

## Country Market Profile: Peru

Euromonitor reports that the economy in Peru expanded in real terms in 2021, driven by increasing domestic consumption, public investment and external demand. The country is projected to maintain solid long-term growth, largely driven by a recovered service sector. Inflationary pressures are set to cool down over the medium term. However, the persisting pandemic-related risks, supply constraints and global inflationary pressures raise uncertainty and weigh on the country's economic outlook.

- Following real growth of 12.5% in 2021, Peru's economy is expected to expand at an average annual real gross domestic product (GDP) rate of 3.1% over the medium term.
- Inflation in Peru is forecast to increase to 2.9% in 2022 from 2.8% in 2021, and stabilize over the medium term.
- As Peru's exports increased by 41.9% and imports rose by 37.7% during 2021, the country remained a net exporter of goods.
- As foreign direct investment (FDI) inflows into Peru decreased over 2020, FDI intensity reached 0.5% of GDP.
- Public debt in Peru fell to 34.6% of GDP in 2021 from 35.1% in 2020.

Peru's population was 32.2 million in 2022 (CIA World Factbook Est.). The country has added 5.8 million people since 2000 but the rate of growth is slowing. Population is expected to be about 36 million in 2030. The median age was 29.1 years in 2022 – up 6.4 years since 2000. It should rise to 34.3 years by 2030. More than half of all Peruvians live near the coast – most of them in Lima. Only around 13% of the total population lives in the country's vast region of rainforests.

USDA's Office of Agricultural Affairs (OAA) in Lima reports that Peru is the third largest export market for U.S. agricultural products in South America. For over a decade, Peru has been one of the world's top performing economies, registering sustained high growth accompanied by low inflation. U.S. origin food and agricultural product exports to Peru benefit significantly from the U.S.-Peru Trade Promotion Agreement (US-PTPA). U.S. agricultural exports to Peru are reached \$999.1 million in 2021, growth of 9% over that of 2020.

Agriculture accounts for approximately 5% of Peru's GDP, but employs around 28% of the population. The U.S.-Peru Trade Promotion Agreement, which entered into force in February 2009, has increased bilateral trade of agricultural products from US\$1.4 billion in 2009 to US\$3.5 billion in 2021, an increase of 139%. The United States was the second largest agricultural product supplier to Peru in 2021, accounting for 16% of market share.

Peru is a member of a number of bilateral and multilateral trade agreements that have opened new markets for its exports and increased demand for imported goods. This openness to international trade and Peru's growing middle class has transformed

domestic food market channels. The number of commercial centers in Peru increased from seven in 2000 to 82 in 2019.

Chile, Colombia, Mexico and Peru are all members of a trade agreement known as the Pacific Alliance. The treaty has removed tariffs on 90% of their merchandise trade. Peru is a member of the 11-member Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) which was formally created in March 2018. The CPTPP replaces the abandoned Trans-Pacific Partnership, and excludes the U.S.

Peru is now the 3<sup>rd</sup> largest export market for U.S. consumer food products in South America. In 2021 the total was US\$343.2 million, an increase of 17%. Peru also ranks 3<sup>rd</sup> as a market for U.S. processed food exports. In 2021 Peru imported US\$297.6 million, outstanding growth of 26% over 2020. Top processed food exports from the U.S. to Peru in 2021 included:

- Processed/Prepared Dairy Products
- Food Preparations & Ingredients
- Fats & Oils
- Dog & Cat Food
- Chocolate & Confectionery
- Non-Alcoholic Beverages
- Snack Foods

## Market Opportunities and Key Issues in the Peruvian Food Market

### Market Opportunities

- The U.S.-Peru Trade Promotion Agreement grants duty-free access to two-thirds of all U.S.-origin food and agricultural products, including high value food products
- An active supermarket industry that is promoting increased demand for high value food products
- Potential growth of new supermarket outlets and convenience stores in Lima's suburbs and other cities
- Appreciation for U.S. food quality and variety
- Untapped categories such as refrigerated and frozen products
- Increased health consciousness among the Peruvian population
- Dynamic growth in foodservice and food processing sectors

### Key Issues

- Traditional channel remains as the most important for consumers
- Preference to buy fresh produce in traditional markets
- Modern Retail Channel (supermarkets and convenience stores) accounts for only 25% of the retail food market share in Lima and 19% in the provinces
- Lima-based companies supply provincial supermarkets

- Lack of brand awareness among some consumers
- Market access demands higher marketing costs
- Domestic producers manufacture more affordable products according to local taste preferences
- Cumbersome sanitary registration processes delay the entrance of new food products

#### Retail Food Sector Highlights:

According to Euromonitor, retail sales in the packaged food market in Peru are forecast to reach US\$9.7 billion in 2022. That represents a growth rate of 7.8% or US\$705.4 million since 2018. The forecast for growth in this market is also promising. By the year 2026, the retail sales in the packaged food market in Peru is expected to reach nearly US\$11 billion, a growth rate of 15.2%, or nearly US\$1.5 billion from 2022. High growth products in the forecast include:

