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## Latin American Edition

issue: January 2003 APPLIANCE Magazine

### 2003 Appliance Industry Forecasts

## 2003 Forecast Latin America: Bouncing Back in Latin America

by Linda Abu-Shalback Zid, Associate Editor/Newsletter Editor

**If all goes well, economies in Latin America are expected to recover from recession, political unrest, and financial turmoil in 2003.**

"Although the next few years are not going to be fantastically good (for Latin American growth), we hope there is going to be a gradual recovery that will turn into a sustained one," Sebastian Edwards from the National Bureau of Economic Research told Reuters in November. He said a financial crisis in Argentina, political upheaval in Brazil and Venezuela, and a slower-than-expected recovery from recession in Mexico affected 2002 regional growth, but that export outlooks and expected U.S. economic improvement would contribute to a "moderate" growth.

### Brazil: Keeping it Real

By November 2002, Brazil's currency, the real, lost about 37 percent of its value against the U.S. dollar, and inflation had exceeded the Brazilian government's "tolerance level" of 5.5 percent and was expected to jump even further. A New York Times article attributes the real's loss largely to investor worries on the rise of Luiz Inácio Lula da Silva of the left-leaning Workers' Party to president, although he vowed to keep a lid on inflation with a tight monetary policy.

**Arkema has something**

**BIG**

**in the pipeline**

## Appliance Industry Market Research

May 2006: [Market Research - 53rd Annual Report a Ten-Year Review 1996-2005](#)

February 2006: [Statistics - 13th Annual Portrait of the Japanese Appliance Industry](#)



## Monthly U.S. Shipment Statistics 1995 - Present

August 2006: [U.S. Appliance Industry Shipment Statistics - Factory Unit Shipments Statistics for the month of May 2006](#)

August 2006: [Appliance Industry - Majors and Comfort Conditioning Index for May 2006](#)

Shipments of small appliances and brown goods, such as VCRs and sound equipment, have suffered in Brazil with estimates of a 1-percent drop of brown goods in 2002, when compared with 2001, and a 12-percent drop in small appliances, according to Datamark Ltda, a research firm in Brazil. White goods were estimated to increase 4 percent in 2002, and IT equipment, such as PCs and printers, were expected to see a 10-percent increase by the end of 2002.

"Brown goods are static, white goods are recovering, and small appliances are not doing well," said Graham Wallis, CEO of Datamark.

"Things may improve in 2003 if the Brazilian government manages to redistribute income without fueling inflation...Brazil is expecting a bumper Christmas so that may help," he told APPLIANCE. "The 5-year projection suggests that things will improve for electrical appliances, but with the current over-capacity, investment is unlikely."

Whirlpool Corp. (Benton Harbor, MI, U.S.) was also carefully optimistic about the outlook for Brazil. The company reported in October that its third-quarter Latin American appliance industry shipments increased 1 percent. Whirlpool had utilized Brazilian government export incentive tax credits (Befiex) in 2002, but did not anticipate using additional credits in the first quarter of 2003.

"Despite an uncertain economic and political outlook for Brazil, the operation's ongoing focus on its brands and customers, efforts to increase pricing, and benefits from restructuring are expected to lead to a continued solid performance," the company said in a statement.

Brazil's participation in the North American Free Trade Agreement (NAFTA) and the Common Market of the South (MERCOSUR) are also incentives for expansion there. At the end of 2001, LG Electronics established an air-conditioner production line at its Manaus plant, with plans to produce 500,000 units a year by 2003, and to promote the plant as the base for its entry to Central and South America. The company said that preference for Asian brands has been on the rise in Central and South America, providing a good foundation for independent entry to these markets.

### Movement in Mexico

In a budget proposal to the U.S. Congress, Mexico predicted a 3-percent increase in its 2003 economy. While analysts say this is a reasonable forecast, the potential increase is largely dependent on the economy of the U.S., since about 85 percent of Mexico's exports are sent to the U.S., according to Bloomberg News.

Another concern that is evolving in Mexico is that although many companies, such as Whirlpool and Maytag, have expanded efforts there, partially due to low labor costs, other companies are moving to the even less costly labor of China.

According to a Bloomberg News article, Mexican factory workers earn about U.S. \$3,300 a year without bonuses and benefits, while skilled Chinese laborers earn about \$2,000. In the first half of 2002, direct foreign investment in Mexico dropped 15 percent to \$6.1 billion, while investment in China rose 19 percent to \$24.6 billion, according to China's Ministry of Foreign Trade and Economic Cooperation. This has been attributed in part to China's entry into the World Trade Organization in December 2001 giving China greater access to the U.S. Another reason for the trend is that along with low labor costs and rising productivity, China offers foreign investors a strong base of suppliers, tax breaks, well-trained engineers and managers, and efficient ports, according to the New York Times.

While government figures show that the electronics industry in Mexico has suffered most, with an 8.8 percent drop in production last year, bulky items are likely to stay in Mexico to save on shipping costs, according to the article.

In July 2002, Whirlpool Corp. acquired Vitromatic S.A. de C.V., which is said to be Mexico's second largest appliance maker and distributor. Maytag also stepped up Mexico efforts by establishing an additional subassembly operation in Reynosa, Mexico to support its U.S. appliance operations and expand its ongoing cost competitive initiatives. Maytag's major appliance division President William L. Beer said, "Our expansion in Reynosa is a logical extension of our ongoing cost reduction initiatives in manufacturing, procurement, and distribution."

In October, Maytag announced it would close a refrigeration-parts plant in Galesburg, IL, U.S., and open a new refrigeration production facility in Reynosa in late 2003. "The changes that we intend to make in our refrigeration business are critical to improving our profitability in the very competitive appliance marketplace," said Mr. Beer.

#### **The Latin American Outlook**

Other countries within the Latin American region face their own struggles. Venezuela faces political conflict over the leftist rule of President Hugo Chavez and a steep recession. While Chile has seen an abrupt fall of its peso, the signing of free trade agreements with the European Union and South Korea in 2002 are expected to help with a rebound.

Although economic activity in Argentina was up nine-tenths of a percent in August, Argentina continues to fight to get out of its deepest economic depression in 100 years, according to the Voice of America (VOA), an international multimedia broadcasting service funded by the U.S. Government. At the Whirlpool refrigerator plant in the western province of San Luis, production has been reduced to one 8-hr shift. "Things may begin to move by next April, if this slight pickup of the economy continues, and if the exchange rate remains stable," Whirlpool general manager Victor Mario told VOA. He also said that

because of a peso devaluation, his plant has begun buying its parts domestically instead of importing them, which, in turn has stimulated the rise of Whirlpool suppliers.

Signs of improvement such as that are surfacing throughout Argentina and the whole Latin American region. And despite their vulnerabilities, Latin American countries are expected to continue to see slow, moderate growth in 2003.

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