In need of a jumpstart…
Brazil’s automotive industry in a state of flux

INOVAR Auto has been in place for nearly two years, and while new investment has indeed followed, an economic slow-down, the World Cup, and a tumultuous presidential election season have obscured the results of the program. Where will the market land when the dust settles?

Stimulant or deterrent?

In an effort to stimulate local investment and competitiveness of its automotive sector, the Brazilian federal government implemented INOVAR Auto in 2013. As local demand grew and moved the market to its current status as the fourth largest sales market globally, imports became increasingly preferred, due in part to favourable exchange rates for imports as well as the open trade agreements with Mexico. To turn the tide on the shift to imports, the government introduced a comprehensive stimulus program designed to encourage automotive investment and innovation within Brazilian borders through the introduction of higher tax rates. OEMs would earn credits and exemptions if they met established benchmarks for local assembly. Since the legislation’s passing in 2012, a total of 13 new assembly plants have been announced by a myriad of brands, bolstering domestic assembly as planned. Investment announcements have and continue to pour in, including the following impressive statistics:

- An estimated 30 companies have announced over 50 projects and investments across the sector, with 90% of the projects expected to come online by 2017. ¹
- ~77% of announced capital investment will be towards the construction of new facilities or to the expansion of existing production capacity.¹
- Imports have dropped from the 24.9% high in 2011 to 18.8% share in 2013, and 2014 year-to-date imports through August are down 12.4% when compared to the same period in 2013.²

Ordinarily, such obviously definitive results would

¹ Tendências Consultoria Integrada (Brazil), 2 ANFAVEA

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Light Vehicle Assembly and Number of Vehicle Assemblers
1990 – 2020 (millions)

Source: ANFAVEA, Autofacts 2014 Q4 Data Release, Autofacts Analysis

Assembly Volume
Number of Vehicle Assemblers (R-Axis)
suggest that INOVAR has delivered in its mission to increase Brazil’s assembly footprint and shift in consumer preferences back to domestically assembled products, leading to a thriving auto market. However, such good news has been tempered by a contraction in sales in 2013 — the first decline in a decade. Through September of this year, demand has only slipped further with total light vehicle sales down -8.6%. So what’s going on in Brazil, and will recent investments lead to overcapacity if the market does not recover?

Momentary lapse

Several factors have taken a toll on the Brazilian sales market, including the World Cup, which essentially eliminated a month’s worth of selling days. Dramatic campaigning for the presidential election, which will conclude with a run-off at the end of this month, has left consumers uneasy at best. Meanwhile, production has also taken a hit as Argentina — the target of nearly 80% of Brazil’s exports — faces its own fiscal troubles. Inventory levels within Brazil are now bloated for nearly all OEMs, prompting temporary cuts in shift and labor, all while GDP growth continues to be revised downward. These compounding factors have resulted in declines across the board, but even so, automakers have reaffirmed their commitment and forging ahead with projects, suggesting that the current market slump will be short-lived. Moreover, the outcome of the presidential elections should bring stability and encourage a return to dealerships for Brazil’s car-loving populace.

Built for the long term

Despite present concerns, long-term prospects for Brazil’s auto industry remain promising. Brazil’s low vehicle per capita rate provides plenty of room for growth, particularly with its growing middle class spreading to undeveloped states. Continued progress around Inovar Auto Parts, which would encourage local production at the supplier level, would help strengthen the assembly base. And perhaps most importantly, Brazil’s position as a global entry point for Chinese and Indian brands makes it a uniquely diverse market that could serve as a microcosm for a truly global auto landscape. Indeed, the undeterred investment from automakers and their suppliers confirms that Brazil continues to be a high-potential market with enticing incentives through the INOVAR programmes, and the forecast remains positive. For additional information on PwC’s automotive capabilities, including expertise and experience in Brazil, please visit pwc.com/auto.