Perspectives

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Brazil Retail Sector Riding the Wave of Middle Class Growth

Consumer credit fuels retail sector growth

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By Thomas White International | Posted: 03-23-12 | 01:53 PM | E-mail Article

Even in the late 1990s, Brazil was just like any other emerging economy, characterized by extremes of wealth and abject poverty with no social class dividing the bridge between. A decade and more down the line, the effervescence in the middle cannot be missed. Yes, the great Brazilian middle class – defined as those who earn between $690 and $2,970 a month – has arrived and is here to stay. If Brazil has made a name in the global retail sector, it had better thank these late comers, empowered with good purchasing power and access to credit.

Of course, the commodities powerhouse has benefited from the high prices of iron ore spurred by China's voracious appetite. But what makes the Brazilian success saga stand out is that some shrewd social engineering by some of the country's visionary leaders ensured that the commodities wealth trickled down to the poorest sections of society. To put things in perspective, the so-called middle class, who comprised some 38% of the country's population in 2001, currently accounts for a whopping 55%. Social welfare schemes such as the Bolsa Familia implemented by former president Lula da Silva after he took over in 2003 also ensured that in addition to benefiting from liberal handouts, low-income families also received the golden opportunity to educate their children, which made a real difference in their lives. The scorching growth of the domestic retail sector over the course of the last decade or so, triggered by the emerging middle class, also has something to do with the country's demographics. Economists have pointed out that about 80% of Brazil's population of 190 million lives in urban areas.

THOMAS WHITE INTERNATIONAL

About the Author
Thomas White International seeks superior performance by identifying undervalued securities in the U.S. and nearly 45 markets worldwide. Its flagship product is the Thomas White International Fund (TWWDX).

Fast Facts

- Brazil is the fifth largest country in the world and the largest Latin American economy.
- The Economist Intelligence Unit had forecasted that Brazil will overtake the U.K. to become the sixth-largest economy in 2011.
- Brazil is the biggest exporter of iron ore and the largest exporter of meat, coffee, and chicken.

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- Brazil is the fifth most populated country in the world
- Over the last two decades, thanks largely to welfare schemes launched by the government, the poverty rate has halved in Brazil.
- Income equality in the country has also fallen sharply, declining on average by 1.2% a year.
- The Brazilian retail market is worth about $230 billion.
- More than 30 million Brazilians have risen out of poverty since 2003 to create a new middle class.
- Demographics also favor the growth of the consumer-oriented sectors of the economy. About 80% of the country's 190 million population lives in urban areas.

Hyperinflation and its aftermath

By the mid-1990s, international retailers woke up to the fact that developed markets had reached a point of saturation and offered little scope for further expansion. Quite naturally, their eyes fell on the newly emerging markets, especially those Eastern European nations that had come out from behind the Iron Curtain around the same time. Despite the shift in the retailers' mindset during the decade, due to a number of economic issues Latin America did not figure on their radar screens until toward the end of the 1990s.To begin with, South American markets as a whole were characterized by economic instability. High levels of public debt and hyperinflation were the hallmarks of many Latin American economies and Brazil was no exception. To put things in perspective, inflation in Brazil had touched a mind-boggling 5000% in 1994. This daunting inflation scenario worked to the detriment of both consumers and retailers alike. If buyers were forced to make purchases soon after they received salaries for fear of losing the real value of their money, retailers too had to revise their price lists frequently. To sum up, the economic situation was not encouraging for retailers as they tried to gain a toehold in the domestic sector.

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