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## **Report Name:** Agricultural Prices Stoke Inflation

**Country:** Brazil

**Post:** Brasilia

**Report Category:** Agricultural Situation, Agriculture in the Economy, Agriculture in the News, Dairy and Products, Grain and Feed, Livestock and Products, Oilseeds and Products, Poultry and Products

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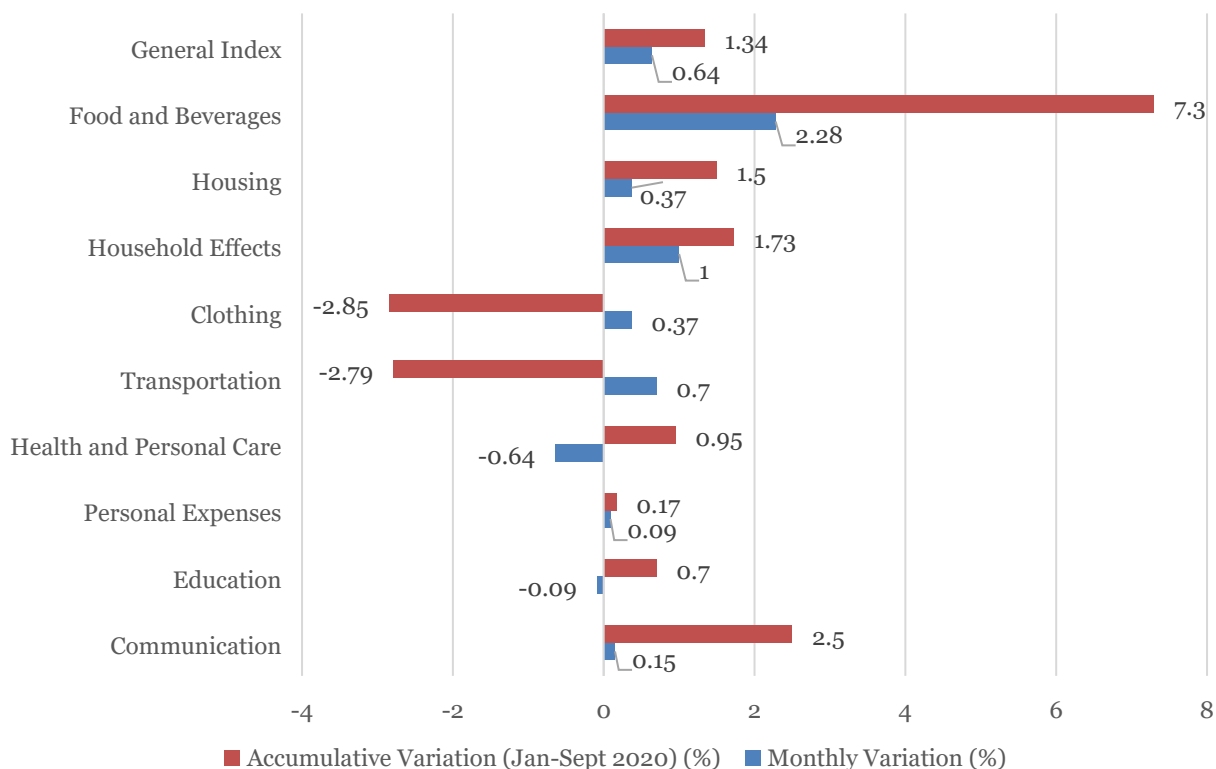
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### **Report Highlights:**

Brazil's consumer inflation has been steadily rising over the summer and into the fall. The increase has, in large part, been fueled by spiking food and beverage prices. Basic staples such as rice, beans, and soy cooking oil rose the most in percentage terms. With the start of the COVID-19 pandemic, consumer demand rose on the back of increasing consumption at home, as well as a new tendency to stock up on basic food staples. However, an important factor contributing to Brazil's food inflation is Brazil's role as a key global supplier of agricultural commodities and food products. Brazil's 2020 agricultural export boom has created scarcity and higher prices on the domestic market. Although Brazil eliminated import tariffs on rice, corn, soybeans, soy oil and meal, food inflation is unlikely to subside for several more months until the 2020/21 grain and oilseed harvests begin to come online.

