



Prosperous Cities: The key to Latin America's success

Jaana Remes
McKinsey Global Institute

April 28, 2014

CONFIDENTIAL AND PROPRIETARY
Any use of this material without specific permission of McKinsey & Company is strictly prohibited



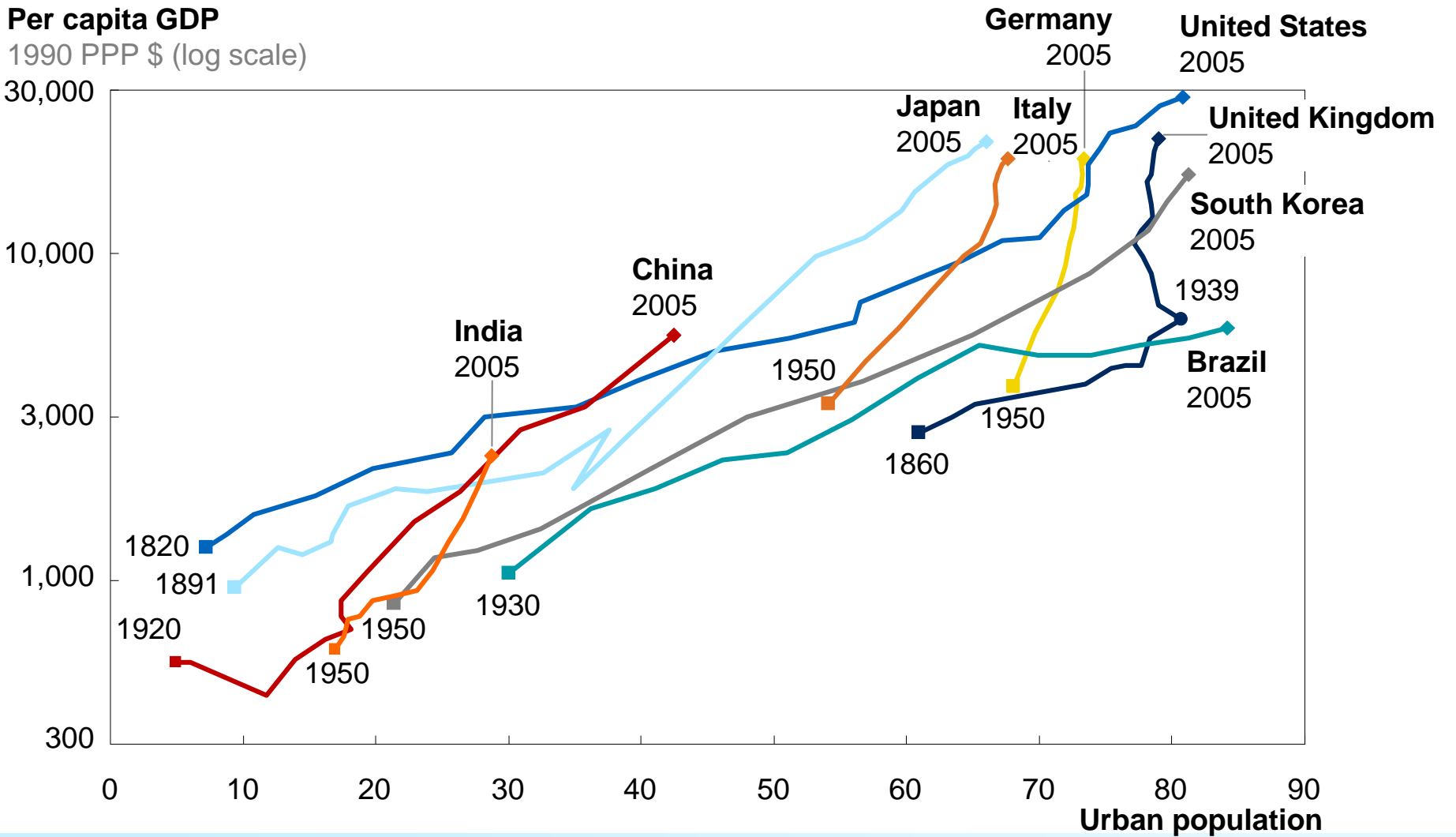


Latin America's cities are the key to its economic future

Yet the region's largest cities have run into constraints to their capacity to sustain growth

The challenge now is to bridge rising consumer expectations with disappointing income growth

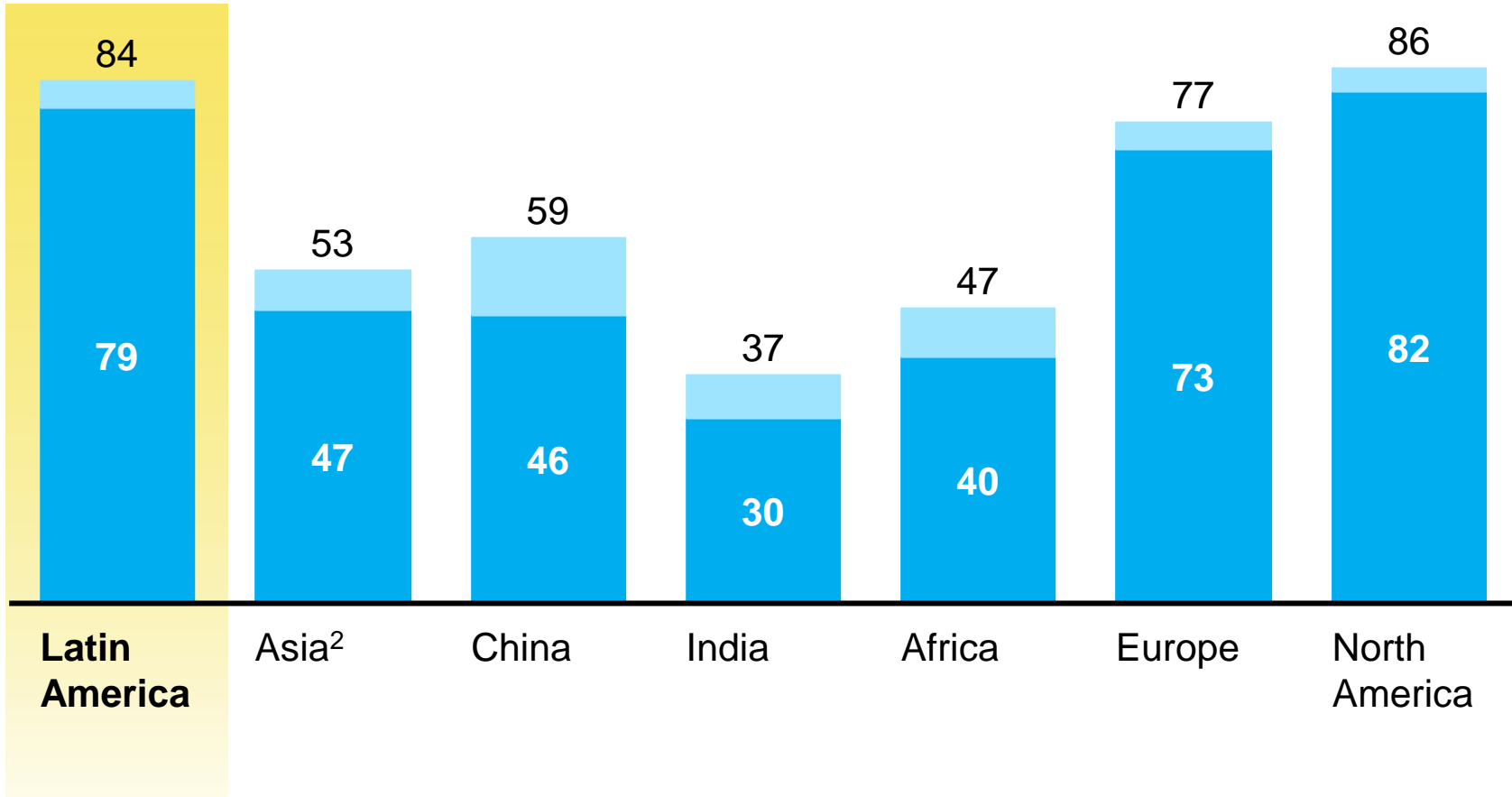
Per capita GDP has risen in parallel with urbanization and industrialization across regions



