Brazil

September 2020

Agriculture	Automotive/ Transport	Chemicals/ Pharma	Construction Const.Mtrls	Consumer Durables	Electronics/ ICT	Financial Services	Food	Machines/ Engineering	Metals	Paper	Services	Steel	Textiles

Source: Atradius

Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Agriculture

Remains Fair

Some businesses in the fertilizers distribution segment have been affected by higher import costs of commodities (mainly agrochemicals) due to the real volatility against the USD, which negatively impacted margins. However, a record harvest and the still unsolved issues between China and the US favor Brazilian agricultural exporters, who also benefitted from the low exchange rate. However, a severe draught affects the south of Brazil.

Automotive/Transport

Remains Bleak

Both automotive manufacturing and sales suffer from deteriorating demand. This has led to severe liquidity strains and cash shortfalls among many businesses. Automotive value added is forecast to contract by 43% in 2020, and increasing payment delays and insolvencies among suppliers and car dealers in the coming months cannot be ruled out. In the transport sector, it seems that due to increasing online sale deliveries and a good harvest, the truck segment faces robust demand in the coming months.

Chemicals/Pharmaceuticals

Remains Good

Both chemicals and pharmaceuticals businesses have improved their results and margins over the past couple of years, and payment experience has been good over the past two years. Demand for medicines/specialised drugs will grow, and the market mainly consists of resilient distributors and retailers.

However, in the chemicals subsector, most raw materials have to be imported, and production costs are exposed to exchange rate volatility, especially in the agrochemicals (pesticides) subsector. At the same time, demand from key buyer industries has declined. Chemicals value added is expected to decrease by about 6% in 2020.

Construction/ Construction Materials

Up from Bleak to Poor

Operating margins are very tight, with increased credit risk mainly to smaller players. The current economic downturn will aggravate the situation of many businesses, with further deteriorating margins. However, there has not been a substantial increase in business failures yet. Low interest and inflation rates are supporting the market, and there is demand for larger apartments. Consumers divert money otherwise spent on travel or entertainment to home restructuring.

Consumer Durables

Up from Bleak to Poor

Private consumption of non-food consumer has decreased due to the coronavirus impact, and the financial strength of many retailers has seriously deteriorated. Retail value added is expected to decrease by more than 4% in 2020.

While a considerable number of retailers has asked for payment extensions, a substantial increase in credit insurance claims has not yet materialized. Some segments currently benefit from a strong increase in the online business, while shopping malls have reopened. Government assistance to poorer households (e.g. cash handouts) has supported the retail segment. Meanwhile, an increasing number of purchases by middle class consumers currently working from home has benefitted certain businesses, particularly the small appliances and white goods segments. While a substantial increase in default rates is not expected for the time being, the credit risk for smaller retailers that own no online business and/or have been impacted by the lockdown without material support from banks remains elevated.

Electronics/ICT

Up from Bleak to Poor

ICT value added is expected to level off or decrease slightly in 2020. After an initial slowdown in March and April, ICT sales have benefited from strong demand for laptops and connectivity items, as many companies have switched to remote working. It seems that this trend will continue even after the end of social distancing and lockdown measures in the future. However, it is still expected that payment delays of those small and mid-sized players that have been substantially impacted by the lockdown (in particular in the first part of Q2 of 2020), and that have lacked financial support by banks will increase.

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Industry performance

Changes since June 2020 · Sources: Atradius, Oxford Economics

Financial Services

Remains Good

The sector remains relatively robust. However, increased financial troubles for businesses and consumers alike due to the economic downturn could lead to more loan defaults for banks and tighter lending conditions. Financial industry value added is expected to decrease by about 3% in 2020.

Food

Remains Good

Despite ongoing sales, the sector has been impacted by the consequences of the lockdown (e.g. transport and supply chain issues). Value added growth is expected to contract 3.5% in 2020, but to rebound strongly by more than 7% in 2021.

Machines/Engineering

Up from Bleak to Poor

Engineering value added is expected to decrease by more than 9% in 2020, as demand from key buyer industries has decreased and capital investment is contracting. However, domestic machinery builders benefit from the fact that machine imports have become very expensive due to real depreciation. A rebound of sales in H2 of 2020 could mitigate the sharp contraction seen in H1.

Metals

Up from Bleak to Poor

Metals value added is expected to decrease by more than 15% in 2020, as demand from key buyer industries has decreased. However, a substantial increase in credit insurance claims has not yet materialized, and sector performance is expected to improve in the coming months.

Paper

Remains Poor

Paper producers have been impacted by less demand due to lockdown measures, the economic recession and the ongoing digitalization. Value added of the industry is expected to contract by 10% in 2020, and the default rate of paper businesses is increasing.

Services

Remains Poor

Due to the comprehensive lockdown measures in face of the coronavirus outbreak and rising unemployment, many segments are expected to suffer heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. Hotel and catering value added is expected to contract by more than 8% in 2020. The overall liquidity drain in the services sector has triggered a significant increase in payment delays and insolvencies.

Steel

Up from Bleak to Poor

Steel value added is expected to decrease by more than 15% in 2020, as demand from key buyer industries has decreased. However, a substantial increase in credit insurance claims has not yet materialized, and sector performance is expected to improve in the coming months.

Textiles

Remains Bleak

Producers, wholesalers and retailers already suffered before the coronavirus outbreak from fierce competition, thin margins, changes in customer behaviour and increased competition from new online retailers. Their performance has further deteriorated due to low sales that resulted from lockdowns and rising unemployment. Textile value added is expected to shrink by more than 15% in 2020 after annual contractions in 2018 and 2019, and payment delays and business failures have increased.