Q1 UPDATE

TRADE TRENDS ESTIMATES

LATIN AMERICA AND THE CARIBBEAN

2023 EDITION

IDB

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Q1 Update

Coordinated by
Paolo Giordano

IDB

This report provides estimates of Latin America and the Caribbean's international trade flows for 2022 and the first quarter of 2023. The data in it was prepared by the Integration and Trade Sector (INT) at the Inter-American Development Bank (IDB), in partnership with its Institute for the Integration of Latin America and the Caribbean (INTAL), under the overall supervision of Fabrizio Opertti, Sector Manager, Pablo García, Regional Integration Unit Chief, and Ana Basco, Director of INTAL. Technical supervision was provided by Mauricio Mesquita Moreira, INT's Principal Economic Advisor.

This edition was coordinated by Paolo Giordano, INT Principal Economist, and written in collaboration with Kathia Michalczewsky, INT consultant. Jesica De Angelis, Carolina Barco, Aitana Endara, Juana Martínez, Luisina Patrizio, and Facundo Rodriguez assisted with data processing.

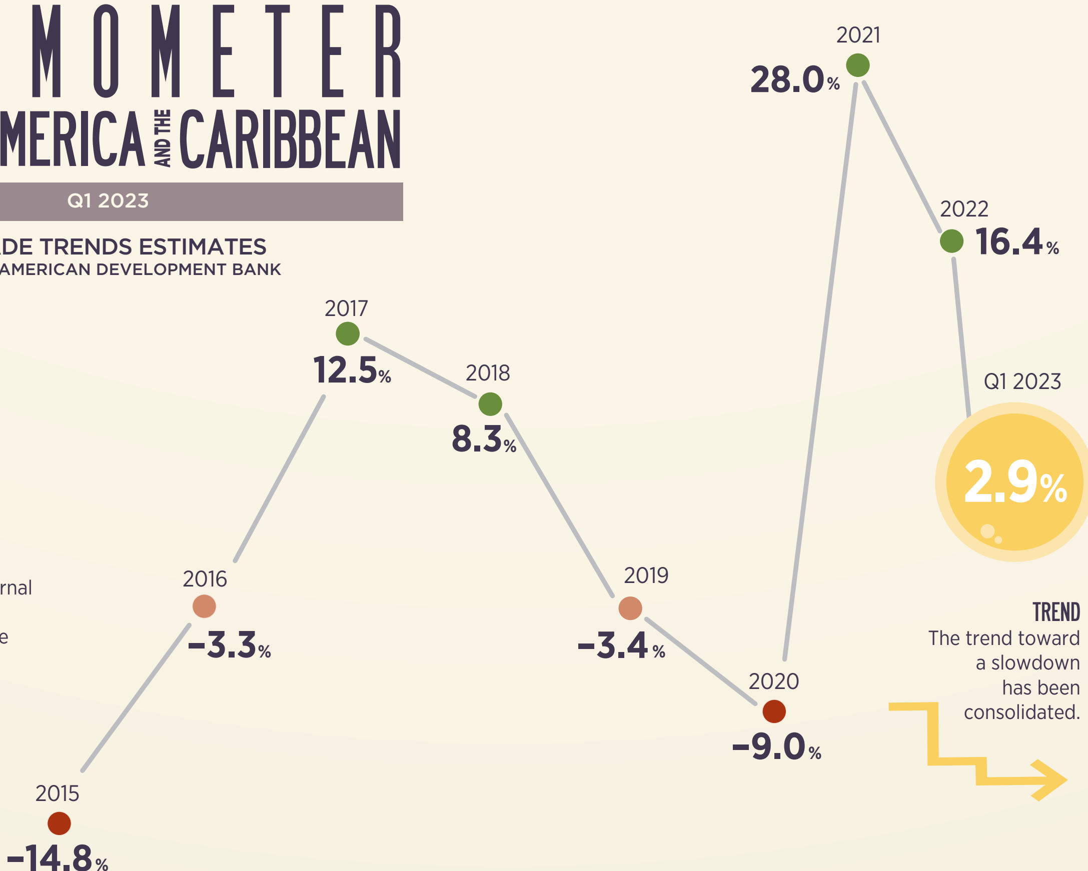
Ximena Abeledo, Andrés Cavelier, Consuelo De La Jara, Matthew Shearer, and María Lidia Víquez provided support for the team during the production and publication process. Federico Mazzella provided technical support. The publication was designed and typeset by Word Express and translated into English by Victoria Patience.

The estimates in this report are based on the quarterly and monthly data available from national and international sources for 24 Latin American and Caribbean countries for 2022 and 20 for the first quarter of 2023. The information included in the report is current as of May 15, 2023.

EXPORT THERMOMETER FOR LATIN AMERICA AND THE CARIBBEAN

Q1 2023

TRADE TRENDS ESTIMATES
INTER-AMERICAN DEVELOPMENT BANK



EXPORT GROWTH SLOWED

The value of LAC's external sales of goods grew by 2.9% year-on-year in the first quarter of 2023.

Year-on-year growth rate, Q1 2023

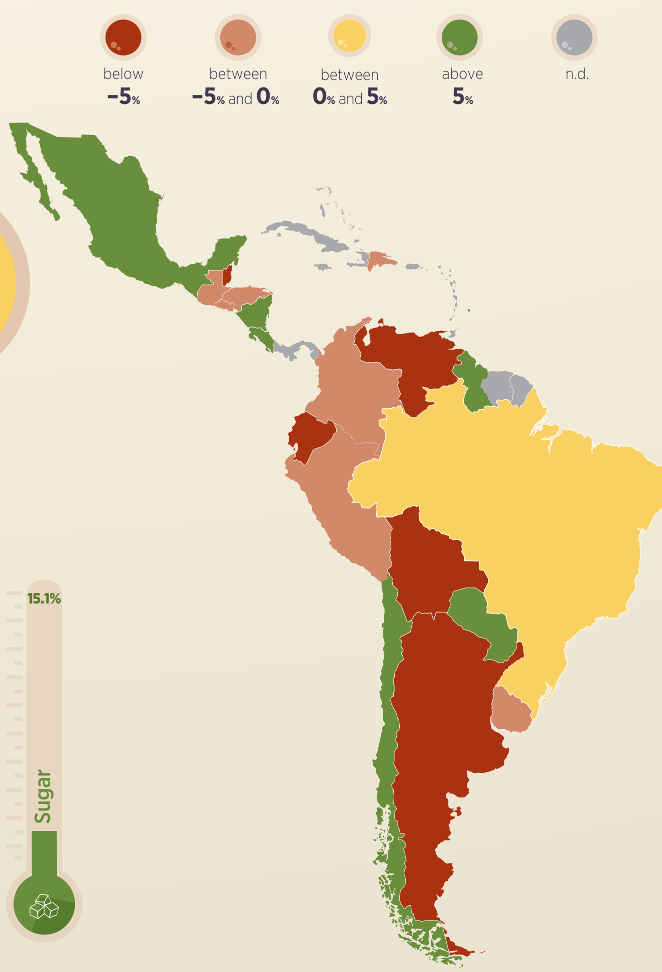
TREND

The trend toward a slowdown has been consolidated.

PERFORMANCE BY COUNTRY

Exports lost vigor throughout LAC, and this effect was particularly intense in several South American economies.