Cities play a key role in Latin American economy – 80 percent of the population already lives in cities and towns

2025
2009

Population living in urban areas,¹ 2009 and 2025, Percent

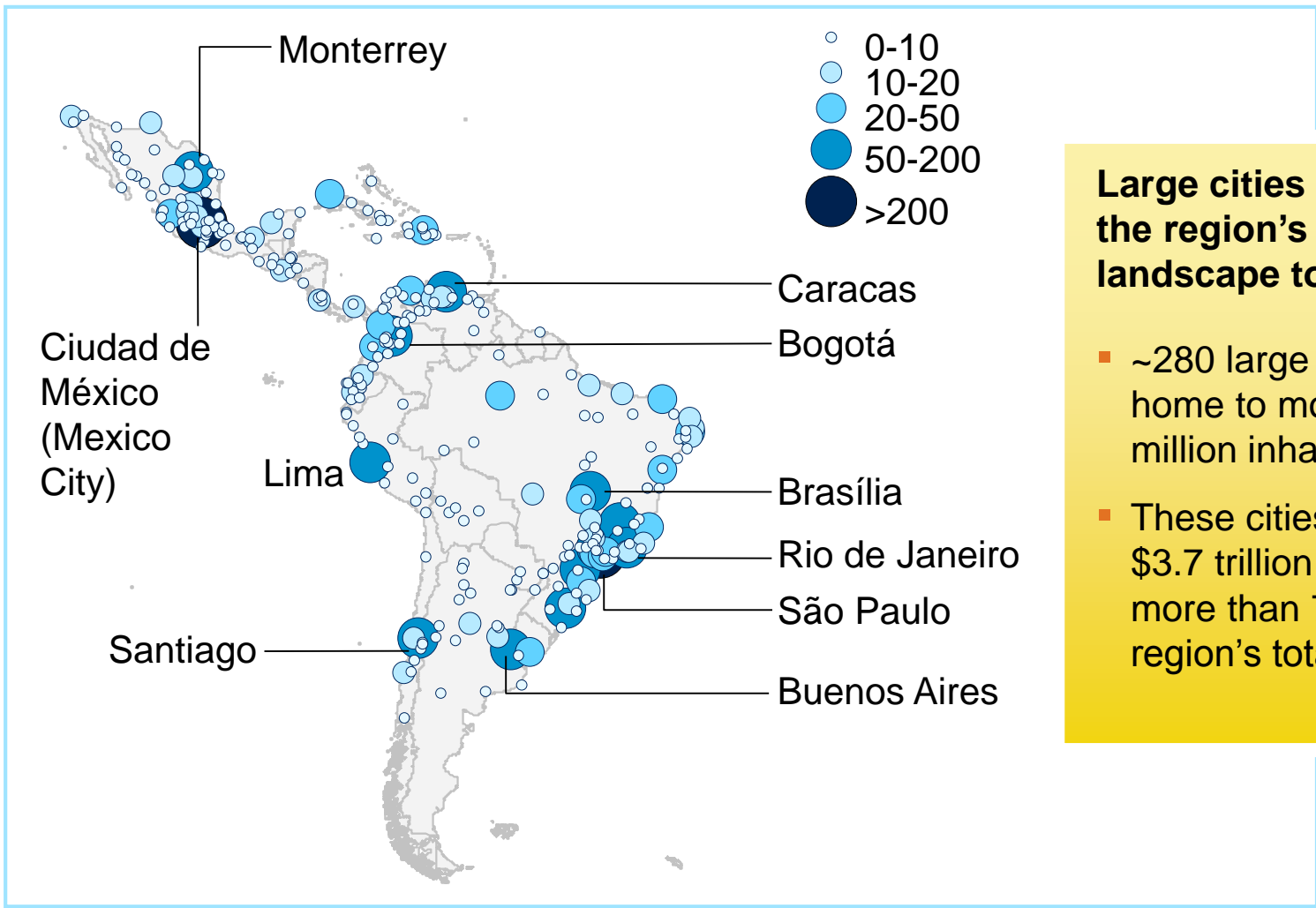


1 Urban population according to national definitions

2 Excluding China and India

Latin America has ~280 large cities with a population of 200,000 or more

GDP 2010, \$ Millions



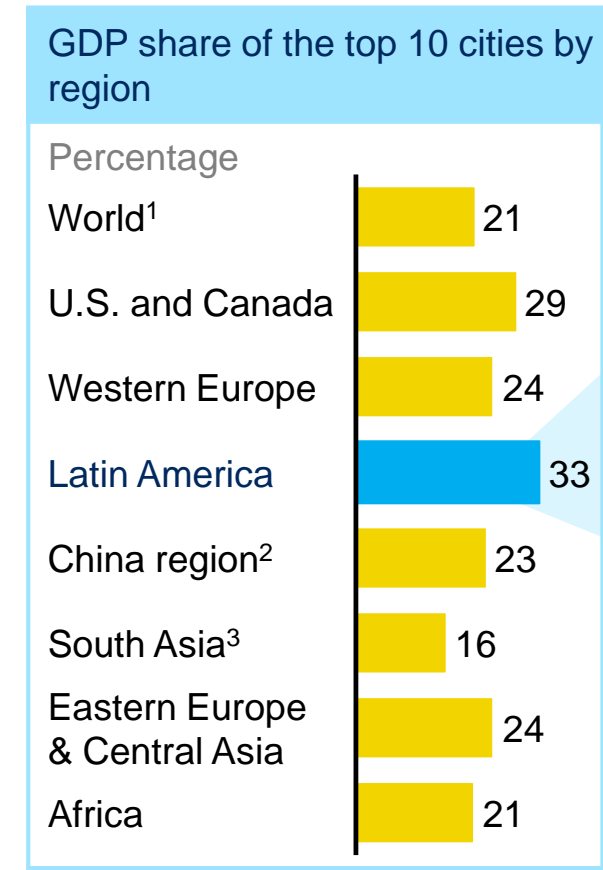
Large cities dominate the region's economic landscape today

- ~280 large cities are home to more than 300 million inhabitants
- These cities generate \$3.7 trillion in GDP¹, more than 75% of the region's total

¹ GDP as of 2010, measured at current exchange rates

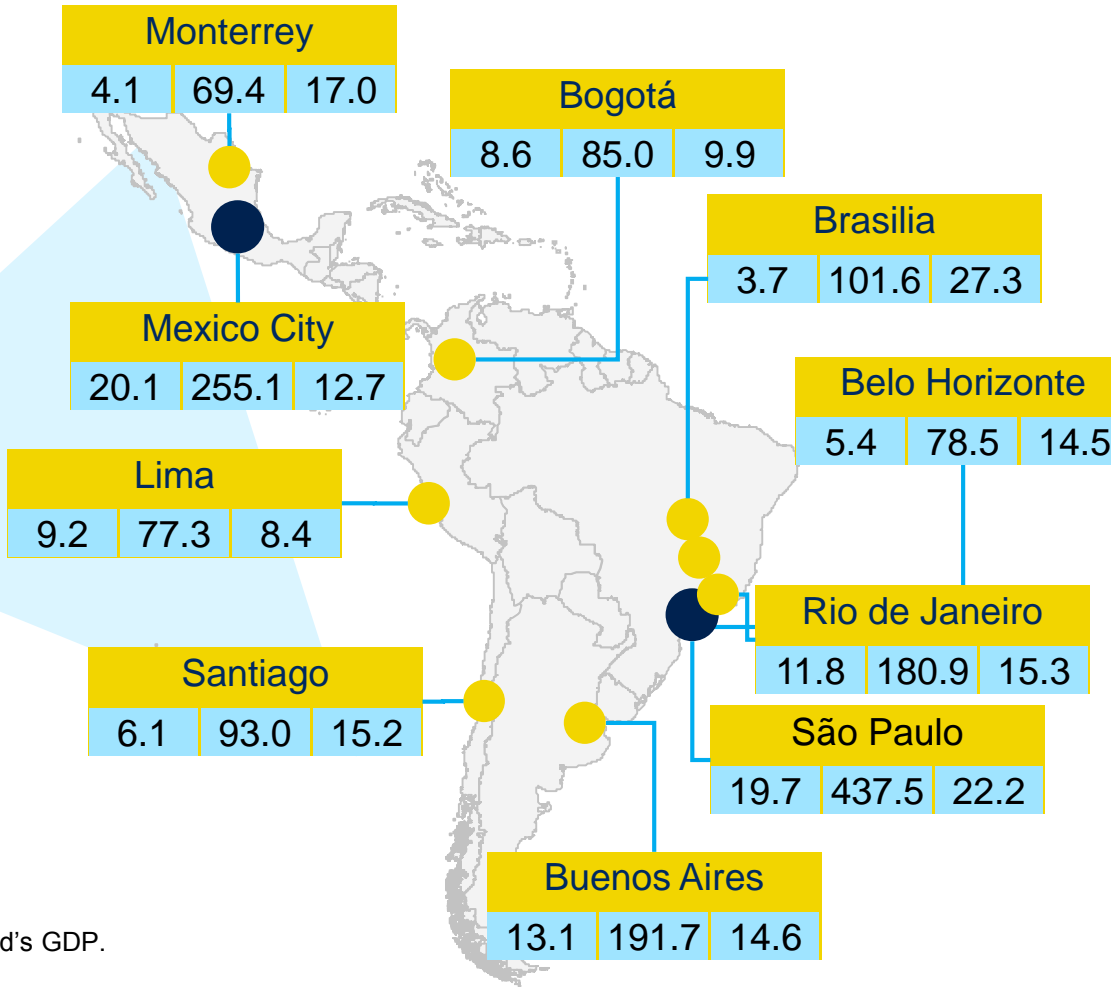
The 10 top cities alone generate about a third of the region's overall GDP, a higher share than any other region

GDP 2010, \$ RER



1 Share of top 10 cities from each one of these regions in world's GDP.
2 Includes China, Hong Kong, Macau and Taiwan
3 Includes Afghanistan, Bangladesh, India, Pakistan, and Sri Lanka.

City name		
Pop. (million)	GDP (Billion at RER)	Per capita GDP (000 at RER)



Today's discussion

Latin America's cities are the key to its economic future

A close-up photograph of a person's hand, with the thumb and index finger gripping a bright blue rectangular block. The hand is positioned on the left side of the frame, and the block is held horizontally, partially obscuring the text behind it.

