; however, many of the region's economies are driven by exports of commodities and weaker global demand has curbed the high growth rates seen a few years ago. Latin America's exports of crude oil are currently predicted to grow in 2013 of 2.5%, slowing significantly to -1% in 2014. The main issue for the region is that its top trade partners are the ailing developed economies such as Japan, Canada, the US and Spain. Latin America will need to diversify its trade sectors and partners in order to return to a period of stellar growth.

Graph 1 | Latin America's faltering Crude Oil Exports

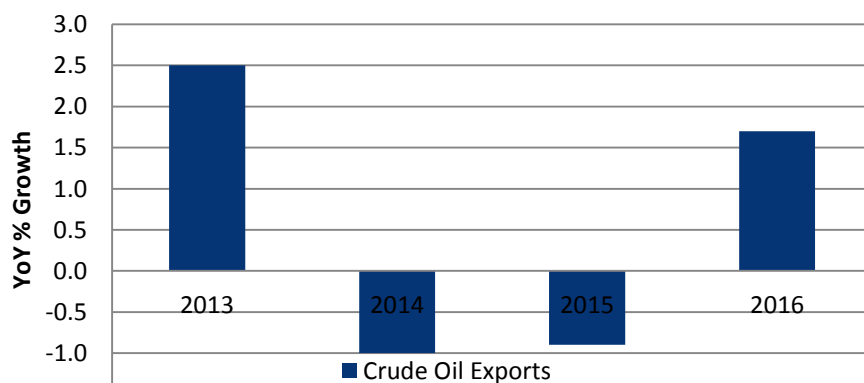


Table 1 | Latin America's total trade growth

Latin America	2012 Value (bn)	Last Forecast	This Forecast	% Change
Export Growth	885	5.4	5.4	--
Import growth	961	7.2	7.2	--
Total Trade Growth	1,846	6.3	6.3	--

Table 2 | Latin America's top 5 economies by GDP

Top-5 economies (by GDP)	2012 Market Size (bn)	Total Trade Last Forecast	Total Trade This Forecast	% Change
Brazil	446	13	12.9	↓ 0.1
Argentina	130	7.7	7.6	↓ 0.1
Colombia	106	10.7	10.7	--
Venezuela	43	4.1	4.2	↑ 0.1
Chile	133	4.9	5.6	↑ 0.7

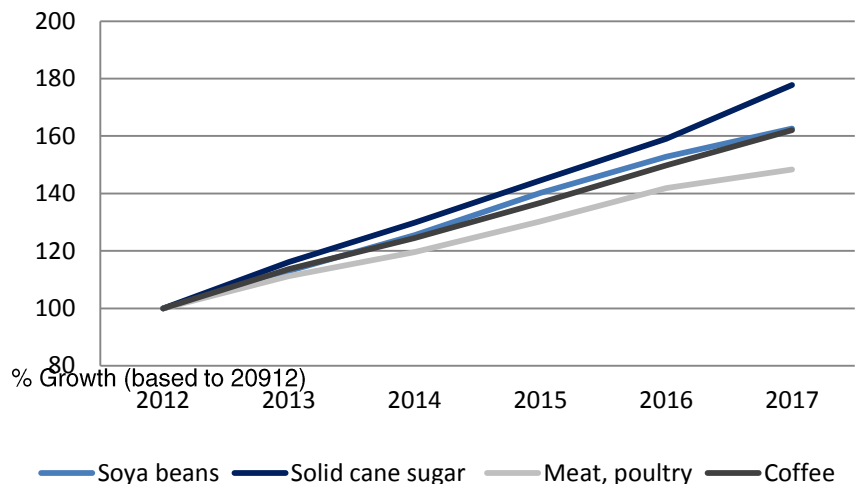
Latin America | Top 5 Economies

Brazil

Brazil's economic growth rate is lower than it has been in previous years; the most recent growth forecast is marginally lower at 2.9% than earlier forecasts in 2013, although it is still high at 12.9%. In spite of this, we expect much of this growth to be in imports with exports slowing notably in the second half of 2013 and through 2014 as demand for Brazilian goods remains low. Indeed, 2014 may prove to be a difficult year for Brazil and we expect total trade to slip to 9%.

