

## Brazil

<i>Capital:</i>	Brasília
<i>Population:</i>	183,888,841 (2007 estimate)
<i>GDP*:</i>	US\$1.804 trillion (2007 estimate)
<i>Currency:</i>	Real (R\$)
<i>Language:</i>	Portuguese



### Summary

For the Brazilian automotive industry, 2007 was a record-breaking year. The industry set an all-time high of 2.97 million cars, vans, buses, and trucks manufactured. Comprising 18 percent of the country's industrial production and five percent of GDP, the growth in the auto industry contributed to Brazil's higher than expected GDP growth of 5.4 percent last year. Local automakers predict production in 2008 will top 3.25 million vehicles and are ramping up investments and hiring more workers to increase capacity.

Flex-fuel vehicles, which run on any combination of gasoline and ethanol, also broke records. Today, almost nine out of ten new cars sold in the Brazilian market have flex-fuel engines. Brazil's stable macroeconomic picture, higher household incomes, and readily available credit have stimulated domestic sales. However, Brazil's high tax rate and rising wages for workers, as well as an appreciating currency, are areas of potential concern for the industry. Other countries, including Argentina, are gaining competitive advantages that could encourage multinational companies to relocate some of their manufacturing facilities. Similarly, the Brazilian Central Bank's interest rate hike this month could cause automakers to reconsider some proposed investments.

Today, the Brazilian auto industry is a major driver of economic growth. Brazil is becoming an emerging market leader for technology development because of its highly skilled and qualified engineers and relatively low labor costs compared to developed countries. Brazil has the largest number of car assembly plants in the world, manufacturing more than 30 brands. The auto sector has invested approximately USD 27.5 billion since 1994 to expand plant and component manufacturing capacity and in new technology for developing new models.

Brazilian exports rose in value from USD four billion in 2002 to USD 13.2 billion in 2007. Globalization also has pushed the industry to restructure its supply chain and product design processes. Innovative organizational designs, novel production facility layouts, and efficient supply chain management make Brazil one of the most dynamic automotive industries. General Motors (GM), Ford, Volkswagen, and Fiat all have flex-fuel development and engineering facilities in Brazil. The Ford plant in Bahia and the GM plant in Rio Grande do Sul are considered the most modern assembly plants in the world.

### Current Market Trends

ANFAVEA reported that motor vehicle production (autos, trucks, and buses) and domestic and international sales all hit record highs in 2007. Last year, the industry assembled 2.97 million cars, up 13.9 percent over 2006. Domestic sales including imported vehicles climbed 27.8 percent, totaling 2.46 million. Imported vehicles accounted for 10.9 percent of total domestic sales. Fiat led Brazilian domestic market sales in 2007 with 523,180 cars, followed by Volkswagen with 491,790, and GM with 444,904. At the end of 2007, the Brazilian automotive industry employed 120,245 people, up 13.1 percent from 2006. These upward trends have continued in early 2008. According to ANFAVEA's data for the first quarter of 2008, total vehicle production was 783,000 cars, up 19.3 percent from the same period a year ago. Vehicle sales reached 648,000, up 31.4 percent.

## Market Entry

The four largest auto manufacturers in Brazil are Fiat, Volkswagen, GM, and Ford.

Despite the booming domestic market, the appreciation of the Brazilian currency has reduced the auto industry's global competitiveness. While the Brazilian auto industry broke records in 2007, total cars exported were down 6.6 percent from 2006. Pablo Teruel said that ANFAVEA does not anticipate export revenues this year to surpass 2007. Nonetheless, export earnings in the first quarter of this year totalled USD 3.24 billion, up 13.1 percent compared to the same period a year ago. Although the Brazilian auto market is expected to set new production and sales records this year, industry analysts point to Brazil's high tax burden, inadequate infrastructure, and cumbersome bureaucracy, combined with the appreciation of the Brazilian currency, as making Brazilian vehicles less competitive internationally. Several auto industry interlocutors told Economic Officer that production costs in Argentina are lower and that Argentina is becoming an attractive alternative for auto makers, especially given the duty-free access to the Brazilian market afforded to Mercosul countries.

Brazil's auto industry is booming and manufacturers are investing in new technologies to gain competitiveness and expand capacity. Despite the growth in passenger cars in Brazil, only one in three Brazilians owns a car, leaving an untapped consumer market for automakers. Brazil's additional costs of doing business (coined the "Brazil cost"), however, limit the Brazilian auto industry's ability to maintain its competitive edge and prevent multinational companies from relocating production facilities for lower taxes and cheaper labour. The recent 0.5 percentage point interest rate hike and possible mid-term energy concerns are factors that automakers will likely consider when making future investment decisions.

## Available Market Research

The Brazilian Automotive Industries Breaking Records (May 2008)  
Perspectives for the Automobile Industry in Brazil (March 2007)

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