



**Report from Panama
26 August 2020**

Life has been a roller coaster for everyone, everywhere. So, what comes next?

The World We Live In



I think that sums it up.

But this is not a message of doom and gloom today. I think there is more than enough of that available to satisfy the most demanding critic. I am certainly not going to play the computer game of "count the cases". The differences among nations as to what they count, how they count, whether they report fully or partially, and a dozen other factors make direct comparisons of little use and, in any case, tell you at best only what has happened, not what will happen. The past, yesterday included, is over and never coming back. So what about tomorrow?

I have recently read two thoughtful, intelligent essays from analysts I have followed for years, decades in one case, and both argue the same thing – we face a high probability of entering into a global depression. Mind you, I have read many more analyses than just those two, but these are people who are in no way “extremist”, for whom I have a great deal of respect, and who are not going to be so negative without good reasons.

But both have a problem, as do the others. They are talking about a global depression involving all 7,800,000,000 of us, but you and I are individuals or at least individual households. We are not all going to be affected to the same extent. The same is true of nations.

Whether there is a depression coming or a new burst of growth, we will feel it differently depending on where we are when it happens. So whatever happens, should you be in Panama? I cannot answer that question for you. All I can do is explain why I have every intention of staying here and not somewhere else.

In the short term

In the short term, life is going to continue to be messy, confused, and contentious. I expect it to be the source of more anxiety until we have found some means of dealing with the virus successfully, or we just get exhausted and give up arguing. Whatever, your guess is as good as mine as to what the short term will look like.

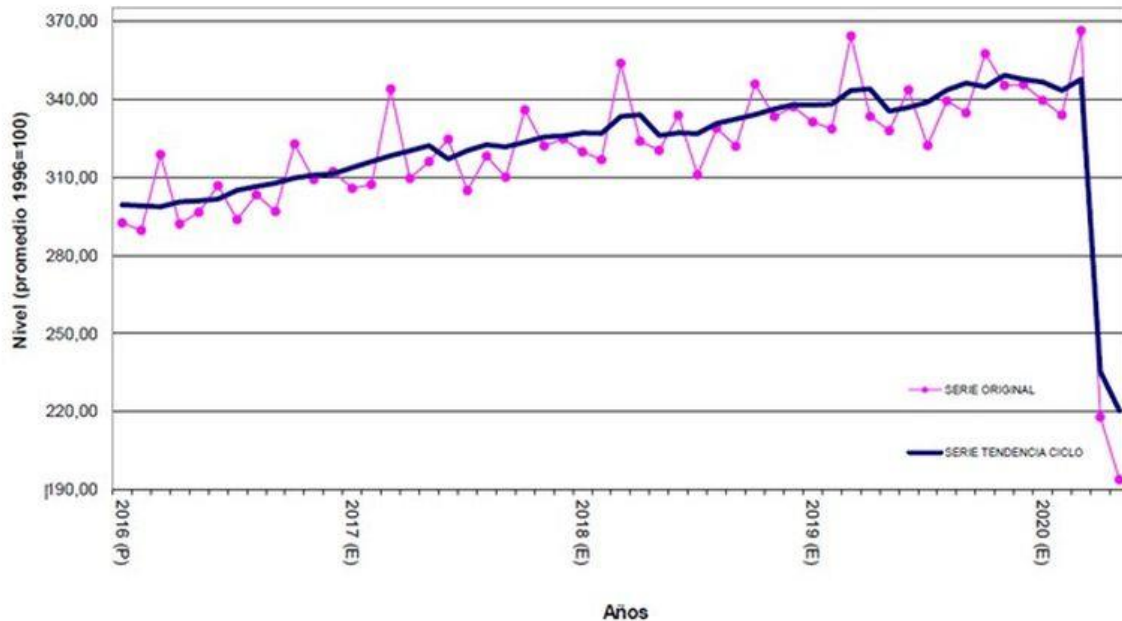
It has not been easy in Panama and it will not be easy in coming weeks, but we are not special. We have that in common with every other nation. Even those few who have escaped the most serious outbreaks have discovered that the markets where they sell their goods are not functioning very well, if at all. They probably have closed their airports to most or all foreign travelers and so have the others. Put simply, whether imports, exports, or both are important to your economy, this is a tough time to do business outside your own borders and often not easy *inside* either.