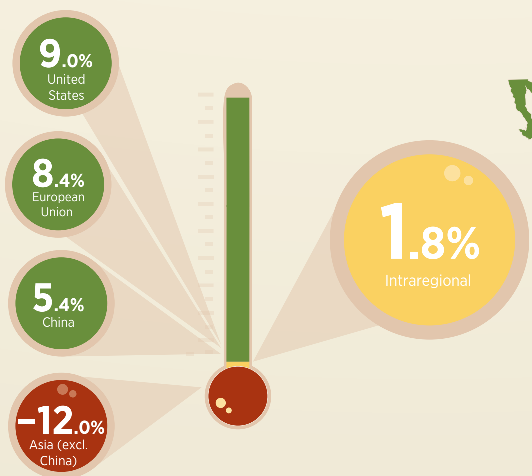
Year-on-year growth rate, Q1 2023



WEAKENING DEMAND

Demand from LAC's main trade partners continued to decelerate.

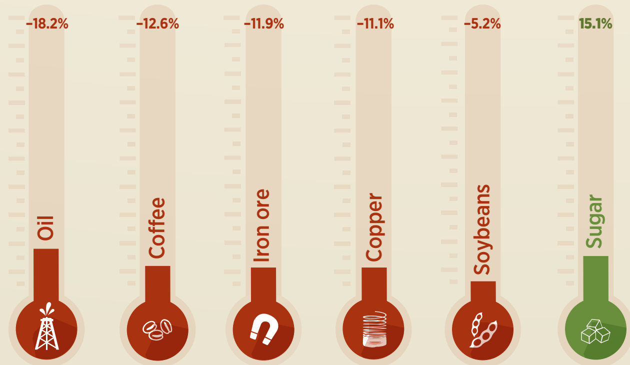
Year-on-year growth rate, Q1 2023



PRICES FALL

The prices of the region's main export commodities dropped in recent months.

Year-on-year growth rate, January–April 2023



THE POST-COVID EXPANSION PHASE COMES TO AN END FOR LATIN AMERICAN AND CARIBBEAN EXPORTS

Highlights

In the first quarter of 2023, the value of exports from Latin America and the Caribbean grew more than the global average, increasing by 2.9% year-on-year after the 16.4% rise of 2022.

The deceleration from 2022 is due to both lower prices and the weakening of export volumes.

Export performance deteriorated in all the subregions but was most pronounced in South America.

The change in trend toward an export slowdown has been consolidated.

The balance of risks is moderately tilted to the downside in a context of weak global demand and lower commodity prices.

Exports from Latin America and the Caribbean (LAC) entered a slowdown phase in 2022 after the rapid recovery that followed the Covid-19 pandemic. The export growth rate declined steadily throughout the year. This performance was explained by the reversal of commodity prices and less dynamic export volumes.

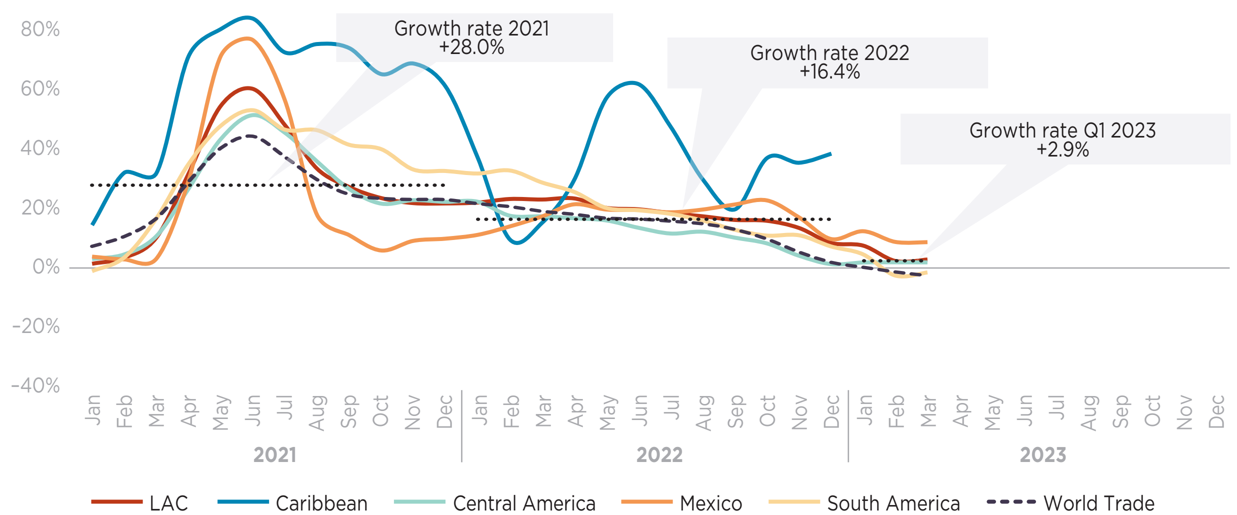
Real demand for the region's exports grew at lower rates, reflecting the slowdown in the world economy. The deterioration was most pronounced for the South American economies, where falling prices had a greater impact due to the weight of commodities in their export baskets. Although Mesoamerica's export performance weakened, external sales continued to expand in the first quarter of 2023 in several economies, particularly Mexico, which helped shore up the region's performance.

Looking ahead, the balance of risks is expected to be moderately weighted to the downside due to the impact of tight monetary policies on global growth, the uncertainty surrounding the war in Ukraine, the waning of the expansionary effect of the reopening of the Chinese economy, and the reversal of the upward trend in commodity prices.

General Outlook

The value of goods exports from LAC is estimated to have grown by 2.9% year-on-year in the first quarter of 2023 (Figure 1).[1] Although the region performed better than world trade (–2.8%), the downtrend was due to both the deterioration of export prices and the slowdown in the growth of volumes exported. In 2022 export growth stood at 16.4%, and prices played a decisive role.

FIGURE 1 • VALUE OF EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN AND WORLD TRADE
(Year-on-year growth rate, three-month moving average, percentages, 2021–2023)



Source: IDB Integration and Trade Sector with data from official sources and the Netherlands Bureau for Economic Policy Analysis (CPB) for world trade.
Note: LAC includes 18 countries in Latin America—Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, Uruguay, and Venezuela—and 6 countries in the Caribbean—Barbados, Belize, Guyana, Jamaica, Suriname, and Trinidad and Tobago. From January 2023 onward, Jamaica, Panama, Suriname, and Trinidad and Tobago were excluded. World trade is the average of global imports and exports.

The slowdown affected the entire region. Although Mexican exports remained on a strongly expansionary trend for much of 2022, this began to weaken in the last quarter of the year and into the first quarter of 2023. All the same, Mexico remained the driving force for regional trade. In contrast, the deterioration observed in Central and South America throughout 2022 deepened in the first few months of 2023. In South America, exports slowed so much that they showed a contraction.

LAC's total imports grew by an estimated 0.6% in the first quarter of 2023 after expanding by 21.1% in 2022.

