

Country Market Profile: El Salvador

Euromonitor reports that in 2021, El Salvador's economy expanded in real terms, driven by increasing domestic consumption, public investment and external demand. However, the persisting pandemic-related risks, supply constraints and global inflationary pressures raise uncertainty and weigh on the country's economic outlook.

- The unemployment rate is expected to fall by 1.3% to 8.2% in 2022 - above the pre-pandemic level, yet lower than the average of 11.5% in Latin America in 2022.
- Inflation in El Salvador is forecast to slow down to 2.9% in 2022 from 3.0% in 2021.
- While El Salvador's merchandise exports increased by 26.2% and imports rose by 41.7% during 2021, the country remained a net importer of goods.
- Gross Fixed Capital Formation (GFCF) in El Salvador rose in real terms over 2021, as a result of strong economic recovery, fiscal stimulus measures and favorable financing conditions.
- The public debt-to-gross domestic product (GDP) ratio in El Salvador fell to 81.2% in 2021, which was higher than the regional average of 69.8%.

El Salvador is the smallest country in Central America. Its population is an estimated 6.5 million inhabitants, and approximately 62% of people live in urban areas, with about 1.8 million living in the capital, San Salvador.

USDA's Office of Agricultural Affairs, (OAA), in San Salvador reports that according to Central Reserve Bank's data released on March 31, 2022, El Salvador's economy registered a growth of 10.3% during 2021, a recovery that surpassed production levels observed before the start of the COVID-19 pandemic. For 2022, the International Monetary Fund (IMF) has forecasted a growth of 3.2%, mainly driven by an increased external demand and the country's response to the pandemic, where over 60% of the population has completed their vaccination scheme. In 2021, El Salvador's main trading partner continued to be the United States, which supplied 27% of total imports and received 39% of Salvadoran exports.

U.S. exports of consumer oriented food products to El Salvador totaled US\$271 million in 2021, which is about 35% of the agricultural total and outstanding growth of 43% along with a new record high. El Salvador is the 5th largest export market in Central America for processed food products from the U.S., importing US\$204 million from the U.S in 2021, an increase of 36% and another new record high. Top U.S. processed food exports to El Salvador in 2021 included:

- Food Preparations & Ingredients
- Processed/Prepared Dairy Products
- Processed Vegetables & Pulses
- Condiments, Sauces, Jams & Jellies
- Non-Alcoholic Beverages
- Fats & Oils
- Chocolate & Confectionery
- Alcoholic Beverages

Market Opportunities and Key Issues in the El Salvadoran Food Market:

Market Opportunities

- U.S. agricultural and food products are sought after by El Salvador's hotel, restaurant and institutional (HRI) sector, as they have an excellent reputation among consumers and are known for their high quality and food safety standards.
- Major retailers are developing increasingly sophisticated distribution systems, which will provide more space and better cold chain technology for high-value imports.
- The implementation of US-Central American-Dominican Republic Free Trade Agreement (CAFTA-DR) lowered or eliminated duties for most U.S. food products.
- With the recent boom in urban developments and expansion of shopping centers, new retail outlets are available to sell more U.S. food products.
- Exposure to U.S. media as well as language, culture, and commercial ties to the United States, contributes to positive attitudes toward U.S. products.

Challenges

- U.S. agricultural and food products are more expensive than some regionally available food products. Guatemala, Canada, Mexico, and Chile are strong competitors.
- Importers tend to buy small quantities to test the market. In general, U.S. companies are not interested in exporting small quantities.
- High marketing costs (advertising, discounts, sampling, etc.) make it difficult to promote new products.
- Security issues along with increasing costs of distribution, limit the ability of stores to promote products at the national level.

Transportation costs are key, therefore the preferred method of shipping is from Miami to Guatemalan ports mainly, although some may come through Panama, and then move via ground transportation to El Salvador. Due to an increase in corporate social responsibility programs, local sourcing of mainly fresh produce and other perishable products is growing, and supermarkets have different programs to assist farmers to deliver high quality products.