First, a look at the recent past

Long-time readers of these reports will recognize the IMAE, the Monthly Indicator of Economic Activity in English. The pink line shows the change in the economy from month to month. The blue line is a trendline that averages out the peaks and valleys of the monthly numbers to show the general trend of the economy.

This is data from January of 2016 through the end of May this year. April and May were “Covid months” and the impact is rather obvious.

ÍNDICE MENSUAL DE ACTIVIDAD ECONÓMICA DE PANAMÁ
ENERO 2016 - MAYO 2020



Here are a few details to keep in the back of your mind:

1) The base of this chart is 190 instead of zero. If it were zero, it would not look so dramatic. In other words, a human economy does not collapse completely unless the people are all dead. You will be happy to know that we are not all dead!

2) When so much is happening unexpectedly in a short time, data collection becomes difficult, especially when a communicable disease is involved and people suddenly find themselves working from home, not the office. The data of the last couple months will be revised in months to come as more complete and accurate information becomes available.

3) This report is out-of-date as they all are. June and July are already history and August is almost complete as I write. The big crash is over, so the trend should be flattening out and you can even see a small beginning of this in the very last month.

4) Finally, there is nothing unusual about this graph. Panama is not alone. You will find similar graphs in nations all over the world.

However, when all is said and done, there is no question about it. The Panamanian economy has been hit hard. But this is history, now we need to turn and look forward, not backward.

Everything is relative

This is simple to explain.

Your income falls by 50% and you are in trouble. Your friends and neighbors are fine. You get depressed. You think you are a failure. Look at everyone else! Why is this happening to me?

Your income falls by 50% and you are in trouble. But your friends and neighbors lose their jobs and all their income. Look at everyone else. I feel good about myself! Lucky me!

Today, people all over this planet are looking at one thing – themselves. Beyond that, they look at their community nearby. But quarantine or lock-down or whatever you want to call it limits your vision dramatically. Most of us in Panama really do not know or, to be honest, care what is happening in Peru or Italy or Japan. If we follow other nations in any detail, it usually means we check their number of infections, deaths, and so forth...a numbers game. Are we winning or are we losing? It is all about us.

This too will pass. Right now, people are frightened, whether they want to admit it or not. They may not be frightened of the same thing, but suddenly the future looks dark and grim.

No one has a crystal ball. No one knows the future in any kind of detail. Were you worried about the coming pandemic last year? We could not see it coming and that has hurt us terribly. It is hard to look ahead to the future now without the fear that something worse may happen.

This is understandable. This is human. This is what we are. It is okay...for now.

But we *need* to look forward. This has been my profession for five decades, trying to see the most likely future scenarios and plan for them. It requires analysis and that is not easy. I learned the old-fashioned way, by the mentoring of others who had done it before and by years and years of experience, always being judged by a paying client. Having a paying client always makes it more interesting!

I did this work for many different clients in many different “developing nations”. As an analyst, you soon learn that all nations are “developing”, all of the time. Human development never stops, whether we like it or not.

I have had the opportunity to work in nations that “got lucky”. Something happened, often the discovery of oil or some other natural resource. Or the reverse. Something goes terribly wrong and the nation needs to rally to overcome it. That is what we all face now.

Every crisis is also an opportunity. What factors make the difference? Which nations will recover from the pandemic and prosper? Which nations will crash?

There are a thousand factors, but my experience tells me that there are two that are critical. By far and away, they are the most important *in practice*, if not always in theory or wishful thinking. As an analyst, it is of no importance to me whether I like my analysis. If you cannot separate your emotions from your analysis, you may know how to write “analytically”, but your analysis is distorted by your emotions. Sorry, that is not good enough.

So here is the first one, summed up in a single word.

Money

“I love money. I love everything about it. I bought some pretty good stuff. Got me a \$300 pair of socks. Got a fur sink. An electric dog polisher. A gasoline powered turtleneck sweater. And, of course, I bought some dumb stuff, too.”

— Steve Martin (comedian)

Of course, money is critical. With it, you can pay your bills and rebuild, no matter how damaging the crisis. Without it, you are in immediate danger of losing what you own with nothing left to build any future.

Think of two homeowners after a devastating hurricane or typhoon who have insurance policies with two different companies, one good and one terrible. One owner gets treated quickly and honestly, then paid quickly and fairly. The other waits and waits and waits for the “adjustor” to come out, then waits and waits and waits for a payment that falls short of what the owner had expected. You understand what I mean.