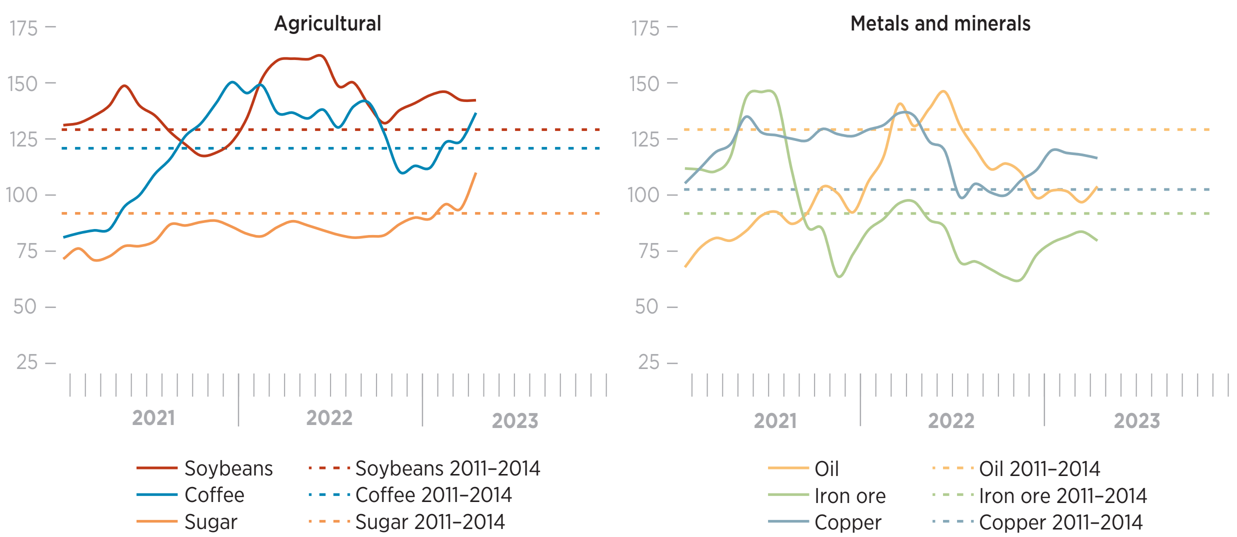
[1] This estimate draws on data from 17 Latin American countries: Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay, and Venezuela; and 3 Caribbean countries: Barbados, Belize, and Guyana. The records for Honduras do not include special trade regimes (STRs), which account for about 50% of the country's total exports. See the Methodological Note for additional information on the procedures, time periods, and sources for the data used in these estimates.

Prices

The prices of the main commodities exported by LAC have proven highly volatile in recent months. Following the shock caused by Russia's invasion of Ukraine in early 2022, which reinforced the higher prices observed since 2021 as a result of the post-Covid recovery, the trend reversed in the middle of the year (Figure 2). Furthermore, higher international interest rates emerged as a new factor exerting downward pressure on commodity prices due to their impact on investment and inventory management decisions. However, the prices of several products rallied between late 2022 and early 2023, except crude oil.

The war in Ukraine had a major impact on **oil** prices due to Russia's role in the market. Already on an expansionary path, they hit record highs in June 2022 before declining steadily amid the global

FIGURE 2 • PRICES OF MAIN LATIN AMERICAN AND CARIBBEAN EXPORT PRODUCTS
(Index, 2010=100, 2021–2023)



Source: IDB Integration and Trade Sector with data from Bloomberg.

economic slowdown. Between January and April 2023, the average price was 18.2% lower than in the same period in 2022. The outlook suggests that prices will remain at these levels for the remainder of the year as a result of the weakness of world demand, the fact that flows from Russia are being redirected to other markets rather than being suppressed, and the maintenance of supply levels by the main oil-producing countries following the cuts approved by the Organization of the Petroleum Exporting Countries Plus (OPEC+) in April 2023.

The **iron ore** market has proved highly volatile in recent months. Like oil, it entered a downward phase in mid-2022, but prices recovered in December following expectations of a rebound in the Chinese economy due to the lifting of the country's zero-Covid policy. However, this upward trend was brief and was not enough to push prices back up to the levels seen at the start of the war and they are now well below their 2021 highs. In January–April 2023, the average price was 11.9% lower than in the same period in 2022. A change in trend is once again emerging as the rebound in activity in China weakens and the most dynamic yearly construction season comes to an end.

Copper prices also began to recover in late 2022 after plummeting in the second half of the year due to lower demand from China. However, the lifting of the country's zero-Covid mobility restriction measures and the recovery of its economy gave these prices a boost. Despite this increase, copper prices in January–April 2023 were still 11.1% below their level in the first four months of 2022.

In January–April 2023, **coffee** prices were, on average, 12.6% lower than in the same period of the previous year.[2] Although the trend has been positive in recent months, prices have not yet recovered the loss accumulated in the third quarter of 2022. On the demand side, the factors explaining the recent rebound include the shift in consumption patterns toward lower-priced beans, which has boosted the Robusta market. On the supply side, Vietnam, the world's largest producer, experienced its worst crop in four years. The reasons for this include heavy rains and, to a lesser extent, farmers deciding to plant more profitable crops such as avocados and durians to cope with rising fertilizer costs. Brazil, the second-largest producer, was affected by the drought in the region, and Indonesia's crop may be limited by heavy rains.

Soybean prices rebounded in late 2022 and continued to do so into the first few months of 2023. Although they did not return to the highs of early 2022, average prices in January–April 2023 were only 5.2% lower than during the same period the previous year. However, against a backdrop of weak demand, forecasts of increased production in Brazil are fueling expectations that prices will continue to trend downward for the rest of the year.

Sugar prices were relatively stable throughout 2022 before showing a slight upward trend at the end of the year, which accelerated in early 2023. They accumulated a year-on-year increase of 15.1% between January and April. Crop projections have been revised downward in the world's major sugar-producing countries, especially India, Thailand, China, and Pakistan. This situation has been compounded by a poor sugar beet crop in Europe as a result of reduced acreage and severe drought. Meanwhile, demand has continued to recover.

Looking ahead, the main adjustment to prices is expected to have already taken place in the first quarter of 2023, such that prices will largely remain stable for the rest of the year, at historically high levels. However, the forecast includes risks of different sorts that could drive both downward and upward trends.[3]

A greater than expected slowdown in global demand due to persistent inflation or stress in financial markets may put downward pressure on prices. Of particular significance for LAC is the evolution of demand from China, the primary market for several of the main commodities in the region's export basket. The waning of the rebound that followed the end of the country's zero-Covid policy may also contribute to lower prices for the region's exports, along with a pattern of economic growth that is increasingly weighted toward services rather than commodity-intensive sectors, such as construction or manufacturing.

However, there are also some upside risks in several specific markets. These include constraints on oil supply due to OPEC+ policies, credit constraints affecting investments in other markets, or the acceleration of policies aimed at facilitating the transition to alternative green energy sources. Other factors include adverse weather events for agricultural markets, coupled with potential disruptions to the Initiative on the Safe Transportation of Grain and Foodstuffs from Ukrainian Ports (the Black Sea Grain Initiative), which aims to secure Ukraine's agricultural supply to the world.

[2] The price of coffee is a simple average of the prices of the Arabica and Robusta varieties.
[3] World Bank (2023), "Lower Prices, Little Relief," Commodity Markets Outlook, April, World Bank.

These risks are unfolding against a backdrop of uncertainty regarding the evolution of interest rates and the value of the dollar, which tend to have a direct impact on commodity prices.