According to the Brazilian Institute of Geography and Statistics (IBGE), Brazil’s National Amplified Consumer Price Index (IPCA) benchmark closed out September with the highest increase for this month in 17 years. IPCA registered 0.64 percent growth in September; more than two-thirds of the inflation rate, or 0.46 percent, was attributed to spiking food and beverage prices. For the year to date, cumulative inflation climber to 1.34 percent at the end of September. It is worth noting that as of late October, the consensus market estimate for overall inflation for 2020 was pegged at around three percent – well below the Central Bank’s official target of four percent.

Brazilian Consumer Inflation in 2020  
(September and year-to-date)



Data Source: IBGE, Chart: OAA Brasilia

Headline-catching food price hikes are impacting consumers across the board in Brazil, particularly the less well-off groups. In early September, Treasury Secretary Bruno Funchal attributed the rising food prices to a temporary global phenomenon caused by a coronavirus pandemic-induced supply shock. In late October, with prices continuing to march upwards, Adolfo Sachsida, economic policy secretary at the economy ministry stated that inflation in Brazil is not a problem, and the recent spike caused by rising food and fuel prices is transitory.

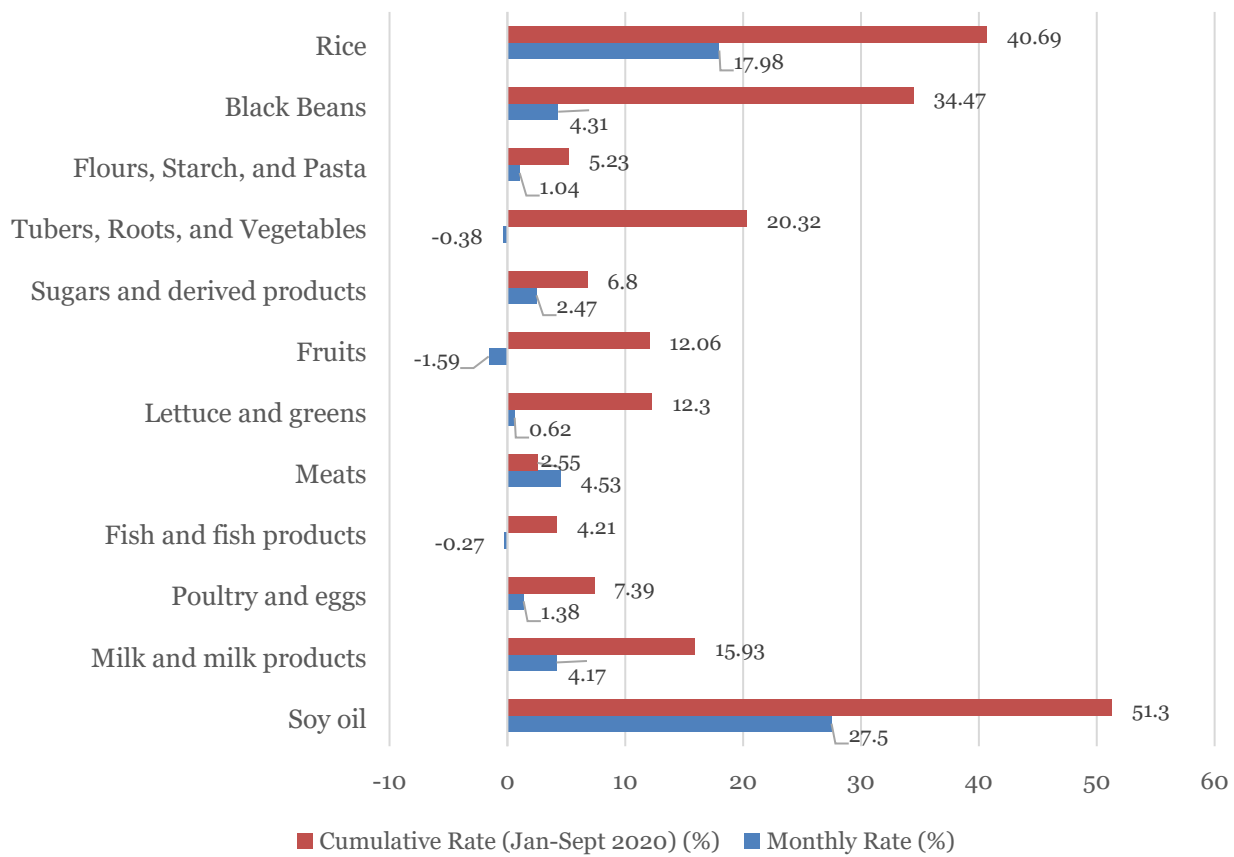
The coronavirus shifted consumption patterns and caused a spike in demand for staples – not just in Brazil, but around the world. As a result, trade patterns shifted as well. There is reason to believe that food prices will remain elevated in Brazil for at least several more months, until the new grain and oilseed harvest comes online and relieves pressure on stocks sometime after January 2021. In a video

