

Monthly economic review of emerging market economies: May 2009 update

Euromonitor International

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Although emerging market economies (EMEs) are not completely 'decoupled' from advanced economies, some of these countries are showing signs of a potential bottoming-out from the world's greatest recession. With commodity prices rising again, investors have shown renewed interest in these economies. This combined with the various fiscal stimulus measures announced by governments can support stronger growth ahead. Nevertheless, capital flows to EMEs are likely to suffer in 2009 compared to the previous year and real GDP growth is forecast to slow to 1.6% in 2009, from 6.1% in 2008, as a result of collapsed demand in the advanced world, before rising to 4.0% in 2010. Much of the outlook will depend on a combined effect of fiscal and monetary policy measures implemented by governments.

CONSUMER CONFIDENCE

In April 2009, consumer confidence witnessed a modest rise amongst many EMEs. This could be a result of the various fiscal stimulus packages announced by governments, which are directly impacting spending. Although consumer morale increased during the month, it remains below optimistic levels with the exception of Indonesia, where the index surpassed optimistic levels for the first time since December 2007.

Table 1 Consumer confidence index: May 2008 – April 2009

Point increase over previous period	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Advanced Emerging						
Brazil	-1.1	-3.2	-2.4	1.2	-0.3	-6.3
Mexico	-3.6	-3.5	-2.3	1.2	-1.0	-6.6
Poland	-0.7	-5.2	-1.2	3.3	-1.6	-3.2
South Africa (2)	na	-20.0	na	na	5.0	na
Secondary Emerging						
Argentina	-5.3	-0.7	0.9	0.9	3.0	-4.3
China	0.3	-0.2	0.4	-0.8	-0.3	-1.0
India	-0.8	2.7	-3.7	-3.3	-5.9	0.0
Indonesia	-4.4	-3.3	3.0	7.2	4.2	1.3
Russia(2)	na	-1.6	na	na	3.0	na
Turkey	-0.8	-0.4	2.0	2.8	0.9	-6.5
	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Advanced Emerging						
Brazil	-4.4	-2.5	0.1	-1.2	-0.7	2.4
Mexico	1.9	0.2	-2.2	-3.0	0.5	2.7
Poland	-7.2	-1.6	-3.3	-13.2	-0.1	4.3
South Africa (2)	na	-3.0	na	na	5.0	na
Secondary Emerging						
Argentina	-1.0	-2.1	4.1	-1.8	-2.0	0.1
China	-2.2	-2.2	-1.2	-0.3	-0.5	na
India	-2.2	-2.6	0.8	-2.4	-4.1	0.6
Indonesia	1.5	-5.7	2.2	3.6	2.2	3.9
Russia(2)	na	-21.0	na	na	-15.0	na
Turkey	-5.3	1.0	1.7	2.4	0.8	6.0

Source: Euromonitor International from national statistics/Eurostat

Note: (1) Consumer confidence data are not strictly cross-country comparable due to methodological differences between countries. (2) Data for South Africa and Russia are only available quarterly. (3) Table contains data released up to 19 May, 2009.

Brazil

In April, consumer confidence rose to its highest level since October 2008, increasing by 2.4 points. This was a direct result of the fiscal stimulus package announced by the government in early April.

Mexico

Mexico's consumer confidence index saw a modest rise of 2.7 points in April. Although the index still remains below levels sustained last year, consumers expect their personal economic situation to improve within the next 12 months.

Poland

After seven consecutive months of decline, consumer confidence in Poland bounced back in April rising by 4.3 points. The Polish economy has suffered less than most economies in the world partly due to less exposure to the external environment in terms of a relatively smaller dependence on trade, which might have contributed towards the boost in confidence.

South Africa

Consumer confidence rose by 5.0 points in the quarter ending March 2009 despite the deterioration in the global economy. Lower interest rates, the decline in inflation levels and the drop in petrol prices between November 2008 and February 2009 contributed towards this mild boost in consumer confidence in Q1 2009.

Argentina

In May 2009, consumer confidence recovered slightly increasing by 1.6 points over the previous month. This was primarily because of the 14.1% rise in consumers' willingness to purchase durable goods and real estate.

China

The consumer confidence index continued to fall in March 2009, dropping by 0.5 points. Growing uncertainties about the economic outlook and lack of job securities are causing mounting pressures on the Chinese consumer. Nevertheless, the consumer expectations index showed marginal improvement during the month.

