

## South Florida Braces for Ripple Effect as Recession Hits Latin America

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image: Caroline Fong

Weakening economic numbers in Latin America could bring bad tidings for South Florida, whose robust international trade sector has helped the region cushion the recession's blows.

"We say that when the U.S. sneezes, Latin America catches cold," said Ramon Usategui, president of the Florida International Bankers Association. "Well, when Latin America sneezes, Miami catches cold."

He said some immediate conclusions can be drawn from a slowing Latin American economy.

"Less exports from Florida, and less commerce through Florida. Tourism obviously will go down, which affects retail, hotels and transportation," said Usategui, who also serves as BankUnited's international private banking manager. "It has negative affects way beyond the banking industry. There will be fewer paying jobs in Florida."

The global financial crisis will hurt Latin America and the Caribbean Basin even if rich nations start to recover in 2010, according to an Inter-American Development Bank study presented last month at a meeting in Medellin, Colombia, of the bank's 48 member countries.

The annual average output growth, a macroeconomic indicator measuring the total value of goods and services produced in the region's seven biggest economies -- Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela -- could slow to 1.9 percent over the next four years if developed nations begin their economic recovery in the second half of the year. However, growth could slow to an annual average of only 0.1 percent in the next five years if recovery in the United States and Europe takes longer than expected.

The economies of the seven nations, which represent 91 percent of Latin American output, grew 5.8 percent between 2003 and 2007.

Despite the grim outlook, the Washington, D.C.-based IDB has some reason for optimism.

"Latin America and the Caribbean are much more prepared to face the impacts of the financial crisis because of their lower levels of debt, debt dollarization, smaller budget deficits and high level of international reserves," said Santiago Levy, a vice president at the IDB. "But they will still suffer the effects. Depending on how rapidly growth in the rest of the world picks up, the collateral damage of the crisis could be felt years to come."

Among the more bearish observers is Fernando Capablanca, chief executive of Miami-based Union Credit Bank, which is owned by Chilean interests.

"I just got back from Peru, Argentina and Chile and I can tell you it's beginning to hurt," he said. "They are anywhere from six to nine months behind the curve from where we are, just as Europe is a little bit behind the U.S. It's going to start hurting them in the summer and continuing into the rest of the year. That, in turn, will be reflected more in Miami."

Capablanca believes the IDB's assessment is too optimistic.

"I think the fiscal deficits are going to be larger, mainly because they don't include, typically, the servicing of the debt," he said. "It's going to be more difficult to finance foreign debt, foreign trade and particularly new debt. I was talking to a large exporter here in Miami last week ... and he told me he can't do anything right now, his sales are off 52 percent. And that's all they do, is sell to Latin America. They have to rely on external financing to continue to grow and it's just not happening."

Latin America and South Florida are so joined at the hip, said James F. Martin, founder and managing partner of Miami-based ACM Capital Partners, that one of South Florida's largest retailers recently told him they are surviving on Latin American shoppers, not local buyers.

"Latin Americans also have extensive investments in the South Florida real estate market," Martin said. "If the nationals need liquidity to meet needs in their respective countries, they could fire sale their real estate holdings in South Florida, which could further weaken home prices."

Thus far, countries to the south have buoyed South Florida in several ways during the recession. The region posted one of the greatest trade surpluses in the first nine months of 2008, nearly \$41 billion, up 24 percent over the previous year, researchers Laura Kozloski Hart and Susan Lestingi of LLK Global Advisory Services in Wellington, Fla., wrote in a recent analysis.

Travel to and in South Florida helped boost local hotels, restaurants and tourist destinations. Banks reaped the benefits of greater deposits even though they tightened their purse strings on trade finance. Moderate demand from Latin American buyers helped absorb some available inventory in the overbuilt condo markets in the tri-county area, they wrote.

"You go to Doral and Medley and the International Mall and you see the big warehouses and you see big and medium sized companies that support commerce and trade in Latin America, and many of those businesses are owned by the folks down south," Usategui said. "They use medical services, send their kids to FIU and send money back home for consumer goods made here."

With demand in a decline, trade services in South Florida have already begun to suffer, Hart and Lestingi found.

"A strong dollar and a lack of available trade finance have hurt the competitiveness of U.S products. Exporters are cutting costs and are doing all they can to sell products to the south," Hart and Lestingi wrote. "They are battling competition from low-cost countries like China. Import tariff increases in Mexico (in response to the NAFTA dispute) and Ecuador have already made some Latin American markets unreachable for U.S. producers and South Florida exporters."

The study turned up positive signs, however.

"Although the sector has been hit hard, namely because of fewer U.S. and European vacationers, large numbers of Latin American visitors have continued to arrive in South Florida this year, even prompting American Airlines to add flights between Miami and Latin America since summer 2008," the LLK study said.

"As many Latin Americans have traded in their local currencies for the safer haven of the U.S. dollar, U.S. private banking deposits have risen. Mexicans, in particular, have flocked to the dollar as the value of the peso has plummeted."

Wealthier Latin Americans are buying condos at rock bottom prices in Miami and Fort

Lauderdale, they added.

The positive signs don't surprise Dennis Nason, chief executive of South Florida finance and banking executive search firm Nason & Nason.

"Latin America is better prepared for these jolts than we have become accustomed to in the United States, because they've seen them before," Nason said. "When you think of the economy of Latin America you have to think of Brazil first, because it is half the GNP of all of Latin America. They are now invited to the G-20. As they grow, they will be included even in the bigger leagues as the G-8 expands."

Nason said if any part of the Latin American downturn hurts South Florida, "it is the lack of availability or lack of willingness on the part of financial institutions to finance trade. That's hurt a lot of the little exporters out near the Doral area."

Simon Strong, senior managing director at business risk advisory firm FTI Consulting's Coral Gables, Fla., office, said several Latin American banks actually are in good shape from sound lending practices.

"They don't have these toxic assets. So you have a number of Latin American banks in very decent positions," Strong said. "Some of them will be seeking to expand their presence and interests in the U.S. market and, of course, the first beachhead is Miami."

He said the main problem for Latin America is that its currencies have significantly depreciated against the U.S. dollar.

"Miami continues to offer attractive private banking, and given all of the questions and regulatory pressure on offshore centers, that helps Miami continue to be an attractive place for Latin Americans to deposit money -- and they are depositing money," he said. "There is significant cash coming in."

Still, the effects of the weakening numbers to the south are unmistakable.

"International trade financing has already been affected," said Jorge Gutierrez, who heads the corporate international practice group at the Tew Cardenas law firm in Miami. "A lot of my clients, which are U.S. and European-based multinationals, go through South Florida for both the technical expertise, the language capabilities and the bicultural capabilities, which are important. But they're following the money, too, and money is tight now."

Because of the credit crisis, the availability of capital "has just dried up," he said. "Demand for everything from agricultural products to hard products is just not there."

Usategui, the FIBA president, said that along with the Latin American downturn, federal regulations are hindering the ability of South Florida's international banks to respond. He's also concerned about a bill in the Florida Legislature that would tax international banking facilities.

"You put together the regulatory environment and the economic environment and you have the perfect storm," he said.