Latin American Fastener Industry and Market Analysis: An Overview

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Manufacturing and Industrial Sectors in Latin America

Based on the research by the Manufacturers Alliance for Productivity and Innovation (MAPI), the manufacturing production in Latin America expanded about 2% in 2014, courtesy of the outstanding performance of the motor vehicle sector in Mexico. Mexico's factory growth is being dragged down by ongoing recessions in Brazil's and Argentina's manufacturing industries, however. Other fast growing manufacturing in this region are computing and electronic equipment, basic metals, machinery and equipment production, intermediate industries and other transport equipment.

Mexican manufacturing is resurging thanks to its increasingly competitive labour rates with regard to China and its logistical cost advantage as the neighbour to the US. The export assembly in this country is particularly competitive with physically heavy products like aerospace, white goods and automobiles. While Mexico's industry growth is centred so far on just a few sectors, there are still good signs of broader-based manufacturing growth. This wide range of growth is estimated across Mexico's industrial supply chain to become more evident to continue in 2015. For example, Mexico is the fastest growing aeronautical assembly market in the world today with over 100 manufacturers investing over the last eight years. Mexico's manufacturing industry will expand output by 2.8% in 2015. This year's growth leaders include the auto sector, basic metals, and electrical machinery and apparatus.

In Brazil and Colombia, both infrastructure and consumption booms have helped boost the prospects of domestic manufacturing. While strong currencies in both countries have curtailed their ability to export manufactured goods, the booming domestic market has more than made up for the loss of markets overseas.

In Brazil, demand incentives for durable goods were partially lifted, leading to a sizable contraction in the auto sector that has induced other intermediate industries to scale back production.

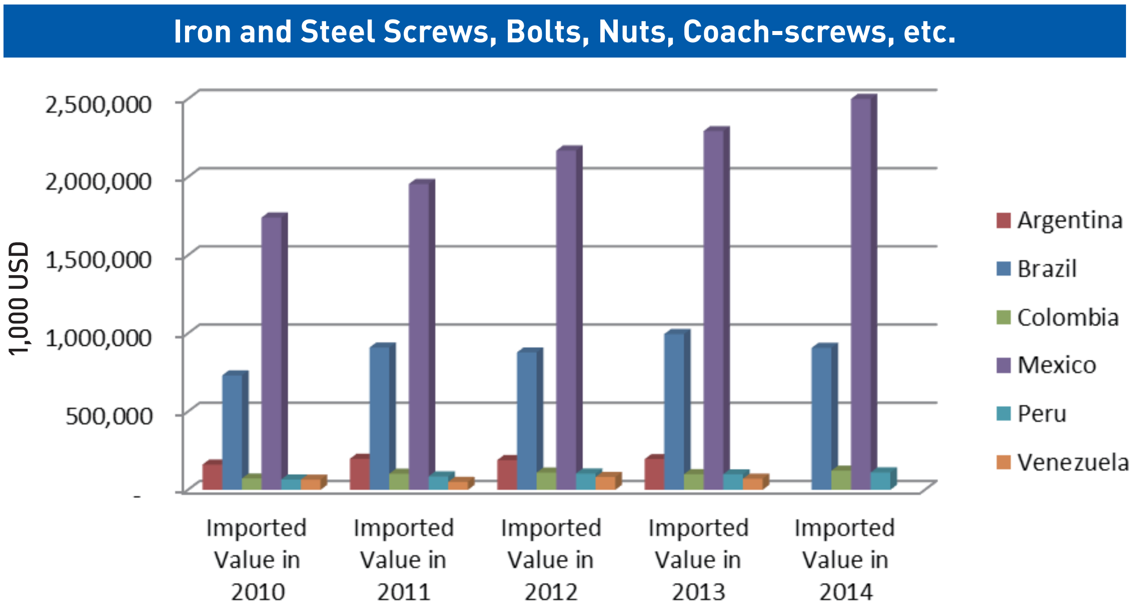
Similarly, Argentina's manufacturing weakness is explained by a sharp retreat in car production as domestic sales and exports to Brazil plunged. After record-high production in 2013, carmakers in Argentina are suffering from weak demand from Brazil and plunging domestic sales. The elimination of demand incentives in Brazil hurts Argentine car exports.

