Latin America hit hard by world crisis

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Capital Economics—a leading macroeconomics research and consultancy firm that supplies analysis to institutional investors and clients across the globe—reports in its latest *Latin America Chart Book* that "Latin America's five-year economic boom has come to an abrupt end."

"The drop in demand for the region's exports, in addition to the bursting of the commodity price bubble, caused industrial production to contract by as much as 18 percent year-to-year in some countries during January," the report by the London-based firm states. "Central banks across the region have cut interest rates aggressively in reaction to the dire economic figures. As the world's economy collapses, Latin America will find it impossible to avoid recession, and in some cases default."

The bleak figures cited by *Capital Economics* stand in stark contrast to the rosy picture painted by financial analysts not so long ago. As recently as last summer, many Latin American countries recorded solid performances, fueled by the commodities boom of early 2008. For example, wheat, so vital for Argentina, hit a record $12 per bushel in March; copper reached over $4 per pound, benefiting Chile and Peru; and oil's $148 per barrel in July was filling the state coffers in Venezuela, Mexico and to a lesser extent Ecuador.

This short-lived commodities bubble led to financial firms presenting the region as the next place in the world to invest, trying to attract money exiting the mortgage markets as the US housing bubble collapsed under its own weight.

Within six months, the situation had been completely reversed. Commodity prices suffered a free-fall. A bushel of wheat dropped 65 percent to $5.30; copper at $1.73 per pound registered more than a 50 percent loss; and oil's $45 per barrel recorded a staggering 70 percent decline. The drop in commodity prices led all major Latin American economies to contract, with unemployment rising and the specter of sovereign default that haunted Latin America for most of its history threatening a comeback.

The statistics cited by *Capital Economics* represent only the prelude to the hard times ahead for Latin American working people.

"**Brazil**'s economy fell off the cliff," according to the report, having contracted 3.6 percent quarter-to-quarter by the end of 2008. It represented "the sharpest drop of GDP in nearly 18 years... Consumption and gross fixed capital formation shrank by 2 and 10 percent quarter-to-quarter respectively," and "manufacturing output shrank by 17 percent year-to-year in January." The drop in consumption is significant because Brazil, unlike its neighbors, developed a strong domestic market that plays a significant role in its economic development.

With the tenth largest economy in the world measured by GDP ($1.4 trillion, according to IMF figures), rivaling Italy, Spain and India, Brazil has commonly engaged in currency devaluations in the past. A devaluation of the Brazilian real usually would be followed by inflation. But not this time, primarily due to recessionary forces. This has prompted the Brazilian Central Bank to cut interest rates by 150 basis points to 11.75 percent. *Capital Economics* expects interest rates to "fall to 8 percent this year, a new record low."

Mexico's exports ballooned in the past two decades, mainly as a result of trade with the US, its main trading partner, with whom it has a free-trade agreement in place. This helped Mexico become the 13th largest economy on the planet. Today, the same forces that propelled Mexico into surpassing Australia and South Korea in GDP ($1 trillion, IMF figure) have gone into reverse.

The US recession "caused exports to shrink by 20 percent year-to-year in December. This has had a negative knock-on effect in the rest of the economy. Industrial production shrank by 8 percent year-to-year in December, while retail sales contracted by 6 percent year-to-year," according to the report.

Furthermore, "government oil revenues have been hit hard by an outright fall in oil production, which shrank by 7.3 percent year-to-year during December... As a result of the combination of the factors listed above, the unemployment rate bounced to 5 percent in January, the highest in the decade," says *Capital Economics*.

In **Argentina**, "The drastic drop in retail sales growth, which fell to 8 percent year-to-year in the fourth quarter from 14 percent in the previous quarter, hints that a sharp fall in consumption growth is likely to take place this year," the research firm reports. "Industrial production shrank by 11 percent in January," it adds.

"To make matters worse," continues the report, "Argentina, one of the world's largest producers of soft commodities, has been hit by the bursting of the commodity price bubble. Indeed, since September the price of soy beans and corn have fallen by around 40 percent, while the price of wheat has dropped by 20 percent. In addition, the country faces its worst drought in more than 70 years.

"The combination of these elements has already caused exports to contract by 25 percent year-to-year to $4.3 billion in December. But exports are likely to fall further," warns *Capital Economics,* "turning last quarter's $2.9 billion trade surplus into a deficit this year. The deterioration of the trade balance and the rise in investor risk aversion caused the peso to fall by 10 percent against the dollar in February."

Having lost billions of dollars in oil revenues, **Venezuela** expected to enter a recession this year. Though the economy expanded in 2008 by 4.8 percent year-to-year, with most of this expansion taking place in the first half, "Venezuela has been heavily affected by the collapse of oil prices and by a sharp fall in oil production," according to the chart book.

