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Report Name: Brazilian Agricultural Sector Thrives Despite COVID-19 Pandemic

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Report Highlights:

While the Brazilian economy has faltered as a result of the widespread effects of the COVID-19 pandemic, most of the country's agricultural sector has thrived. The rapid devaluation of the Brazilian real made the country's agricultural exports attractive on the international market. Weak real also discouraged dollar-denominated imports and fueled internal demand for domestically produced agricultural products. Brazilian agriculture, working in tandem with government decision-makers, overcame early transportation hurdles to boost exports, while also maintaining internal supply. Although the country has not experienced food shortage or supply chain disruptions, some segments of the Brazilian population have faced increased food insecurity. Overall, Brazil's agricultural sector appears well-positioned to weather the spread of COVID-19 and the post-pandemic period.

Brazilian Agricultural Sector Thrives Despite COVID-19 Pandemic

While the Brazilian economy has faltered as a result of the widespread effects of the COVID-19 pandemic, most of the country's agricultural sector has thrived, opening new markets and setting export records in recent months. Brazil's gross domestic product (GDP) is forecast to contract by at least 7 percent this year, but the agricultural sector is expected to grow by as much as 3 percent. The agricultural sector is taking advantage of international market opportunities that have emerged due to the COVID-19 pandemic, supplying foreign markets with a variety of products at a time when other nations have faced production disruptions due to the pandemic and some have tightened export controls to secure domestic supplies. Brazilian agriculture, working in tandem with government decision-makers, overcame early transportation hurdles to boost exports of some commodities to record levels in the middle of the pandemic, while also maintaining internal supply at a time when Brazilians increased their food purchases at grocery stores.

The weak Brazilian real (BRL) made the country's agricultural exports attractive on the international market, while also discouraging dollar-denominated imports and fueling internal demand for domestically produced agricultural products. Brazil has not faced food supply shortages, although domestic food prices have increased in recent months, and certain segments of the population are facing food insecurity. Brazil's agricultural sector appears well-positioned to weather the spread of COVID-19 and the post-pandemic period.

Amid Economic Contraction, Agricultural GDP Expected to Grow

Agriculture comprises approximately 4.5 percent of Brazilian GDP when narrowly defined, or over 20 percent when considering the integrated agroindustry, including processed foods and beverages, and forestry-derived products as well as agricultural services. Agriculture was one of the few areas of the Brazilian economy that saw steady and strong productivity gains over the past decades, despite a recession that hit the country in 2015.

While the COVID-19 pandemic has led to an overall economic contraction and sharp pullback in the service and industrial sectors, the consensus estimate for the narrowly defined agriculture sector shows growth of around two percent in 2020, according to a Brazilian Central Bank survey of more than 80 financial services firms. The government estimates are slightly more optimistic. According to the Ministry of Economy's Institute of Applied Economic Analysis (IPEA), agricultural sector will grow 2.5 percent, while Ministry of Agriculture's National Supply Company (CONAB) estimates sector's growth at 2.3 percent in 2020. Some private sector analysts have pegged the sector's growth as high as 3 percent for the year.

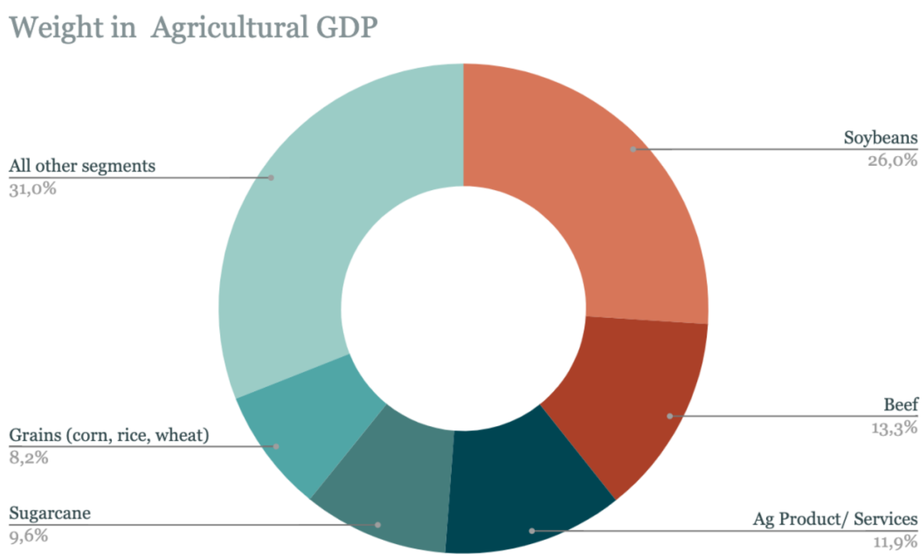
Notably, 2020 growth projections vary considerably by agricultural sub-sector. Yet, the overall positive outlook is driven by a record-setting grain and oilseed crop and a depreciated BRL against the U.S. dollar (USD), which facilitated an export boom and as a consequence boosted revenue in local currency for producers of these crops. Soybeans alone account for 26 percent of total agricultural GDP, while other grains add another 8.2 percent, in sum accounting for more than one third of total agricultural GDP.

