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Inflation and the Brazilian Consumer

Food Sales in 2022

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Introduction

High inflation in 2021 and 2022 has significantly impacted the purchasing power of a monthly minimum wage in Brazil. In terms of a basic basket of goods, a monthly minimum wage buys a third less now than it did five years ago. Food sales saw a negative start to 2022 as consumers grappled with high prices. However, lower unemployment and higher economic growth could mean slightly stronger sales in the second half of 2022.

Purchasing Power Weakest in Five Years

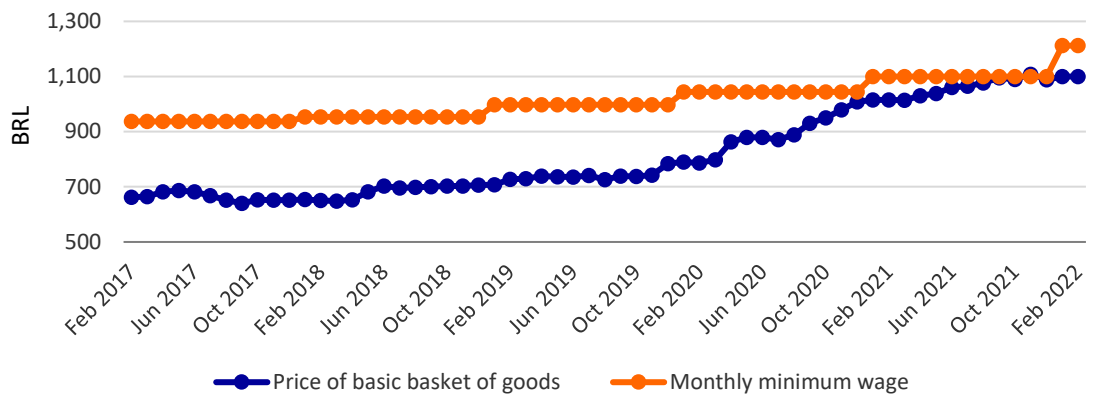
Food Inflation at 28% Since January 2020

The current macroeconomic environment is definitely challenging for consumers, as inflation has accelerated rapidly over the past 18 months. Consumer price index (CPI, or IPCA – Índice Nacional de Preços ao Consumidor Amplo – in Brazil) inflation ended 2021 up more than 10% YOY and, as of April 2022, is currently at over 12% for the past twelve months, edging closer to a second consecutive calendar year of double-digit CPI inflation in Brazil. (Rabobank currently projects IPCA to advance by 8.7% in 2022.) However, the food & beverage component of the IPCA has increased 28% since January 2020, while the broader IPCA gained 18% for the same period. This means that food & beverage prices are increasing more rapidly than overall consumer price inflation.

One way to understand how purchasing power has declined in recent years is to look at the *Cesta Básica*¹ (basic basket of goods) and how many of those baskets can be purchased with one monthly minimum wage. The Cesta Básica represents the monthly shopping basket of basic goods for an average family, and can be viewed as a basic measure of purchasing power over time. Figure 1 shows that the minimum wage could purchase 1.5 Cestas Básicas per month back in 2017, but that dropped to just one basket by the end of 2021. Essentially, this shows that the purchasing power of one minimum wage has declined by a third since 2017.

¹ Cesta Básica is a basic basket of goods that includes 13 food items considered the basic food products that a Brazilian family consumes in one month: beef, fluid milk, beans, rice, manioc flour, potatoes, tomatoes, bread, coffee, bananas, sugar, cooking oil, and butter. It also includes basic personal hygiene products and home cleaning products.

Figure 1: Purchasing power of a monthly minimum wage in Brazil, Feb 2017-Feb 2022



Source: DIEESE/Procon, Rabobank 2022

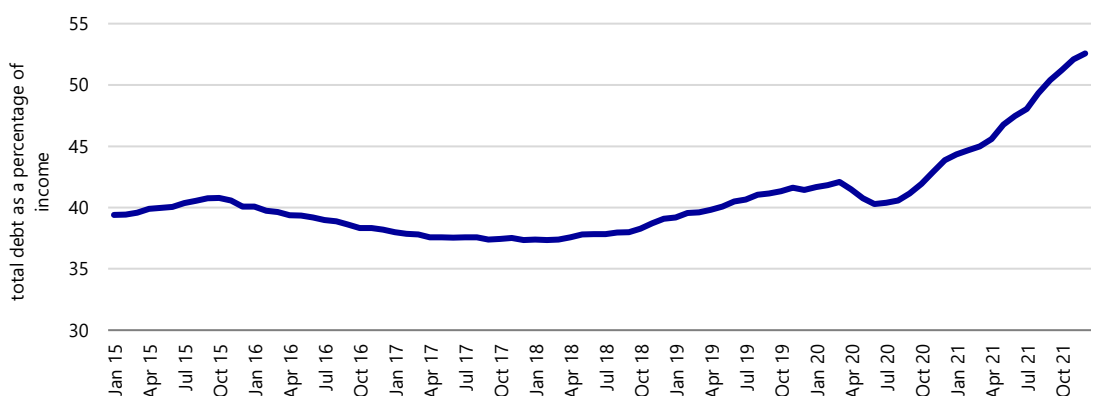
Another way of measuring the evolution of incomes is by looking at the actual average salary of Brazilians. According to the latest data published by the Central Bank of Brazil, average salaries stood at BRL 2,569 per month in April of 2022, 8% lower in nominal terms than in April 2021. This shows that, in inflation-adjusted terms, the loss of purchasing power is significantly higher.