India

In April 2009, consumer confidence increased slightly by 0.6 points after two consecutive months of decline. However, consumer spending sentiment remains pessimistic and hence this rise should not be considered a change in trend.

Indonesia

In April 2009, consumer confidence index surpassed its optimistic level for the first time since December 2007. The index rose for the fourth consecutive month, increasing by 3.9 points during the month on account of significant improvements in both current economic conditions and consumer expectations for their incomes and job availability.

Russia

Russia's consumer confidence dropped to a 10-year low in Q1 2009. The index fell by 15 points from the previous quarter driven by weak sentiment concerning the short-term economic situation. Over 42% of respondents expect their financial positions to get worse.

Turkey

Consumer confidence rose to its highest level since September 2008 despite the weakening economy. The index increased by 6.0 points during the month on account of improvements in consumer assessments concerning purchasing power in the present and next 6 months, general economic situation as well as job opportunities in the next 6 months. The index, however, remains below optimistic levels.

INFLATION

With the exception of China, which faces deflationary pressures, inflation moderated in most EMEs mainly due to rising exchange rates in April 2009. Nevertheless, inflation is a persistent concern among most of these economies as it remains well above inflation targets set by respective central banks.

Table 2 **Inflation: May 2008 – April 2009**

% growth over same period of previous year						
	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Advanced Emerging						
Brazil	5.58	6.06	6.37	6.17	6.25	6.42
Mexico	4.95	5.26	5.39	5.57	5.47	5.78
Poland	4.29	4.48	4.79	4.81	4.28	4.07
South Africa	11.71	12.17	13.43	13.71	13.14	12.14
Secondary Emerging						
Argentina	9.06	9.27	9.13	9.01	8.69	8.38
China	7.70	7.10	6.30	4.90	4.60	4.00
India	7.75	7.69	8.33	9.02	9.77	10.45
Indonesia	10.38	11.03	11.90	11.85	12.14	11.77
Russia	15.13	15.16	14.73	15.01	15.06	14.20
Turkey	10.74	10.61	12.06	11.77	11.13	11.99
	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Advanced Emerging						
Brazil	6.39	5.90	5.84	5.90	5.61	5.69
Mexico	6.23	6.53	6.28	6.20	6.04	6.18
Poland	3.56	3.16	3.10	3.30	3.60	4.24
South Africa	11.76	9.51	8.10	8.60	8.50	na
Secondary Emerging						
Argentina	7.83	7.20	6.78	6.74	6.22	5.7
China	2.40	1.20	1.00	-1.60	-1.2	-1.5
India	10.45	9.70	10.45	9.63	na	na
Indonesia	11.68	11.06	9.17	8.60	7.92	7.31
Russia	13.75	13.28	13.37	13.87	13.99	13.16
Turkey	10.76	10.06	9.50	7.73	7.89	6.13

Source: Euromonitor International from national sources/OECD

Note: (1) Data is not seasonally adjusted. (2) Table contains data released up to 19 May, 2009.

Brazil

The consumer price index rose by 5.7% in April 2009 driven by higher prices of tobacco (14.7%) and vegetables (4.8%). The annual level of inflation is still above the government's inflation target of 4.7%.

Mexico

Consumer prices rose by a slightly higher rate of 6.2% in April. Policy-makers are grappling with underlying inflation that has maintained a rising trend associated with production costs. As a result, the central bank cut its target interest rate by 0.75 basis points to 6.0% and revised inflation forecasts for Q2 2009 to 5.5-6.0%.

Poland

Despite the slowdown in the economy, consumer prices increased at a higher rate of 4.2% in April. Inflation still remains above the central bank's target of 2.5%.

South Africa

Inflation rose at a marginally lower rate of 8.5% in March 2009. During the month, food and non-alcoholic beverages contributed towards this rise increasing by 14.7% compared to the same month in 2008.

Argentina

Growth in consumer prices slowed to 5.7% in April 2009, the lowest level in over four years. Although the central bank expects a 7.0% rise in consumer prices in 2009, analysts feel that the inflation rate has been underreported to reduce interest payments on inflation linked bonds.

China

In April 2009, the consumer price index declined for the third consecutive month falling by a higher rate of 1.5%. Inflationary pressures are likely to assume towards the end of 2009 as a result of accommodative monetary policy and fiscal stimulus measures announced by the government.