2020 Agricultural Sector Growth Estimate by Product

	Production Growth (%)		Weight in GDP
	IBGE	CONAB	
Agricultural GDP	**2.5**	**2.3**	**100.0**
Row Crops	**3.1**	**2.9**	**67.3**
Paddy Rice	3.5	3.9	1.3
Corn	-3.4	2.3	6.1
Wheat & Other Cereals	19.4	5.4	0.8
Sugarcane	0.5	-1.9	9.6
Soybeans	6.7	4.6	26.0
Other Crop Products & Services	-1.8	-0.4	11.9
Manioc	-1.1	-1.1	1.6
Tobacco	-7.8	-7.8	1.2
Cotton & Other Natural Fibers	-2.0	3.6	2.7
Oranges	4.3	4.4	4.4
Coffee, Whole Beans	15.5	15.9	4.1
	IPEA / USDA		
Livestock & Poultry	1.5		**25.7**
Beef	0.3		13.3
Dairy	2.2		5.2
Pork	5		1.6
Poultry	2.5		3.0

Eggs	3.5	2.6
Other	-0.6	**6.9**
Forestry Products	-1.2	4.3
Fisheries & Aquaculture	0.5	2.7

Data Source: IPEA May 2020 Estimate. Note: For row crops, IPEA includes estimates from the Brazilian Institute of Geography and Statistics (IBGE) and the government's Food Supply Company (CONAB). For livestock and other estimates, IPEA issues estimates based on USDA data.



Data Source: IPEA

No Food Shortage, but Food Insecurity Affects Millions of Low-Income Brazilians

On May 7, Brazilian Minister of Economy Paulo Guedes drew headlines by warning of food shortages if COVID-19-related social-distancing measures were maintained significantly more than 60 days. However, Minister of Agriculture Tereza Cristina and the President of the Brazilian Food Industry Association (Abia), João Dornellas, noted that their monitoring of the food supply chain indicated little evidence of problems. Likewise, Post contacts have not indicated any disruptions along the supply chain. Some crops like soybeans had record harvests in 2020. Due to Brazil's climate and seasons, many key crops were already planted or even partially harvested before local and state governments enacted social-distancing measures. At the consumer level, grocery stores have remained adequately stocked throughout the country, and Brazilian press reports that there have been no serious or lasting disruptions in any region.

The structure of Brazil's agricultural supply chain has also helped to minimize the potential impact of the pandemic. For instance, while Brazil has an extremely large animal protein processing sector, slaughterhouses tend to be dispersed throughout the country, so concentrated outbreaks in one region are not particularly problematic. Furthermore, compared to the United States, Brazil has more small slaughterhouses, so the closing of a few processing plants, as has been the case in the southern states of Rio Grande do Sul and Santa Catarina, has relatively little effect on the overall supply of meat products. To the contrary, Brazil has continued to expand year-over-year exports of pork, poultry, and beef in the first half of 2020.

With strong demand from export markets and larger-than-usual bulk shopping by consumers during the early part of the outbreak, food prices on aggregate have increased in Brazil. According to analysis by the Brazilian Institute of Geography and Statistics (IBGE) food was the only product category that saw price inflation in January, February, March, and April of this year. Price inflation of food and beverages in April was 1.79 percent, despite a drop in overall consumer inflation by 0.31 percent. Accumulated inflation of products in the food and beverage category was 5.47 percent, as of mid-May. However, some analysts predict food prices will normalize in the coming weeks, as the initial pandemic-induced hoarding has subsided, and supply chains have continued to flow.