- Confectionery
- Ice Cream
- Ready Meals
- Sweet Biscuits, Snack Bars & Fruit Snacks
- Baby Food
- Savory Snacks
- Processed Meat, Seafood & Alternatives to Meat

FAS Lima reports that Peru's food retail sector has shown a growth trend in the last 10 years based on the opening of new stores spurred by a growing middle-class and positive economic indicators. Last year, food retail sales continued to see growth but at a slower pace than 2020, based on staple foods and non-food categories. The retail food sector in Peru is comprised of two segments: modern (supermarkets, convenience stores, discount stores, cash & carry) and traditional (open markets, mom and pop stores, usually called "bodegas").

There are three main supermarket chains in Peru: Cencosud (Wong and Metro), Saga Fallabella (Tottus) and Supermercados Peruanos (Vivanda and Plaza Veá). The market includes 282 conventional supermarkets and superstores, with 178 in Lima, and close to 790 convenience stores. The sector is comprised of both conventional supermarkets and traditional channels, comprised of wet markets and independent stores. Different types of food appear to perform better in the two formats. Top products include snack foods, dairy, edible oils, confectionaries, bread, and cookies.

The expansion of modern retailers is based on the opening of multiformat outlets, with hard discount and cash & carry formats the better performers during the pandemic. In December 2020, InRetail Peru Corp, which owns the largest food retailer Supermercados Peruanos, announced the acquisition of the entire operation of Makro Supermayorista, a major cash & carry format. The acquisition immediately brought 16 additional stores to InRetail's portfolio and strengthened its market share in this competitive sector. Supermercados Peruanos holds supermarkets, hypermarkets, hard discounts, and cash &

carry formats, covering a wide spectrum of socioeconomic segments. Aligned with these actions, Grupo Falabella opened three more Hiperbodega Precio Uno stores in Lima, Junin, and San Martin.

The food retail industry's estimated sales reached US\$24.7 billion in 2021, up approximately 13% from 2020. The modern channel was able to maintain sales throughout the year since they never closed, despite the pandemic restrictions. The three major supermarket chains in Peru adapted to lower capacity conditions and strengthened their online channels to keep up with sales. The growth was based on basic staple categories and the opening of formats aimed at low-income target audiences.

Supermercados Peranos (SPSA) has developed a discount market format named Mass that currently has 550 stores in the country. Despite the pandemic's impacts, Tottus Hypermarket, from Falabella Group, was able to open three more Hiperbodega Precio Uno (HPU) hard-discount format stores, which also cater to the lower income segment. HPU provides a mix of products, similar to a hypermarket, but in a smaller format. Its price competitiveness is due to more private label products. There are 25 HPUs so far and the majority (21) is outside of Lima. The market includes 322 conventional supermarkets and superstores (196 of which are located in Lima).

Peru's food retail sector is projected to grow 5.3% in 2022, reaching US\$26.3 billion. Consumers are expected to revert back to some pre-pandemic purchasing habits, which explain the lower growth projections for this year. Retail sector growth is expected to be driven by better performance of the modern channel due to continued store renovations and an aggressive discounting campaign to encourage sales. In addition, retailers are developing a multichannel concept by enhancing e-commerce services and new store formats.

International externalities are a primary industry concern. Raw material prices and transportation costs continue to rise and will likely impact the retail prices of high-value food products. As such, FAS Lima is conservative about the expected growth of U.S. consumer-oriented exports to Peru in 2022. Last year, this category reached US\$343 million, a 17% increase with respect 2020. Some categories benefited from the recovery of the hotel, restaurant, and institutional (HRI) sector and regained market share lost during the pandemic. Despite the rebound of the food retail sector, growth in 2022 will likely stem from basic food categories, with a special emphasis on private labels. FAS Lima expects to see a slight decline in the demand of high-value imported products.

The convenience store channel is the newest format, and it suffered significant setbacks during the height of the pandemic. These formats were gaining market share within the modern channel and posed strong competition for supermarket chains. However, government restrictions during the first months of the pandemic reversed the strong sales growth that had been achieved with new outlets throughout Lima. Towards the end of 2020 and into 2021, the relaxation of restrictions was instrumental to the recovery of sales.

TAMBO is still the most prevalent convenience store, having more outlets than their competitors. Others include OXXO, Repshop, Listo, and other independent stores. Cencosud recently entered into this segment, opening its first convenience store SPID. This is part of an aggressive expansion plan by the Chilean company based on the establishment of express formats. There are around 800 convenience store locations among these brands in Peru. Beverages and ready to eat products are the main categories sold in this channel.

#### Best Product Prospects:

FAS Lima reports that U.S. products with high sales potential in this sector include cheese, chocolate and confectionery, food preparations, red meats, poultry meats, fruit and vegetable juice, bread, pastry and cookies, soups and broths, sauces and tree nuts.

