

MINHA CASA, MINHA VIDA! BRAZIL FACING THE GLOBAL ENVIRONMENT



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Brazil is an emerging market with a proven growth potential. The country ranks 10th in CSIL database of world furniture market and it also ranks 10th as a furniture producer, with a productive system composed by a large majority of micro and small enterprises and some big local players, for a total of around 15,000 companies and about 200.000 workers in production.

But Brazil ranking goes down when we look at international trade statistics. It becomes 30th as a furniture exporter and 39th as a furniture importer. This shows the high potential for foreign oper-

ators which are targeting the Brazilian market - which however is still very closed and protected - and the export opportunities of Brazilian products abroad if the country succeed in differentiating both the markets and the products, taking into account that Brazil was traditionally an exporter of solid wood furniture to the US.

MARKET DRIVERS IN THE RESIDENTIAL AND CONTRACT SEGMENTS

Brazil's housing plan, Minha Casa, Minha Vida (My Home, My Life) the massive public housing campaign launched by the Brazilian Federal Government in March 2009 is entering its second

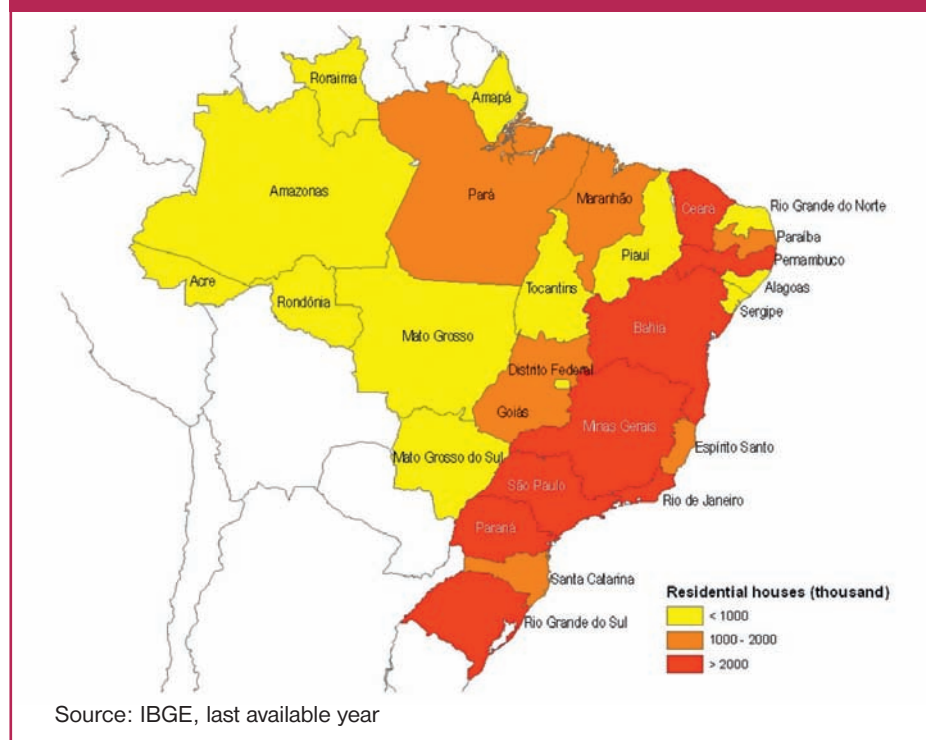
phase and aims to build 2 million homes before 2014 for low income families, with a total government investment of over 80 billion US\$ (double than the previous phase), and with two innovations: all houses will be endowed by solar panels for energy production and women will no longer need the signature of their husband to benefit from the housing plan. Low-income families with salaries up to US\$1,000 (that is three times the minimum wage), will only have to pay a maximum percentage of 10 percent on their mortgage, for a fixed period of ten years.

All this will surely translate in huge increases in furniture demand for residential purposes. Adding to this, Brazil offers interesting opportunities in the contract/hospitality sector with the forthcoming sporting events: the 2014 Soccer World Cup and the Olympic Games in 2016. In order to prepare for the two forthcoming events, Brazil is planning to invest US\$11 billion in the hotel sector, thus generating further furniture demand.