Volumes

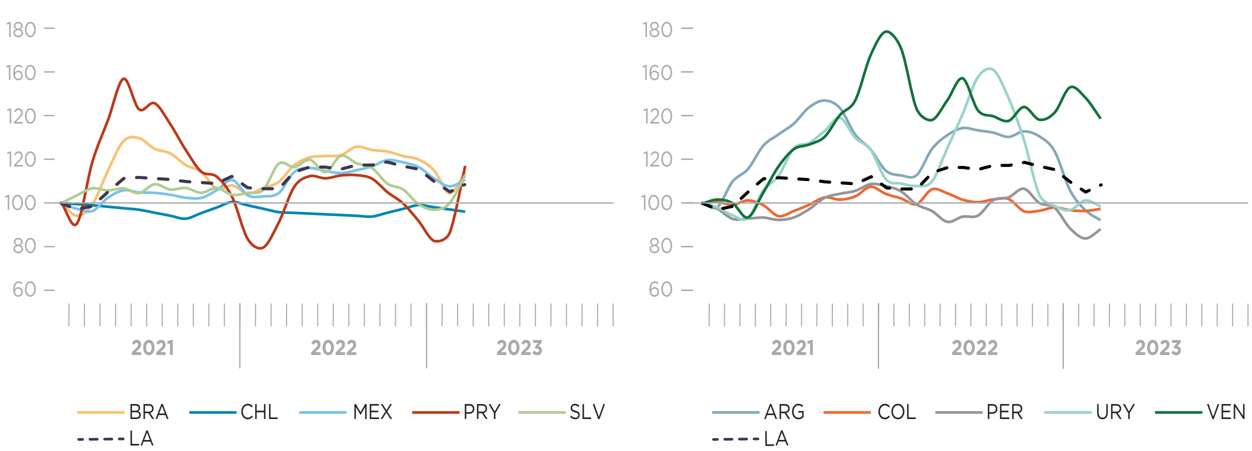
In the first quarter of 2023, Latin American export volumes are estimated to have increased by just 1.6% year-on-year after growing by 5.4% in 2022 (Figure 3).[4] The performance of real exports deteriorated throughout the region and in some countries was even reflected in a year-on-year contraction in shipments.

Mexico's real exports grew by an estimated 5.8% year-on-year in the first quarter of 2023. Although this was a marked slowdown compared to 2022, when exports grew by 9.2%, Mexico maintained its role as the main driver of the region's exports.

In Central America, the estimate for El Salvador shows a year-on-year drop of 4.3% in the first quarter of 2023 after having grown by 6.1% in 2022. However, the data for March points to a possible reversal in the trend.

In contrast, the performance of South America's export volumes was notably weaker: they are estimated to have fallen by 1.9% year-on-year in the first quarter of 2023. Export volumes contracted in Argentina, Colombia, Peru, Uruguay, and Venezuela (–18.4%, –2.2%, –11.5%, –8.8%, and –3.1%, respectively), and expanded less than in 2022 in Brazil and Chile (4.2% and 0.2%, respectively). The exception was Paraguay, where real exports grew well above average (28.5%) after an atypical contraction in 2022 caused by the historic drought.

FIGURE 3 • EXPORT VOLUMES FOR SELECTED COUNTRIES
(Indices, three-month moving average, January 2021=100, 2021–2023)



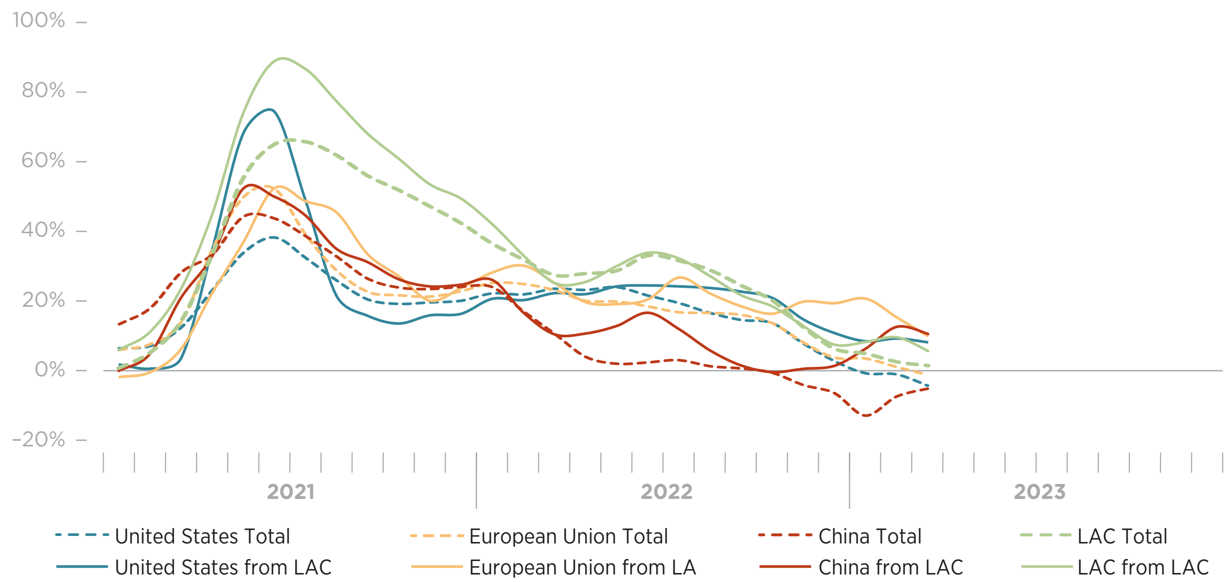
Source: IDB Integration and Trade Sector with data from official sources, the United States Bureau of Labor Statistics (BLS), and the Organization of the Petroleum Exporting Countries (OPEC).
Note: The value of exports from Mexico and El Salvador were deflated using BLS indices, and the volume of Venezuela's exports was estimated using OPEC data. LA is the average of national indices weighted by the value of each country's exports in 2015. The sample represents 92% of LA's external sales for that year. See the Methodological Note for more details.

[4] Estimates of the volumes exported by Latin America based on official data for Argentina, Brazil, Chile, Colombia, Peru, and Uruguay. In-house estimates were calculated for El Salvador, Mexico, Paraguay, and Venezuela, as detailed in the Methodological Note.

Markets

The demand from LAC's main trading partners continued to slow markedly at the beginning of 2023 (Figure 4). However, it still performed comparatively better than the global average, leading to increases in the region's share in its main export markets.[5]

FIGURE 4 • VALUE OF MAIN TRADING PARTNERS' IMPORTS FROM LATIN AMERICA AND THE CARIBBEAN AND THE WORLD
(Year-on-year growth rate, three-month moving average, percentages, 2021–2023)



Source: IDB Integration and Trade Sector with data from the International Monetary Fund (IMF), the US International Trade Commission (USITC), Eurostat, China Customs, and national sources.
Note: The import series for all economies are valued in US dollars.

After growing at a relatively steady pace of around 20% year-on-year throughout most of 2022, the **United States**' imports from the region began to slow down in the final months of the year. However, this decline was less marked than that of its total imports: US purchases from LAC grew by 7.8% year-on-year in the first quarter of 2023, while total imports dropped by 4.9%. Consequently, LAC's share in the US market increased by 1.8 p.p., from 18.3% to 20.1%.

China's imports from LAC were extremely volatile in 2022 and ended the year in relative stagnation. However, this trend was reversed in the early months of 2023, when the country's imports grew by 10.2% year-on-year. This performance ran counter to that of its total purchases, which continued to trend downward, accumulating a year-on-year drop of 6.2% in the same period. As a result, LAC's share in the Chinese market grew from 8.6% in 2022 to 9.0% in the first quarter of 2023.

In the **European Union**, imports from LA grew by 8.9% year-on-year in the first quarter of 2023, performing substantially better than total purchases, which contracted by 1.6%. However, due to its relative size, LA's share in the EU market remained at 1.9%.

[5] This section is based on an analysis of total imports by trade partners, as reported by the statistical authorities of the destination countries. The exports recorded by national sources for LAC countries for bilateral flows are analyzed in the next section. Any discrepancies are due not only to the sources used but also to the lag between the times that exports and imports are recorded.