However, it is quite likely that Brazil will experience a recovery in 2015 on the strength of their agricultural exports. Agricultural commodities make up 12 of their top-30 export sectors and we expect them to see double-digit growth in many of these in 2015.

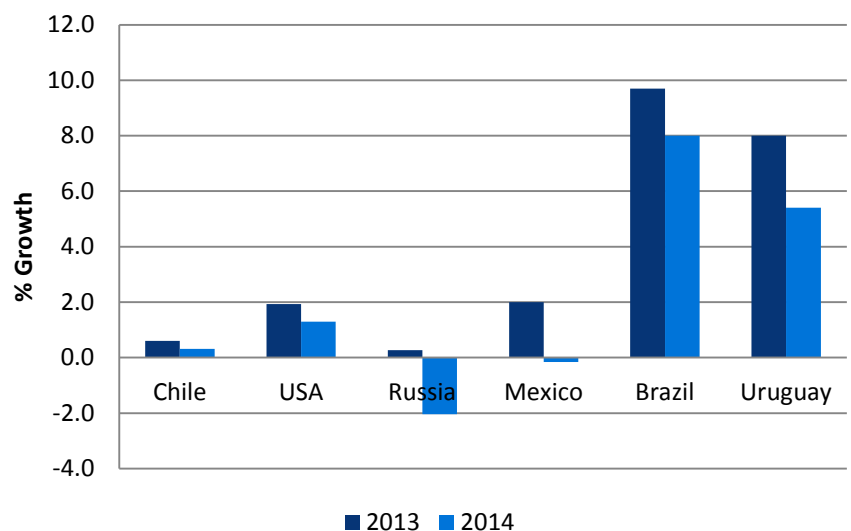
Graph 2 | Brazil's agricultural exports, based to 2012



Argentina

Argentina saw 2.6% growth in March compared with the same time last year. We put trade growth at 7.6%, this is marginally slower than our forecast last quarter and is a result of import trade barriers and weaker demand for Argentinian goods from key trading partners. For example, we forecast just 0.6% growth in exports to Chile and 0.2% growth in exports to Russia. Although exports to Brazil and Uruguay, Argentina's largest and eighth-largest export partners, are forecast to see respective growth of 9.7% and 8% in 2013, we expect this to drop to 8% by 2014 for Brazil and 5.4% for Uruguay.

Graph 3 | Argentina's exports to key partners (year-on-year 2013-14)

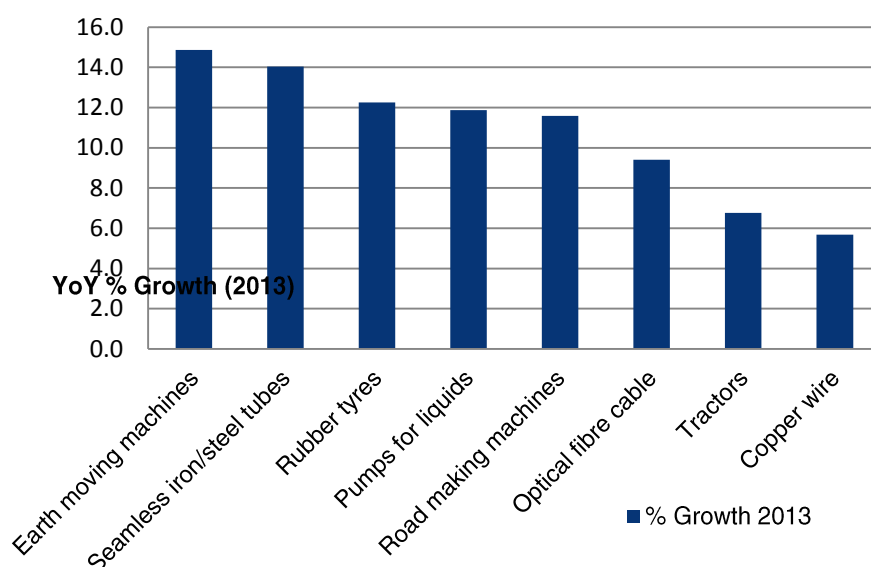


Latin America | Top 5 Economies

Colombia

There has been no change in forecast trade growth in Colombia this forecast. Economic growth has been slowing, however the Colombian government has announced its intention to spur growth by focusing on infrastructure development and reducing duties on imports. We forecast 10.4% growth in imports in 2013; indeed double-figure growth in the majority of Colombia's top-30 import sectors is expected. Significantly, we see growth of 11.6% in 2013 of road making machinery; a testament to the infrastructure drive being prioritised by the Colombian government.