posted online on October 29, President Jair Bolsonaro acknowledged as much, noting that Brazil is importing food staples such as rice and soybeans.

### Domestic Food Inflation

In-depth data from IBGE shows that prices for basic staples including rice, beans, and soy cooking oil rose the most in percentage terms. However, there are notable price increases in other food categories as well – from fruits and vegetables to milk and milk products. In fact, in the first nine months of the year, prices rose at least 2.55 percent or more for all basic food staples.

Consumer Inflation by Food Group/Product  
(September and year-to-date)



Data Source: IBGE, Chart: OAA Brasilia

When it comes to prices in grocery stores across Brazil, there is quite a bit of variation – but the data tracks (and often supersedes) the trendline increases registered by IPCA. Post considered data from Sao Paulo grocery stores, where according to a price survey carried out by the Intelligence and Research Center of Procon, the average cost of a basic consumer food basket rose 3.78 percent during September, and over 20 percent since the beginning of the year.

### Supermarket Prices for Basic Food Staples in Sao Paulo, Brazil

Product	Average Prices (R\$)				
	December 2019	August 2020	September 2020	Aug-Sep Δ (%)	Dec '19-Sept '20 Δ (%)
Soy Oil (900ml)	3.6	4.62	6.09	31.82	69.17
Rice (5kg)	12.41	16.87	20.35	20.63	63.98
Mozzarella Cheese, sliced (1kg)	28.92	40.97	43.67	6.59	51
UHT Milk (1 liter)	2.85	3.85	4.02	4.42	41.05
Tomato Sauce (350g)	3.05	3.82	3.92	2.62	28.52
Onion (1kg)	3.5	4.27	4.42	3.51	26.29
Dry Beans - Carioca (1kg)	5.35	6.48	6.74	4.01	25.98
Boneless Choice Meat (1kg)	22.22	26.66	27.74	4.05	24.84
Whole Milk, powdered (900ml)	9.7	11.77	11.88	0.93	22.47
Fresh Sausage (1kg)	13.83	16.49	16.78	1.76	21.33
Wheat Flour (1 kg)	3.01	3.49	3.56	2.01	18.27
Prime Meat (1kg)	29.99	33.05	34.71	5.02	15.74
Assorted Sausage (1kg)	10.14	11.27	11.65	3.37	14.89
Ham, sliced (1kg)	21.77	25.34	24.75	-2.33	13.69
Margarine (250g)	2.06	2.12	2.24	5.66	8.74
Garlic (1kg)	27.94	30.07	29.97	-0.33	7.27
Refined Sugar (5kg)	11.16	11.82	11.91	0.76	6.72
Sliced Bread (500g)	4.24	4.49	4.46	-0.67	5.19
Whole Frozen Chicken (1kg)	7.46	7.39	7.67	3.79	2.82
Roasted Manioc Flour (500g)	4.33	4.46	4.43	-0.67	2.31
Eggs (dozen)	6.61	6.68	6.67	-0.15	0.91
Coffee, powdered (500g)	7.39	7.31	7.38	0.96	-0.14
Potato (1kg)	3.69	3.43	3.2	-6.71	-13.28
Other	20.08	21.23	21.39	0.75%	6.52%
<b>Total</b>	<b>265.30</b>	<b>307.95</b>	<b>319.60</b>	<b>3.78%</b>	<b>20.47%</b>