Intraregional imports from **LAC** are estimated to have been less dynamic than the purchases made by its main extraregional partners. Even so, intraregional imports are estimated to have increased slightly more than total external purchases in the first quarter of 2023 (1.8% and 0.6% year-on-year, respectively).

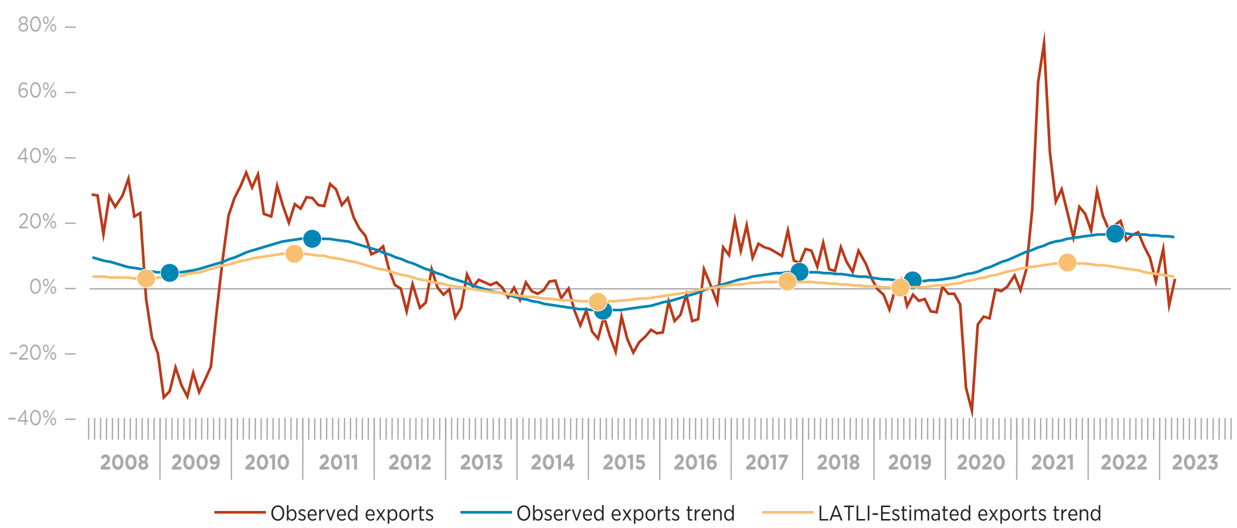
Prospects

The purpose of the IDB's Latin American Trade Leading Index (LATLI) is to forecast an eventual turning point in the growth trend for the value of LAC exports (Figure 5). Moreover, the growth rate of export values can be estimated in real time using a prediction methodology known as nowcasting, which is expressed by the Latin American Trade Nowcasting Index (LATNI).[6]

According to the LATLI, a change was observed in the trend of the variation of export values in mid-2022, as had been anticipated by the IDB's Trade and Integration Monitor that year,[7] and the region's exports indeed moved from a phase of acceleration in the growth rate into a slowdown. According to the latest estimate, there will not be another turning point in the coming months, and the downward trend is expected to continue.

The LATNI enables the year-on-year variation in LAC exports to be estimated for April, even though no official data was available at the time of publication. This model confirms that the region's export performance is deteriorating. It places the year-on-year variation rate between –2% and –10% in April.[8]

FIGURE 5 • CHANGES IN THE TREND IN THE VALUE OF GOODS EXPORTS FROM LATIN AMERICA
(Year-on-year growth rate and LATLI index, January 2018=100, 2008–2023)



Source: IDB Integration and Trade Sector estimations.
Note: The leading index series shows the trend after the Hodrick-Prescott filter was applied. The circles indicate the turning points in the trend for the estimated series and the observed value of LAC exports.

[6] For a detailed description of the two indicators, the data used, and the estimation methodology, see Giordano et al. (2021), "Metodología de las estimaciones de las tendencias comerciales de América Latina," IDB-TN-02223, Inter-American Development Bank.
[7] Giordano, P., R. Campos, and K. Michalczewsky (2022), "Shockwaves. Latin America and the Caribbean Facing Global Trade Turmoil," Trade and Integration Monitor, Inter-American Development Bank.
[8] Given the wide range of the estimate, it is worth noting that the model that best fits the recent trend places the real-time variation rate at around –2%.

Performance by Subregion

Exports from LAC grew by an average of 2.9% year-on-year in the first quarter of 2023 due to a decline in export performance throughout almost the entire region (Table 1). Exports from South America stagnated, while export growth in Central America was relatively weak. Mexico's external sales experienced above-average growth, boosting the regional performance. Finally, the outcomes were mixed for the Caribbean countries for which data was available.[9]

The stagnation of South America's exports is explained by the fact that sales to Asia (excl. China) and the rest of the world plummeted, offsetting the growth in exports to the United States, China, and, to a lesser extent, the rest of the region and the European Union. The main driver for growth in exports from Mesoamerica was the United States.

The following section analyzes the primary factors and destination markets that explain how external sales evolved in the different LAC subregions in 2023 (Figure 6). The annex contains detailed data on each country and the main export products.

In **South America**, exports are estimated to have stagnated (–0.3%) in the first quarter of 2023 compared to the same period in 2022, after having grown by 16.2% in 2022. This decline was observed in every South American economy except Chile and Paraguay. Along with Brazil, these were the only countries in South America where exports expanded in year-on-year terms and where the growth rate for volumes shipped was positive. Export volumes from the subregion as a whole fell by 1.9% year-on-year in the first quarter of 2023, evidence of the positive contribution of prices. Shipments to all major partners grew, albeit at lower rates than in the previous year. The increase in shipments to the United States and China was offset by contractions in exports to other Asian destinations, including India, Singapore, Japan, and Vietnam, as well as to the United Kingdom and Switzerland.

Exports from **Mesoamerica** climbed by an estimated 6.3% year-on-year in the first quarter of 2023 after growing by 16.1% in 2022. **Mexico**'s external sales increased by 6.8% year-on-year in January–March 2023, explained almost entirely by increased shipments to the United States and, to a lesser extent, the European Union. Exports to almost all other major trading partners contracted. Shipments from **Central America** grew by just 1.6% year-on-year in the first quarter of 2023. Only Costa Rica experienced an improvement in its export performance, while those of El Salvador, Guatemala, Honduras, and the Dominican Republic went so far as to contract. The growth in exports to the United States and, to a lesser extent, Asia (excl. China) was partially offset by the drop in shipments to the European Union, China, and the rest of the subregion.

The sample of **Caribbean** countries for which data was available had heterogeneous performances. While exports from Barbados and Guyana increased in the first quarter of 2023, shipments from Belize contracted.