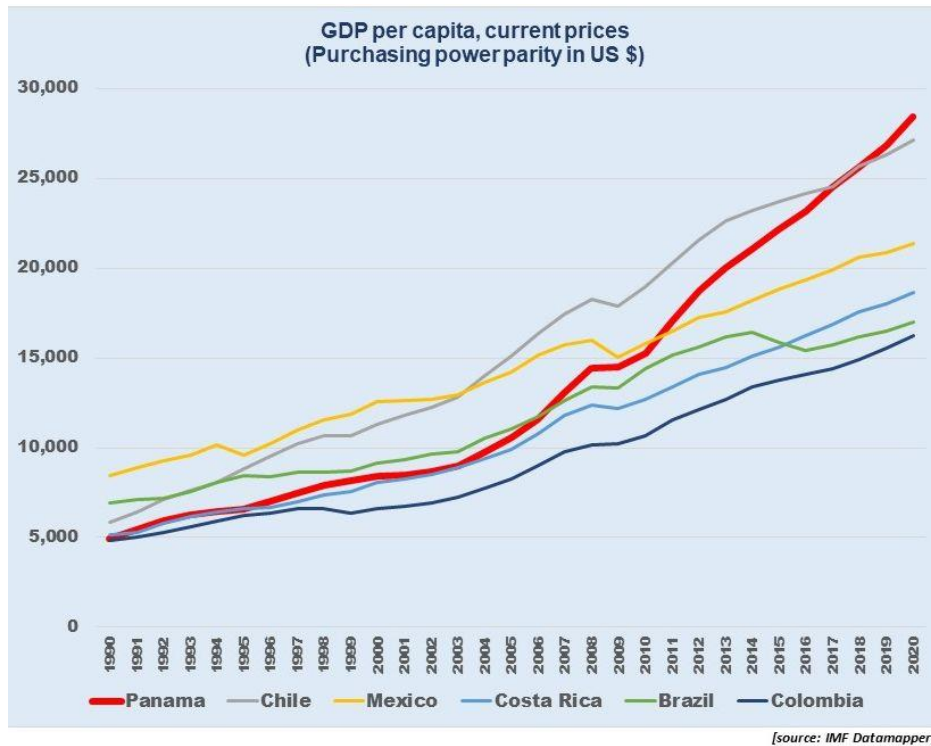
When a nation faces a severe financial crisis, money can come from two basic sources – income or loans, separately or in combination. So what about Panama?

I am not going to write a book. In terms of income, I will share three simple graphs to make a point. The first is per-capita (per-person) GDP (think “national income”) taking into account inflation and different costs of living. This is specifically designed for comparing nations, not households or individuals.

It is especially important that the total national income is divided by the number of its citizens. Why? If you are single and being paid \$50,000 a year, and your neighbors are a married couple with two children and also an income of \$50,000 a year, who is better off?

This gives me the opportunity to say something I say in nearly every report when discussing national income. “It is not only how much money you make, but how many mouths you have to feed.” Brazil has an economy 30 times larger than Panama, but it also has 50 times our population. So even though their national income is much higher than ours, they have far more mouths to feed than we do. So let us compare six nations, including Panama.

I have emphasized the red Panama line by making it wider so you can easily compare it to our two neighbors (Colombia and Costa Rica), the two “major” Latin American economies (Brazil and Mexico), and Chile, the #1 nation in Latin America on this measure until very recently. The lines below are from January of 1990 through March of 2020 and do not yet reflect the impact of the pandemic.



Now, all of these nations can expect to go down for this year when the final results are in, but you can quickly see that they are not starting from the same position. With nations, as often with individuals, success breeds success. That is a nice way of saying the rich get richer.

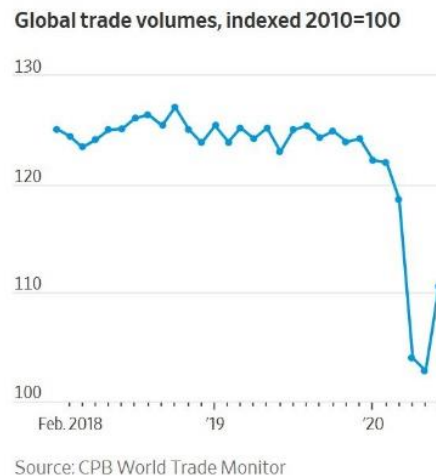
Latin America has a basic problem. For most nations, what they can offer to sell is not unique. Generally, they derive most of their income from one or more of these areas: agriculture, oil, mining, tourism, and manufacturing.

