2023 Exceeds Expectations, Bringing Optimism to Brazil's Automotive Sector

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Brazil's automotive industry brought 2023 to a close with results that surpassed expectations.

Positive shifts in the market are reflected in the latest report by the National Association of Motor Vehicle Manufacturers (Anfavea), published in October 2023, which shows that the sector's growth is being driven principally by the federal government's discount program for vehicles priced up to BRL 120,000. The program led to a 9.4% increase in sales (new vehicle registrations) from January to August over the same period in 2022, mainly for vehicles that were already in stock.

Looking ahead to 2024, the outlook remains optimistic, compared to post-pandemic numbers. Changes in the macroeconomic landscape are likely to provide moderate stimulus to the automotive sector after a turbulent period. Although the global semiconductor supply crisis continues at a less acute level, it is expected that it will finally be resolved over the course of this year, with its impacts being progressively less felt by the industry. The major infrastructure works under the federal government's New Growth Acceleration Program (the New PAC – *Programa de Aceleração do Crescimento*), launched in August 2023 will play a crucial role in boosting the economy and stimulating sales of road machinery.

The automotive sector's growth in 2024 is expected to come more from imports than domestic production, due to the entrance of new Asian automakers into the domestic market. Another indicator of optimism in the market and among industry entities for the year is Anfavea's plan to revive the renowned São Paulo Auto Show, which has not been held since 2018.

Despite Brazil's infrastructure challenges, most manufacturers remain committed to fleet electrification and investment in new technologies to accelerate consumer adoption of electric vehicles. Tax incentive projects and lines of credit from the Brazilian Development Bank – BNDES for research and domestic production of electric cars aim to support the transition to battery-power vehicles.

Given Brazil's high tax burden, inflation, and the impacts of the global crisis on vehicle production, all of which have led to significant price increases, automakers are likely to continue adopting alternative sales strategies through their dealership networks. Expansion of direct sales campaigns offering discounts, traditionally aimed at rental companies, fleets, taxi drivers, governments, and persons with disabilities (PwDs), and implementation of online sales platforms, for example, are strategies designed to keep up with evolving consumer behavior.

In summary, the prospects for the automotive sector this year are positive. The new investment programs, the increased access to credit, the easing of the semiconductor crisis, and investment in infrastructure are expected to boost sales, contributing to a more robust recovery. The transition to fleet electrification and the focus on sales strategies demonstrate the industry’s ability to adapt to market demands and technological trends, despite the challenge of doing business in an environment governed by legislation that, in many respects, is unchanged since the late 1970s, notably the Renato Ferrari Law, which governs the commercial relationship between automakers and their vehicle dealership networks.

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