The report continues, "Non-oil exports fell by around 70 percent in 2008... Domestic vehicle sales contracted by 55 percent year-to-year in January," and manufacturing output had already started to shrink by the end of 2008.

In addition, credit in Venezuela is drying up quickly. "During 2008 the growth rate of private domestic credit fell to 25.6 percent year-to-year in November, from 71 percent year-to-year in January 2008." On the other hand, inflation remains high at 30 percent with "food prices growing by 44 percent in January."

In the only political statement in the entire report, *Capital Economics* expresses the concerns of the imperialist powers that President Hugo Chavez' victory in last month's referendum "is likely to signal a renewed retreat towards populism and further measures to stifle the market economy."

The **Colombian** economy fell prey to collapsing commodity prices, which "account for 50 percent of total exports." Industrial production also shrank "by 10 percent year-to-year in December." As a result of these factors, firms have started to cut their workforces, which is having an impact on domestic demand. *Capital Economics* reports that "Retail sales fell by 2.6 percent year-to-year in December."

"The Colombian Central Bank (BANREP) has cut interest rates by a total of 200 basis points since December." The report continues, "The latest move was a 100 basis points cut to 8 percent in late February. Meanwhile, the peso has dropped by nearly 10 percent against the dollar since the start of the year and is down by 30 percent from September. This has raised concerns about a pick-up in inflation, which rose to 6.5 percent this month."

The Latin American situation looks so gloomy that not even **Chile**, land of the supposed economic miracle, will be spared. *Capital Economics* reports that copper exports fell by 50 percent year-to-year in December. This had a "negative knock-on effect on the manufacturing industry, which contracted by 3.5 percent year-to-year in the last quarter of 2008."

The report points out that, "In response, the unemployment rate rebounded to 8 percent by end-of-2008 after having dropped to almost 6 percent in 2007. Domestic demand has been hit hard, reflected in a collapse in retail sales growth."

Chile's revenues shrank by 23 percent year-to-year. The Chilean government is also pursuing a monetary policy of cutting interest rates "down to 2.25 percent in two aggressive moves. First rates were cut by 350 basis points in February and then by 250 basis points in March."

Peru's GDP grew by 6.7 percent year-to-year in the last quarter of last year, mainly due to domestic demand. But the GDP's growth rate is beginning to decline. "Indeed, the global recession began to take its toll on Peru's economy via exports, which shrank by 37 percent year-to-year in January," the report states.

"Accordingly, the growth rate of industrial output halved to 3.3 percent year-to-year during last quarter. As a consequence, the unemployment rate jumped to 10 percent in January after having fallen to 7 percent in December of 2007," reports *Capital Economics*.

These forces are driving down inflation. The Peruvian Central Bank, as in the rest of Latin America, has cut interest rates by 25 basis points to 6.25 percent.

The last country covered by the *Latin America Chart Book* is **Ecuador**. The poorest of them all (it ranks 67 with a GPD of $45 billion, according to IMF figures), Ecuador depends heavily on oil exports for public spending. Oil revenues shrank by 37 percent, and industrial exports contracted by 17 percent by year-end 2008. GDP is expected to contract by 10 percent and unemployment stands at 8.5 percent.

Ecuador is a dollarized economy, and capital left the country following its default on external debt obligations in December. Consequently, it has been obligated to repatriate some $700 million, a policy that is unsustainable.

The statistics quoted by *Capital Economics* expose the lie that Latin America's "emerging markets" were on their way to achieving economic independence. The collapse in domestic demand and exports, together with their dependence on raw materials and the US as their main trading partner, threaten to revive Latin America's traditional image as a region economically and politically oppressed by US imperialism.

While the commodity bubble was in full swing, one figure gave the region the appearance of having won independence from US domination. Last year, for the first time in recent history, all of the countries listed above revalued their currencies against the dollar.

The Mexican exchange rate went from 11 pesos per dollar at the end of 2007 to 10 pesos in August 2008, but since then the country's currency been devalued to reach 14.2 pesos per dollar. Brazil went from an exchange rate of 1.80 reales per dollar in January to 1.55 in July 2008 and now stands at 2.26 reales per dollar. Even Argentina, which has gone through periods of sharp and drastic devaluations, saw the peso revalued between May and July 2008 from 3.17 to 3.01 pesos per dollar. Since then, however, the currency went into free-fall, with one dollar being exchanged for 3.67 pesos today. The same thing happened in Chile and Peru, while Venezuela's bolivar remained pegged to the dollar.

Latin America as a region is known for its immense social inequality, which has only deepened in the past 20 years. In spite of having enjoyed "five years of economic boom," the Latin American governments remained besieged by endless waves of strikes and mass demonstrations against unemployment, poor pay and violations of human rights. The fall into recession, currency devaluations and the collapse of exports and domestic markets will inevitably produce a sharp escalation of the class struggle.