Source: Intelligence and Research Center of Procon of São Paulo

In Sao Paulo, rice and soybean oil led the way in percentage point increases. The price of a five-kilogram package of rice rose to R\$ 20.35 in September – a 20 percent increase on August's price of R\$ 16.87, and a 64 percent increase since the end of 2019, when the same package cost R\$ 12.41. A similar dynamic played out across most of Brazil and led the government to announce, on September 9, a temporary reduction of rice import tax to zero, to try to contain spiking prices. Rice imports from the United States and India began shortly thereafter, though it is unclear whether rising import volumes will be enough to contain surging prices.

The only other staple commodity where prices rose faster than for rice, was soybean oil, used by consumers for cooking. Soy oil prices for a 900 ml bottle in Sao Paulo were up over 30 percent from August to September, and over 69 percent higher in the first nine months of the year. Notably, scores of other products also registered substantial price increases, from mozzarella cheese, which saw a price

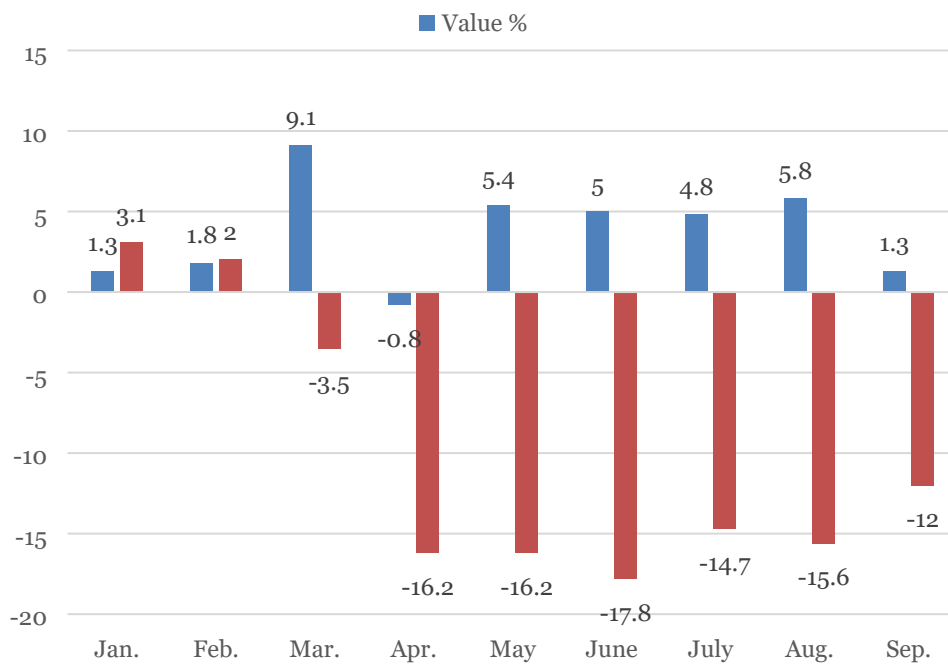
hike of over 50 percent since the beginning of the year, to dry beans which registered a 26 percent price jump from the end of December 2019 to September 2020.

