

# Brazilian consumers optimistic for 2008

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The strong Brazilian domestic growth story is set to continue during 2008. Unemployment is down, real incomes are rising and consumer confidence is strong. Despite some inflation concerns, the outlook for the consumer goods and services sector remains robust. Issue

Domestic Brazilian growth will be fuelled by private consumption in 2008, boosting business profits. However, heated domestic demand, rising food prices and a weaker exchange rate may pressure inflation in 2008 and 2009, leading to retail price increases for consumers. Importance

Brazilian economic growth continues to impress, fuelled by strong external and internal sectors: In the first three quarters of 2007, GDP rose 5.3% in real annual terms, above official and private sector expectations.

Domestic demand, led by private consumption, is increasing its share of the overall economy: In 2007 private final consumption expenditure accounted for an estimated 59.1% of GDP.

The sustained economic expansion has led to a steady fall in unemployment, additional job creation and a rise in consumer incomes: In the period 2002-2007, the number of households with annual disposable incomes over US\$15,000 rose to an estimated 27.2% of the total, from 8.3% in 2002; In November 2007, the rate of urban unemployment was 8.2%, a yearly low and down from 9.5% twelve months earlier.

Â Household annual disposable income distribution: 2002 and 2007% of total households Source: Euromonitor International from National Statistics.

An expanding lower-middle class has helped grow the demand for mass-market consumer goods in Brazil, expanding business opportunities in retailing and services. Implications

Falling unemployment and rising household incomes have boosted consumer confidence and encouraged additional expenditure: In 2002-2007, consumer expenditure rose 17.6% in real terms.

Steady growth in private sector credit has fuelled the growth of retail sales and consumer goods. According to the central bank: The volume of retail sales rose 9.1% annually in January-October 2007; Domestic auto sales rose 26.0% annually in 2007.

Imports have also risen rapidly, thanks to strong demand for consumer and capital goods, and also helped by a favourable exchange rate. To date, this has been offset by faster export growth, thanks to record international prices for Brazilian commodities: Imports totalled US\$120.6 billion in 2007, up 32% annually.

However, there is evidence of capacity constraints, as local industry struggles to keep up with demand. According to the central bank: In November 2007, total industrial capacity utilisation was running at a record 87%, the highest level since 1995. In some sectors capacity utilisation was over 90%.

As a result, inflation has begun to creep up again: In November 2007, the national IPCA inflation index was 4.19%, its highest rate since May 2006.

The rapid growth in domestic private consumption has boosted business profits and encouraged significant additional investment in the local market. However, the pace of growth threatens to pressure inflation moving forward. Future scenarios

The outlook is for continued steady growth in Brazil, both domestic and external: Average real annual GDP growth is forecast at 3.9% in 2007-2011.

Consumer confidence is firm. This bodes well for further private consumption growth in 2008: The index of consumer confidence (ICC), compiled by the local Getulio Vargas Foundation (FGV), reached a series high of 120.3 in December 2007, up 7.7% in annual terms. The ICC is based on a survey of consumer expectations about their personal financial situation and the economy in general.Â

With the main impetus coming from domestic consumption, the outlook for mass-market consumer goods and services is optimistic. The majority of retail sectors should enjoy another year of strong growth. (For further retail related research

[please click here.](#))

Although Brazilian real interest rates remain quite high (6.75% in December 2007), private sector credit growth will continue to expand and spread across lower-middle income segments: The number of credit cards in circulation is forecast to reach 98 million in 2008, up from 87 million in 2007.

Renewed inflation could pose a medium term risk unless the rapid pace of consumption growth eases. A weaker real would also fuel inflation pressures. This could prevent the central bank from any further interest rate cuts, following a lengthy period (26 months to November 2007) of monetary loosening. Tighter monetary policy would act to dampen domestic demand.

Strong domestic demand will cushion Brazil against external shocks, including a potential economic slowdown in the USA, which would weaken the export environment and curb international investment flows: Real GDP growth in the USA is set to stagnate at 1.9% in 2008, as consumer and financial market confidence falters on the back of the slowing housing market.

Â Real GDP growth in Brazil and USA: 2006-2011% annual changeSource: Euromonitor International from National Statistics.Note: 2007-2011 data are forecasts.

Finally, import growth will outpace export growth over the forecast period, leading to the gradual erosion of Brazil's record trade and current account surpluses. For further detail about this article and other related findings, please visitÂ Euromonitor International by clicking [here](#).