India

India's consumer price index eased slightly in February, increasing by 9.6% compared to the 10.5% rise in the previous month. The government expects growth in consumer prices to decelerate in the coming months as wholesale prices have shown a marked deceleration.

Indonesia

Consumer prices continue to moderate in Indonesia but still remain well above the central bank's inflation target of 4.5% for 2009. In April, inflation increased by a lower rate of 7.3% from a high of 12.1% recorded in September 2008 owing to lower fuel and commodity prices.

Russia

Russia's inflation eased marginally to 13.2% in April 2009. With inflation expectations moderating, the central bank cut interest rates by 50 basis points to 12.0% in May 2009. The government expects to contain inflation below 13.0% in 2009.

Turkey

Inflation rose by 6.1% in April, the lowest annual rise in more than 10 years. This is also below the central bank's target of 7.5% in 2009. These low levels in consumer prices are a direct result of interest rate cuts implemented by the central bank throughout 2008.

EXCHANGE RATES

Demand for emerging market currencies saw an upsurge in April 2009. As a result, exchange rates across most of these economies appreciated during the month. Most central banks are either cutting interest rates or intervening in foreign exchange markets to prevent their currencies from depreciating further since many of these currencies are still undervalued.

Table 3 Exchange rates: May 2008 – April 2009

National currency against US\$	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Advanced Emerging						
Brazil	1.66	1.62	1.59	1.61	1.80	2.17
Mexico	10.45	10.33	10.24	10.09	10.57	12.47
Poland	2.19	2.17	2.07	2.19	2.35	2.69
South Africa	7.62	7.92	7.63	7.66	8.06	9.74
Secondary Emerging						
Argentina	3.13	3.02	3.00	3.01	3.08	3.22
China	6.97	6.90	6.84	6.85	6.83	6.83
India	42.13	42.82	42.84	42.94	45.56	48.66
Indonesia	9,290.80	9,299.85	9,163.45	9,090.40	9,340.65	10,048.35
Russia	23.73	23.64	23.35	24.13	25.28	26.35
Turkey	1.25	1.23	1.21	1.18	1.24	1.48
	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
Advanced Emerging						
Brazil	2.27	2.39	2.31	2.31	2.33	2.20
Mexico	13.06	13.42	13.91	14.61	14.70	13.44
Poland	2.93	2.97	3.22	3.63	3.55	3.36
South Africa	10.10	9.97	9.93	9.98	9.99	9.00
Secondary Emerging						
Argentina	3.31	3.42	3.46	3.51	3.65	3.69
China	6.83	6.84	6.84	6.84	6.83	6.83
India	49.00	48.63	48.72	49.24	51.27	50.07
Indonesia	11,711.15	11,324.84	11,167.21	11,852.75	11,849.55	11,025.10
Russia	27.31	28.13	31.88	35.81	34.59	33.55
Turkey	1.59	1.54	1.59	1.66	1.71	1.61

Source: Euromonitor International from national sources/IMF

Note: (1) Data refer to monthly averages of daily spot rates. (2) Table contains data released up to 19 May, 2009.

Brazil

The Brazilian real bounced back in April appreciating to R\$2.20 per US\$. Increased appetite for emerging market assets increased investment inflows into Brazil strengthening the real during the month.

Mexico

Although the Mexican peso appreciated to Mx\$13.44 per US\$ in April 2009, it still remains weak compared to April 2008 levels of Mx\$10.53 per US\$. Both manufacturers and exporters are paying higher prices for imports which are having an adverse impact on inflation.

Poland

The Polish zloty appreciated further to PLN3.36 per US\$ in April and regained some of its lost value in H2 2008. The zloty might strengthen further in the coming months with the IMF approving a US\$20.58 billion flexible credit line in May 2009. Nevertheless, the Polish government may postpone its plans to adopt the euro in 2012 amidst the current crisis.

South Africa

The rand rose to R9.00 per US\$ in April from R9.99 per US\$ in the previous month. A decreasing trade deficit in recent months might have led to the strengthening of the rand.

