Brazil Consumer Electronics Report - Q2 2012

Industry Forecast Scenario
Consumer Electronics Market

Consumer Electronics Demand
2010-2016
e/f = estimate/forecast. Source: BMI

Brazil's domestic consumer electronics devices market, defined as the addressable market for computing devices, mobile handsets and video, audio and gaming products, is estimated at US$32.6bn in 2012. Consumer electronics retailers reported a stronger-than-expected demand rebound in 2010, which left some vendors struggling to catch up. Sales of flat-screen TV sets surged and high double-digit y-o-y growth was recorded in handset shipments.

The positive results from 2010 continued in 2011. We expect the domestic consumer to remain the prime driver of growth over the medium term, after sales of consumer electronics devices were hit in 2009 by the global credit crunch and the more expensive US dollar. PC sales were estimated to have dipped by about 5% in 2009, but, after a strong recovery in 2010, have grown strongly again in 2011. Handset shipments also fell in 2009 by about 8%, but recovered in 2010 and were estimated to achieve growth in 2011.

Table: Consumer Electronics Overview , 2009-2016

	2009	2010	2011e	2012f	2013f	2014f	2015f	2016f
Consumer Electronics Devices Total Demand (US$mn)	24,139	27,077	30,139	32,558	35,107	37,700	40,756	44,033
Computers (US$mn)	9,639	10,438	11,835	12,632	13,353	13,978	14,898	16,476
Video, Audio & Gaming (US$mn)	8,185	9,202	10,023	10,768	11,600	12,338	13,096	13,379
Communications (US$mn)	6,316	7,437	8,281	9,158	10,154	11,384	12,762	14,179

e/f = BMI estimate/forecast. Source: BMI

Several factors suggest that spending on consumer electronics will remain positive in 2012. Firstly, further monetary easing will reduce households' debt repayment burden, which is likely to ensure that demand and supply of credit does not collapse. This is important given the crucial role of credit in driving household expenditure since 2009. Tax cuts announced by the Ministry of Finance in early December 2011 are largely aimed at consumer goods and staples, including up to 10% reductions on the industrialised products tax (Imposto sobre Productos Industrializados) levied on durable goods. Another supportive factor for private consumption in 2012 will be the 14% increase in the minimum wage, scheduled to come into effect in January 2012.

The long-term market trend remains positive, with demand for consumer electronics expected to increase at a CAGR 7.8% to US$44.0bn by 2016, driven by growing popularity of digital lifestyle products such as LCD TV sets, notebook computers, digital cameras and other products, as well as by rising incomes and lower prices. Government PC procurement and affordable mobile handset programmes will help to support market growth.

Consumer Electronics Demand (US$bn)
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Computers were the biggest consumer electronics market category in 2010, at 39% of spending, and will dominate spending over the forecast period. PC penetration is fairly low at about 32%, and this could climb to about 44% by 2016, creating opportunities for vendors. Spending will grow at a CAGR of 7% through 2016, led by notebooks and netbooks, which currently account for about one-third of sales.

AV devices ranked second for consumer electronics market spending in 2010 at 34%. Digital TV set sales will be the main driver of a projected 2012-2016 CAGR of 75.5%. Video devices such as TV sets, digital cameras and VCR players account for above 80% of demand. Growth drivers will include LCD TV sets, digital cameras, portable media devices and Blu-ray format DVD players.

Mobile handsets accounted for about 27% of total spending. The replacement market will become increasingly dominant as mobile penetration passes 150% by 2016, and there will be growing demand for smartphones and 3G handsets. Penetration is still considerably lower than in many other emerging markets and more rural markets will see mobile services arrive over the next five years, generating growth in the handset market. Spending will grow at a CAGR of 11.5% through 2016, with affordable smartphones a key focus for operators such as TIM as they look to drive mobile data usage.

Industry Developments

Action Against Chinese Handsets

Brazil's government has said that it is considering taking action to restrict imports of cheap Chinese handsets, which surged in 2011. The government's motive for the potential move is to protect local manufacturers, which cannot compete with the Chinese devices on price. According to figures from local industry association Abinee, Chinese devices are imported at costs as low as US$12 per unit, compared with a minimum production cost ofU S$38 locally.The most popular made-in-China imports are of Huawei and ZTE phones.

According to Abinee the share of Chinese mobile phones jumped to 85% of total handset imports in August 2011, from 54% in February 2011. The Brazilian Ministry of Development, Trade and Industry is now investigating claims from Brazilian manufacturers that their counterparts benefit from subsidies.

