

Strong currency bolsters luxury sales in Brazil

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RIO DE JANEIRO: Never before have Gucci, Porsche, Jaguar, Prada and Tiffany been so in love with Brazil, home of the world's best-performing currency over the past three years.

The waiting list for leather bags from Prada's new spring-summer line has swelled to 120 people at Dona Santa, a luxury goods store in the coastal city of Recife. The most expensive bag in the collection costs \$3,600, equal to about half the annual income of the average Brazilian household.

Porsche has sold more sports cars and sport utility vehicles in Brazil this year than it did in all of 2002 and 2003. Grand Cru, one of the largest Brazilian importers of premium wines, forecasts a doubling of sales this year.

The 60 percent rally over the past three years by the Brazilian currency, the real, has pared the cost of imports, fueling a surge in luxury goods sales.

That boom coincides with a doubling of imports that is curbing growth in the Brazilian trade surplus and leaving the real vulnerable to a decline in commodity exports.

"This definitely suggests things have come too far, too fast," said Christian Stracke, an emerging-market analyst with CreditSights in London. The jump in luxury imports "is indicative of a massive boom in consumption."

The real has gained 9.9 percent this year to 51.5 U.S. cents, buoyed by record exports of commodities like iron ore, orange juice and soybeans and by foreign investment in the country's stock and bond markets.

Stracke said a drop to "more historically normal" commodity price levels and a cutback in demand for emerging-market securities could push the real down to as little as 40 cents. JPMorgan Chase predicts that the real will slide to a value of 46.5 cents by the end of the year.

Most economists predict the real will hold near the current exchange rate for the rest of the year. The median year-end forecast in the Brazilian central bank's survey of about 100 financial institutions on June 15 was 51.8 cents.

The real's rally has buoyed the purchasing power of Brazilians, from the poorest to the richest. The average monthly household income in Brazil rose to 1,114 reals in May, or \$574. That was twice the average of three years earlier.

The highest paid banker in Brazil takes home \$113,000 a month, up from \$27,000 a month in 2004, according to Grupo Catho, a recruiting company based in São Paulo that is the largest in the country.

The list of Brazilian billionaires has climbed to 20 this year from 4 in 2003, according to Forbes.

"People are buying luxury items that they wouldn't dare to buy five years ago," said José Roberto Martins, chief executive at **GlobalBrands**, a company based in São Paulo that devises sales strategies for importers and luxury goods companies. "They couldn't afford to."

Sales of luxury goods will reach \$4.3 billion this year, a 48 percent rise from two years ago, predicted GfK Indicator, a research company based in São Paulo.

Sports cars are among the hottest items.

Stuttgart Sportcar, Porsche's exclusive importer in Brazil, sold 170 Cayenne SUVs and Caymans, Boxsters and Turbo sports cars in the first five months of this year. It sold 111 vehicles in 2002 and 2003 combined.

Stuttgart forecasts record sales this year and may add two new dealerships.

"There's this buzz about the dollar being cheap that's luring new clients to luxury products," said Marcel Visconde, president of Stuttgart Sportcar in São Paulo.

Stuttgart keeps the prices of its cars mostly fixed in dollar terms, meaning that the price in reals has plunged as the currency rallied. The \$358,000 sticker price on the 911 Turbo, for example, comes to 695,000 reals today. Three years ago, the car cost more than 1.1 million reals.

"Before the real rallied, a lot of our clients didn't think they could afford a Porsche," Visconde said.