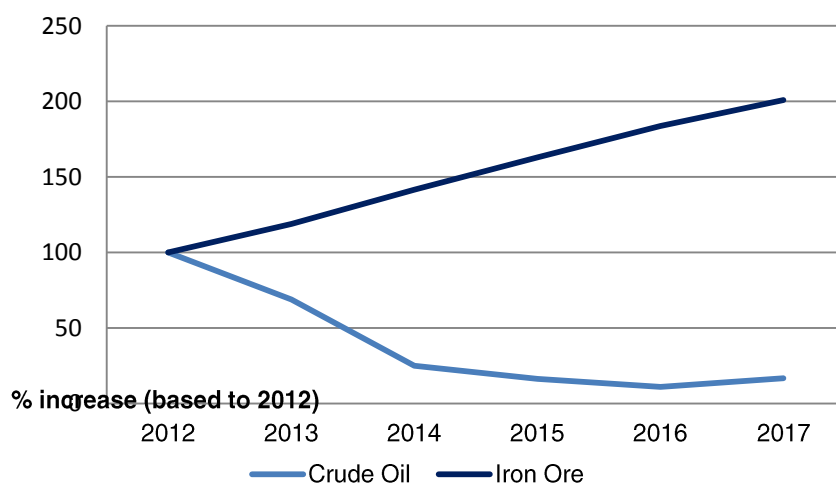
Graph 4 | Colombia's infrastructure imports, 2013



Venezuela

We forecast a slight increase in total trade growth in 2013. However, this growth is due to a projected increase of 8% in imports; we expect exports to fall dramatically. This is as a result of waning demand for Venezuelan oil from their top export partner, the US. The US has less of a need for oil from external sources as a result of their own shale gas revolution. We forecast a drop of over 30% in exports of Venezuelan oil in 2013 and a 38% slowdown in exports to the US. Venezuela does not have the infrastructure to consistently meet demand and their vast oil reserves are largely used as collateral. However, we do expect exports of iron ore, Venezuela's second-largest export sector, to grow by 19% offsetting losses in the oil sector.

Graph 5 | Venezuela's crude oil exports compared with iron ore (based to 2012)

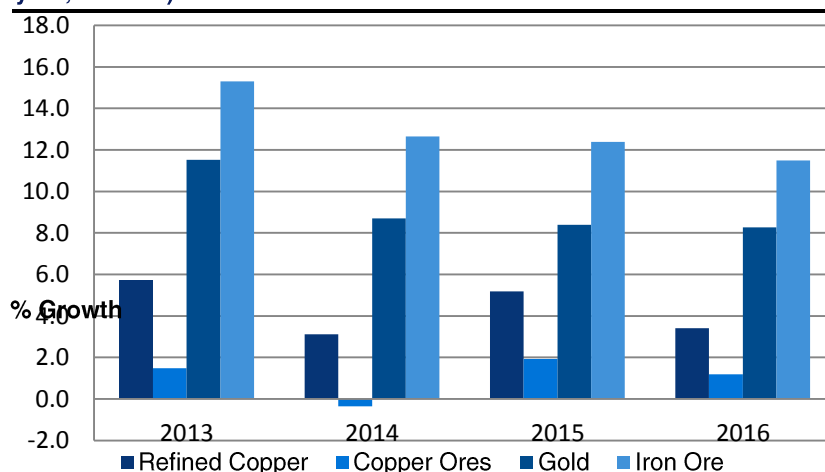


Latin America | Top 5 Economies

Chile

Analysts are pointing to Chile's dependence on copper as a potential pitfall in the future. If copper prices fall and their manufacturing sector continues to contract many see a tough road ahead for Chile. However, their saving grace may be their gold and iron export sectors. In 2013 we see strong growth in these sectors of 11.5% and 15.3%, respectively.