All five of these have been disrupted either by the pandemic or other economic forces (the decline in oil prices for example). What you really need at a time like this is a source of income that is a “service” that is easy for you to provide from decades of practice, useful to those who want it and are willing to pay for it, and that no one else in your region can replace with something better.

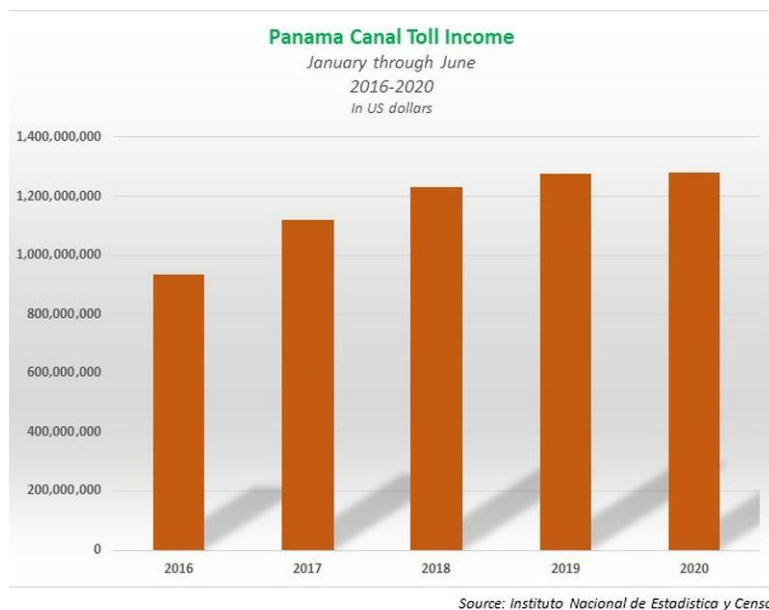
In Panama, we call that the Panama Canal.

But Bob, will the Canal’s traffic collapse?

To give you some idea of the global situation, here is global trade of all kinds through May of this year.



Now let us take a look at the Canal's income (remember, we are looking for money, not number of trips) for the first six months of this year compared to earlier years. That is three months pre-pandemic and three months post-pandemic.

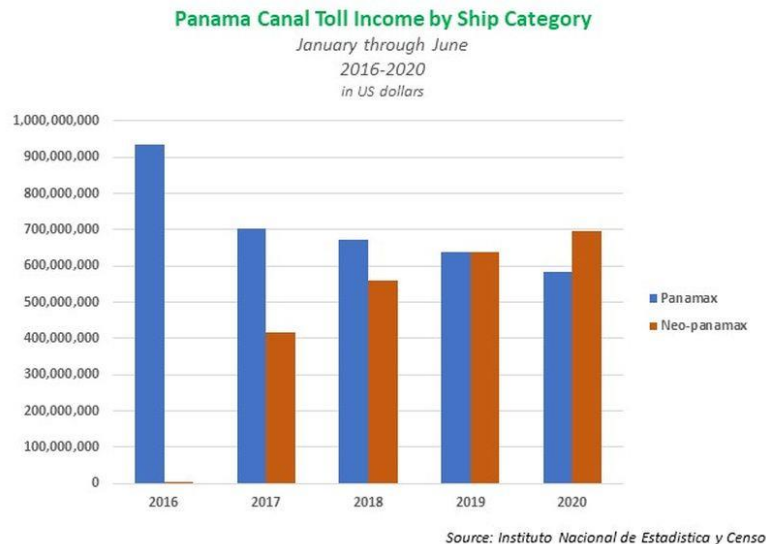


That does not look too awful, does it? The Panama Canal Authority will tell you that the second quarter was lower than the first quarter. They estimate a 5% overall decline by the end of 2020.

Many, if not most, nations of Latin America have already lost a lot more than 5% of their normal annual income from their most important export or service (like tourism) and things are not expected to improve quickly.

