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A better today

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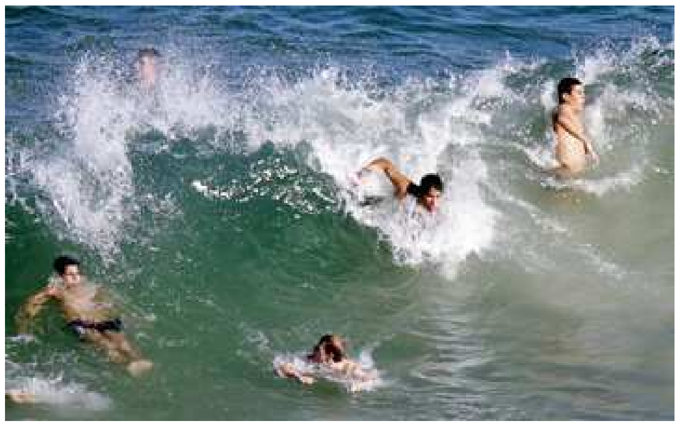
Brazil's growing middle class wants the good life, right now

Reuters



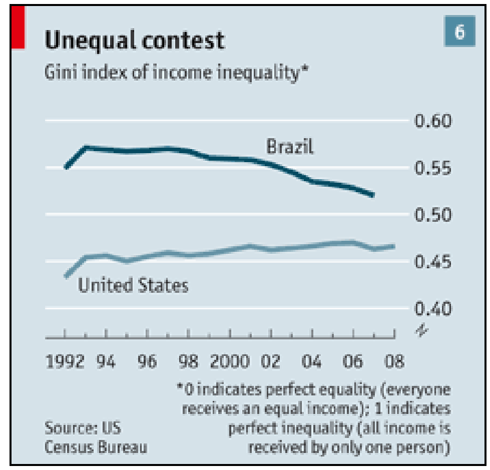
Going for a bit of froth

ON A Saturday night in Canudos, a town of 15,000 people in the interior of Bahia state surrounded on all sides by parched, silvery forest, there is a lot of consumption going on. Everyone has a mobile phone, a few people have new cars, and early-evening courting is fuelled by branded beers and hot dogs. This place was once a byword for poverty, sitting as it does in the middle of Brazil's drylands. But this part of the *sertão* at least has become more bearable over the past decade or so. There is a large banana plantation that provides jobs, a fresh-water-fishing industry and plenty of commerce.

Carlinhos Silveira has returned to Canudos after some time spent working in São Paulo and now runs a small hotel. For decades internal migration in Brazil worked in the opposite direction, as people escaped the hardscrabble north-east for menial jobs in the more prosperous south and south-east. Now it is possible to find members of Brazil's burgeoning middle class even here.

The recent growth of this species has excited companies, politicians and sociologists alike, and rightly so. Using data from a giant series collected by IBGE, based on monthly interviews with 150,000 people in the six main metropolitan regions, the Fundação Getulio Vargas (FGV), a business school, calculates that the share of people in social class C increased from 42% of the population in 2004 to 52% in 2008. Class C covers households with a monthly income ranging from 1,064 to 4,591 reais (about $603-2,603 at current exchange rates). In Brazil that makes them middle-class, even though in richer places these income levels would not buy that description. They mostly have jobs in the formal economy, which also brings access to credit, and probably own a car or a motorbike. Remarkably, their numbers remained steady through the financial crisis, says Marcelo Neri of FGV, as people moved down from class B to replace the drop-outs.

Perhaps more impressively, Brazil's recent progress seems to have been evenly shared. The growth of the middle class, combined with a 100% increase in the minimum wage over recent years and Bolsa Família, a programme of cash transfers to those lower down the income scale that benefits some 12m families, has caused inequality to decline. In a country famous for its skewed income this is a big achievement. According to IPEA, extreme poverty halved between 2003 and 2008. Brazil's score on the Gini coefficient, a measure of inequality, is falling, getting closer to that of the United States (see chart 6).



The north-east of the country, whose poverty has prompted successive governments to come up with plans for its revival, in fact grew slightly faster than the rest of Brazil between 1994 and last year, at an average annual rate of 3.3% (compared with 3.1% for the country as a whole). The main reasons were a large expansion in public-sector employment, pensions and income redistribution. The drylands have also benefited from an expansion of fruit and grain farming and of light industry, says Gustavo Maia Gomes of the Federal University of Pernambuco.

