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Aug, 4, 2009

Brazil's growing middle class powers rebound

By TYLER BRIDGES / McClatchy Newspapers

RIO DE JANEIRO -- Brazil is beginning to pull out of an economic dive triggered by the global financial crisis, but it's not the country's vaunted soybean, meat and iron ore exports that are powering the turnaround of the world's ninth-largest economy.

Instead, more than 20 million Brazilians who have joined the consumer economy in recent years and now have money to spend are playing a key role in Brazil's recovery.

"Investments and exports are down, but consumer spending is still growing, although slower than before," said Juan Pablo Fuentes, who tracks Latin American economies at Moody's Economy.com in West Chester, Pa. "People are still willing to buy durable goods like electronics and cars. It shows optimism, which is important."

Brazilians who formerly eked out a living are leading the way.

From 2001 to 2007, the poorest 10 percent of the population enjoyed a 49 percent increase in real income, said Brazilian economist Marcelo Neri, or what he called "Chinese-like growth."

Some 27.8 million Brazilians - out of a population of nearly 200 million - joined the consumer economy from October 2003 to October 2008, said Neri, who is based at the Getulio Vargas Foundation in Rio. "They could now buy durable goods like computers, maybe even a car, and get access to credit," Neri said.

Spurred in part by a federal sales tax break, Brazil's auto industry sold more cars in a single month in June than ever - 300,157. This topped the previous monthly record in July 2008 by 12,047 vehicles.

Neri credited the expansion of the consumer class to an activist government that has increased direct payments to the poor and raised the minimum wage, which is also indexed to benefit retired public workers.

After growing for five years, however, Brazil's economy contracted by 1.8 percent during the first quarter, and Neri estimated the tough economic times have caused about 2.8 million Brazilians to fall back into poverty.

"It's not a big loss," Neri said, amounting to about only 10 percent of those who joined the consumer society during the boom years. "The average Brazilian today still has money in his pocket."

Moody's Economy.com is projecting Brazil's economy to grow by 0.5 percent in 2009 thanks to a second-half rebound that's expected to offset a difficult first six months. The firm expects Brazil's economy to grow by 4.2 percent in 2010 and lead Latin America out of recession.

"The worst is over," said Paulo Levy, an economist at the Rio-based Institute for Applied Research, adding Brazil is in better shape to weather the global economic mess than it was a decade ago.

Successive governments have tamed inflation, boosted foreign currency reserves, cut foreign debt, turned budget deficits into surpluses and "sent signals to investors that they could rely on Brazil," Levy said.

Tapping into the country's currency reserves has permitted the government to boost spending on new roads and ports and direct more money to the poor.

Still, even a fortified Brazil was no match for the economic disaster that hit in October when bank loans disappeared and demand for its export products withered.

Investors pulled back, with the electronics, construction and aircraft manufacturing sectors taking a beating. Foreign investment dropped by 20 percent during the first five months of 2009, and imports plummeted by 28.9 percent during the first six months of 2009, compared with the first six months of 2008. Exports dropped by 22.2 percent.

The only bright spot for Brazil's trade: China's continuing thirst for Brazilian soybeans, iron ore and oil.

China accounted for 8.2 percent of Brazil's exports in the first six months of 2008 but 14.9 percent in 2009 - becoming a bigger market than the U.S.

"I don't know where we'd be without China," said Jose Augusto de Castro, a vice president of the Rio-based Brazilian Foreign Trade Association.