

Source: Atradius

Industry performance

Changes since January 2021 - Sources: Atradius, Oxford Economics

Agriculture



Remains Fair

Compared to other industries, agriculture is the least affected one by the pandemic. Almost all main segments show good harvest outlooks, and export sales of soybeans and corn have surged in Q1 of 2021. Cotton production is declining, but remains at a comparatively high level. However, the sugar-energy (ethanol) segment has been affected by lower demand and decreased prices, with market conditions remaining uncertain. Cereals value added is forecast to increase 2.5% in 2021, after growing 3.2% in 2020.

Automotive/Transport



Remains Bleak

Both automotive manufacturing and sales suffered from deteriorating demand in H1 of 2020. This has led to severe liquidity strains and cash shortfalls among many businesses. In 2021 the industry continues to face considerable uncertainties. As in other markets, the current semiconductor shortage has affected car production in Brazil, leading to temporary production halts. The recent decision of a major US automotive producer to close its plants in Brazil highlights the country's competitive disadvantages in terms of production costs. While sales of light vehicles were low in Q1 of 2021 a better performance is expected in H2, given that economic rebound will gain some steam with a larger vaccination rollout.

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 so far. While fertilizer sales grew about 30% in Q1 of 2021, due to a favourable price development and strong demand from agriculture, growth is expected to slow down in the course of the year. Chemicals value added is forecast to increase by about 4% in 2021, after a 1.3% contraction in 2020.

In the pharmaceuticals sector demand for medicines and specialised drugs will continue to grow. The market mainly consists of resilient distributors and retailers. Pharmaceuticals value added is expected to expand by more than 3% in 2021 after increasing 1.3% in 2020.

Construction/ Construction Materials



Remains Poor

Construction value added is expected to rebound by about 6% in 2021, after a 6.7% contraction in 2020. However, operating margins remain very tight, with increased credit risk mainly for smaller players. There are bottlenecks of construction materials supply, and input prices for cement, steel, PVC have increased accordingly, impacting the profitability of construction businesses.

Consumer Durables



Remains Poor

In H1 of 2020, private consumption of non-food consumer goods sharply decreased due to the coronavirus impact, and the financial strength of many retailers seriously deteriorated. However, thanks to e-commerce retail the sector has seen a strong surge in demand in H2 of 2020. Additionally government assistance (e.g. cash handouts) to poorer households supported the industry. That said, retail value added contracted 3.9% in 2020, and payment defaults of smaller retailers increased.

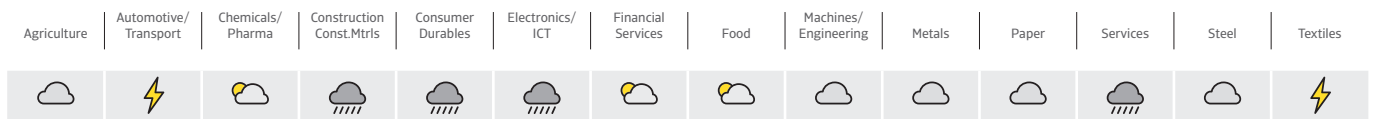
In Q1 of 2021, the impact of the second wave of the pandemic and the lockdown measures on sector performance was rather modest, with no major increases in payment delays or payment extension requests. Retailers have further increased their online sales capacity and improved their liquidity situation during the sales rebound in H2 of 2020. However, due to the current pandemic situation downside risks remain. Unemployment remains elevated, and private consumption is expected to grow only about 4% in 2021, after a 5.5% contraction in 2020.

Electronics/ICT



Remains Poor

After an initial slowdown in March and April 2020, ICT sales have benefited from strong demand for laptops and connectivity items, as many companies have switched to remote working. ICT sector value added is expected to increase by about 3.5% in 2021. The strong expansion of online business, mainly driven by large local players, is driving sector performance. Due the current semiconductors shortage sales prices have been growing. However, there have been increased credit insurance claims among smaller ICT businesses.



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Financial Services



Remains Good

The sector remains robust and well managed, able to provide support to the economy. This support has been enabled by emergency measures taken by the Central Bank, which helped banks to extend payment terms on loans without raising capital costs. Non-performing loans have not yet substantially increased, and the four largest banks in Brazil recorded robust results in Q1 of 2021.

Food



Remains Good

Food value added is expected to increase by about 3% in 2021, after growing 2.4% in 2020. Both food distribution and food processing have shown a solid performance so far. While rising inflation could have a dampening effect on growth, the sector performance is expected to improve further in the coming months, with a larger share of the population being vaccinated.

Machines/Engineering



Up from Poor to Fair

In Q1 of 2021, machinery and equipment sales increased by more than 25% year-on-year. After a 4.2% contraction in 2020, engineering value added is expected to grow by more than 8% in 2021. While export-oriented businesses have faced some issues, the domestic market has strongly rebounded. Domestic machinery builders have been able to boost their sales, as machine imports have become more expensive due to the depreciation of the real.

Metals



Up from Poor to Fair

Metals value added is expected to increase by 14% in 2021, after a 6% contraction last year. Demand from key buyer sectors has increased with the ongoing economic recovery. Additionally, the price hike for metal products and commodities has led to increased stockpiling.

Paper



Up from Poor to Fair

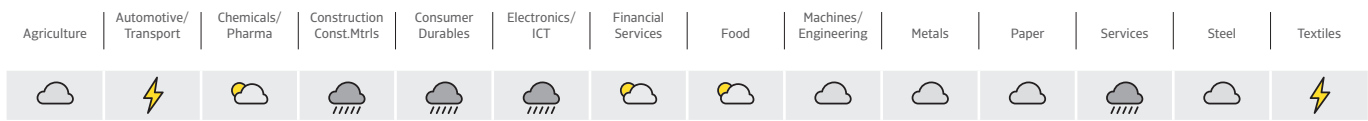
Despite the pandemic, the paper sector has performed solid so far, mainly due to strong demand from China. While the ongoing digitalization is leading to decreasing use of paper, demand for paper products used for health care and hygiene has further increased. Larger investments have been made in the sector, and in Q1 of 2021 business results have been robust due to higher sales prices. After increasing 0.9% in 2020, paper value added is expected to increase by 4% this year.

Services



Remains Poor

As a result of rising unemployment and the comprehensive lockdown measures in face of the coronavirus outbreak, many service segments have suffered heavily, especially hotels and catering, restaurants, bars, entertainment and cultural events, travel agencies and tour operators. However, the Brazilian economy is rebounding, with a 1.2% quarter-on-quarter growth in Q1 of 2021, after increasing 3.2% in Q4 of 2020. This growth was also driven by a service sector expansion. While the industry performance remains impacted by the spread of the pandemic and social distancing measures, vaccination progress should lead to improvements in the coming months. However, after decreasing 12.7% in 2020, service value added is expected to rebound by only 4.5% in 2021. Hotel and catering value added is forecast to grow by 15% this year, after contracting 22.4% in 2020.



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Steel



Up from Poor to Fair

In Q1 of 2021 crude steel production increased by 6.2% year-on-year, with domestic sales rising 29%. In March 2021 apparent steel consumption increased 33% year-on-year to 6.7 million tons, the largest monthly consumption level seen since October 2013. After an 8.1% contraction in 2020, steel value added is expected to increase by more than 16% in 2021. Production costs have increased due to higher input prices for essentials like iron ore and scrap.

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 sales performance further deteriorated due lockdowns and rising unemployment. In Q1 of 2021 clothing imports decreased 30% year-on-year. Clothing value added is forecast to rebound 13% in 2021, but contracted 24.5% in 2020.