

Country Market Profile: Brazil

Euromonitor reports that Brazil's economy contracted substantially in 2020. Domestic activity has been affected by measures taken to contain the Coronavirus (COVID-19) pandemic; although there are signs that a recovery got underway in the 3rd quarter of 2020. Meanwhile, external demand is being stifled by the global slowdown. Assuming the pandemic is contained; the Brazilian economy should bounce back in 2021, with real Gross Domestic Product (GDP) growth of 3% in 2021, and annual growth averaging around 2.4% per year in 2025-2027.

- Brazil's economy experienced a sizeable recession in 2020. Real GDP increased by 1.4% in 2019 and a fall of 4.1% happened in 2020.
- The real value of private final consumption rose by 1.8% in 2019 and a decrease of 7.3% was forecast for 2020. Spending has been hampered by quarantines and social distancing.
- China is emerging as an especially significant investor. Beijing has recently acquired a controlling interest in Brazil's second-busiest port by volume. Other Chinese companies have started building and bidding for additional ports and railways.
- Assuming the pandemic is contained; the Brazilian economy should bounce back in 2021, however, due to tightening global financial conditions, placing Brazil on a path of strong and durable economic growth will require committed pursuit of fiscal consolidation, ambitious structural reforms, and a strengthening of the financial sector.

A decision to restart trade negotiations with the European Union, (EU) and the start of a wide-ranging free-trade agreement with Mexico are encouraging moves which could boost trade in the medium term. Local content rules have also been eased, but trade barriers remain high.

In 2019, population reached 211 million, an increase of 36.3 million since 2000. The median age was 33.1 years in 2019, 7.8 years greater than in 2000. Fertility has been falling rapidly but it is still 1.7 births per female. The downward trend will decelerate in the future, reaching about 1.6 births per female by 2030. Sterilization, abortion and programs for family planning are driving the decline.

The number of those over 65 years more than doubled in 2000-2019, reaching 19.5 million by the end of that period. However, this group still accounts for just 9.3% of total population – a relatively small share compared with most countries. Demographers expect the ageing process to accelerate in the future, with the share of those over 65 years reaching 13.6% of total population by 2030.

USDA's Agricultural Trade Office, ATO, in Sao Paulo, hereinafter referred to as "Post" also reports that the Brazilian food industry is well developed, and major multinational companies' presence makes the sector very competitive. In terms of price, U.S. products do not compete with domestically produced goods or Mercosul origin products. When a product imported from the United States (and other nonMercosul

members) reaches the Brazilian market, it will most likely fit in the premium price category due to the exchange rate and the applied import tariff

Brazil is the 11th largest U.S. export market for consumer oriented food products in Latin America. Total U.S. consumer food exports to Brazil dropped 3% to US\$217.3 million in 2020. That represented nearly 20% of the agricultural total. Brazil imported US\$190.6 million in processed foods from the U.S. in 2020, ranking 10th in the region and a drop of 11%. Top processed food exports to Brazil in 2020 included:

- Food Preparations & Ingredients
- Alcoholic Beverages
- Fats & Oils
- Syrups and Sweeteners
- Processed/Prepared Dairy Products
- Chocolate & Confectionery
- Prepared/Preserved Meats
- Condiments, Sauces, Jams & Jellies

Certainly Brazil is going through a difficult time, but the food sector is a key sector for the country and has been less affected than other sectors of the economy. Brazilians spent around 17% of their disposable income on food and this remains unchanged. Brazil continues to be an attractive consumer market. Half of the country's population is considered middle class and around 16 million are at the top of the social pyramid, the very rich consumers.

Advantages & Challenges in the Brazilian Food Market

Advantages

- Retailers offer foreign goods to differentiate themselves from competitors, develop new niche markets, and gain high-end consumers' attention.
- Price is not always the determining factor for high-end consumers.
- Brazilian importers are frequently searching for new-to-market products, as they must update their portfolio in order to compete.
- The U.S. food industry is able to respond to consumer demand promptly, regardless of the segment of products.
- U.S. exporters are inclined to work with high volumes and different partners.

Challenges

- Imported products fall in the luxury goods category. Consumers easily associate Europe with sophistication and tradition, which gives some advantage to European companies.
- High-end consumers are more demanding regarding other aspects of products, such as innovation, packaging, status, new trends, etc.

- Importers tend to buy small quantities to test the market. U.S. companies are usually not predisposed to sell small volumes.
Consumers perceive U.S. food products to be overly processed and relatively unhealthy.
- Retailers and distributors are cautious when importing new-to market products and often start with smaller orders. Exclusive contracts are a common clause to Brazilian companies.

