

Central America Business Forecast Report Q4 2013

<https://marketpublishers.com/r/C41610F62F5EN.html>

Date: September 2013

Pages: 61

Price: US\$ 1,195.00 (Single User License)

ID: C41610F62F5EN

Abstracts

Core Views

Central America as a region will remain heavily dependent on the performance of developed-state economies, particularly the US, which remains a major source for remittance flows and demand for exports.

Drug-related violence and rising levels of insecurity will remain a major concern for most of the region's electorate, although such concerns will be particularly elevated among the 'northern triangle' states of Guatemala, El Salvador and Honduras.

The region's economic trajectory remains highly divergent. Panama is set to experience one of the fastest real GDP growth rates in the world over the next few years, whereas El Salvador and Guatemala are expected to struggle.

Major Forecast Changes

Following the release of relatively weak Q113 real GDP data, as well as the Banco Central de Costa Rica's significant downgrade to recent economic activity data on the back of a change in methodology, we are revising down our 2013 real GDP growth forecast for Costa Rica to 3.5%, from 4.2% previously.

We see falling commodities prices leading to a moderation in agricultural production in Guatemala, as farmers are discouraged from investing in crops. Moreover, while strengthening private consumption is likely to have a positive effect on economic growth overall, it also is likely to lead to stronger import growth, which will weigh on net exports. We have revised up our forecast for average annual growth in imports in 2013 and 2014 to 8%, from 3% previously, and have revised down our forecast for average annual growth in exports over the next two years to 4%, from 8% previously.

Key Risks To Outlook

Upside Risks: The performance of the US economy, and particularly US demand for regional exports, remains the biggest upside risk to our growth forecasts. We currently forecast US real GDP growth of 1.8% in 2013 and 2.8% in 2014, but if growth is significantly stronger, we would very likely see Central American economies perform better than we currently anticipate.

Downside Risks: Our Agribusiness team made significant downgrades to its Central America coffee production forecasts in July on the back of a virulent strain of coffee rust, and additional downward revisions could pose further downside risks to our growth forecast for Nicaragua.

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