### Consumer Demand Increases due to the Pandemic

With the start of the COVID-19 pandemic, social isolation led to changes in food consumption habits. Consumer demand rose on the back of increasing consumption at home, as well as a new tendency to stock up on basic food staples. In addition, the government’s emergency aid program - commonly referred to as the Corona Voucher - infused temporary cash of about US\$120 per month for around 66 million Brazilians who lost their jobs or were already unemployed. The program initially began in April with funding for three months; it was later renewed through the end of 2020, but at half of the previous value.

The cash payments translated directly to increased food staple purchases. This is particularly true for rice and beans - with many Brazilians consuming rice with black beans one or two times every day. According to National Supply Company (CONAB) estimates, nearly 95 percent of Brazilians consume rice, with more than half doing so at least once every day. However, the annual consumption volume (gross and per capita) has trended downward over the last two decades, as Brazilians have been replacing some of their rice consumption with other starchy staples, such as bread, potatoes, and manioc. Yet this year, according to CONAB estimates, domestic demand for rice and beans should rise by around five percent as compared to 2019. Social-distancing measures also spurred increased demand for other products from dairy (especially for long-lasting UHT milk), to meat, vegetables, and fruit.

Food Purchases from Supermarkets



(Comparison with the same month last year)

Source: Fipe

However, while anecdotal evidence points to increased consumption of staples, the overall volume of purchases from supermarkets is down. According to the Restaurant Consumption Index (ICR), prepared by the Foundation Institute of Economic Research (Fipe), while consumers have spent more money at grocery stores every month during the pandemic as compared to the same month last year, they have also purchased fewer products. Moreover, ICR suggests that consumers spent just 1.3 percent more on food purchases at the supermarket in September 2020, as compared to September 2019, because they have adjusted their consumption pattern to the new, coronavirus- reality.

### **Exports See a Boost Across the Board**

An important factor contributing to Brazil's food inflation is its role as a key global supplier of agricultural commodities and products. Brazil is an agricultural powerhouse and a top three exporter globally of soybeans, beef, sugar, orange juice, coffee, among other products. In the first nine months of the year, Brazil's agricultural exports were up 12 percent in dollar terms compared to the same period last year – to \$67 billion, up from \$59.5 billion. Meanwhile, imports fell almost three percent, to \$6.96 billion, from \$7.16 billion. (See [GAIN Report Brazil's Agricultural Sector Thrives Despite COVID-19](#)).

Looking at some of the key food categories where prices rose the most in Brazil, it is clear that exports played a key role in creating tight supplies in the domestic market. For example, exports of soybean oil were up 12.5 percent in January-September 2020, as compared to the same timeframe in 2019. Meanwhile, rice exports rose over 70 percent by value and 73 percent by volume in the first nine months of the year. Rice imports by volume increased by less than 4 percent and only due to extremely strong September arrivals associated in part with zeroed out import duties. With historically low carryover stocks from season to season, this rice trade dynamic created strong domestic demand pressure.

The most dramatic increase, however, was registered in oilseed and grain commodity exports in the first nine months of the year. From January through September 2020, soybean exports more than tripled to 52.8 million metric tons (MMT), as compared to the same period in 2019, when Brazil shipped 12.4 MMT. Meanwhile, after record-shattering exports in 2019, corn exports got off to a very slow start in 2020, with exports down 14 percent in the first nine months of 2020 vis-à-vis 2019. However, the 2020 corn export volume to date is still well above exports registered in a five-year average for the same time frame.