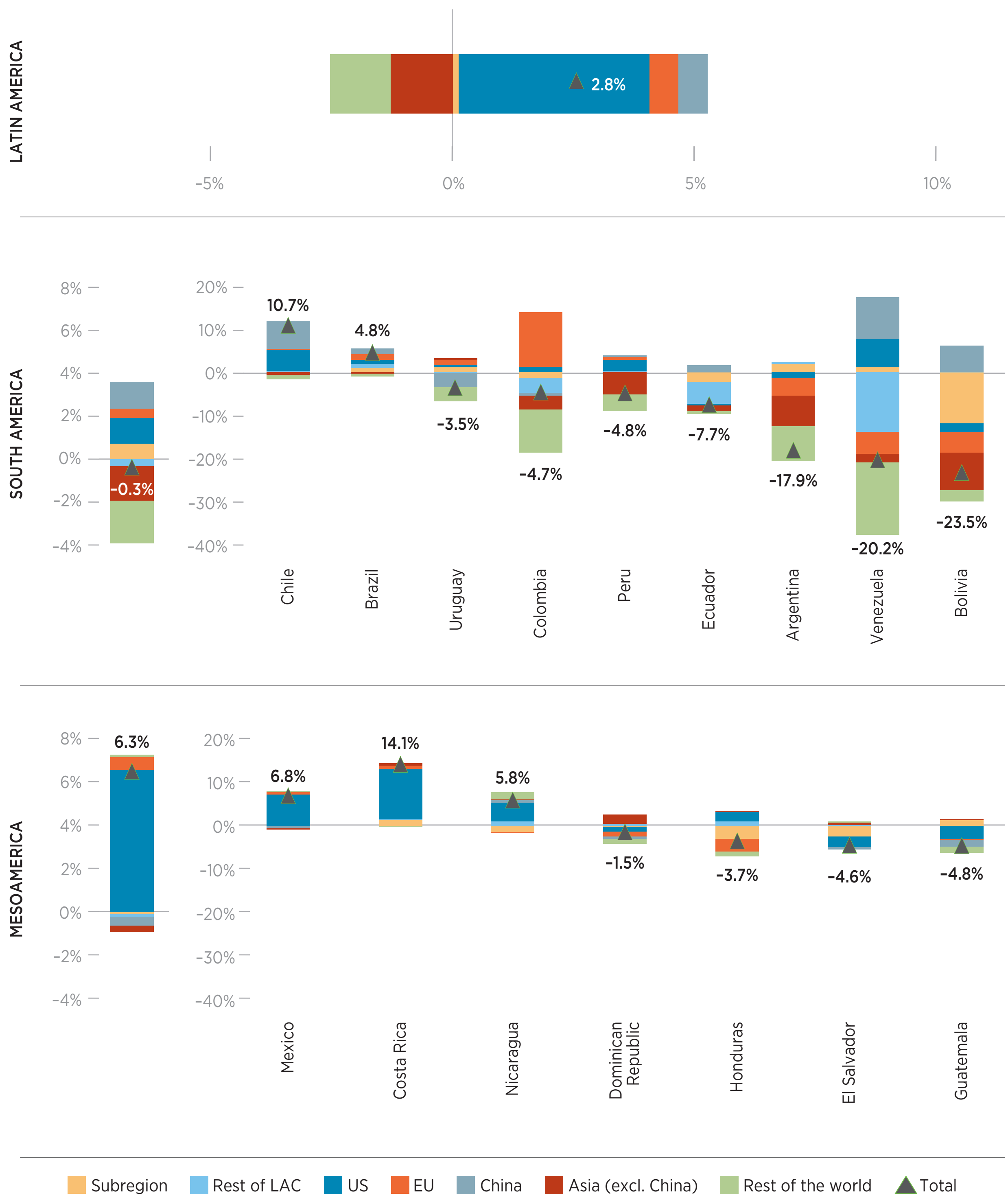
[9] It was not possible to estimate a reliable subregional total for the Caribbean due to the lack of available data for some of the larger economies.

TABLE 1 • VALUE OF GOODS EXPORTS FROM LATIN AMERICA AND THE CARIBBEAN BY SELECTED DESTINATIONS
(Annual growth rate, percentages, 2022 and Q1 2023)

Exporting group/ member	Q1 2023 vs Q1 2022							2022 vs 2021 World Total
	Subregion	Latin America and the Caribbean	United States	Asia (excl. China)	China	European Union	World Total	
SOUTH AMERICA	**6.1**	**3.2**	**11.5**	**-13.5**	**7.3**	**6.6**	**-0.3**	**16.2**
Argentina	6.8	7.3	-13.5	-36.9	-2.9	-33.7	-17.9	13.5
Bolivia	-25.7	-25.2	-68.7	-32.1	92.5	-64.7	-23.5	23.8
Brazil	8.3	12.5	9.2	-0.2	4.5	6.7	4.8	19.0
Chile	1.9	2.9	35.3	-3.1	16.4	5.8	10.7	4.0
Colombia	-7.6	-14.8	5.5	-46.9	-13.7	89.5	-4.7	38.3
Ecuador	-18.6	-25.9	-1.8	-15.5	9.5	1.5	-7.7	24.3
Paraguay	52.7	51.2	-27.8	-30.0	45.1	-47.5	23.4	-5.9
Peru	0.6	3.3	19.9	-36.1	1.4	3.7	-4.8	0.8
Uruguay	13.0	9.4	14.2	8.1	-35.9	37.1	-3.5	17.2
Venezuela	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	-20.2	65.9
MESOAMERICA	**-2.5**	**-3.0**	**8.4**	**-8.3**	**-20.9**	**13.4**	**6.3**	**16.1**
Mexico	-6.6	-5.9	8.6	-12.0	-19.3	18.9	6.8	16.9
Central America	**-1.0**	**0.5**	**5.4**	**18.5**	**-43.0**	**-3.2**	**1.6**	**10.4**
Costa Rica	3.7	5.6	26.8	9.1	-19.3	3.9	14.1	8.9
Dominican Republic	-0.8	0.0	-2.5	40.6	-34.6	-9.7	-1.5	6.4
El Salvador	-4.2	-4.5	-7.0	27.4	-93.8	5.8	-4.6	11.3
Guatemala	1.9	2.6	-9.8	11.4	-54.0	-3.7	-4.8	14.9
Honduras	-4.5	-5.9	6.1	8.3	-52.3	-12.1	-3.7	17.3
Nicaragua	-2.0	-1.5	8.4	11.3	72.4	-5.9	5.8	10.8
Panama	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	0.2
CARIBBEAN	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**n.d.**	**33.8**
Barbados	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	6.5	3.4
Belize	7.0	12.0	-24.8	n.d.	n.d.	-65.0	-20.6	10.8
Guyana	-48.4	-28.2	36.7	37.9	24.0	64.7	89.5	24.3
Jamaica	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	28.4
Suriname	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	13.2
Trinidad and Tobago	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	n.d.	46.2
LATIN AMERICA	**2.1**	**1.8**	**8.9**	**-12.6**	**5.4**	**8.2**	**2.8**	**16.2**
LATIN AMERICA AND THE CARIBBEAN	**1.8**	**1.8**	**9.0**	**-12.0**	**5.4**	**8.4**	**2.9**	**16.4**

Source: IDB Integration and Trade Sector, estimations based on official sources, except Venezuela, which is based on estimates using data from OPEC and the IMF.
Notes: The table does not include the growth rates or absolute changes for nonselected destinations. As a result, the sum of the absolute changes for the selected destinations does not match the total. Data for Costa Rica, the Dominican Republic, El Salvador, Guatemala, and Nicaragua includes exports under special trade regimes (STRs). For individual Central American countries, the subregional growth rates are for Mesoamerica; but Mexico is excluded from the aggregate for Central America, thus the subregional total only represents trade within Central America. See the Methodological Note for additional information on the procedures, time periods, and data sources used in the estimates. The abbreviation "n.d." indicates that no data was available. The arrows show the change in trend in comparison with the previous year.