Post suggests that when approaching the Brazilian market, exporters should be aware that most imported foods and beverages are not priced competitively compared to locally produced products. The Brazilian food industry is well developed and major multinational companies have a consolidated presence in the market, making the sector highly competitive. A common mistake U.S. Company's make is assuming that products that fit well in other Latin American countries will fit well in the Brazil market. In general terms, a product imported from the United States or Europe reaches 3-5 times the Ex-Works (EXW) price at retail. U.S. exporters should bear in mind that when an imported product reaches supermarket shelves it will fit in the premium price category. For this reason, premium attributes must be recognized by consumers.

Retail Sector:

According to Euromonitor, retail sales in the packaged food market in Brazil had been estimated to reach US\$82.1 billion in 2020. That makes it the largest in Latin America and the 8th largest in the world. That also represents a growth rate of 23.9% or US\$15.8 billion since 2016. The forecast for growth in this market is also quite promising. By the year 2025, the retail sales in the packaged food market in Brazil is expected to reach US\$117.5 billion, a growth rate of 32.5%, or US\$28.8 billion. High growth rates in the forecast included:

- Pet Food
- Ready Meals
- Sauces Dressings & Condiments
- Processed Fruit & Vegetables
- Baked Goods
- Rice, Noodles & Pasta
- Processed Meat & Seafood
- Cheese

Euromonitor reports that Brazilian supermarkets registered positive sales growth during 2020 despite the pressure that came on consumer spending over the course of the year due to the COVID-19 pandemic. Supporting positive growth in the channel was the essential status of supermarkets, which ensured that all outlets in the channel were allowed to remain open throughout the year, even during the quarantine lockdown period. The lockdown performed a key aspect of the official response to the COVID-19 situation and saw severe limitations placed on the ability of retailers in channel designated as non-essential to operate. Furthermore, with on-trade service banned across Brazil's entire

hospitality industry during the quarantine lockdown, consumption of food and drink shifted to the off-trade, further benefiting supermarkets and other grocery retailer's channels that were allowed to remain open.

However, some pressure did come on supermarkets during the year as the dramatic shift towards food and drink e-commerce that flowed from the COVID-19 situation robbed the channel of significant sales. The increased preference for e-commerce as a source of groceries was tied to the efforts of consumers to comply with social distancing measures, with some of the leading players in supermarkets resorting to deep price discounts in an effort to attract consumers and maintain levels of consumer foot traffic in their stores.

As the COVID-19 situation unfolded in Brazil during the second quarter of the year, many of the country's supermarkets adopted special measures in their stores to protect their staff and customers by reducing the risk of exposure to the COVID-19 virus. Furthermore, some of the leading supermarket chains in certain parts of the country also designated specific hours of the day for serving only customers from at-risk groups, specifically elderly people. This was often first thing in the morning, offering the elderly the opportunity to go shopping without fear that they could contract a potentially serious dose of COVID-19.

One of the main factors spurring strong sales in supermarkets over the course of 2020 was the surge seen in sales in the channel during the initial phase of the quarantine lockdown. This was due to the widespread stockpiling that was seen among consumers living in major urban areas. Among the products most commonly sought out by consumers interested in stocking up were products that were generally regarded as fairly essential, including notably hand sanitizers, toilet paper, nappies/diapers, home disinfectants and soft drinks, specifically carbonates and juice.

With some consumers hoarding huge volumes of such products, the shelves of many supermarkets were left empty for much of the time during the days following the announcement of the quarantine lockdown. However, this stockpiling was a merely ephemeral phenomenon and thus did not cause any major disruptions to the operations of retail chains or their suppliers for an extended period of time.

Post advised U.S. suppliers and other stakeholders that when launching new-to-market products, Brazilian buyers are hesitant to purchase full containers of single products while, on the other hand, U.S. suppliers are often unwilling to deal with small volumes. Oftentimes exporters are cautious to do business with a single supermarket chain as their perception of reaching consumers through a single source does not seem attractive. Post advises this perception does not always correspond to the reality. It is a matter of strategy, as retailers may achieve significant market penetration.

Best Product Prospects:

Post reports that Brazilian importers are generally looking for well-known brands and high-end products. They usually prefer products with one year shelf-life or more. In

addition to the product itself, packaging, status and level of innovation are important attributes. Products that combine these characteristics are more likely to successfully enter the market. The food categories that are most frequently exported to Brazil from the United States are: dairy products, fresh fruit, processed fruit, processed vegetables, fruit and vegetable juices, tree nuts, chocolate and cocoa products, snack foods, breakfast cereals, condiments and sauces, prepared food, wine, beer, distilled spirits, non-alcoholic beverages (ex. juices) and fish products. Other food categories that are getting more supermarket shelf space are products for special diets, such as lactose and gluten free products.