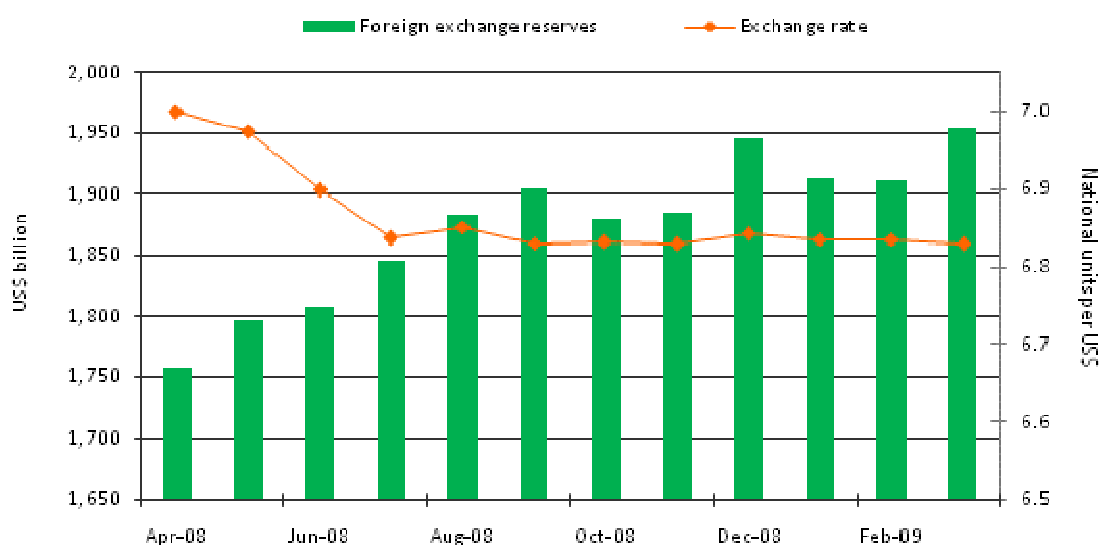
Argentina

Unlike other emerging market currencies that recovered in April 2009, the Argentine peso depreciated for the ninth consecutive month to ARS3.69 per US\$. The peso weakened amid speculation that the central bank might allow its currency to weaken as it intends to bolster tax revenues from commodity exports. Analysts expect the peso to weaken further in the medium term.

China

The Chinese renminbi appreciated gradually through 2008 but has remained between RMB6.83-6.84 per US\$ since September 2008. Higher levels of reserves helped cushion the banking sector from shocks, and have prevented the renminbi from appreciating to higher levels.

Chart 1 China's foreign exchange reserves and exchange rate: April 2008 – March 2009



Source: Euromonitor International from national statistics and The People's Bank of China

Note: Data for exchange rates refer to monthly average spot rates.

India

After reaching an all-time low in March 2009, the Indian rupee stabilised at Rs50.07 per US\$ in April. The global economic slowdown combined with the uncertainty that prevailed over the political situation amid India's elections weighed on the rupee as exports and foreign capital inflows slowed. However, with a stable government in power, the rupee is expected to strengthen in the coming months.

Indonesia

The Indonesian rupiah appreciated to Rp11,025.10 per US\$ in April 2009 backed by some improvements in economic fundamentals and lower risks poised on the political front.

Russia

The rouble strengthened for the second consecutive month appreciating to RUB33.55 per US\$ in April 2009 on account of sustained increases in domestic tax payments as well as rising oil prices.

Turkey

The Turkish lira strengthened to YTL1.61 per US\$ in April 2009 after hitting a record low in the previous month. The currency is expected to strengthen further in the coming months as the central bank cut its key interest rates by 50 basis points in May 2009.

UNEMPLOYMENT RATE

Emerging markets have not escaped the adverse effects of the global economic slowdown. Tighter credit conditions across the globe are impacting businesses and manufacturing leading to large scale job losses within these countries. The informal sector is a persistent feature in many developing economies contributing significantly towards annual output each year. Due to its high share, changes in unemployment are not as visible as they would be in advanced economies.

Table 4 Unemployment rate: April 2008 – March 2009

%	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08
Advanced Emerging						
Brazil	8.5	7.9	7.8	8.1	7.6	7.6
Mexico	3.6	3.2	3.6	4.2	4.2	4.3
Poland	7.3	7.1	6.9	6.7	6.6	6.6
South Africa (2)	na	na	23.1	na	na	23.2
Secondary Emerging						
Argentina (2)	na	na	8.0	na	na	7.8
Russia	6.0	5.4	5.6	5.7	5.8	6.2
Turkey	9.6	8.9	9.0	9.4	9.8	10.3
	Oct-08	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09
Advanced Emerging						
Brazil	7.5	7.6	6.8	8.2	8.5	9.0
Mexico	4.1	4.5	4.3	5.0	5.3	4.8
Poland	6.5	6.7	6.7	7.6	8.0	8.2
South Africa (2)	na	na	21.9	na	na	23.5
Secondary Emerging						
Argentina (2)	na	na	7.3	na	na	na
Russia	6.6	7.0	7.8	8.7	9.5	10.0
Turkey	10.9	12.3	13.6	15.5	16.1	na