Graph 6 | Chile's copper, iron, and gold exports compared (year-on-year, 2013-16)



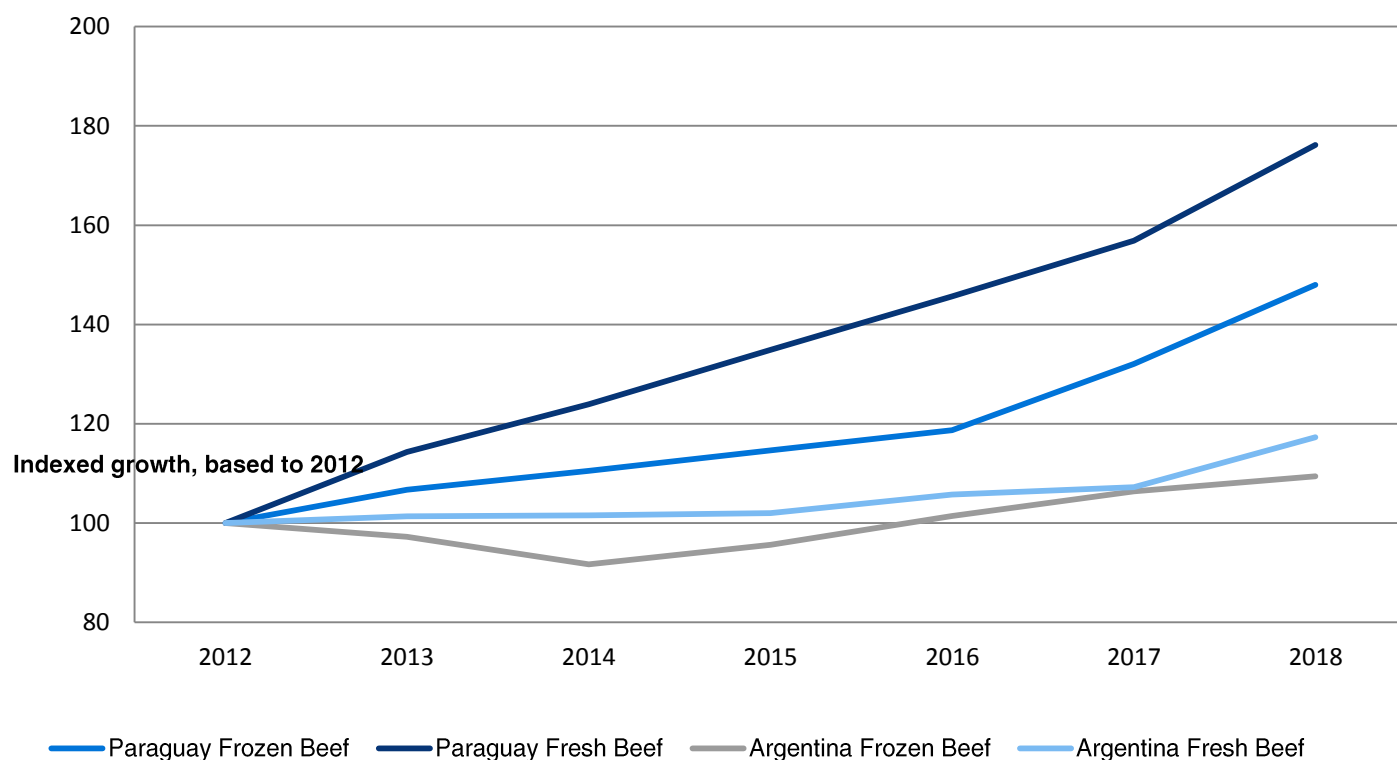
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Latin America | One to Watch | Paraguay

Paraguay is one of the fastest growing countries in Latin America and with a forecast trade growth rate of 10.5% it also has one of our fastest forecast growth rates in the world. This boom comes at a time when many of the surrounding countries are experiencing slowdowns. Growth is being fuelled by a strong agricultural industry, primarily rice and soya beans, which we forecast to grow at 15.4% and 12.2%, respectively. However, it is Paraguay's beef exports that may prove to be most valuable in years to come.

Argentina's beef exports have seen a significant drop and Paraguay has picked up the slack, actually overtaking Argentina as the region's third-largest exporter of the meat. We expect this trend to continue with Argentina's beef exports struggling at least to 2016 as a result of high export duties. Meanwhile, Paraguay is set to steadily increase their beef exports to become a major player in the industry in the near future.

