Latin America as the new Emerging Economic Powerhouse

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Latin America in the new global order

Implications for the Latin American consumer
Global growth led by the Pacific

*Expected contribution to global growth between 2012 and 2022 (%)*

Source: BBVA Research and IMF
Very relevant players in Latin America

Current size and expected contribution to world growth in 2012-2022

Source: BBVA Research and IMF

2012 GDP

2012-2022 change
The increasing role of Asia has been a supportive factor

- Rapid growth in Asia
- Asia demand of commodities
- High commodity prices
- Increasing commodity revenues in LatAm
- Private and public demand for final goods in LatAm

Agricultural, mining and fuels imports by China
- 2000: 4% of total world imports
- 2011: 11% of total world imports

Agricultural, mining and fuels LatAm exports
- 2000: 34% of total LatAm exports
- 2011: 54% of total LatAm exports

LatAm - Asia trade flows
- 2000: 4% of total LatAm trade flows
- 2011: 16% of total LatAm trade flows
The key factor: learning from crises

**Public and private debt-to-GDP ratios** (2012)

Source: BBVA Research

![Chart showing public and private debt-to-GDP ratios for G7 and LatAm-6 regions.](chart)
Further reforms to extend growth momentum

The Global Competitiveness Index 2012-2013 (score 1-7)
Source: WEF

LATAM-6 4.29
Chile 4.65
Brazil 4.40
Mexico 4.36
Peru 4.28
Colombia 4.18
Argentina 3.87

Need to close competitiveness gap in infrastructures, innovation, business climate, regulation, education quality
Implications for the Latin American consumer

Latin America in the new global order
New environment has brought dramatic changes for consumption

**Latin America**
- Still favorable demographics
- Purchasing power gains
- Higher volume of consumption
- Changes in consumption patterns
- Reduction of household size softens lower population growth
- Development of distribution channels, product differentiation, demand for luxury products...

**Developed economies**
- Population growth $\approx 0$
- Mature markets with high income
- Higher volume of consumption
- Changes in consumption patterns
- Aging increases consumption rates and generates new needs

**+deleveraging +uncertainty**
Favorable demographics, but with regional differences

Population pyramids (2010)
Source: BBVA Research and UN

G7

Argentina, Brazil and Chile (avg.)

Colombia, Mexico and Peru (avg.)
### Middle class boom in Latin America

#### Population in Latin America by income range

**Source:** BBVA Research

<table>
<thead>
<tr>
<th>Income Range</th>
<th>Population (mn)</th>
<th>GDP per capita in 2012 PPP-adjusted USD</th>
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<tbody>
<tr>
<td>Affluent</td>
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<td>&gt;40,000 USD</td>
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<td>High Middle Class</td>
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<td>(25,000-40,000 USD)</td>
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<td>Medium Middle Class</td>
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<td>Low Middle Class</td>
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### Population share (%)

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<tr>
<th>Year</th>
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Urban agglomerations to increase economic role

Urbanization levels in 2025
Source: UN

Challenges: infrastructures, basic services, housing, public transport, traffic congestion, pollution
Changes in consumption patterns

**Group (examples)**

**Necessities**
- Food and non-alc. beverages
- Clothing and footwear
- Alcohol and tobacco
- Housing (rent, utilities)
- Equipment ('white goods')
- Health (drugs)

**Semi-necessities**
- Transport (autos, fuel, public transport)
- Communications (phone)
- Recreation, culture ('brown goods')
- Education
- Restaurants and hotels
- Miscellaneous (personal care, insurance)

**Low income** → **Middle income** → **High income**

- Peru
- Colombia
- Brazil
- Mexico
- Argentina
- Chile
Key messages

- Growth is focused now in the Pacific area, led by Asia but with a significant contribution of Latin America.

- Latin America presents today lower vulnerabilities due to reforms implemented after severe crises.

- Reforms are now paying off in terms of sustained high growth and increasing purchasing power of the population.

- Despite a global aging process, demographics are still favourable for Latin American countries.

- In addition to a predominant urban condition, consumers in Latin America are today wealthier and therefore pushing for changes in expenditure patterns.

- However, there is no room for complacency and success brings challenges that policies should tackle on time.