Yet the region's largest cities have run into constraints to their capacity to sustain growth

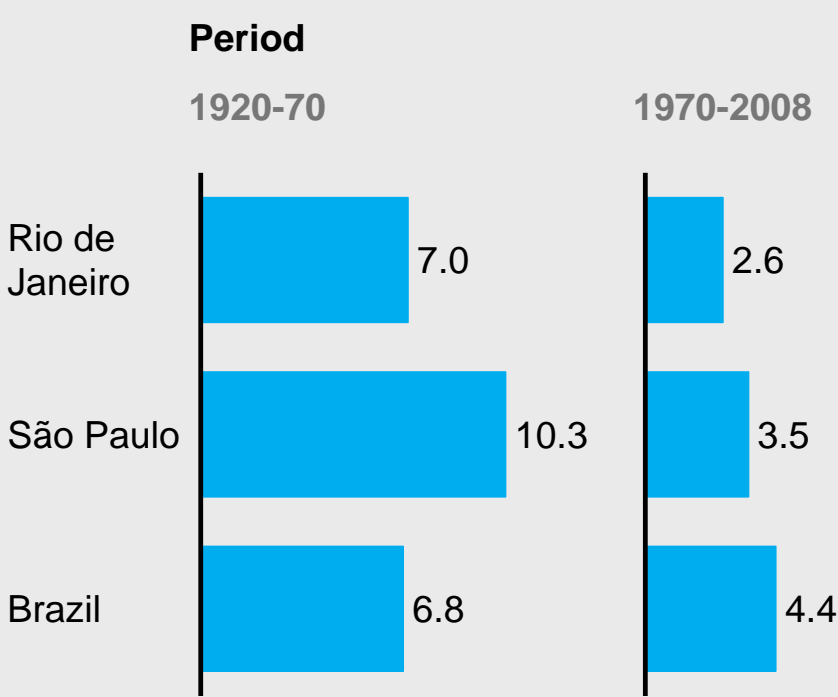
The challenge now is to bridge rising consumer expectations with disappointing income growth

Most Latin America's top cities have grown more slowly than their host economies in the recent past

The relative growth of São Paulo and Rio de Janeiro have declined in the recent past

GDP growth

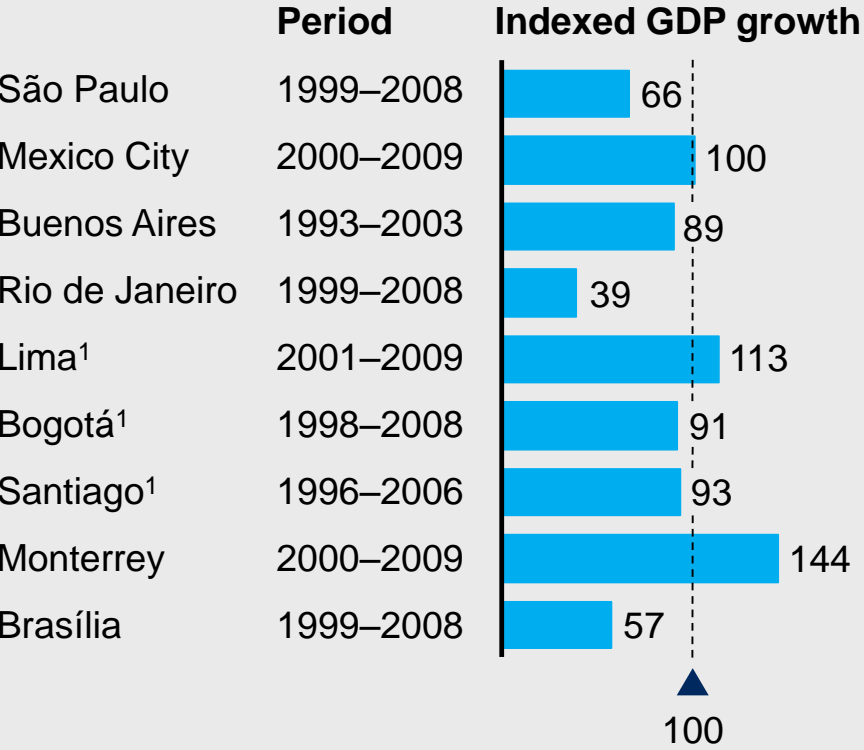
Compound annual growth rate, percent



Most of the top ten cities have grown slower than their host economy

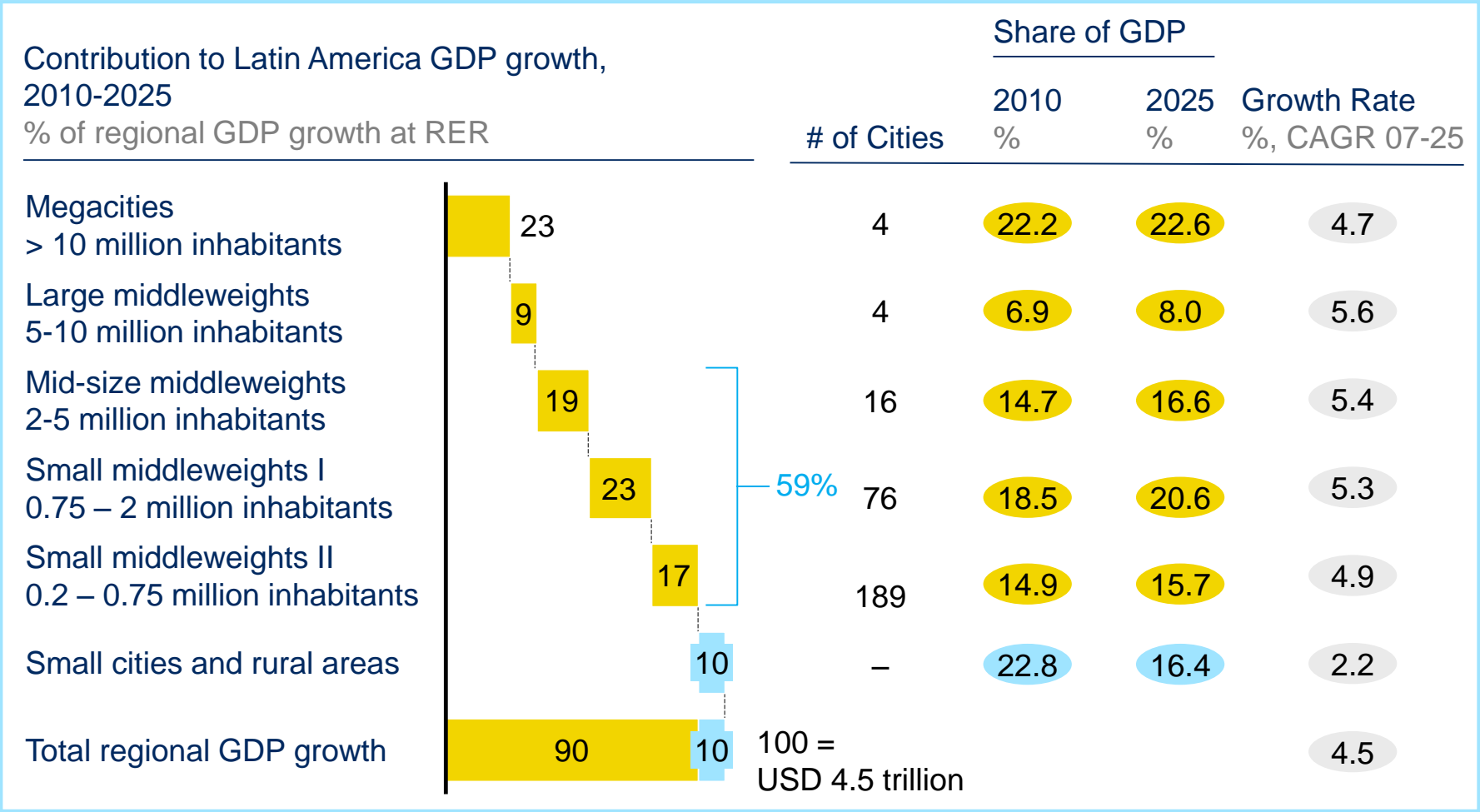
City GDP growth relative to national average