Source: Euromonitor International from national sources/Eurostat

Note: (1) Data is not seasonally adjusted. (2) Data for South Africa and Argentina are only available quarterly. (3) Data are not available for Indonesia, China and India. (4) Table contains data released up to 19 May, 2009.

Brazil

Brazil's unemployment rate reached 9.0% in March 2009, its highest level since September 2007. During the month, 141,000 people were made redundant and the total unemployed population reached 2.1 million.

Mexico

The unemployment rate in Mexico fell to 4.8% in March 2009, after reaching a high of 5.3% in the previous month. However, this rate masks high levels of under-employment and part-time employment caused by lower economic activity.

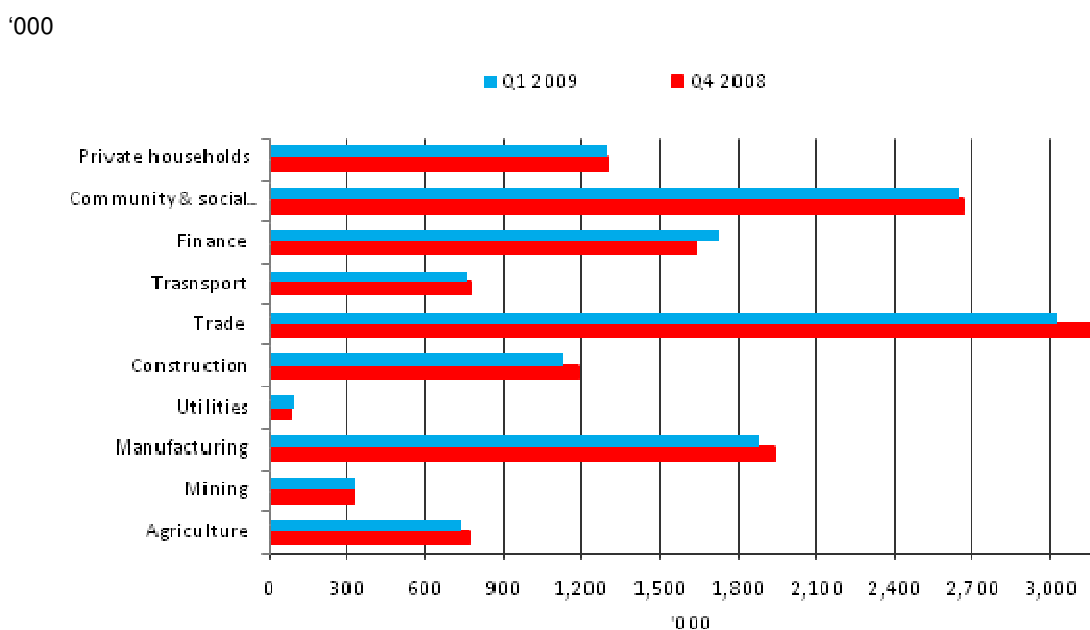
Poland

Amidst the weakening Polish economy, the unemployment rate increased to 8.2% in March 2009, the highest level in over a year.

South Africa

The unemployment rate reached 23.5% in the first quarter of 2009. Though high, it remains at year-ago levels. A total of 208,000 people lost their jobs from the previous quarter; many of these losses coming from the manufacturing, construction and trade sectors.

Chart 2 South Africa's employment by industry: Q4 2008 – Q1 2009



Source: Statistics South Africa
 Note: Data is not seasonally adjusted.

Argentina

In the final quarter of 2008, unemployment dropped to 7.3% from a recent high of 8.4% in March 2008 and from over 20% in 2003. Skills shortages have emerged for professional jobs but the unskilled struggle to find work.

Russia

Russia's unemployment rate soared to 10.0% in March 2009 with a total of 7.5 million people unemployed. Businesses are severely affected by the ongoing crisis and have been laying off employees.