Although the country has not experienced food shortage or supply chain disruptions, some segments of the Brazilian population have faced increased food insecurity as a result of the COVID-19 pandemic. Low-income Brazilians, including the country's 38 million informal workers, have been the most affected by the pandemic-induced economic downturn. Social isolation measures have put many out of work, with no savings or access to credit on which they can rely as a stopgap. Many low-income families have faced chronic food insecurity since the start of the pandemic, relying on donations from nongovernmental organizations and meager support from the government to survive.

In April, the Brazilian government approved three monthly cash payments of R$600 (roughly US$120) for informal workers who had lost their jobs, and the program may be extended to pay two or three more smaller transfers to these workers. The federal government also allocated approximately US$100 million for a program to purchase products from family farms, which saw some of their market outlets dry up with restaurants shuttered. According to the Secretariat of Family Agriculture and Cooperatives (SAF), about 85,000 family farmers should benefit, in addition to 12,500 entities and 11 million socially vulnerable families, who will receive the food. However, it is far from certain whether either measure will mitigate the far-reaching consequences of the pandemic in a country that was removed from the United Nation's World Food Program hunger map just six years ago.

Ample Supply and Weak BRL Fuel Agricultural Export Boom

Record harvests and the depreciation of the BRL have fueled the pace of Brazil's agricultural exports in 2020. (For expanded discussion, see "Brazilian Commodity Prices Hit Record Levels," GAIN report number BR2020-0013, published April 15, 2020.) The BRL shed 32 percent of its value against the USD from the start of the year through mid-May, before rebounding slightly in the last three weeks. As a result, Brazilian agricultural commodities and products have effectively been on fire sale for buyers around the world. From January to May 2020, seven of Brazil's top 10 exports by value were agricultural products, with soybeans leading the pack.

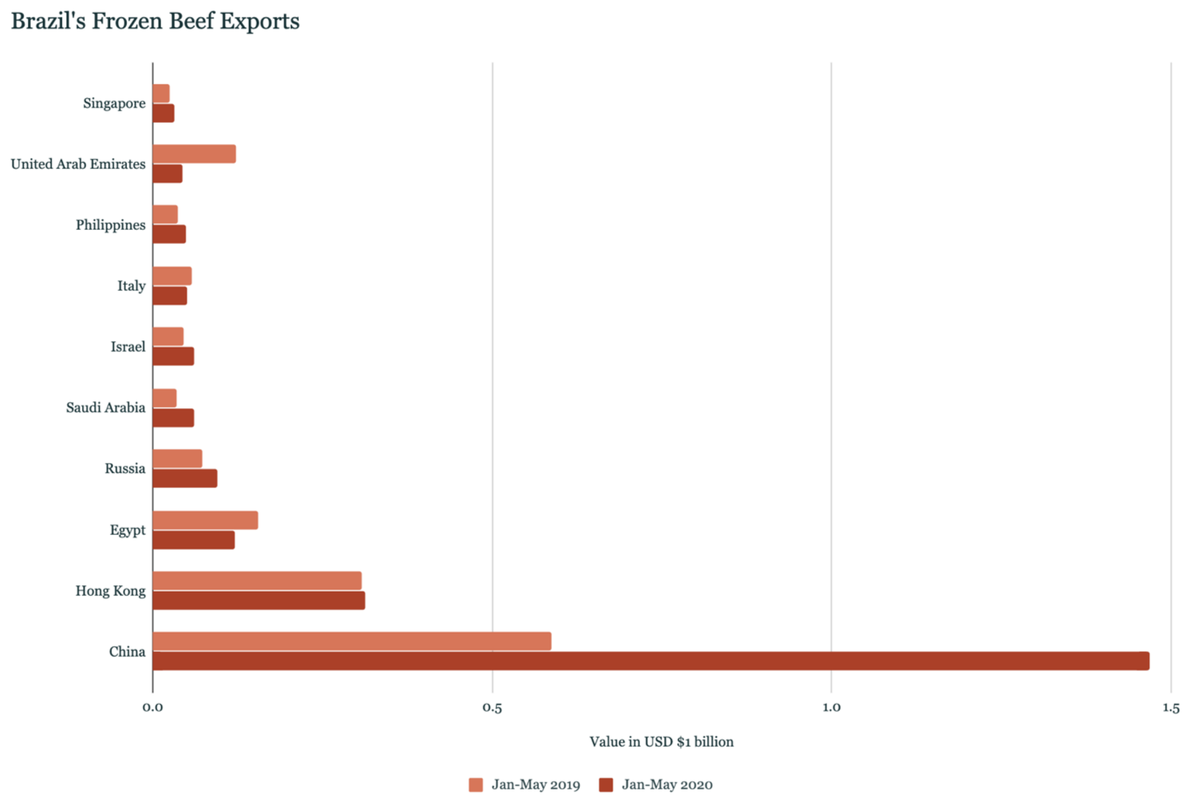
According to the Foreign Trade Secretariat (SECEX), agricultural exports rose to US$36 billion between January and May 2020, a spike of nearly 15 percent compared with the same period in 2019. In absolute terms, dollar-denominated receipts are up by nearly a third, with soybeans fueling the export boom. With over US$16 billion in export sales, soybeans brought in nearly eight times as much as the next most valuable product, frozen beef (US$2.5 billion). Proceeds from exports of beef, pork, sugar, and cotton are all up substantially, with sales of frozen pork hauling in 60 percent more year-over-year in the first five months of 2020. China is the principal buyer, accounting for 42 percent of Brazil's agricultural export revenues so far in 2020, and more than half of all export sales for soybeans, beef, and pork.