Record shipment of soybeans and substantial shipments of corn created scarcity of supply for the domestic processing industry and pushed domestic crop prices to record highs. As a result, prices for products such as soybean oil, corn, and soy meal – used in animal feed – also climbed. In Brazil, animal feed accounts for roughly 70 percent of the costs of poultry and livestock production. Undoubtedly, production costs are at least partially passed on to consumers of meat and dairy products. In an attempt to counter spiking prices, Brazil announced on October 16 that in addition to rice, it would also suspend the import tariffs on corn, soybeans, soy meal, and soy oil from non-Mercosur countries. However, due to several procedural and logistical stumbling blocks, Post does not believe that substantial imports of these products are likely to materialize, at least from the United States- a key global supplier of grains and oilseeds. (See [GAIN Report Brazil Eliminates Soybean and Corn Duties](#)).

It should be noted that the booming export trend does not necessarily hold for all food staples. This has to do with the fact that for a number of commodities produced in Brazil - such as dairy, fruits, and

vegetables - production is oriented towards the domestic market, with fairly small volumes shipped abroad. For example, Brazil's exports of dry beans were down 17 percent in the first nine months of the year to 24 thousand tons, from 29 thousand tons last year. However, the registered decrease in dry bean exports in 2020 is due to pre-existing dry bean trade trends; in recent years, Brazil's dry bean exports have been decreasing due to a leveling off in dry bean production.

### **Exchange Rate: A Key Driver in Trade Flows**

A large part of the export boom has been driven by the steep devaluation of Brazil's domestic currency, the real (BRL). The real nosedived sharply as the pandemic took hold of the country in the first quarter of the year. On January 1, 2020, the BRL traded at R\$ 4 to the USD; by the end of March, the currency was trading at R\$ 5.15, losing a third of its value. By the end of June, the exchange rate hit R\$5.5 to the USD and has remained around that level since then. The real has been relatively stable in the second and third quarters of the year providing but has been one of the worst-performing Emerging Market (EM) currencies in 2020.

However, the domestic currency freefall made Brazilian agricultural exports extremely attractive in foreign markets, providing an incentive for buyers to increase purchases of Brazilian commodities. (See [GAIN Report Brazilian Commodity Prices Hit Record Levels](#)). Conversely, with weak BRL, imports became more expensive, reducing the margin and therefore, the demand. For example, in the first several months of the pandemic, Brazilian rice millers limited their foreign purchases of rice, relying instead on domestic stocks, which whittled down supplies and amped up the demand pressure for domestic supplies causing prices to climb.

### **But Global Agricultural Trade Dynamics and Coronavirus Fears Also Entered into Play**

Although Brazil's internal market dynamics are the key drivers for spiking inflation, other factors also entered into play. Global rice trade is lower thus far in 2020 compared to last year, with drought-induced lower supplies in Thailand and pandemic-induced export restrictions across several traditional suppliers like Vietnam, Cambodia, and Burma. Meanwhile, rice demand across the globe rose, based on similar drivers that are in play in Brazil – with social isolation and households on lockdown, consumers took to stockpiling food staples. The resulted limited exportable supplies have led to a global rise in rice prices.

For soybeans, Post sources indicate that there was a concern in China about potential Covid-induced bottlenecks in port operations. To prevent possible disruptions to supply for its processing industry, China amped up soybean purchases from Brazil in the first half of the year. It should be noted, however, that Chinese buyers were also motivated by the sharp devaluation of the BRL, which meant that Brazilian soybeans were priced lower than supplies from its main competitors, Argentina and the United States.

### **Near-Term Outlook Calls for Continued High Prices**

Early indications are that inflation in October continued high and is estimated at 0.86 percent by IBGE. Once again, food and drink prices – estimated as rising by 1.93 percent last month - were key drivers for the headline number. Soybean oil and rice prices continued to climb aggressively, registering monthly

increases of 17.44 percent and 13.36 percent respectively. As mentioned previously in this report, it is unlikely that food prices will begin to ease until grain and oilseed harvests in the first quarter of 2021 and the October inflation figure confirms this forecast.

**Attachments:**

No Attachments.