Turkey

The unemployment rate rose sharply to 16.1% in February 2009. As a result, the number of unemployed people has reached 3.8 million. While the unemployment rate increased to 18.1% in urban areas, it rose to 11.9% in rural areas during the month.

REAL GDP GROWTH

The crisis, which spread from the USA to the rest of the world in 2008, not only affected advanced economies but also emerging economies, which are expected to grow below potential. These economies vary considerably, with differences in terms of commodity exports, the size of the domestic consumption base, and dependence on foreign direct investment inflows, and this will determine their ability to withstand the crisis.

Table 5 Real GDP growth: Q1 2007 – Q1 2009

Growth over previous quarter	2007 Q1	2007 Q2	2007 Q3	2007 Q4	2008 Q1	2008 Q2
Advanced Emerging						
Brazil	-3.81	2.36	0.26	4.64	1.62	1.59
Mexico	0.72	1.27	1.03	0.63	0.30	0.32
Poland	1.73	1.60	1.40	2.07	0.92	0.99
South Africa	1.35	0.98	1.13	1.25	0.52	1.24
Secondary Emerging						
Argentina	1.64	2.36	3.09	1.79	0.80	2.27
China (2)	11.10	11.90	11.50	11.20	10.60	10.10
India	2.71	1.01	3.11	2.04	2.57	0.36
Indonesia	1.26	1.87	1.67	0.90	1.69	2.06
Russia	1.21	2.42	1.82	3.16	1.13	1.17
Turkey	0.14	1.12	0.17	3.15	1.94	-2.46
	2008 Q3	2008 Q4	2009 Q1			
Advanced Emerging						
Brazil	1.70	-3.55	na			
Mexico	0.41	-2.69	na			
Poland	0.83	0.34	na			
South Africa	0.05	-0.46	na			
Secondary Emerging						
Argentina	1.54	-0.30	na			
China (2)	9.00	6.80	6.10			
India	2.42	-0.90	na			
Indonesia	1.56	-0.20	na			
Russia	0.42	-1.49	na			
Turkey	-1.51	-3.77	na			

Source: Euromonitor International from national sources/OECD

Note: (1) Data is seasonally adjusted. (2) Data for China are 'Growth over previous year' and refer to the production approach. (3) Table contains data released up to 19 May, 2009.

Brazil

Real GDP contracted by a hefty 3.6% in Q4 2008, owing mainly to a decline in industry and investment. Brazil did not escape the contagion of the global financial crisis and the deterioration is expected to continue in the first half of 2009.

Mexico

Mexico's economy is slowing faster than expected and contracted by 2.7% in Q4 2008. The economy is expected to shrink further in 2009 with the slowdown in the USA which is Mexico's largest trading partner.

Poland

In Q4 2008, the economy grew marginally by 0.3%. The Polish economy is expected to suffer less from the global financial crisis compared to other European states as its dependence on exports and FDI is comparatively lower.

South Africa

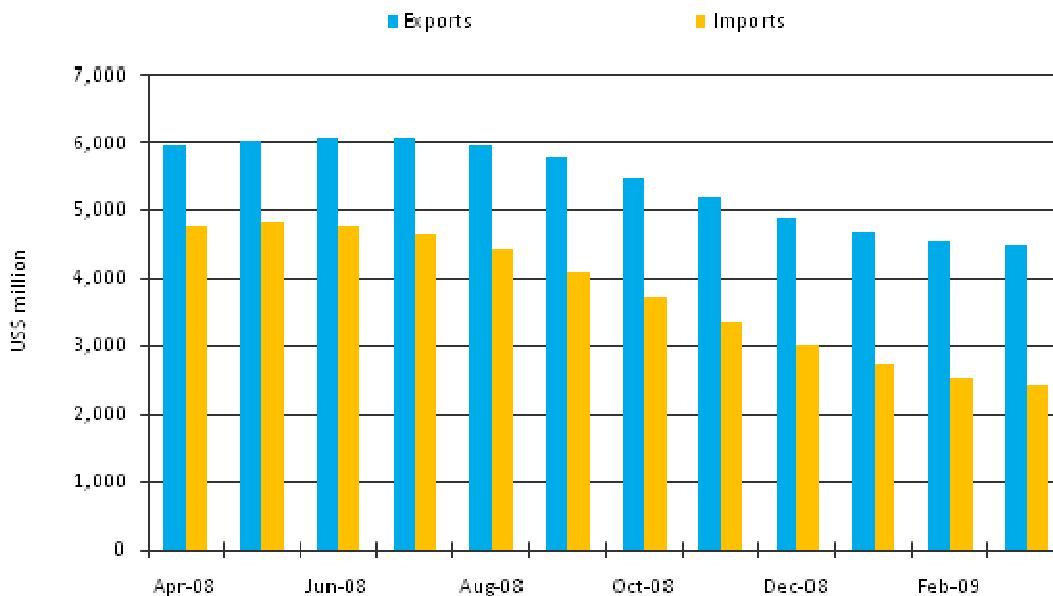
South Africa's economy shrunk by 0.5% in Q4 2008, the first decline in several years. This stems from reduced demand for the country's commodity exports that have been negatively impacted by the global economic downturn.