Graph 7 | Paraguay and Argentina's beef exports, based to 2012



Latin America | Sector Watch

The export picture in Latin America remains strong with high forecast growth rates across a number of sectors, for example iron ore (14.8%) motor vehicles (10.6%) and maize (11.2%). Despite these high growth rates there has been no significant change in either import or export figures over last forecast, this is indicative of a static trade picture as a result of waning demand for the region's goods.

However, we expect consistent levels of growth in Latin America's metal exports over the next few years. This growth will largely be fuelled by demand from the Asia-Pacific and MENA regions as developing countries such as Malaysia and Oman try to improve their infrastructure. Infrastructure projects are a priority for these developing economies at present and this should ensure that demand remains at a high level.

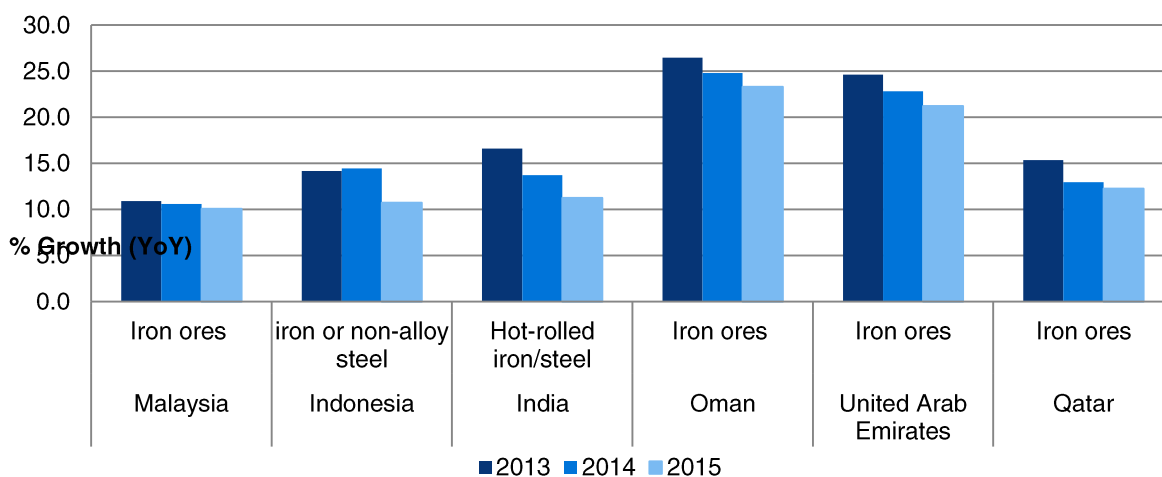
Table 3 | Latin America's top 5 export partners

Top-5 Export Sectors	2012 Value (bn)	Last forecast	This forecast	% Change
Crude Oil	99	2.5	2.5	--
Iron Ore	37	14.8	14.8	--
Motor Vehicles	35	10.6	10.6	--
Refined Copper	32	6.4	6.4	--
Copper Ore	31	6	6	--

Table 4 | Latin America's top 5 import sectors

Top-5 Import Sectors	2012 Value (bn)	Last forecast	This forecast	% Change
Non-crude Oil	64	11.4	11.4	--
Motor Vehicles	36	7.8	7.8	--
Parts for Motor Vehicles	29	7.9	7.9	--
Crude Oil	26	4.8	4.8	--
Apparatus for Line Telephony	18	13.9	13.9	--

Graph 8 | Latin America's exports boosted by developing economies' demand for metal



Latin America | The Smart Money

It is no secret that growth in Latin America has been stagnating; the region relies heavily on commodity exports and as such is highly exposed to external conditions. The major issue is then reliance on exports without the appropriate infrastructure in place to maintain robust growth if demand falls. The region's main trading partners are developed economies such as Canada, the US

and a number of countries in the Eurozone, all of which have been experiencing economic slowdowns of their own.

Many Latin American countries have recognised their shortcomings and are ramping up their imports in a bid to address this issue. This may result in a few years of slower growth in the region, however a few years down the line their economic foundations will be stronger as a result. In terms of opportunity however, we still expect high levels of growth in trade with the developing economies in the Asia-Pacific and MENA regions as they help each other to improve the standard of infrastructure in their countries.

Graph 9 | Latin America's exports to key MENA and Asia-Pacific economies (year-on-year, 2013-17)