Digital Nation

Brazil's government has committed to invest as much as US$23bn in the science and technology component of its Growth Acceleration Plan (PAC). The money is earmarked for innovation and technology projects, to be spent between 2008 and 2010. A key objective of the PAC is to build more digital awareness and facilitate more citizens to access computers and internet over the next few years. The government wants science technology and innovation-related investments to represent 1.5% of GDP over the next couple of years, from the current 0.5%. Recently, Brazil's social security institute INSS purchased some 1,558 PCs at a reported cost of about BRL1.63mn. The contact went to Positivo. Meanwhile, the Rio de Janeiro metro has embarked on an upgrade programme.

About 44% of the funding (some BRL18bn) will come from the Ministry of Science and Technology's development fund FNDCT, with the remainder coming from other ministries including education. Computers and ICT in schools is a key priority for the government and a strategic opportunity for vendors.

Computers F or Schools

IT for education has emerged as a key priority of the government. In 2008, former president Lula said that the government was in a process of equipping all elementary schools with computers and that in 2008 some additional 9,000 urban schools and 3,000 rural schools would receive them. All high schools have computer labs already, according to the government. The education ministry has a dedicated head of technology infrastructure position (currently held by Jose Guilherme Moreira).

The government has confirmed that it will no longer purchase laptops from the One Laptop Per Child programme for public schools. Instead, it will pursue other offers. The government's original tender to supply 150,000 laptops to the country's 55,000 public schools was finally cancelled in February 2010, after its expectations about price turned out to be unrealistic. The government had anticipated a price of about US$100 per computer, but the lowest price offered was reportedly equivalent to about US$394 per unit.

The government's price expectations had been based partly on deliveries elsewhere in the region, including a tender in Uruguay where the non-profit organisation One Laptop Per Child delivered 100,000 XO notebooks at a price of less than US$200 per unit. Brazil is a much larger country, however, and the higher price is understood to be mainly due to indirect costs for the obligatory delivery and installation at all schools by the supplier plus a three-year guarantee. The delivery costs, in particular, are a factor. One Laptop Per Child had offered the government laptops at US$435 per unit, while the leading local vendor had offered to supply the laptops at US$408 per unit. The government considered the project less cost effective than installing PC stations.

Meanwhile, the federal government last year launched a new programme under which teachers at public and private schools are eligible for preferential financing when they buy a laptop. The government has reached an agreement with banks under which they will offer up to two years financing on any machine from a number of vendors. The computers should have a price of BRL1,000 or less and banks will create special funds to support the financing, with instalments being made monthly. The national postal service Correios is also involved on the logistics side. The measure is on a large scale as it is expected to benefit about 3.4mn teachers from primary to university level. The laptops must have wireless internet and free educational software. Meanwhile, to stimulate PC purchases by students and families, the government is considering extending these financing agreements with additional federal subsidies.

Tablet Tax Exemption

The Brazilian government is eliminating a series of taxes on locally produced tablet computers, which will mean the price of a tablet computer could fall by up to 36%. This has spurred large numbers of tablet manufacturers to set up operations in the country.

The tax cuts, signed into law in May 2011, mean tablet manufacturers in Brazil are exempt from 9.25% social security taxes, and the IPI industrial production tax would be reduced from 15% to 3%. While these taxes may make a dent on Brazilian tax revenues, they will provide a much-needed boost to the manufacturing sector in general. This will help to maintain productivity on the global market in the face of an appreciating real, devalued dollar and cheap exports from China.

The cuts should also encourage domestic consumption of the devices. By lowering the cost of tablet computers, the government is hoping to complement its national broadband plan, the PNBL. The Brazilian government has been fiercely promoting the plan, which aims to universalise broadband access in Brazil.

Shortly after the tax cuts were announced, Foxconn revealed it will invest US$12bn in setting up operations in Brazil. BMI believes the tax cuts will have provided the encouragement Foxconn needs to choose Brazil as a destination.

To qualify for tax breaks, firms must include 20% Brazilian-made components in their tablet computers in 2012; this will increase to 30% in 2013, and 50% in 2015

By phasing in these requirements, foreign companies will be able to invest and gradually integrate and train Brazilian workers to their work force. Evidence suggests this is happening. China's ZTE is to build a high-tech industrial park in S?o Paulo state, which will house the company's first R&D centre in Latin America, while Huawei Technologies is to invest US$300-400mn in a research centre in the country.

Fonte: BMI - Industry Forecast Scenario, 4 Apr.2012 [Base de Dados]. Disponível em: <http://www.securities.com/doc.html?pc=BR&doc_id=356661438>.Acesso em: 8 May. 2012.