Shopping down to Rio

Brazilians like to spend. Tiffany, a jeweller, has more stores in São Paulo than anywhere else in the world. Louis Vuitton, which makes expensive bags, until recently got its biggest profits per square foot from its São Paulo shops. But it is the scale of the mass consumer market that is opening up—the 1m points of sale for beer, the 165m mobile phones—which is raising the biggest hopes. "If the world is looking for savers, Brazil is not much good," says Illan Goldfajn, chief economist of Itaú. "But if it is looking for consumers, then we might be able to help."

David Neeleman, who has launched an airline, Azul, to serve all these new consumers, sums up the optimism that the new entrants to the middle class are creating. "America has an excess of everything: cars, credit," says Mr Neeleman. "Down here people are getting their first car, first credit card, owning their first home. It feels like the beginning of the cycle." He is talking about people like Eduardo Lins, who left his eight siblings in the interior of Bahia and followed a girlfriend to Salvador, the state capital, when he was 15. Now, 20 years later, Mr Lins has a new car, bought on credit, which he is paying off by driving a taxi, and has recently bought an apartment in the city. Life has got better.

What Brazil's middle class wants is largely shaped by what the characters in the ubiquitous *telenovelas* (TV soap operas that reach audiences measured in tens of millions) are wearing, consuming and driving. These programmes are mostly made in Rio and tend to feature characters who are richer and whiter than average and flit around the place dressed in casually expensive clothes and conducting indiscreet love affairs. They do a good job of feeding the burning desire for more and different stuff that a market economy thrives on.

Luxuries are popular, even in places where there is not much money around. The highest whisky consumption per person is in Recife, capital of the poor north-eastern state of Pernambuco (where the drink is often referred to as professor, a nod to Teacher's whisky). Retailers have also discovered the importance of flattering their new customers. Walmart, home of everyday low prices, employs people at its checkouts to pack shoppers' groceries for them. Casas Bahia, a chain of shops selling white goods and furniture on credit, sits customers down and serves them coffee while they discuss how they will pay for their new television.

Consumer credit has grown by 28% a year in nominal terms over the past three years. The middle class also needs apartments and houses to put its new purchases in. At the moment mortgage finance accounts for only 2% of GDP, a tiny sum even compared with, say, Mexico (9%), let alone America (85%). Brazilian housebuilders believe that as mortgages develop, the housing market will be a profitable place to be. They seem to have convinced foreign investors, who have provided most of the capital for Brazil's listed housebuilders. The government reckons the country needs 8m more houses, half to allow families to move out of shared living quarters and half to replace squalid homes. But most builders are even keener to provide apartments for Brazilians who are somewhat better off.

Interest rates will have to come down a lot further before the mortgage market really takes off, but already some companies are securitising mortgages with maturities of three or four years and selling them to investors. In addition to the need to house Brazil's existing middle class, says Wilson Amaral of Gafisa, a large listed housebuilder, Brazil needs to look to the future: it will have 35m new families by 2030, all of whom will need somewhere to live. Brazil's population is comparatively young and still growing, mainly through natural increase rather than immigration.

If the next ten years see as much social and economic progress as the past ten, Brazil will become a very different place. A good place to see how this might work is Diadema, a formerly rough neighbourhood of São Paulo. In 1999 the murder rate there reached 141 per 100,000 people (compared with 37 per 100,000 in Baltimore, one of America’s more violent cities, last year). Diadema became so notorious that people who lived there felt they had to lie about their address in job interviews.

But since then the murder rate has dropped steeply. Earlier this year, on a plot of land that was once a cemetery, a six-storey shopping mall opened in Diadema, complete with neoclassical flourishes and the odd piece of what looks like marble, a secular monument to less violent times. The mall is still fairly empty, perhaps because it was built so quickly that potential shoppers are scared to go in case the roof falls in. But many of the elements of the lower-middle-class Brazilian dream are here: the jewellery on credit, the multi-screen cinema due to open soon, the air-conditioned atrium. It is a fine place to eat a *pão de queijo* and reflect on what this spot was like only a short decade ago.