Retail Sector Highlights:

Euromonitor has estimated that the retail sales of packaged food products in El Salvador will reach US\$2.2 billion in 2022. This also represents an increase of US\$181.9 million or 8.6% from 2018. They also forecast the packaged food market to grow to US\$2.5 billion by 2026, an increase of US\$241.4 million and 10.6%. High growth categories in the forecast include:

- Cheese
- Dairy (ex. Cheese)
- Breakfast cereals
- Soups

- Processed Meat, Seafood & Alternatives to Meat
- Edible Oils
- Savory Snacks

FAS San Salvador reports that the Salvadoran retail sector has remained strong and stable amidst the pandemic of COVID-19. Despite the long confinement of approximately three months, Salvadorans continued to shop at supermarkets either in person (with some restrictions) or online, as major supermarket chains revamped their online stores. There are two leading supermarket chains in El Salvador: Super Selectos and Walmart Mexico y Centroamerica. Most consumers prefer to shop at supermarkets because of the perception that they are cleaner, safer, and have more diverse offerings than open-air markets. Super Selectos is the largest supermarket chain, followed by Walmart.

According to a recent study by a local marketing firm, supermarkets in El Salvador account for approximately 40% of all food retail sales in El Salvador, valued at US\$1.7 billion. It is difficult to obtain specific data as supermarkets are reluctant to release exact sales information.

Super Selectos is a Salvadoran-owned retailer, currently with 102 stores and an aggressive plan of expansion that includes opening 15 more stores in the next 3 years. They plan to achieve this by partnering with commercial developments across the country to be an anchor store in those shopping centers. Super Selectos store layouts have evolved to lure consumers in and provide a more comfortable shopping experience by redesigning their stores to include wider aisles, cafeterias, and energy-efficient technologies. The Super Selectos online store was revamped during the pandemic and reported sales skyrocketed during the confinement, registering a growth of 1,200%

Walmart Mexico y Centroamerica is the largest retailer in the region with over 600 stores. In El Salvador, it has 101 stores under different formats: Walmart Super Centers (6), Despensa de Don Juan (17), Maxi Despensa (15) and Despensa Familiar (63). Their main competitive advantage is their large and diverse offering of non-food products such as apparel, electronics and housewares at affordable prices, functioning as a “one-stop shop” for busy people.

PriceSmart El Salvador, S. A. de C. V.: with headquarters in San Diego, California, PriceSmart has two stores in El Salvador—both of which are located in the capital city of San Salvador. Similar to membership warehouse clubs in the United States, it carries a mixture of groceries (especially large sized items), apparel, electronics, household goods, and automotive parts. It is one of the preferred food retailers for large families and restaurant owners.

Approximately 60% of food/beverages sales still occur at mom-and-pop stores, open-air markets, discount stores (dollar stores), and increasingly at gas station convenience stores. It is estimated that there are around 70,000 “mom-and-pop” stores in El Salvador, and according to the most recent data available by a local marketing firm, it is estimated that their sales are approximately US\$2.8 billion. Lower-income consumers are their main customers, and they prefer small-sized/individual packages. Dollar, or discount

stores are expanding their shelves to offer a wider portfolio of food items, mainly ready-to-eat products such as ramen soups, candy, cookies, and beverages. However, the product portfolio has increased and now there are different food preparations available such as pancake mixes, sauces, pasta, and oils. Convenience stores at gas stations are now offering more than light refreshments and ready-to-eat products. In some cases, food offerings include homemade style meals and specialty coffee drinks available throughout the day, making these stores a good opportunity for higher quality food products and/or ingredients from the United States.

Best Product Prospects:

FAS San Salvador reports that health and nutrition are no longer a main concern for only higher-income consumers. With the pandemic, more Salvadorans have become conscious of their health and are seeking products to boost it through good eating habits. Therefore, there is a stronger demand and potential for products that are made with more natural ingredients, organic, fat free/low fat, gluten free, unsweetened or reduced calories (including beverages).

Categories of interest are: organic foods and beverages; dairy substitutes: vegetable “milks” (almond, soy and coconut, in both unflavored and flavored varieties). cereal or oatmeal with ancient grains such as quinoa, chia, and amaranth; lactose-free/gluten-free/sugar-free beverages; whole wheat bread and/or seeds-base products: granola bars, flaxseed products; artisan-made and special sauces and condiments; energy boosters: shakes, juices, energy bars, natural juices, both regular and reduced sugar content (targeting children); specialty dairy products (herbal butter, European-style cheeses, etc.); sugar-free and gluten-free cookies, candy, baking mixes, etc; deli meats and specialty seafood (100% U.S. origin) and ready to serve platters.

