Country Watch: Bullish consumption forecasts for Brazil's soft drinks market despite worsening economic climate

Euromonitor International

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As the storm clouds of global economic crisis gather more threateningly over Latin America, Euromonitor International assesses implications for Brazil, the fifth biggest consumer of soft drinks in the world and a regional hub of international investment.

Was 2008 the boom before the bust?

Total volume sales of soft drinks were up 7.5% in Brazil last year, representing a growth surge of some 1.4 billion litres, according to new data from Euromonitor International. This ranks as one of the top 10 soft drinks growth stories in the world for 2008. Crucially, the carbonates sector – the third biggest in the world - registered an aggressive 7% upturn, its best performance in over 10 years (See Euromonitor comment, calling time on the carbonates doom-mongers, January 2009). In short, it would be fair to classify 2008 as nothing short of a boom year for Brazil's soft drinks market. All of which seems a far cry from the gloomy consumption data emanating from the industrialised countries.

Even in September, when Lehman Brothers collapsed and the industrialised banking sector skidded over a precipice, Brazil's soft drinks industry was able to peer into the future with a genuine feeling of confidence. The Brazilian economy, it seemed, while not immune to the unfolding global crisis, had built a sufficiently robust platform to weather the worst of the contagion. So far so good, but as each month passed so the global financial climate became worse and, critically, international investors started exiting emerging markets like rats from a sinking ship. While Brazil was less exposed than other emerging markets, such as Mexico, to the weakness of the US economy, it was, by virtue of high-profile BRIC status, hugely vulnerable to any major slowdown in international investment activity.

For Brazil, a country well accustomed to periods of macro-economic volatility, 2009 data has started, therefore, to look all too familiar; a case of here we go again. And the timing of the slowdown, just at a moment when its emerging market status was soaring, has been a cause for frustration within the government. Indeed, although the Brazilian government is currently sticking to its 2.5% forecast GDP growth rate for 2009, the latest private sector consensus compiled by the Central Bank forecasts a growth rate of only 1.5%, down from the 2% it projected last month. This revision is important because it shows the speed at which emerging markets are coming under revised downward pressure. In simple terms, things are getting significantly worse by the month. Indeed, the National Industry Confederation (CNI) reported in early March that it expected zero GDP growth in Brazil this year, and possibly worse.

If the Central Bank and CNI are correct in their respective forecasts, 2009 will be Brazil's poorest economic performance since 2003 when real GDP grew 1.1% and the soft drinks market, in turn, grew a sluggish 1% by volume, according to Euromonitor International. In that year, carbonates, bottled water, sports drinks and RTD tea all registered negative growth curves. Conversely, the low-price concentrates sector managed a robust 5% upturn. The key question is, therefore, whether we can expect to see the same type of trends in Brazil's soft drinks market as the economy slows this time around. Or are the macro-economic fundamentals stronger, providing, perhaps, something more positive for the industry to latch on to?

Crisis strong not crisis weary

It would be wholly unrealistic to argue that key volume sectors, such as carbonates, could sustain 2008 levels of growth as the impact of the global economic crisis worsens, but neither would it be wise to assume that Brazil's market will inevitably tank as the domestic economy tightens. Euromonitor International remains, in fact, bullish about the prospects for Brazil's soft drinks market as a whole, with annual volume growth projected at 4% for both 2009 and 2010. It is important to understand that Brazil's economic roots are far stronger today than a decade ago, and much stronger even than five years ago. And there are further good reasons for optimism.

The first point to consider is that Brazil is an old hand at economic crisis, having experienced more than its fair share of instability over the past two decades. This means that Brazilians themselves tend to be more savvy about periods of crisis than their developed world counterparts and, in turn, less susceptible to a sudden and dramatic dip in confidence. And critically, it is waning consumer confidence that can be so damaging to soft drinks demand, both in on- and off-trade channels. Secondly, Brazilians broadly see the current global financial crisis as something that originated outside their own borders. They are, therefore, less critical of their own government's role. Again, this has positive repercussions for consumer confidence.

Thirdly, the government itself has responded swiftly to the global crisis, injecting over US$100 billion of additional liquidity into the economy since September 2008 and shoring up key industries (such as the automobile, construction and agricultural sectors) with short-term tax breaks. Arguably the most important response is, however, to maintain a commitment to big social programmes that impact on the poor and give the green light to an above-inflation increase to the minimum wage, which was hiked 12% in February this year.

Indeed, while the government might be guilty of over-playing 2009 GDP growth potential, it is not, as yet, reneging on the promises it made to low-income households. And the lower tiers of Brazil's income pyramid are the very groups that have become increasingly important drivers of soft drinks demand. Furthermore, middle-income Brazilians higher up the pyramid have been buoyed by a March cut in interest rates and are expectant of further reductions in April and across the year. Aggressive monetary policies will also encourage renewed confidence among international investors as the year pans out.

Collectively, these factors mean that Brazil's soft drinks industry is potentially better positioned than in most emerging markets to navigate the global crisis relatively unscathed. Few people in the industry will dispute that 2009 will be a difficult year and there is certainly no room for complacency, but this is no time for despondency either. Brazil, quite simply, is on the ascendancy in the global economic order. That course might have been slowed by the current period of global crisis, but it has not been derailed.

Table 1 Brazil: Soft Drinks Market By Category 2008-2010

Category	2008	2009	2010	% Growth 08-10
Carbonates	14,480	15,169	15,967	10.3
Bottled Water	5,193	5,545	5,825	12.2
Concentrates (1)	5,086	5,075	5,088	0.1
Fruit/Vegetable Juice	855	924	989	15.7
RTD Tea	113	119	123	9
Sports Drinks	82	87	93	14.3
Energy Drinks	35	38	40	12.7
Total	25,844	26,957	28,125	8.8

Euromonitor International
Total volume, RTD million litres

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