FIGURE 6 • CONTRIBUTION OF THE MAIN TRADING PARTNERS TO THE TOTAL VARIATION IN THE VALUE OF LATIN AMERICAN GOODS EXPORTS
(Year-on-year growth rate and percentage points, Q1 2023)



Source: IDB Integration and Trade Sector, estimates based on official sources.
Note: The figure does not include the Caribbean countries, as the relevant data was not available.

Conclusion

Against the backdrop of a marked slowdown in global trade and the world economy, goods exports from Latin America and the Caribbean grew by 2.9% year-on-year in the first quarter of 2023 after expanding by 16.4% in 2022. The region's exports performed better than the global average: by February, world trade had already entered a contractionary phase.

South America was the subregion in Latin America and the Caribbean that was most affected by the deterioration of the global context. Commodity prices drove exports throughout 2022 but entered a downward phase halfway through the year. Likewise, trade volumes contracted compared to the first quarter of 2022, albeit with some exceptions. The relative stagnation in the value of exports resulted from increases in external sales to the United States and China, which were offset by sharp declines in shipments to the rest of Asia and the rest of the world.

In Mexico, the slowdown only became evident at the end of 2022 but continued into the first quarter of 2023. All the same, the country's export performance was one of the best in LAC and, furthermore, it was explained mainly by an increase in volumes. The driving force for export growth was demand from the United States, particularly in the automotive and electrical machinery sectors.

The value of flows originating in Central America continued to grow in the first few months of 2023, albeit at a comparatively lower rate than the 2022 average. The United States and Asia (excluding China) accounted for most of this expansion.

Looking ahead, the balance of risks for Latin American exports is moderately tilted to the downside as a result of the likely evolution of their main determinants in the coming quarters.

In real terms, the outlook is mainly contingent on the impact of monetary policies in advanced economies. Although global inflation has eased somewhat, it remains at a historical high in most countries, suggesting that restrictive measures are likely to continue and that risks to the real economy and the financial sector will persist. In this context, a further downturn in global growth, particularly in the United States, which is currently the main driver of the region's exports, would impact LAC severely.

China's growth path is also critical, as this is a key expansion factor for South American trade. The economic impact of the phasing out of the zero-Covid policy contributed to the slight upturn in demand in the early months of the year. However, the effects of this opening up soon began to wane, prompting uncertainty around the impact on real demand and the effect this may have on the prices of several commodities for which China is the main source of global demand.

At the sector level, LAC's economies face different supply-side risks. In the case of Mexico, if bottlenecks in global value chains (particularly the availability of microchips) were gradually addressed, it would bring to an end the extraordinary boost to the country's exports that has come from meeting the pent-up demand accumulated during the pandemic. In contrast, an increase in offshoring to make the most of the country's proximity to the US market would help shore up external shipments. Meanwhile, agricultural export flows in several South American economies are expected to be impacted by severe droughts and possibly also by excessive rainfall due to the El Niño phenomenon.

In nominal terms, commodity prices are expected to trend downward, albeit for a short time.

In the second quarter of 2023, year-on-year growth rates are expected to turn negative due to a base effect caused by comparison with the same period in 2022, when the consequences of Russia's invasion of Ukraine were fully felt. However, the dynamics in the following quarters will mainly reflect the evolution of market-specific supply and demand factors, and prices are expected to stabilize.

The oil market appears to be largely balanced. Rather than suppressing Russian exports, the effects of restrictions are limited to the diversion of the country's trade flows. No additional OPEC+ cuts are expected, and analysts are forecasting that prices will mostly remain stable, trending downward in the event of lower global growth. The outlook is relatively similar for metals markets, which are highly sensitive to Chinese demand. Agricultural markets are more uncertain: similar forecasts of weak demand are balanced by supply-side risks due to climate factors or geopolitical events.

In sum, by early 2023, the post-Covid expansionary phase in the trade cycle had run its course. LAC exports have moved into a slowdown that is set to continue into the next quarter before stabilizing in the second half of the year. The short-term economic indicators point to a pattern of fragility that owes to the downward trend in commodity prices, a slowdown in growth in China, the risks associated with restrictive monetary policies, and the consequences of the ongoing war in Ukraine. The balance of risks appears to be moderately weighted to the downside. The leading indicator for the region's exports does not point to a change in the trend toward an acceleration of growth in the coming months.

Counteracting the downtrend through reforms and investments that seek to boost competitiveness in foreign markets will be key to shoring up the region's economic recovery. Likewise, given that protectionism is on the rise at the global level, the region's countries need to come together to advocate for the opening up of international markets. At a time when LAC's domestic markets remain extremely weak, driving growth through international trade will be essential to overcoming the series of crises that have hit the global economy in recent years.

Annex: Export Performance by Country

This annex analyzes the growth in export values for each country in Latin America and the Caribbean for which data is available (Table 1) and assesses how trading partners contributed to this performance (Figure 6), describing the main determinants in each sector.

South America

After falling by 5.9% in 2022, exports from **Paraguay** increased by 23.4% year-on-year in the first quarter of 2023. The result owes to a significant increase in volumes shipped (28.5%) as the country recovered from the drought it experienced in 2022. Export prices contracted slightly, partially offsetting this expansion. In terms of destination markets, shipments to the rest of South America accounted for most of the increase, although a large proportion of the soybeans the country exports to its regional partners are then re-exported to the rest of the world.

Along with Paraguay's, **Chile'**s exports were the only other ones whose performance improved in the first quarter of 2023 compared to the average for 2022 (10.7% year-on-year and 4.0%, respectively). The main driving factor was prices, although quantities shipped are also estimated to have risen slightly (0.2%). This positive performance was due to increased shipments to major destination markets, most notably China and the United States, which was partially compensated by a drop in shipments to Asia (excl. China), especially Japan, Singapore, and Vietnam, and the rest of the world (South Africa, Switzerland, and the United Kingdom). Half of the increase was explained by exports of lithium, followed by chemical products, copper concentrates, and the fruit sector.

After growing by 19.0% in 2022, exports from **Brazil** expanded by 4.8% year-on-year in the first quarter of 2023. There were increases in shipments to all major destinations except Asia (excl. China). This momentum came mainly via quantities (4.2%), while export prices stagnated somewhat. Corn exports accounted for almost two-thirds of the total growth, followed by poultry meat, sugar, soybean derivatives, wood pulp, and petroleum oils.

Exports from **Uruguay** contracted by 3.5% year-on-year in the first quarter of 2023 after growing by an average 17.2% in 2022. The drop in volumes (–8.8%) was partially offset by rising prices. Although exports to all major destinations increased, there was a sharp contraction in shipments to China, particularly beef, which accounted for almost the entire decrease.

Exports from **Colombia** fell by an estimated 4.7% year-on-year in the first quarter of 2023, after growing by 38.3% in 2022. This outcome reflected the decrease in quantities shipped (–2.2%) at a time when export prices remained relatively stagnant. There was a sharp increase in shipments to the European Union and, to a lesser extent, the United States. However, the drop in exports to the rest of LAC, Asia (including a significant contribution from India), and the rest of the world (particularly Canada and

Turkey) meant that total exports decreased. Oil was the main factor behind this contraction, which was offset somewhat by increased exports of products such as bituminous coal, gold, and diesel.

After experiencing relative stagnation throughout 2022 (0.8%), **Peru**'s exports fell by 4.8% year-on-year in the first quarter of 2023, in a context of plummeting volumes (–11.5%). The contraction of exports to Asian partners—such as the Republic of Korea, India, and Japan—and to the rest of the world—especially the United Kingdom and Switzerland—offset increases to the United States and, to a lesser extent, all other relevant destinations. The products that contributed most to this drop were natural gas and gold.