Food Service Sector Highlights:

FAS San Salvador reports that the COVID-19 pandemic has highlighted the fragile nature of the tourism sector in El Salvador, which in 2020 closed with approximately US\$750 million in income, which is at least US\$1 million less than projections for foreign tourism and a 10-year set-back, according to some sector’s analysts. Latest data available shows that about 235 restaurants closed completely in 2020 and hotels estimated their losses at about US\$440 million. However, in 2021 the sector’s slow recovery began. El Salvador hosted the ISA World Surfing Games 2021, which attracted close to 500 athletes, generating significant clientele for the week at beach hotels near the competition area.

Given the large diaspora living in the United States, El Salvador is highly influenced by the American culture in general, which includes food preferences. In this regards, a good number of U.S. food franchises have presence in El Salvador and despite the pandemic they continue to perform well. There has been a boom in coffee shops or small bistro-type of restaurants where many solid/large franchises compete with small, gourmet-oriented entrepreneurs that look to sell not only food but a culinary experience. Salvadorans like to get together at coffee shops or small restaurants for breakfast and a lot more for informal/business meetings. The boom in this sector brings more demand for

bakery products, dairy products, cocktails, smoothies, milk shakes, fresh fruits and fruit juices.

Another trend is the opening of different shopping/commercial buildings in different areas of El Salvador. Currently, there are a few office buildings and hotels under construction, among which is Plaza Millennium, a complex of mixed uses: Millennium Residences (a 10-story building and 8 a Pent House) a hotel with about 180 rooms, convention center and sports court, and finally, Millennium Tower, that according to the contractor will be an office building of 110 meters (or 3601 feet) tall, which will make it the tallest building in El Salvador so far. All of these projects represent a great venue to promote imported foods/beverages

Hotels, on the other hand, have started to get more room reservations and in-person events have increased as well. Many hotels re-designed their services offerings, going from delivering to hospitals and other institutions, to offer options for the final consumers, like the “Chef-in-a-Box” concept meals, that were an innovative approach by which hotels discovered a new business niche.

In 2019, the Salvadoran Restaurant Association launched the very first study on the important role that restaurants play in the Salvadoran economy. They reported a total of 784 formally registered restaurants that generate \$709 million in the local economy, representing 2.9% of El Salvador’s GDP. In addition, there are other dining options for Salvadoran consumers, ranging from small cafeterias to traditional food stands, and more recently, food trucks. The latter trend started in 2015 with two food trucks, and now consists of over 25 brands that offer high quality and/or gourmet food options at more affordable prices.

FAS San Salvador reports that the hotel, restaurant and institutional (HRI) sector in El Salvador, as in most places, values fast service and high quality at the lowest price. Local food manufacturers are adapting to package sizes and specific flavor profiles required by the HRI sector, and competing with long-time suppliers from Mexico and neighboring Central American countries. In addition, the HRI sector is working to increase direct import volume of raw materials to reduce costs

Best Product Prospects:

FAS San Salvador reports that high value products offer good market opportunities in El Salvador include that since El Salvador is a heavy baked products consumer market, so there is still potential for baking inputs, as well as dairy products, fruit/vegetable juices, premium beef and lamb cuts, eggs and egg products and deli meats.

Food Processing Sector Highlights:

FAS San Salvador reports that El Salvador’s global imports of agricultural intermediate products reached US\$566 million in 2021, a 29% increase from 2020. Due to the COVID-19 pandemic, the government enacted some measures that stopped operations of

snacks and carbonated beverage factories, but all other food manufacturers continued operations.

El Salvador has maintained its reputation of being the regional leader in the production and export of snacks, juices, and carbonated beverages, and is in a good position to continue a steady growth in this sector given the ongoing revamping of old highways and the building of new ones to increase connectivity.