#### Foodservice Sector Highlights:

FAS Lima reports that the Peruvian hotel, restaurant institutional (HRI) sector has been highly impacted by the COVID-19 crisis. The government eased the mobility restrictions in early 2021 and as of December, the pandemic status has been declared at a moderate level for most provinces of Peru. This allowed restaurants to increase seating capacity to 60%. The National Institute of Statistics (INEI) reported a substantial recovery of the foodservice sector as of June 2021 and with the new conditions it is expected to maintain a strong growth trend.

Tourism had been a strong driver of the hotel-restaurant-institutional (HRI) sector before the pandemic. However, the flow of international visitors dramatically decreased in 2021, even to lower levels than 2020. According to the Ministry of Foreign Trade and Tourism (MINCETUR), almost 200,000 international visitors arrived in Peru between January and August 2021, generating roughly US\$294 million in revenues. This constitutes a reduction of almost 88% with respect 2019.

The sector dropped to the fifth position in terms of importance as an income generator. The reduction of tourism had a collateral effect on foodservice since it accounts for 15% to 20% of total foreign tourist revenue. The Government of Peru has implemented different mechanisms to support the sector (Reactiva Peru, Turismo Emprende, among others), but many economists and experts believe it imperative to rethink the current strategies in place. Several sources forecast a full recovery of the HRI sector by 2022.

Peru has received several international recognitions as a cultural and gastronomic destination in the last ten years. Instrumental to its reputation as a “foodie destination” in the region is its recognition as “World’s Leading Culinary Destination” by the World Travel Awards since 2012 and the presence of three Peruvian restaurants on the list of “Latin America’s 50 Best Restaurants in 2019.”

The best prospects for U.S.-origin food products reside in supplying high-end hotels and restaurants. Casual dining and family-style restaurants, along with coffee shops and fast food chains (averaging 8% growth over the past five years), also offer opportunities.

#### Best Product Prospects:

FAS Lima reports that U.S. products with good sales potential in this sector include cheese, beef and offals, poultry meat, nuts and almonds, wine, sauces, pork meat and distilled spirits.

#### Food Processing Sector Highlights:

FAS Lima reports Peru's food processing industry is a dynamic sector of the national economy. The food industry in Peru accounts for almost 28% of the industrial GDP and the gross value added reached US\$9.1 billion by the end of 2021. Its growth is directly linked to the development of the food retail and food service sectors. Food product manufacturers source both domestic and imported product ingredients. Local processed food products cover 70% of the market demand.

Peru's food market has been impacted by other externalities, in some cases related to the pandemic. Disruptions in supply chains, price spikes of raw commodities, volatile exchange rate and inflationary pressures have all caused significant price increases for food products. Following the easing of pandemic restrictions in early 2021, food manufacturers prioritized categories with higher demand such as the traditional channel (corner stores and wet markets).

Peru's food and beverage sector is directly linked to the development of food retail and food service sectors throughout Peru. In the last ten years, the modern food retail channel (supermarkets and convenience stores) has expanded and gained territory among consumers. However, the traditional channel, mainly formed by independent small groceries (bodegas) is still the main channel for the most important food processing categories such as: edible oils, dairy, confectionary goods, baked goods, pasta, and cereals. The food retail sector grew 9% in 2021, supported by staple categories. However, the hotel, restaurant, and institutional (HRI) sector suffered the most and its immediate future is uncertain, although an eventual rebound is expected.

Food product manufacturers in Peru source both domestic and imported product ingredients to meet consumer demand for quality food at affordable prices. These manufacturers are successfully tailoring products to meet different segments of consumer demand. U.S.-origin food processing ingredient exports to Peru reached \$196 million in 2021, an increase of 13.2% from 2020. The rise is due mostly to higher wheat and powdered milk exports, 31% and 24% higher, respectively. The growth in exports of other categories also contributed to increase the market share of products such as: skim powdered milk, almonds, and flour/pellets of meat, edible mixtures, and products consisting of natural milk constituents, animal or vegetable fats, peptones and enzymes

Imports of food processing ingredients to Peru totaled US\$987 million in 2021. The United States is the second largest supplier of ingredients, with a 20% market share. These ingredients are made up largely of wheat, milk powder, flour meal of meat and almonds, which represent 79% of the total trade in this category for the United States. Canada is the largest supplier with a 47% market share, with wheat comprising the bulk of its exports in the category. Total agricultural trade has benefitted greatly from the U.S.-Peru Trade Promotion Agreement (PTPA).

#### Best Product Prospects;

FAS Lima reports that products with high potential in this sector include boneless beef, protein concentrates, flour meat meals and vegetable fats, wheat, concentrated milk, enzymes and preparations, mixtures of edible oils and fats, almonds, boneless frozen pork, mixtures of odiferous substances, vegetable saps and extracts, whey and modified whey, preparations of semola, starch flour or malt extract, hop cones and roasted malt.