Index: 100% = country GDP growth, percent



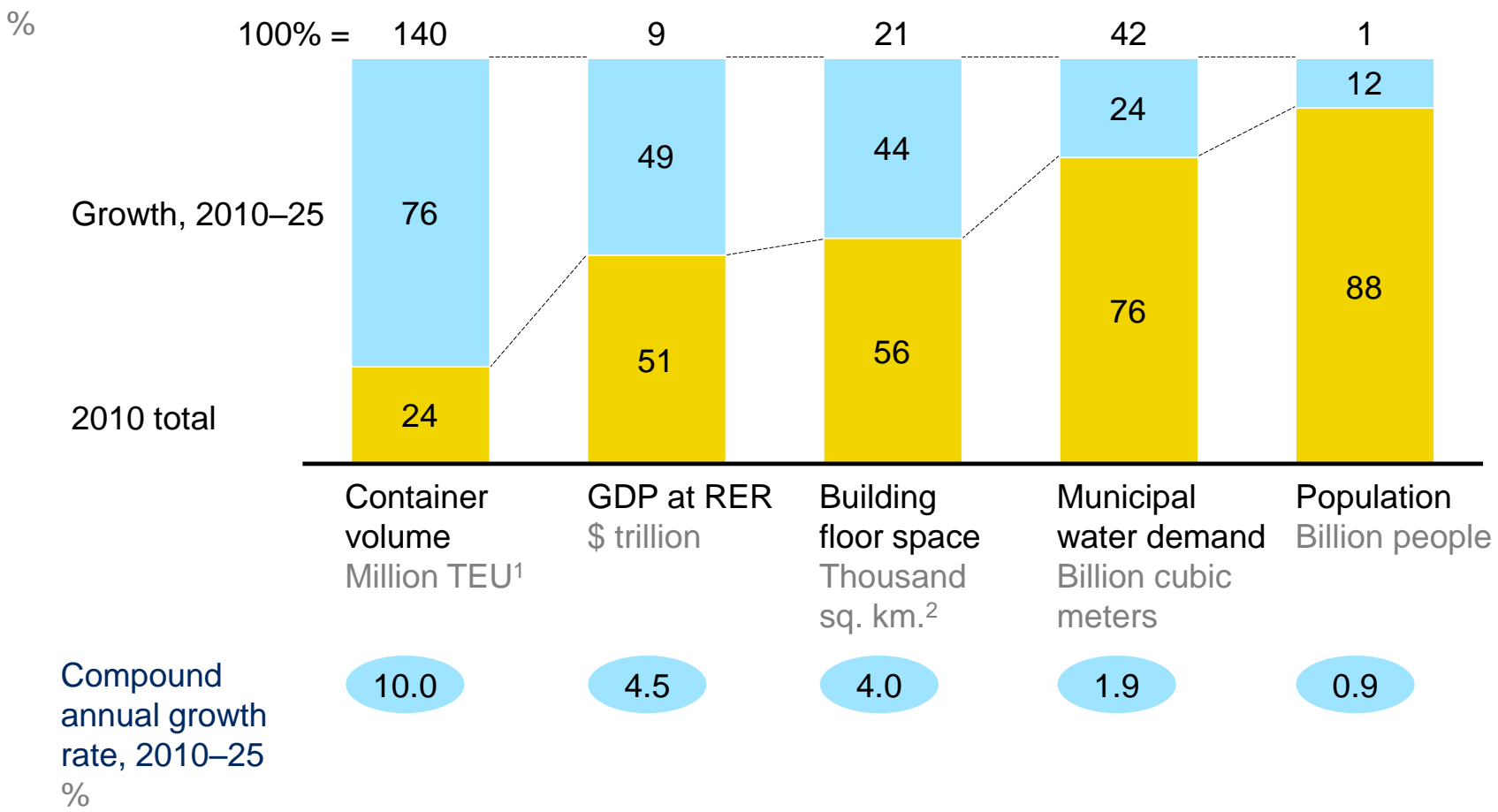
⁽¹⁾ In cases where GDP data were not available at the city level but the city represented most of the region/province, we used data at this next level

Almost 60% of regional GDP growth to 2025 will come from mid-size and small middleweight cities



Growing cities put increasing pressure on city services and infrastructure

Estimated urban market demand in Latin America, 2025



1 Containers traffic volume accounts for demand generated in large cities only. TEU stands for “Twenty-foot equivalent unit,” used to describe the capacity of container ships.