I will take just a moment to share something more about the Canal. The Canal Authority had argued that the Panamax ships (ships built to the maximum size for the old Canal) were being replaced by larger ships and the Canal needed to meet the demands of the future.

From its 4-to-1 approval in a national referendum held in 2006 through to its final completion in 2016, the Panama Canal expansion was an amazing effort. But the real question is simple. Did it work? The next graph shows the same numbers as above, but divided between the smaller Panamax ships and the much larger Neo-Panamax ships that can now fit in the expanded Canal.



I would say they did their job well and we can be thankful for that.

Just a minute, Bob, what about debt?

It is not a pleasant topic, but a necessary one. In reaction to the damage caused by the pandemic, nations are piling on debt. Big nations, little nations, “advanced” markets, “emerging markets”, “frontier markets”, socialist economies, capitalist economies, “mixed” economies, and a variety of other categories that are meant to simplify our discussions, but typically make them more complicated.

No graphs, no charts, no jargon, just two examples.

The AES Corporation is a US-based Fortune 500 company that generates and distributes electrical power. It is well-established and profitable. They have been active in Panama for many years successfully. Recently, they offered 10-year bonds to raise \$1.38 billion (\$1,380 million). They received offers to buy \$5.5 billion (\$5,500 million). It was clearly a popular sale. It was the largest transaction made by a private entity in the international capital markets in Central America and the Caribbean. They got an excellent interest rate of 4.375%.

Banco Nacional de Panamá, the government's bank here in Panama also recently offered 10-year bonds to raise \$1 billion (\$1,000 million) carrying the nation's risk rating. They received offers to buy \$4.8 billion (\$4,800 million). It was clearly a popular sale. Their interest rate? 2.5%

Yes, Panama has borrowed and will borrow more, but they go to the market only when they need to. They will get the money they need because Panama has carefully maintained its investment-grade risk rating for over a decade now, one of the six Latin American nations that qualify (the others are Uruguay, Peru, Chile, Colombia, and Mexico).

Agencies and investment firms looking for a productive way to place a huge loan at a low-risk level during a crazy global pandemic that could lead to a depression take their "due diligence" very seriously. If you pass the test, they are there for you while others have to beg or pay much more, including double-digit interest rates.

Never forget, Panama does not print its own paper currency. It uses the US dollar. *It must earn every single dollar it spends or uses to pay down debt, every single dollar.* Charity is not for us.

Yes, we will have steady income from the Canal and other projects. For example, one of the world's largest copper mines which most people forget about and which is still ramping up but has already surpassed agriculture as a contributor to Panama's national income.

Panama does *not* have all the money it needs and Panama does *not* want more and more debt, but it is the envy of its neighbors and that is an under-statement. We are blessed to have what we have.

Okay, it is time to take a look at the second and final factor for today.

Working Together

"A house divided against itself, cannot stand."

– Abraham Lincoln

In Panama, you will find Panamanians with very strong views on the pandemic and how best to deal with it. Those views are strongly positive, strongly negative, or something in-between, but I can assure you of one thing. Every view has its supporters and they can be very sure of themselves and convinced that everything would be okay again, if only they were in charge. As one friend put it, she had no idea there were so many epidemiologists in Panama, obviously several thousand.

We have had many questions raised as to poor implementation, corruption in contracting, lack of adequate safeguards, when to open businesses, when to open schools, when to open the nation to foreign arrivals, and on and on. These and other issues all have their "citizen experts" and that is not only human, that is democracy. More power to them.

However, Panamanians are very unlike many other cultures, including other Latin American cultures. Panamanians draw a line on public behavior. You can have any opinion you like. You can publish it, as long as you do not commit libel. You can speak out in any public forum. You can disagree with each other as much as you want and support efforts to change policies.

But you do **not** scream obscenities and hate language at those who disagree with you. You do **not** threaten each other with physical violence. You do **not** carry guns to intimidate others. You do **not** set cars or buses or Metro stations or anything else on fire. You do **not** fight with the police and vice-versa.

If you have a demonstration, you will declare in advance and follow your chosen route, without using threats of violence or hate language and the police will not interfere. When one group wanted to demonstrate against a pandemic policy, but did not want to break social distancing, they turned it into a caravan of cars. Instead of standing in the street to block traffic (the common way to get attention without hurting anyone or their property), they just slowed traffic down...a lot. And they were heard. They did not succeed in getting the changes they wanted then, but they got their point across, shared it with everyone (it was on radio, tv, websites, social media, etc.), and no one was hurt and no property defaced or destroyed.