The food manufacturing sector has kept a fast pace in terms of increasing production levels. Food manufacturers took the challenging environment caused by the pandemic as an opportunity to evolve and add new items to their food lines. According to the latest data available for the sector, published by the Salvadoran Industrialist Association, a total of US\$987.4 million value of ingredients was imported in 2020, which is about 12% more than in 2019. Cheese, cottage cheese, bovine meat, and sauce preparations were among the main products imported by the food industry in the same period. During 2021 global imports of agricultural products accounted for US\$2.8 billion, much of which is used by the food industry.

With over 10,800 processing facilities, the food and beverage industries play a key role in the Salvadoran economy, representing 30% of the manufacturing sector. El Salvador is a major importer of agricultural products, including food ingredients and a wide variety of consumer-oriented products.

According to the same report, the top products used by the food and beverage manufacturing industry were meats, dairy, bakery inputs, sauces/condiments, and other food preparations, which were collectively valued at US\$987 million. During 2020, Nicaragua was the main supplier for food ingredients (dairy) to the food manufacturing sector, followed by Guatemala and the United States.

Grupo Calvo, a Spanish tuna processing company maintained its position as the #1 regional exporter and the second place was for snack manufacturer Diana. For beverages, Livsmart Americas was the top exporter.

Most food processors are small-to-medium sized, serving the domestic market only. However, some large food and beverage multinationals also have manufacturing operations for export in El Salvador. Some examples are Calvo, McCormick, Livsmart, Bimbo and Coca Cola. Other large food processing companies in El Salvador include Diana, Harisa, and Lactolac, Molinos de El Salvador (MOLSA), Sabores Cosco de Centroamerica, and Eco Foods.

Snack manufacturing is a large segment of the foodprocessing sector. Diana is the leader in this industry, supplying not only the domestic market but also exporting to Central America and the United States. Meat processors are using more U.S. pork to produce deli meats and sausages. They are also offering seasoned and plain pork cuts at many supermarkets and independent grocers. Imports of U.S. pork and pork products reached a record high of \$45 million in 2021, which is 76% more than in 2020.

El Salvador tends to follow rather than generate new consumption patterns due to its size and the relatively low purchasing power of its residents. One clear side-effect of the pandemic in El Salvador is a growing preference for healthy foods, especially those that are low in sugar and fat; Salvadorans are now looking for products with natural ingredients, fortified with vitamins and without artificial ingredients. Non-allergen foods (gluten-free, egg-free, dairy-free, lactose-free, etc) are increasingly demanded.

Another manufacturing sector that is registering increases despite the pandemic is beer manufacturing, not only in the craft beer segment but also the commercial lines. There are three major craft breweries leading this trend: Cadejo Brewery, Premio, and Santo Coraje. For the commercial lines, La Constancia ranked second in the beverage sector exporters list for the RANKING® 2021. The United States is steadily increasing its exports to supply Salvadoran beer breweries. During 2021, total exports of hops cones registered an increase of 36%, reaching a total of US\$300,745.

In 2021, the manufacturing industry maintained a similar to 2020 trend in imports of ingredients, where dairy products accounted for 21% of global food imports, followed by soups/food preparations and beef/beef products. These are key products used as ingredients by the food manufacturing sector, not only to meet local demand but also to export products to the region. New product development/research departments within manufacturing companies have become more proactive in attending international trade shows to learn about consumer trends, new food ingredients or additives, and bring new ideas to develop products mainly in the specialty/gourmet category. Some of the added-value products being produced are pesto, special cream cheeses or dips, and other tropical fruit jams/jellies and beverages.

Best Prospect Products

There is still potential for many U.S. ingredients to increase market share in El Salvador, specifically dairy, beef, bakery ingredients/goods, fresh fruits and vegetables. There are great opportunities to introduce U.S. seafood to the Salvadoran market. In addition, the baking industry has a growing demand for preserved fruits, large fresh strawberries, almonds, and other nuts for healthy snacks or baked goods. Another trend is for healthy, reduced sugar foods and beverages, creating a potential market for natural sweeteners, assorted flavor juices, and fruit extracts.

Categories with potential growth for the manufacturing industry in El Salvador are flours, baked products and prepared foods targeted to the Salvadoran diaspora, and confectionery products. Salvadoran food manufacturers rely on imports of intermediate products because of a lack of availability or local production. The United States was the number one supplier in this category in 2021 with a market share of 31%.