The Brazilian Light Vehicle market is notoriously unpredictable, as borne out by the sharp fluctuations seen over the last few years: sales plunged by 26% in 2015 and 20% in 2016, followed by a nascent recovery in 2017, when the market rallied by 9.5% year-on-year, on total sales of 2.18 million vehicles.

Sales took a dramatic upward turn in the first four months of 2018, soaring by 20%, only to come crashing down in the final week of May, reminding us just how volatile the market can be – not to mention the fragile nature of the Brazilian economy.

“Q1 national accounts data revealed that GDP grew by a mere 0.4%, with unemployment reaching 12.9%”

Diesel prices in Brazil have been climbing since July last year, increasing by an eye-watering 57.8% in the period to early May 2018. Truck drivers vented their anger at these exorbitant prices by staging strikes and blocking numerous highways throughout the country. As Brazil has no real train network to speak of, these protests effectively halted all transportation of fuel and goods. The general consensus was that the country had regressed by twenty years to a time when inflation was so high and fuel so costly that food was in short supply and the government had to turn to ethanol producers to resolve the transportation crisis.

Needless to say, the crisis in early May was far from conducive to vehicle sales. Early estimates for the month see growth in the market slowing to closer to 3%, much slower than the April YTD growth of over 20%.

A shortage of parts meant that every auto plant in the country had to suspend production – and without a reliable transport system, employees had no means of travelling to work. Meanwhile, Q1 national accounts data revealed that GDP grew by a mere 0.4%, with unemployment reaching 12.9%.

The government sought to resolve matters by negotiating with the truck drivers, lowering diesel prices, reducing incentives on exports and even went as far as cutting the health budget. The situation now appears to be stabilising, helped in no small measure by the president of Brazil’s national oil company, Petrobras, stepping down.

We are not yet out of the woods, however, as June started with a holiday and the FIFA World Cup™ is due to kick off in the next few days.

Granted, Russia is almost 9,000 miles away, but the passion for the sport amongst Brazilians will have them glued to the coverage. And when the home team plays, life grinds to a virtual standstill, along with vehicle production and sales. We expect sales in June to drop by 8%, which would be the first month this year to register a negative result.

In neighbouring Argentina, the home team’s progress in Russia will be followed with equal enthusiasm, albeit against the backdrop of an unfolding currency crisis. The peso tumbled so fast in early May that the government had to raise interest rates three times in just seven days, by an astonishing 12.75 percentage points. With the likelihood of austerity measures being implemented when the government wraps up the latest round of talks with the IMF, we expect the Argentinian Light Vehicle market to suffer this year, and even more so in 2019.

Production in Brazil has recovered faster from the recession than sales, driven by exports to Argentina, which relies heavily on imported parts from Brazil to sustain its own production industry. Lower demand from Argentina for Brazilian exports will therefore hurt output volumes in Brazil. The strikes and ensuing production halts in Brazil delivered a double blow as, without the steady supply of parts, the Argentinian industry had little choice but to follow in its neighbour’s footsteps and shut down all vehicle production.

Just when the worst appeared to be over for the South American Light Vehicle market, recent events have clearly proven otherwise.