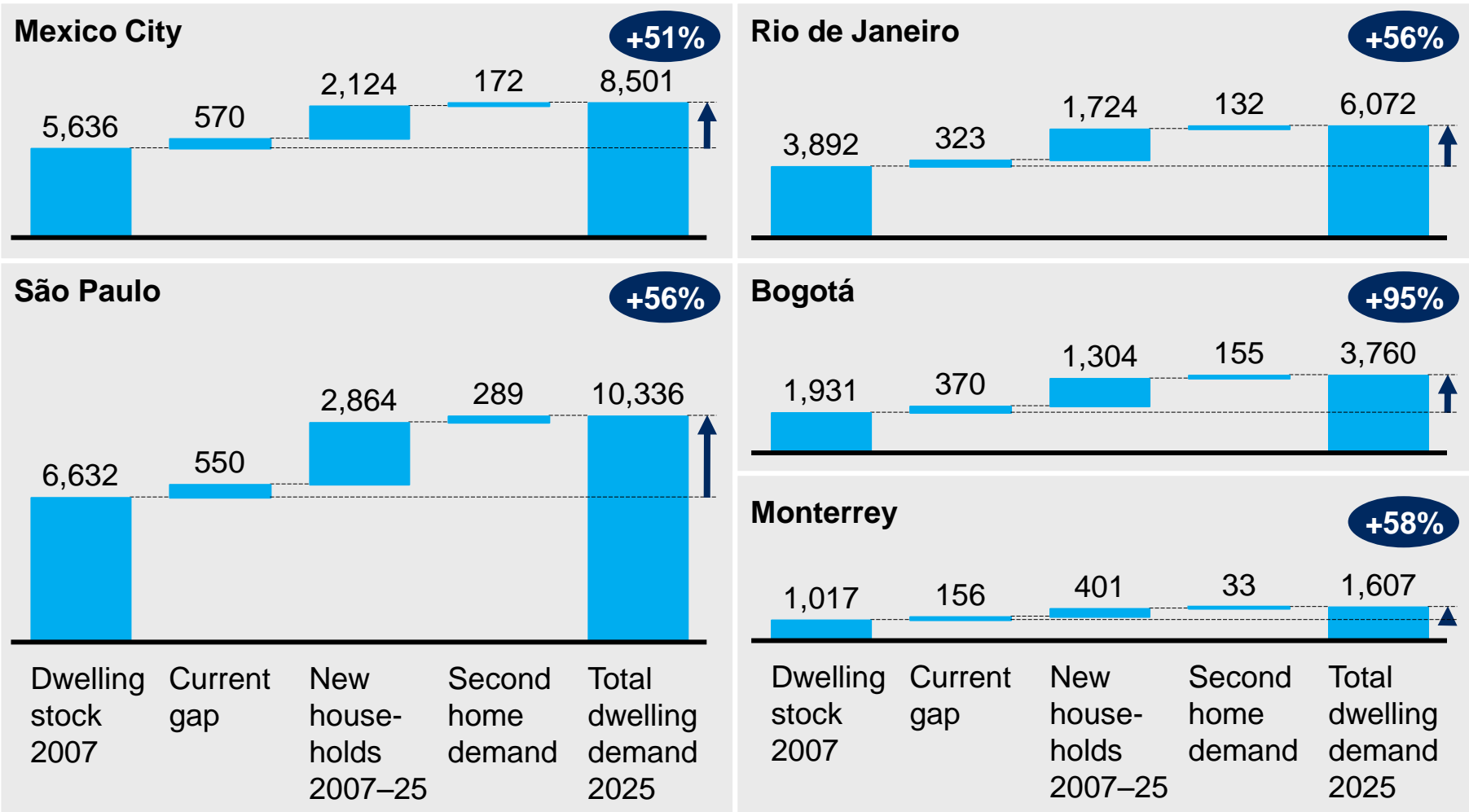
2 Building floor space growth includes floor space replacement.

SOURCE: McKinsey Global Institute Cityscope 2.0

Demographics will drive strong housing demand across the region to 2025

Total housing requirements by 2025
Thousand dwellings

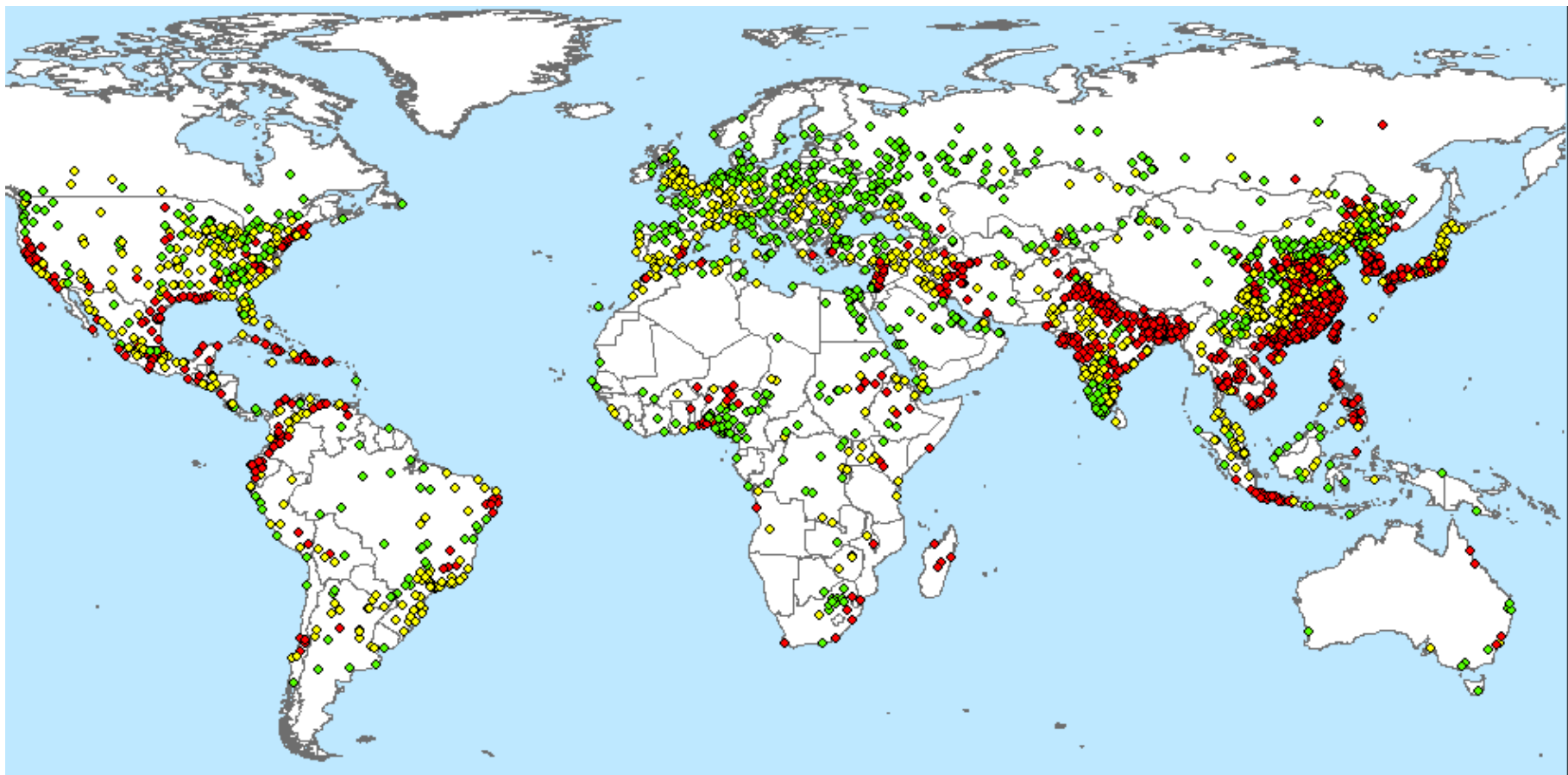
● Compound annual growth rate, 2007-25 (Percent)