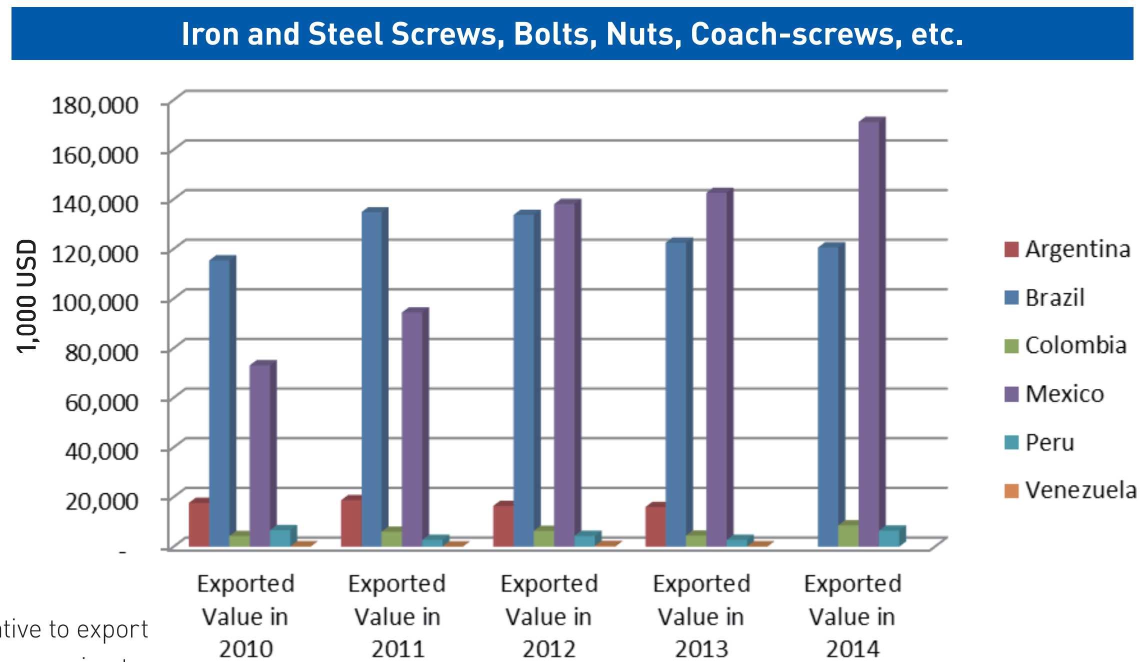
This year elections will become a major event in Argentina, a country with huge untapped potential. Although it is clear that the road to the October 2015 elections will be bumpy, there is still confidence that more pragmatic policies will generate the country's needed foreign direct investment. The new wave of investment will unleash the enormous potential hidden in this resource-endowed and diversified economy, which comes with a homogeneous and highly educated labor force.

Fastener Import and Export

The following charts exhibit the information about the value of fastener imports and exports within selected countries in Latin America. As stated in the charts, Mexico has the highest value of imports and exports compared with other countries in this region.

According to the data from ITC Trade Map there is a significant positive balance of fasteners trade in Brazil. That is, the value of export in this market is much more than the value of import and Brazil has the improving terms of trade in fastener market. When a country's terms of trade improve, it means that for every unit of exports sold it can buy more units of imported goods. So potentially, a rise in the terms of trade in Brazil fastener market creates a benefit in terms of how many products need to be exported to buy a given amount of imports. It can also have a beneficial effect on domestic cost-push inflation as the improvement indicates falling import prices relative to export prices. In this regard, we are going to have a brief study on Brazil fastener market.





Brazil

After posting a decent 2.5% growth rate in 2013, Brazil's economy is slowing down and struggling to generate sustainable growth, particularly in manufacturing in 2014. The World Cup didn't provide the boost as expected to the economy in general and manufacturing in particular. Although there is a solid expansion of the food and beverages sector (the largest industrial sector in the region), the most recent statistics are revealing a vastly different outcome.

There is no evidence yet that manufacturing or the economy will recover soon, with leading indicators showing weak figures in recent months. Confidence levels among consumers and the country's captains of industry are trending lower.

Brazil's economy and manufacturing need a productivity boost to keep up with the gains on the currency front. While manufacturing production (a supply proxy) stopped growing almost four years ago, retail sales (demand proxy) went up 26% in the same time frame. Inflation is picking up as the tight labour market increases wage levels and despite government-controlled prices on gas and other important consumer items.

In fastener industry, based on the data from Brazil Trade Center, screws, nuts and bolts manufacturers and import and export traders accumulated to more than 300 which mostly are located in the Sâo Paulo, and Santa Catarina. In Brazil, screws, nuts and bolts manufacturers, with hot-rolled production technology, account for about 10% of the total. The remaining 90% of the manufacturers produce it by way of this hot-rolled foundry production technology.

Brazil relatively has a large number of track bolt manufacturers. Screws, track bolts and nuts are mostly used in the automotive, furniture, construction and mechanical industry. Brazil fastener enterprises often according to product usage seek cooperation with cars, furniture, construction and machinery industries manufacturers, as well as screws, nuts and bolts dealers or store through exhibitors and established agents.

Conclusion

The slightly stronger manufacturing growth in 2015 in Latin America is clearly a consequence of the improved backdrop among intermediate industries, which will have to expand production to satisfy the projected solid demand from Mexican auto plants and the shy rebound expected among Brazil carmakers. In addition, the large food and beverages industry, machinery and equipment, electrical machinery and apparatus, and other transport equipment are expected to gain some traction.

Conditions are set for broader manufacturing growth in 2015, although the expansion remains modest at about 2%. Activity across Brazil's factories will pick up in pace, Mexico's manufacturing growth will moderate slightly as carmakers reduce expansion rates to more sustainable levels, and Argentina's industry will remain a drag on overall growth.

Sources:

MAPI; Latin America Manufacturing Outlook: Mexican Factories to Lead Growth While Brazil's Manufacturers Falter
Global Intelligence Alliance; The Fastest Growing Latin American Industries for 2013-2015
ITC Trade Map; Trade statistics for international business development
Economics Online: News Analysis Theory Comment