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Brazil: Rising incomes create an expanding market

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With abundant images of *favelas* and urban violence it is easy to see Brazil as a poor country. But that is only half the story. It is also a nation brimming with the super-rich.

Just ask Carlos Jereissati, the chief executive of Iguatemi Empresa de Shopping Centers, a company that runs 12 high-end malls.

Mr Jereissati has just opened a new shopping centre in Brasília, his first outside São Paulo or Rio de Janeiro, and is building five more. The R\$790m (\$427m) investment is, Mr Jereissati says, in preparation for a future in which more people in more cities will have more money.

“The luxury goods market is expanding in Brazil,” he says. “Brands such as Louis Vuitton, Ermenegildo Zegna and Salvatore Ferragamo are looking for opportunities in cities such as Belo Horizonte, Campinas, Porto Alegre and Salvador.

“There is an expectation of rising incomes and more jobs and a new class of executives and an upper middle class with higher salaries who want these products.”

Crucial to this is Brazil's recent economic performance. South America's largest nation was barely affected by the global crisis and is already growing quickly again, by 9 per cent in the first quarter of 2010 compared with the first quarter of 2009.

The crisis hit Latin America's rich less than their counterparts in other continents and the percentage of ultra-rich relative to the well-off populace is higher than in any other region, according to the 2009 World Wealth Report carried out by Capgemini and Merrill Lynch Global Wealth Management.

In 2008, the number of high net worth individuals in Brazil rose to 131,000, surpassing the number in Australia and Spain and taking Brazil to 10th on the world table of super-rich, the report said.

Most of them live in the city of São Paulo, where 70 per cent of the country's luxury market is concentrated. The second-biggest market is the surrounding São Paulo state, which is home to several cities of more than 1m inhabitants, as well as hundreds of multi-million dollar companies. Rio de Janeiro is third in the ranking.

One notable aspect is how new markets are opening outside the two main cities. In addition to inaugurating a shopping centre in Brasília in March, Iguatemi is planning another in São Paulo and four more in Alphaville, Jundiaí, Ribeirão Preto and São José do Rio Preto in São Paulo state.

In the flagship mall alone, seven boutiques have opened since the crisis, including Gucci, Diane von Furstenberg and Christian Louboutin. The Louis Vuitton store there is the highest grossing

luxury store of all international brands in Brazil and von Furstenberg said she took in a record-breaking \$1m in the store's first six weeks.

"Sales have been absolutely great," says Mr Louboutin, whose first shop selling shoes priced in four figures opened last year.

"I thought it would take time for people to realise I have a store but it has been the opposite. Brazil is a big country with a lot of people and there are many women who love to buy beautiful things. I realised this because we had so many Brazilian clients who came to my stores in Paris and New York and Miami."

Louboutin plans another store in Iguatemi's Brasília location. Mr Jereissati says the booming domestic market is a lucrative port in the economic storm. In most places, belts are being tightened as fortunes shrink and credit dries up. But credit is freer than ever in Brazil and locals are still spending.

"Brazil gets attention because there wasn't a recession," says Vera Lopes, the Brazilian head of the Luxury Marketing Council, a worldwide group of high end brands.

"I get a lot of phone calls from people who want to come and open a store here because they know they can keep selling. Brazil has two advantages. One, sales are strong and two, it's a market that is still relatively undeveloped," she adds

As if to underline that fact, China has 85 Louis Vuitton stores while Brazil has just five, says Carlos Ferreirinha, president of MCF Consultoria e Conhecimento, a local consultancy.

He says that sales of luxury goods are worth \$6.7bn in Brazil each year and estimates the market will grow by 11.5 per cent this year.

The fashion and accessories sector is the most obvious area for ambitious investors, but top-end vehicles, real estate and beauty-related products, such as spas and resorts, are enjoying above-average growth, he adds.

"You can see how the market is growing and it's not the same buyers. New people have access, as the number of millionaires grows visibly," says José Eduardo Brandão, commercial director of Ocean Air Taxi Aereo, a firm that sells private planes and helicopters.

"There is a lot more diversity today," he says. "In the 1960s and 1970s, it was farmers and cattle ranchers who had private aircraft, now any executive who wants to have a nationwide presence can't do without an aeroplane or a helicopter."

Mr Ferreirinha, however, says that growth – unforeseen circumstances notwithstanding – is still only at the beginning.

"Growth here is fast and continuous because regions outside São Paulo and Rio are growing," he says. "But I wouldn't say we are on fire. There is still a long way to go."