	January - May Exports (USD)			Percent to China	
	2019	**2020**	**% increase**	**2019**	**2020**
Total Ag Exports	**$31,419,508,749**	**$36,093,224,657**	**14.88%**	34.55%	41.77%
Soybeans	$12,369,712,175	$16,335,082,076	32.06%	72.92%	72.77%
Frozen Beef	$1,822,098,356	$2,495,340,827	36.95%	32.23%	58.81%
Soybean Meal	$2,387,971,155	$2,334,378,103	-2.24%	0.00%	0.11%
Raw Cane Sugar	$1,483,652,885	$2,079,908,323	40.19%	7.98%	8.95%
Coffee, Not Roasted, Not Decaffeinated	$1,956,163,719	$1,983,550,788	1.40%	0.66%	0.39%
Frozen Chicken Cuts	$1,883,222,415	$1,855,516,834	-1.47%	23.71%	31.07%
Cotton	$800,250,539	$1,221,167,256	52.60%	25.29%	25.94%
Frozen Pork	$503,381,451	$801,898,236	59.30%	30.48%	58.15%
Frozen Chicken, Whole	$627,489,496	$598,440,950	-4.63%	0.02%	0.23%
Tobacco	$775,062,875	$461,444,331	-40.46%	17.57%	0.24%

Data Source: SECEX

The fact that China is increasingly accounting for a larger share of Brazil's agricultural exports is not lost on Brazil's Ministry of Agriculture, Livestock, and Food Supply (MAPA). According to press reports, MAPA has monitored the situation in China to assess possible effects on Brazil's agricultural sector. The Brazilian agricultural attaché in China reportedly highlighted concerns that an expected new wave of travel cancellations could result in a "temporary decrease in cargo shipping capacity, with increased freight prices, even when China and the rest of the world begin to recover from the economic impact of the pandemic." Media outlets also reported that the Brazilian government is mapping out a comprehensive trade agreement strategy to ensure favorable access conditions for Brazilian exports to strategic markets, such as China, South Korea, Japan, and Vietnam.

While sales to China are a key factor driving the export boom in Brazil, MAPA has been actively seeking to diversify export destinations. In April, MAPA announced a string of recent market wins, including expanded export authorization for Brazilian meatpackers in Egypt, Kuwait, and Indonesia. The chart below shows to top 10 destinations for Brazil's frozen beef exports. While the ramp up in purchases from China is the glaring take away, six out of the remaining nine markets have also stepped up purchases in 2020, as compared to the same period last year.



Data Source: SECEX

Government Goes to Great Lengths to Support Agriculture

The Brazilian government, and MAPA in particular, have taken a number of actions intended to keep the production and flow of agricultural goods stable. Brazil's government put together a fiscal package designed to minimize the difficulties faced by the agricultural sector, especially rural producers, due to the coronavirus pandemic, as well as the effects of a drought in southern Brazil. The package includes debt restructuring assistance, financing of up to R$65 million for storage facilities, and lower interest rates for rural credit (6 percent for family farmers and 8 percent for all others). Small- and medium-sized producers, especially those in hard-hit sectors like dairy, floriculture, produce, and aquaculture, are eligible for a special credit line under the family farm program. The program offers annual interest rates of 4.6 percent for small producers and 6 percent for medium-sized producers, with a three-year payment term, including a grace period. The borrowing limit is R$20,000 (roughly US$4,000) for small producers and R$40,000 (US$8,000) for medium-sized producers. Additional financial assistance is likely coming in the next Brazilian Farm Bill ("Plano Safra"), which is set to go into effect July 1.

