Expectations continue to improve in Latin America generally as well as in Brazil.

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THE JANUARY 2013 ECONOMIC CLIMATE INDICATOR for Latin America (ICE-AL) continued the trajectory of improvement that started in October 2012. The month's indicator was 0.2 percentage points above the 10-year average for January. The improvement was caused by an increase in the Expectation Indicator (IE-AL) that more than offset a slight worsening of the Current Situation Indicator (ISA-AL).

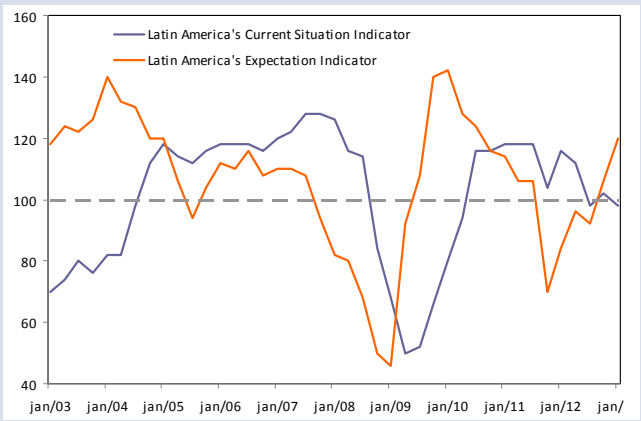
The Economic Climate Indicator improved in six Latin American countries; the change was particularly noteworthy for Paraguay, Peru, Chile, and Uruguay. In Paraguay, expectations went from an unfavorable to a favorable outlook. In Peru, both the current situation and the expectations indicators improved and the country's economic cycle moved from decline to boom. The same occurred in the indicators for Uruguay. In all these countries, exports of commodities have made major contributions—above 20%—to output growth; the prospect of an increase in 2013 in world trade and in Chinese production are helping to improve the business climate.

The Economic Climate Indicator fell in Bolivia, Brazil, Ecuador, and Venezuela, but the outlook for Bolivia and Brazil remained favorable. In Brazil, the already unfavorable assessment of the current situation indicator dropped a little. The worsening of the current situation outlook was associated with consumption, while the worsening of expectations was associated with a slight deterioration in the investment outlook. Because prospects for the trade balance are also deteriorating, Brazil's economic cycle is still in the recovery phase.

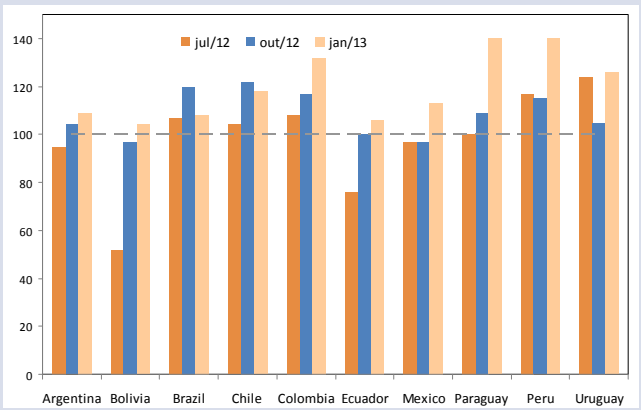
In Brazil, expectations at the beginning of 2013 are more favorable than they were a year ago. However, there has been a clear deterioration in how the present situation is assessed. It is possible that the results at the end of 2012, which confirmed how little the Brazilian economy had grown, led to a pessimistic assessment of the current situation as 2013 started. At the same time, expectations of a more favorable international outlook, a wave of new investment associated with major sport events (the World Cup, the Olympics), low interest rates, and a more competitive exchange rate may have led to a more optimistic outlook on the future. This suggests Brazil's economic performance should improve in coming months.

The Economic Climate Index is a quarterly survey conducted by the German Ifo Institute for Economic Research—Ifo World Economic Survey (WES)—and the Getulio Vargas Foundation The ECI is an average of the current situation and expectations for the next six months based on experts' answer to questions on key macroeconomic data (consumption, investment, inflation, trade balance, interest and exchange rates). The indicators are weighted by the share of trade of each country in the region. http://portalibre.fgv.br/main.jsp?lumChannelId=402880811D8E34B9011D92BBCC431F08

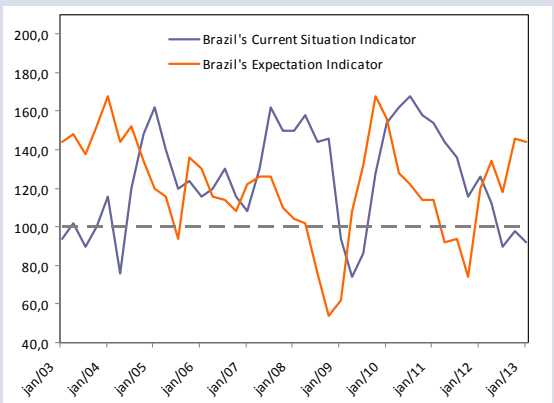
The Economic Climate Indicator for Latin America improved mainly because of better expectations.



The Economic Climate Indicator improved in six Latin American countries.



More favorable expectation suggests Brazil's economic performance should improve in the coming months.



Source: Ifo-FGV Latin American Survey.