Food Service Sector:

Post reports that the Brazilian food service sector is characterized by small-to-medium size, family-owned establishments. Large size and multinational companies account for less than 5% of the total number of operators. In 2019, the food service industry accounted for US\$117 billion by the Brazilian Food Processors' Association (ABIA). Compared to the previous year, results were quite similar to the food processing and retail sector, 7% increase in nominal terms, and 3.1% increase in real terms. In 2020, COVID-19 outbreak left this sector in a very critical situation. According to a research conducted by the Bars and Restaurants Association (Abrasel), a quarter of businesses have closed their doors since March. For the business that is still opened, 71% state revenues in 2020 are expected to reach 60%-70% of the 2019 level.

Considering there were no significant changes in the food service market structure, the Brazilian Food Processors Association (ABIA) maintained its estimate of approximately 1.3 million food service outlets throughout the country. Over 95% of these establishments are characterized as small-medium size, family-owned businesses. The presence of large size companies and multinational food service chains are marginal compared to independent operators. A vital characteristic of the Brazilian food service sector is informality; therefore, analysts frequently refer to sales of the food processing industry directed to this channel to estimate its size. In 2019, the food service sector responded for 33% of Brazilian food processors' revenue of US\$46.9 billion.

Post suggests that in this sector U.S. exporters should look for opportunities to occupy niche markets. The growth in the Hotel Restaurant Institutional (HRI) sector has led import companies to create specific divisions to assist the sector. Restaurants, snack shops, bakeries and pastry shops tend to buy imported products from local companies. Direct imports rarely occur in this sector as imports seldom reach the appropriate volume to justify such an operation. Nevertheless, executives from this sector frequently travel to the U.S. and Europe to investigate new trends. They are opinion leaders and can influence buying decision.

Best Product Prospects:

- Food service unit packages, one-year shelf life or more is desired, especially those produced by companies that own well-known brands.

- Functional packages and innovation are considered important attributes.
- Products that optimize kitchen processes such as dehydrated, lyophilized, pre-cooked and prepared mixes are in high demand.
- Natural, organic, and healthier products are top niches among more affluent consumers (although the organic segment is an attractive niche, costs to comply with the Brazilian legal framework may make sales of small quantities unfeasible).
- Products and ingredients for consumers with food allergies and intolerances are growing segments.

Food-Processing Sector:

Post reports that Brazil continues to present opportunities for U.S. exporters of ingredients, with its food processing industry market estimated in 2020 at US\$152 billion, an increase of 12.7% compared to the previous year. The sector is comprised of over 37,700 companies, of which the vast majorities are small and medium-sized industries. High-performance ingredients that add value to products will continue to show good market potential in the country. Although Brazil's economic situation was heavily affected by the COVID-19 social distance measures, the country's food industry kept its resilience and is expected to grow in 2021.

Brazil imported US\$3.1 billion of intermediate food products in 2020, an increase of 12% compared to 2019. The major suppliers of intermediate products to Brazil are – Argentina, the United States, Portugal, Uruguay, and Indonesia. Argentina and Uruguay, as Mercosul members, benefit from duty-free treatment. The expressive growth in ingredients imports can be attributed to the good performance of the food and animal feed industries in 2020.

The retail sector sales amounted to US\$84 billion (R\$433.4 billion) and the food service purchases from the local food processing industry accounted for US\$26 billion (R\$139.9 billion), an increase of 12.7% and a contraction of 24.3%, respectively. The food and beverage sector is responsible for 10.6% of the Brazilian GDP and employs approximately 1.6 million workers. Investments in the food industries, including mergers and acquisitions (M&As), expansion of manufacturing plants, investment in Research and Development (R&D), acquisition of machinery and equipment, reached US\$4.1 billion (R\$21.2 billion) in 2020, which corresponded to 2.7% of the total revenue of the sector.

Best Product Prospects:

Post reports that U.S. products in the market with good potential include animal feed preparations (non-pet), food preparations, enzymes & prepared enzymes, other edible mixtures preparations of fats, oils, odoriferous substances & essential oils, milk albumin, including concentrates of two or more whey proteins, hop cones, in the form of pellets, peptones & derivatives, mucilages & thickeners & vegetable saps and extracts of hops and products consisting of natural milk constituents.