All these factors, together with a growing economy, increasing disposable incomes and a stable political background, are probably the reasons for which, according to a recent survey made by Cetelem in Brazil, over 40% of the population is looking at the future with optimism and another 17% with enthusiasm. Percentage that has been constantly increasing during the last five years.

As a consequence of this "enthusiastic" feeling, buying intentions for all main durable goods have increased over the last five years, with a strong preference for furniture items.

BRAZIL. TOTAL HOUSES BY REGION



WHO ARE THE MORE ENTHUSIAST?

According to CSIL estimates, the overall Brazilian furniture market, with its 195 million inhabitant, was worth US\$8335 million in 2010. The value is at production prices (the Brazilian Statistical Office estimates the average trading margin in the range of 53%).

With the increase in the income available to Brazilian households, a huge part of the money was spent in housing improvement. Furniture and other household products (lighting, textiles, mattresses...) purchases account for 1.8% of total private consumption of Brazilian consumers in the year 2011. Household appliances items, the main competing segment, accounts for 2.2%. However, together with this ongoing growth, there is also another tendency (mainly in the upper classes) to be considered: the money surplus is spent for travels and entertainment.

The table shows the weight of furniture purchases on total spending in Brazilian middle-low classes. In class C, D and E, the percentage of furniture spending on total spending surpasses 2%.

In particular, class C represents around 50% of total Brazilian population, is mainly urban and accounts for around 30% of total country consumption. This is the fast growing segment in Brazil and it is the target segment of many leading Brazilian furniture manufacturers who see it as a real opportunity to be exploited.

In fact, many companies of modular furniture - *moveis planejados* in Portuguese - with well positioned brands on the local market in Brazil launched specific furniture lines for these consumers (with brand, quality, possibility to buy on credit and huge investments in marketing). Todeschini/Carraro, Dellano, Italeina are some examples.

Brasil Moveis, the furniture fair that took place in Sao Paulo from 9 to 12 August 2011, gathered many of the above mentioned manufacturers, targeting the C class (and D class in some cases). Among them, Carraro, Kappersberg, Multimoveis. Many of the exhibiting companies were oriented to the local market, investing in mass marketing, brand creation and advertisement. Some companies even specialized in a specific line for the "Minha casa, minha vida" project,



Design de Regis Padilha. Universidade Feevale Gramado - RS

BRAZIL. Weight of furniture purchases on total spending in Brazilian middle-low classes.

Class	Average monthly household income (R\$)	Average monthly household income (US\$)	Number of households
A1	13,100	7,443	252,703
A2	9,100	5,170	1,772,924
B1	4,900	2,784	4,767,471
B2	2,750	1,562	10,263,513
C1	1,650	937	12,892,317
C2	1,100	625	11,295,004
D	710	403	7,405,082
E	490	278	404,950

Source: CSIL processing of published data

manufacturing lower and smaller furniture. Many companies can count on important agreement with the national distribution chains (Casas Bahia, Magasin Luiza). They often sell also to multibrand stores, whereas the modular furniture lines produced by the same companies but addressing the highend are distributed in monobrand stores). Brasil Móveis is organized by the Furniture Industry Association of Rio Grande do Sul - MOVERGS.

Casa Brasil: a focus on design

Another important sector fair took place from 2 to 6 August in Bento Gonçalves, known as one of the most important local furniture poles. **Casa Brasil** is the leading Brazilian show focussed on design and innovation, with emphasis on the high end furniture market. The fair is promoted by the Furniture Industry Association of Bento Gonçalves (Sindmoveis). Beyond furniture, the most important brands in the segment of lighting, decoration and complements for home and corporate environments were on show, including some Italian brands. The show

is expected to generate US\$ 130 million in business in a horizon of one year.

The winner products of Salão Design, the most important design award for Latin America products, gathering in 2011 over 1000 projects entered by students, professionals and companies from 18 countries, were exposed at the fair.

Many interviewed companies attending the fair declared two digit growth rates for 2010 turnover and confirm the results for 2011. Investment in design, monobrand store openings and increasing attention to pre and post sales service are a "must" for many companies that are targeting the A and B Brazilian classes. The design niche is quite closed, as it is the whole market, with prices of imported Italian furniture becoming 5 times higher to the final consumer (in a store in São Paulo) with respect to FOB prices.

All in all, it seems that Brazilian companies are experiencing quite a good time, facing one of the most lively market in the word. Does someone want to enter?