I said it recently at the YouTube channel and I will say it again here. I have seen cities in other Latin American nations, in Europe, in North America, and in Asia where there has been more violence, hatred, and destruction in a single day than we have had in all of Panama in five months of quarantine.

I cannot over-state how important this is. We are not “sheep”. Citizens and residents, we all are quite capable of making up our own minds and acting on that if we think it is necessary. But in the 16 years since I arrived, I have seen fewer public demonstrations that have “gone wrong” than I have fingers on one hand and none of those were remotely close to what is “normal” in many other nations on issues far less deadly than a pandemic.

Simply put, when Panamanians are confronted by a threat from outside Panama, they turn from their own disagreements and face it together. They will discuss it constantly while it is underway and there will be plenty of disagreement and finger-pointing when it is over and usually some lawsuits, but it will not be allowed to break that common front when the fight is on.

Many people will probably think the two factors I have chosen are not as important as I think they are, especially the second one. But if you want to see what happens to a country that has no money, a society divided into warring factions that cannot agree on anything, take a look at Lebanon today. It will not be on anyone’s “Top Ten Places to Retire” this year.

Enough current events! So what about real estate?

I know, I have not forgotten! There are a lot of you who are seriously thinking about relocating to Panama and, if you do, you will need somewhere to live, whether you buy or rent.

When I sat down a few days ago, it was with the thought that Tocumen International Airport would be accepting commercial flights and some of you could be headed down fairly quickly. Well, that changed and the opening is now set for mid-October, god willing!

However, we are now moving clearly to a much more open society internally. It will help us know if we can safely open to visitors from the rest of the world without a massive hit on our over-worked health system.

I will list some general observations based on what I do know and have come to believe from watching the market for nearly 17 years and keeping track of current activity as best I can, sitting in my apartment in quarantine. As time goes by and we see how things go, I will add or subtract based on more direct experience with the post-pandemic market.

- ✚ I know many of you spend considerable amounts of time reading the real estate ads for sale and rentals on the Internet. Please keep in mind that the prices you see are frequently unchanged from their pre-pandemic prices. Those that mention the pandemic directly or indirectly are looking for the max they can get, just as you would in their position. In any case, do it in order to see what the homes look like and what amenities they offer. The price will be clear once you are here, but if it is any comfort, it is *highly likely* to be less than what you are seeing on the Internet, possibly a great deal less. Sellers do not put their “best price” up on the Internet before you even get here. Would you?
- ✚ In my mind, the most over-priced properties are those along the Pacific beaches to the west of Panama City. Many of you have heard it referred to in general as “Coronado” which is indeed found there but is only one of several beach areas along the coast. I have been warning people in real estate for the last few years that these properties were over-priced and people at my website and YouTube channel were complaining. It did not do us any good. This beach area has been in serious trouble for some time and the pandemic made a bad situation much worse.
- ✚ As a result, you can get good deals on the coast. I know some who have gotten 40-50% discounts but they buy half a dozen or more condos in one sale. If you have cash and will purchase multiple properties, you will have no trouble finding people to talk to. Single properties will sell for smaller discounts, of course.
- ✚ But keep certain things in mind. For example, some of these properties have been sitting there near the ocean for a long time unsold. Have they been properly maintained? If a major maintenance problem is not obvious but appears after the sale,

who is responsible for correcting it? If it is a development, what proportion of the homes have been sold to people living there? Or is it a “ghost town” most of the time? Is there a plan in the event that coastal flooding or beach erosion becomes an issue? No one here in real estate with beach properties wants to hear that, but the day is coming, sooner than they think, when that question will come up from potential buyers.

I think beaches are wonderful, but if I were buying at the beach in Panama or any other coastal nation, I would take these matters seriously *before* they become an issue with others, so they do not become an issue...for you.

If the ocean is a “must have”, then consider renting for now while you do your real research on-site. Last but not least, if buying, remember owner-occupied housing *may* have been better maintained than empty development housing.

