Chairman’s Message

As we launch into 2015 it is obvious that volatility in the global markets is likely to be with us throughout the year and that the global economy will be operating under a new ‘normal’.

Like almost all markets in the world, those of Latin America will be impacted. With falling oil and metal prices weighing on government finances and endangering investments, economists have generally reduced their 2015 growth forecasts for the region’s seven largest countries, from Mexico to Argentina.

Brazil is now expected to grow a meagre 0.5 percent in 2015, down from an earlier estimate of 1.1 percent and barely up from an expected 0.2 percent growth in 2014. Mexico will probably expand by 3.4 percent, while oil producer Venezuela, flirting with a debt default, will probably contract 2.0 percent, according to a poll of about 50 economists.

Faced with growing economic challenges, the general response has been a shift toward orthodoxy. In Brazil, re-elected President Dilma Rousseff has appointed Chicago-trained banker Joaquim Levy as finance minister and has foreshadowed tax hikes and budget cuts. In Argentina, all potential candidates in the October presidential election are seen as more market-friendly than President Cristina Fernandez. In the north, Mexico’s finances are in better shape, which should help it take advantage of faster U.S. growth to accelerate closer to its potential. However, the main risks lie on the energy sector, where falling oil prices may threaten investments.

The situation varies from country to country, but the trend is generally similar in each one. Some will benefit from weaker exchange rates which may boost exports, but the expected exchange rate volatility could also fuel inflation. Interest rates may rise as a result and could climb to as high as 13 percent in Brazil.

Volatility can also produce opportunity, and this is very much the case in Latin America. Companies that are well-managed and have solid balance sheets are likely to find that this year is an ideal one to invest for the future. Asset valuations are likely to fall and there is every likelihood that good buying opportunities will arise. For example, the slowdown in the mining sector is likely to mean that there will be a flight to quality in sourcing products and services, as mining companies strive to make greater use of innovation to cut costs and increase productivity.

Although not regularly reported, a growing number of Australian SMEs are forging successful business in the region and their progress is encouraging other players to follow in their footsteps. This was evident from the number of winners of the Austrade 2014 Export Awards who acknowledge the contribution of Latin America in their acceptance speeches, including Melbourne-based SDI, Queensland’s Cardo and Opmantek.

Despite the need for caution, I believe that 2015 has the potential to be a very positive year in the development of Australia’s engagement with Latin America. If all goes to plan, we can expect an increase in the exchange of ministerial and business delegation visits, as well as in the number of Australian companies that choose to make a move into the region. There may also be more investment from the region into Australia.

My confidence stems from the developments that I am seeing take place in the region and from the extensive level of activities planned by the government - both federal and state - and by business groups that want to focus more of their attention on the region. The momentum in favour of Latin America is set in stone and our Council plans to be at the forefront of adding to it.

Jose Blanco
Chairman