Cities also need to prepare for energy and resources challenges, as well risks from environmental hazards

Combined risk of disruption from drought, flood, or cyclone in 2025

- High
- Medium
- Low



Today's discussion

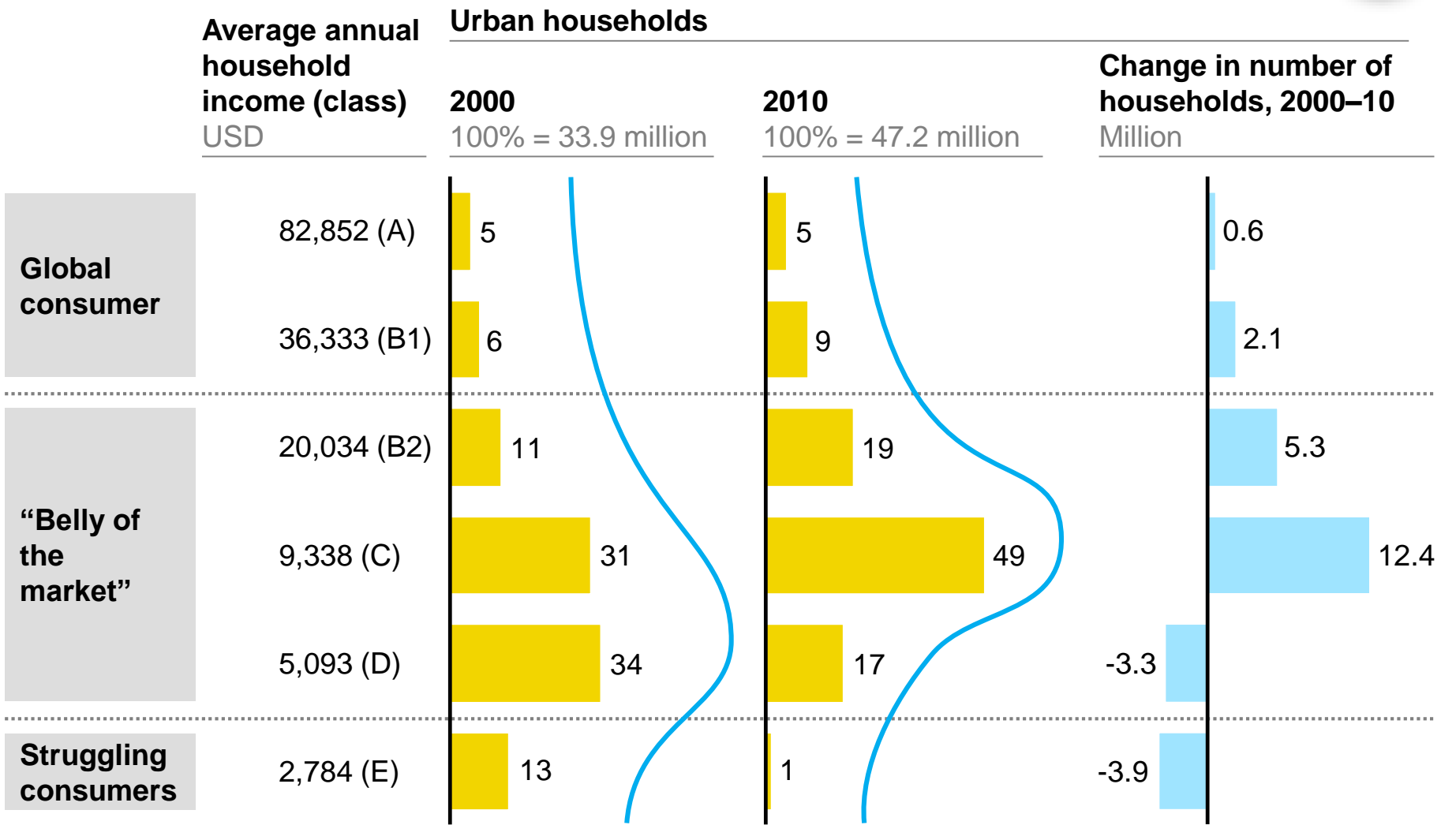
Latin America's cities are the key to its economic future

Yet the region's largest cities have run into constraints to their capacity to sustain growth

A close-up of a person's hand, with the index finger pointing towards the text in the blue box.

The challenge now is to bridge rising consumer expectations with disappointing income growth

Progress in poverty reduction is creating a new consuming class with rising expectations – Brazil example