High Debt, but Unemployment Improving

Another factor weighing on consumer spending is debt, which rose significantly during the pandemic. Unlike in the US and the EU, where savings increased during the pandemic, consumers in Brazil had to find additional resources to support their livelihoods. With hard lockdowns in many large cities and recession in 2020, many families took out loans to support their daily spending, even though government cash transfers were significant.

Overall, Brazilian household debt rose from an equivalent of 40% of annual income before the pandemic to around 52% at the end of 2021, according to data from the Central Bank of Brazil (see Figure 2). This figure includes housing debt, which rose from 16% to 20% of incomes during this period. Other forms of debt increased by 8% of total income, still reflecting a significant rise in additional commitments to the financial sector. It will take time for consumers to deleverage even as the economy stabilizes. In the meantime, there will be less available income to spend on non-essential food & beverage items in coming quarters as debts are being paid off.

Figure 2: Brazilian household debt, Jan 2015-Jan 2022



*Note: Debt is shown as share of income. The data includes all forms of debt with financial institutions, including housing debt).

Source: BACEN (Central Bank of Brazil), Rabobank 2022

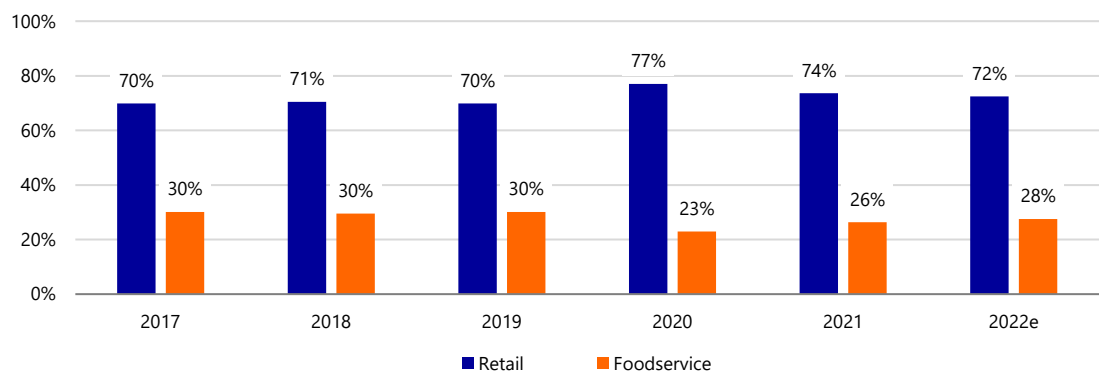
Nonetheless, unemployment numbers have been improving in recent months as economic activity normalizes. According to the latest data from the Central Bank of Brazil, unemployment declined to 10.5% in April of 2022, compared to 14.8% 12 months prior. A stronger job market should help incomes stabilize, especially if inflation subdues in the second half of the year.

Foodservice Recovery Gradual

Out-of-home consumption is still below pre-pandemic levels in both absolute terms and as a share of overall consumer spending. According to data from ABIA (the Brazilian food industry association), foodservice sales recovered slightly in 2021 to 26% of total consumer spending, following a low of 23% in 2020, but are still below the 30% seen pre-pandemic. According to a recent study by Euromonitor, cafés and bars in Brazil recorded a CAGR of -5% from 2016 to 2021 as the pandemic hit sales, even though online sales via delivery apps increased significantly during the pandemic.

A full recovery will take some time, especially with consumers experiencing high inflation and diminished purchasing power in 2022. We expect foodservice to see slower growth ahead as purchasing power remains low in 2022 and early 2023, as shown in Figure 3.

Figure 3: Share of consumer food expenditure by channel, 2017-2022e



Source: ABIA, Rabobank 2022

Lower Incomes Impact Food Consumption

The current inflationary environment for consumers will continue reinforcing trends in food categories that respond to weaker purchasing power. In animal protein, for example, Brazilians have been reducing beef consumption for 15 years (in per capita terms) and adding more poultry and pork to their shopping basket. Beef consumption is expected to remain flat in 2022 at 26kg per capita, but given that incomes are lower in real terms, poultry and pork sales are expected to decline. Pork consumption is expected to reach 17.3kg, 2% lower than in 2021, while poultry consumption should reach 52kg, down 1% YOY.

In dairy, retail sales are expected to have contracted by around 5% in volume terms in Q1 2022, as consumers adjusted their food shopping to higher prices. Lower unemployment should aid sales in the sector during the second half of the year, but it will largely be a challenging year for dairy sales by volume.

Coffee consumption has typically been very resilient during challenging times for consumers, with sales growing in previous recessions, like in 2015-2016. However, out-of-home expenditure in particular will probably continue to lag in 2022 (see previous section) and retail sales are facing headwinds with prices up 89% YOY in April 2022.

Overall, it's a challenging time for the Brazilian consumer, who needs to respond to higher retail prices, lower disposable income, and economic uncertainty. Some bright spots in the economy are starting to appear, with lower unemployment and a glimmer of hope that inflation will subside in the second half of the year. These are the main reasons to believe that food retail sales should see some improvement later in 2022 after underperforming during the first half of the year.

Imprint

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