Argentina

Real GDP contracted by 0.3% in the last quarter of 2008. Argentina suffers from lower demand for exports and lower export prices as a result of the global economic crisis as well as poor economic management and weak macroeconomic fundamentals. As a result, growth in 2009 is expected to shrink.

Chart 3 Argentina's foreign trade: April 2008 – March 2009

US\$ million



Source: Euromonitor International from national statistics

Note: Data are seasonally adjusted.

China

China's real GDP decelerated for the seventh consecutive month, growing by a lower rate of 6.1% in Q1 2009 on a year-on-year basis. The export-driven economy suffers heavily due to lower demand from the USA, Europe and Japan and is expected to slow to 6.5% annually in 2009.

India

Real GDP unexpectedly shrank by 0.9% in the last quarter of 2008, showing signs of weakening. Interest rate cuts and increased government spending are expected to stimulate the slowing economy.

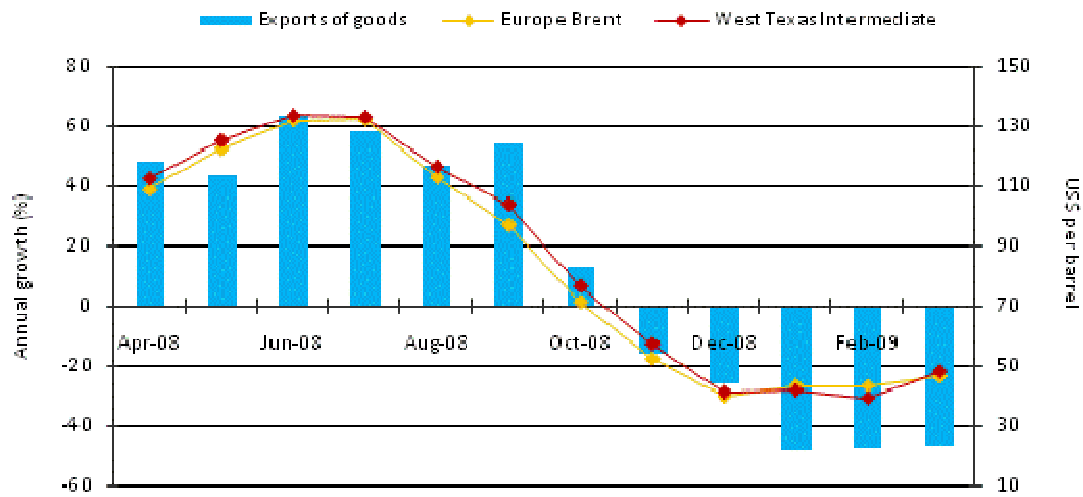
Indonesia

Indonesia's real GDP contracted by 0.2% in Q4 2008 compared to the previous quarter. In an attempt to ward-off a further contraction in real economic activity, the government increased spending in the first quarter of 2009.

Russia

Real GDP in Russia shrank by 1.5% in Q4 2008 owing to the large drop in crude oil prices, the country's main export commodity. The global financial crisis is taking a toll on Russia's economy and it is expected to contract by 6.0% in 2009.

Chart 4 Russia's export growth and crude oil prices: April 2008 – March 2009



Source: *Euromonitor international from national sources.*
 Note: (1) Data is not seasonally adjusted. (2) Data for crude oil prices refer to monthly average prices.

Turkey

Real GDP contracted by 3.8% in Q4 2008. The Turkish economy was believed to be in a position to escape the recession; however, it slipped into a technical recession in the third quarter of 2008. With industrial production dropping on a monthly basis, the economy is likely to further deteriorate.