✚ The mountains are fine. Most of Panama is bisected from west to east by a mountain range, so there is quite a lot of mountain territory, but the two areas most preferred by buyers are 1) the Boquete/Volcan area in the far west of the nation, and 2) the El Valle de Anton/Altos del Maria area in the center of the nation. The first area is higher up and is the closest thing you will find to a “temperate” climate here. They have some of the finest coffee in the world and that is no exaggeration, plus Boquete is noted for its annual flower festival among other things. The expat community in this area is primarily made up of people from the US and Canada.

The second area is not as high up so it is cool, but not as cool and it is much closer to the beaches and the city with its hospitals, international airport, and other amenities. El Valle’s “Sunday market” is a very popular place to visit and the town has become quite a center for artists and artisans. The expats of this area are from a wider variety of national backgrounds. Included are many higher-income Panamanians who need to be near the city for their jobs and have weekend/vacation homes in the central mountains.

Both areas are beautiful and both have their ardent fans, just like the beaches.

✚ The Panama City metro area is home to a lot of expats, but most are not retirees. They are all ages and typically engaged with the large international business community. Many have started their own businesses. Here you will find a wide variety of Europeans who have been arriving in greater numbers in recent years. Panama City is very “international” and has greatly improved in many ways over the last decade.

As a result, more people are considering it for a residence. It is possible that the pandemic will increase interest in the city because it is near the best health facilities and the international airport. In any case, there is a large surplus of unsold or unrented properties and prices are much lower than in recent years, often as low as can be found in some areas far outside the city. It is definitely worthy of your consideration too. If we can help you through our Metro Match program, let me know.

✚ Beyond this, there is one warning I share with everyone before they come down the first time. You may end up on mailing lists that write you excited emails and web links, the kind with plenty of exclamation points, pretty pictures, and above all, a “special deal”. Ah yes, the special deal where the word “guaranteed” often pops up!

I am not going to pass judgment on them. They may be precisely what they say they are...or not. In any case, ***do not focus on the deal, focus on the details***. You almost never find the details in what you read. Perhaps the most obvious question is, precisely what do you mean by “guaranteed”? Exactly who guarantees it? And who guarantees them? Businesses are going under all over the world as a result of the pandemic, so that information is critical. In any case, *never* commit in writing or even in your head to a special deal until you know every detail and can ask questions in person.

✚ Finally, there is one other general area I want to mention briefly. Along with all the special deals on real estate will come special deals on starting a business in Panama. I have no problem with this. I have known expats who have been very successful starting their own business. I know others who have been very disappointed. Treat such special deals just like the real estate special deals. If it interests you, put it on your list to visit or discuss when you are here and can see things for yourself, but as with real estate, any commitment you make before you arrive is a mistake and no one should ever ask you for that anyhow. The Romans figured this out a long time ago. *Caveat emptor!* Let the buyer beware!

It all boils down to one basic recommendation. Get down here when you can and look for yourself. The Internet is a wonderful tool, but it is nothing compared to your eyes, ears, and brain.

Summing it up

***"Always remember that you are absolutely unique. Just like everyone else."
– Margaret Mead (anthropologist)***

Each of us has his or her own story. We each choose the path we take every day. Once in a while, we find we are walking down the same path. That may be the only thing we have in common, but it is powerful.

Whatever lies ahead, it will be different than we expect. No one, Bob Adams definitely included, has any right suggesting that he or she knows what the future holds. This may seem especially true when a crisis is underway, but the truth is that it is always the case.

I see great possibilities for this small nation. We are often compared to Singapore and so many people laugh, but Singapore was a confused collection of competing political, ethnic, and religious factions swamped in corruption in 1965 and stranded on tiny islands that could neither supply them with the food nor the water they needed.

Frankly, no one really thought they had any chance of making it work. I know, I was not far away in the Philippines and we were not expecting Singapore to survive, much less flourish. Well, it worked out a little differently. It is appropriate that Panama sees Singapore as an inspiration.

Whatever the future holds, it cannot be and will not be a total disaster. Humans are not even capable of getting everything wrong, much less right! But it can be a good future for all of us, wherever we choose to spend it. May it be everything that you want and more!

And now, the words that have ended every one of my reports for 16 years. A simple reminder that a little humility is always appropriate. I read them every time too.

“No one knows the future. Free markets go up and free markets go down. The future is not a simple extrapolation of the present. Anything can happen. Everyone has an opinion and those words above are just opinions.”