After growing by 24.3% in 2022, **Ecuador**'s exports are estimated to have contracted by 7.7% year-on-year in the first quarter of 2023. Shipments to all its main destinations except China and the European Union decreased. Reduced shipments to the rest of the region accounted for most of the contraction, owing to the drop in exports to Panama.[10] The product that contributed most to the drop was crude oil, but there were increases for some significant agricultural products in the Ecuadorian export basket, such as bananas and shrimp.

Exports from **Argentina** fell by 17.9% year-on-year in the first quarter of 2023, after growing by an average 13.5% in 2022. Export prices had explained much of the growth recorded in 2022 but have since stagnated, while volumes shipped contracted significantly in response to one of the worst droughts in recent decades. The downturn was largely explained by lower shipments to Asia (excl. China)—especially Vietnam, India, and Indonesia—and the rest of the world, notably several countries in Africa and the Middle East. Shipments to the European Union, the United States, and China also contracted. The increase in exports to other countries in the region, such as Brazil, Colombia, and Peru, only offset a small part of the drop to the remaining countries. Wheat and soybeans were the products that contributed most to the total contraction in exports.

Venezuela's exports are estimated to have fallen by 20.2% year-on-year in the first quarter of 2023 after expanding by 65.9% on average in 2022. This performance was primarily explained by oil exports, due to both the drop in prices and the slump in volumes. Although shipments to the United States and the European Union increased, the overall decline was determined by falling exports to LAC and the rest of the world, particularly Turkey.

In **Bolivia**, exports fell by 23.5% year-on-year in the first quarter of 2023, reversing the 23.8% expansion seen in 2022. This contraction is almost entirely explained by the reduction in quantities exported. Exports decreased to all major destinations except China. Half of the drop was explained by lower intraregional sales. Asia (excl. China) also made a significant negative contribution, especially India. The decline in the country's exports included nearly all its major export commodities, including soybeans, tin, natural gas, and gold.

Mesoamerica

Exports from **Mexico** grew 6.8% year-on-year in the first quarter of 2023, below the average growth rate for 2022 (16.9%). Although sales to all the country's major destination markets dropped, this was counteracted by increased sales to the United States and, to a lesser extent, the European Union. The products that contributed most to the increase in exports were land vehicles and their parts and electrical machinery.

[10] Most of the exports that are registered as destined to Panama are ultimately re-exported to extraregional destination markets.

After growing by an average 8.9% in 2022, exports from **Costa Rica** increased by 14.1% year-on-year in the first quarter of 2023. Exports during this period were mainly driven by the United States, although there were increases in sales to all major destination markets except China. Exports from special trade regimes (STRs) rose by 26.7%, driven by medical and dental instruments and equipment, while sales from the national customs territory (NCT) fell by 3.4% due to lower exports of rubber products, bananas, and sugar.

Exports from **Nicaragua** grew by 5.8% year-on-year in the first quarter of 2023 after having increased by 10.8% on average in 2022. The United States accounted for most of this increase. Exports from STRs grew at a lower rate than those from the NCT—1.6% and 9.2%, respectively. Sugar, automotive harnesses, and gold accounted for most of the growth.

Exports from **Honduras**[11] grew by 17.3% in 2022 but declined by 3.7% in the first quarter of 2023. The drop in exports to the European Union and the rest of LAC was partially offset by increases to the United States. Banana exports rose significantly, driven mainly by price improvements, although quantities also increased. However, coffee exports fell sharply due to lower prices.

After expanding by an average of 6.4% in 2022, exports from the **Dominican Republic** contracted by 1.5% year-on-year in the first quarter of 2023. The decrease in shipments to the United States, the European Union, and China was compensated for by increased sales to Asia (excl. China). The overall drop was mainly explained by the contraction in sales from the NCT (–7.8%), while STR exports grew by just 2.2%. Although shipments of precious metals and cast iron and steel products increased, there was a fall in sales of pharmaceuticals, electrical equipment, and clothing and accessories.

Exports from **El Salvador** fell by 4.6% year-on-year in the first quarter of 2023 after having increased by 11.3% in 2022. The fall in shipments to the rest of Central America and the United States accounted for almost all of this decrease. Sales from the NCT fell by 3.3%, while STR exports dropped by 10.1%. Shipments of plastics, apparel, electrical material, and pharmaceuticals fell significantly.

In the first quarter of 2023, **Guatemala** experienced a 4.8% contraction in its exports, a reversal of its average performance in 2022 (14.9%). Export prices increased slightly, so the overall outcome owes mainly to lower volumes shipped. This performance was driven by the drop in shipments to the United States and China, which was partially offset by increases to LAC and the rest of Asia. Exports from the NCT contracted by 0.8%, while STR exports fell at a higher rate (–13.9%). The products that were hit hardest were iron and steel, apparel, and coffee.

[11] STR exports are not included as up-to-date official data was unavailable.

Methodological Note

The estimates of exports from Latin America and the Caribbean for 2022 were calculated using data available through May 15, 2023.

The data used was for the following periods: January–March for Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Honduras, Mexico, Nicaragua, Paraguay, Peru, and Uruguay. The figures for Costa Rica, the Dominican Republic, El Salvador, Guatemala, and Nicaragua include STR exports. Venezuela's exports were estimated by combining price data from the Merey-type oil price series and import data from the country's main trading partners.

The aggregate volume index for Latin America comprises ten countries: Argentina, Brazil, Chile, Colombia, El Salvador, Mexico, Paraguay, Peru, Uruguay, and Venezuela. The export volume indices were calculated using data from official sources for Argentina (National Institute of Statistics and Censuses), Brazil (Ministry of the Economy), Chile (Central Bank of Chile), Colombia (Bank of the Republic), Peru (Central Reserve Bank), and Uruguay (Central Bank). The series for Paraguay was calculated using data on export volumes for the country's main export products as reported by the Central Bank and aggregated according to the export structure in 2015. For Mexico and El Salvador, the series of exports in US dollars were deflated using the import price index published by the US Bureau of Labor Statistics (BLS). Venezuela's export volumes were calculated using OPEC information on Merey-type oil prices and production. The national series were aggregated based on countries' shares in total exports in 2015, valued in US dollars.

The following official data sources were used. Argentina: National Institute of Statistics and Censuses; Bolivia: National Institute of Statistics; Brazil: Ministry of Industry, Foreign Trade and Services; Chile: Central Bank of Chile; China: China Customs Statistics; Colombia: National Administrative Department of Statistics; Costa Rica: Central Bank of Costa Rica; Dominican Republic: Customs Authority; Ecuador: Central Bank of Ecuador; El Salvador: Central Reserve Bank of El Salvador; European Union (27 countries, excl. United Kingdom): Eurostat; Guatemala: Bank of Guatemala; Honduras: Central Bank of Honduras; Mexico: Bank of Mexico; Nicaragua: Central Bank of Nicaragua; Panama: National Institute of Statistics and Censuses; Paraguay: Central Bank of Paraguay; Peru: Ministry of Foreign Trade and Tourism; United States: US Census Bureau; Uruguay: Central Bank of Uruguay; Venezuela: OPEC and IMF.

The following abbreviations are used in this document: BLS—US Bureau of Labor Statistics; CPB—Netherlands Bureau for Economic Policy Analysis; IMF—International Monetary Fund; LA—Latin America; LAC—Latin America and the Caribbean; NCT—national customs territory; OPEC—Organization of the Petroleum Exporting Countries; STRs—special trade regimes; USITC—US International Trade Commission.

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