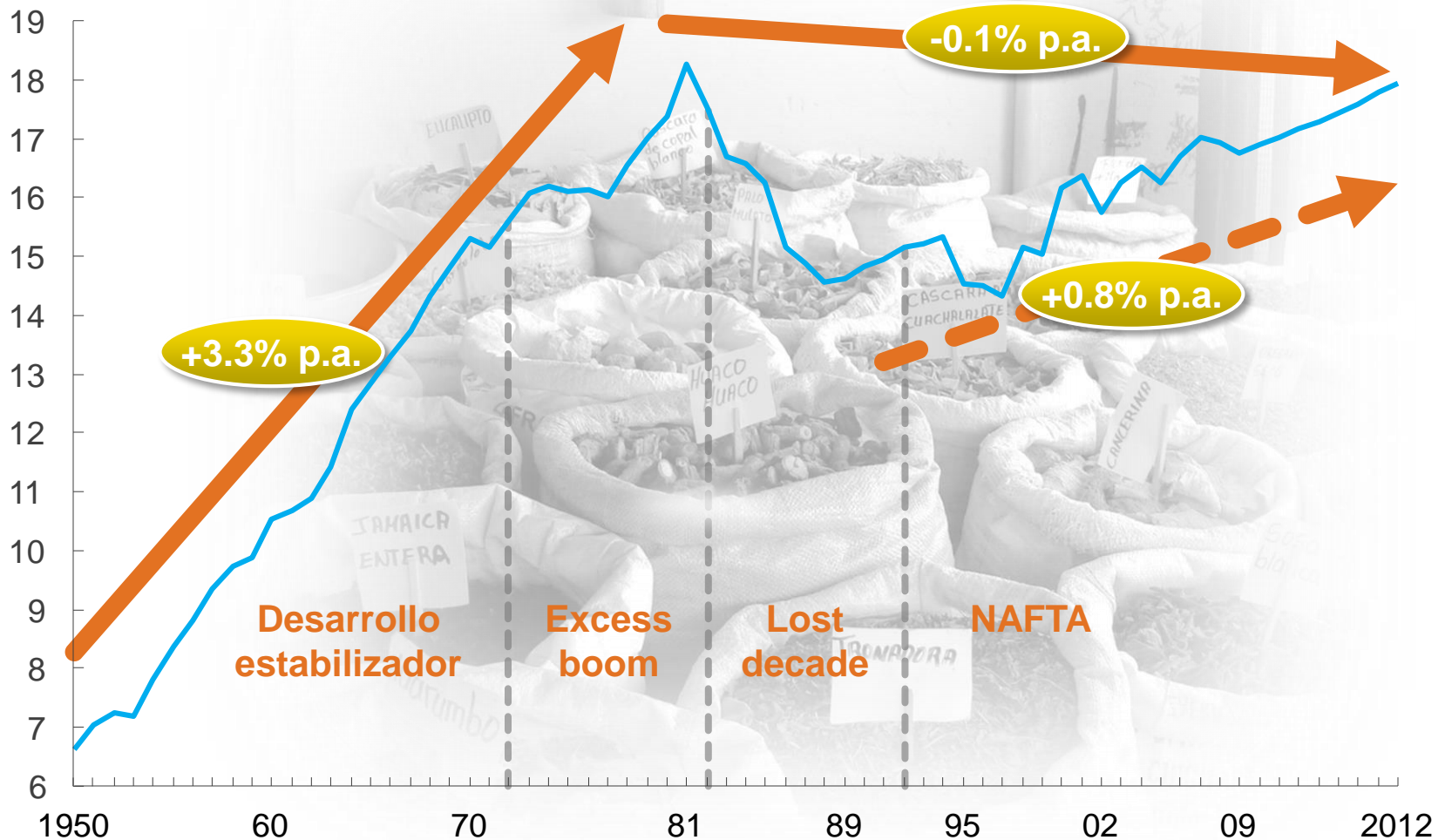


1 Based on the average exchange rate of 2010 of US\$ 1 = R\$ 1.767.



Yet the region's growth has been disappointingly low: Mexico has not raised its productivity in 30 years, despite NAFTA and reforms

GDP per hour worked
2012 PPP dollars



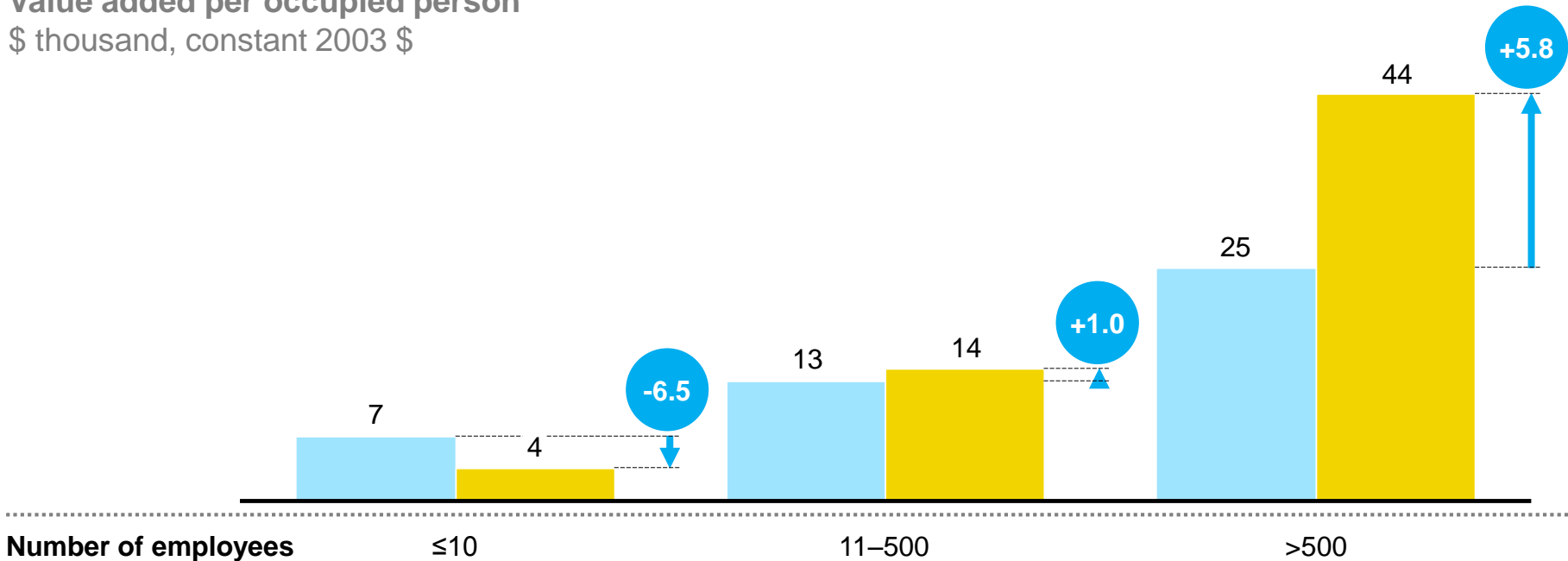
SOURCE: Conference Board Total Economy Database 2013; McKinsey Global Institute analysis

The gap between modern and traditional segments is widening – Mexico example



Value added per occupied person
\$ thousand, constant 2003 \$

- 1999
- 2009
- Compound annual growth rate, 1999–2009 (%)



Share of employment, %



The challenge for Latin American cities is to address ‘pressure points’ so that they don’t lead to tension in the civil society

Economic opportunities

- Job creation
- Income growth
- Inequality

Natural resources

- Land
- Water
- Energy

Infrastructure

- Physical
- Social
- Virtual

Large cities can be the source of economic prosperity in their nations...

... and LatAm cities have proven their capacity to solve problems with innovative solutions

Thank you

**These reports and other MGI
research are available at:**

www.mckinsey.com/MGI



@JaanaRemes

@McKinsey_MGI