The Ministry of Agriculture also established a COVID-19 crisis committee to monitor and propose strategies to minimize the effects of the pandemic on agricultural production and the food supply. The committee reports directly to the MAPA minister and is formed by 14 members of MAPA's secretariats, in addition to CONAB and the Brazilian Agricultural Research Company (EMBRAPA). The group is charged with monitoring retail trade, which includes supermarkets and distribution networks; agricultural warehouses; transport networks; retailers and fairs; the pesticide and insecticide product distribution network; and the animal feed distribution network. Based on this monitoring, the committee is responsible for drawing up short-term actions and medium- and long-term structural adjustments.

In March, within two weeks of the pandemic hitting Brazil, MAPA issued a decree declaring as essential all agricultural products, inputs, services, and activities. The decree covered activities such as: the transportation of workers and cargo; production, fuel distribution, and marketing; storage activities and distribution of goods; the agricultural product processing chain; supply chains necessary for planting preparation for market year 2020/2021 crops; and the supply of food to the population. At the same time, the National Land Transportation Agency (ANTT) also deemed essential the production, processing, and transportation of food and agricultural commodities. The agency implemented a number of emergency regulatory changes to allow more flexibility for truck drivers to maintain transport operations, including postponing for up to 120 days the renewal of drivers' licenses and vehicle registrations and extending to 24 hours the deadline to report truck accidents to authorities. The required renewal of licenses for railroad operations and railroad engineers was also postponed for 120 days.

Transportation Network Also Bolstered by Government and Private Sector Support

Early in the pandemic, numerous truck stops, gas stations, and roadside restaurants were shuttered by regional and local government decrees, leading to reports of somewhat lighter truck traffic as some drivers chose to stay off the road. To coax truckers to continue transporting agricultural commodities to export facilities, the Brazilian Soybean Crushers Association, ABIOVE, announced in April that it would distribute snack kits to truckers along the country's major highways for the duration of the COVID-19 quarantine period. The kits are being handed out at the association members' 158 yards and at 70 other facilities.

Although there have been sporadic reports of workers testing positive for COVID-19 at various exports terminals of Brazilian ports, the contagion has not been widespread. According to the National Association of Cereal Exporters (ANEC), Brazil's ports have operated normally, and data from Brazil's Water Transportation Agency (ANTAQ) show most ports handled more bulk cargo in the first four months of 2020, compared to the same period in 2019. At the Port of Santos, the largest export hub in Latin America, terminals have implemented strict social-distancing measures. Port managers also developed contingency plans to hire contracted workers if absenteeism puts operations at risk. At the same time, port officials are working to make sure coronavirus infections are not brought on land by crew members from arriving vessels. Ships are quarantined if any crew member tests positive for COVID-19. As of mid-May, the Post of Santos reported that only 17 crew members of ships passing through the port needed medical assistance for respiratory conditions, and 13 of those tested positive for COVID-19.

Despite the COVID-19 pandemic spreading rapidly throughout Brazil, the Port of Santos handled 13.4 million metric tons (MMT) of commodities in April, surpassing by 5 percent the previous monthly record set in October 2019. Driven by record soybean exports, the volume is also 26.8 percent larger than Santos moved in April 2019. Santos loaded a record 4.6 MMT of soybeans in April, up 68 percent year-over-year. Sugar exports from the port in April rose by 24 percent, to 1.1 MMT. April also saw 420 vessels pass through Santos, an increase of 9.7 percent year-over-year.

Brazil has exported record amounts of soybeans for three months in a row. At the Port of Paranagua, which is Brazil's second-largest port, May soybean exports were more than double compared to May of 2019. According to press reports, port director Luiz Fernando Garcia noted that despite the coronavirus crisis, the weak BRL facilitated exports, while dry weather guaranteed the pace of shipments. Garcia also highlighted that the port implemented measures to care for workers' health. According to port statistics, the time it took a ship to load dropped from a pre-pandemic average of 2.9 days to 2.2 days. At the same time, the volume handled jumped from 801 tons/hour to 1,138 tons/hour. In May 2019, 22 ships docked at berths in the Port of Paranagua. Last month, that number grew to 39 vessels because waiting time was reduced, and the productivity of the berths increased.

Attachments:

No Attachments.