The Economics of Wine in Brazil

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The wine consumption in Brazil has sharply grown in the last two decades. An important part of this consumption is coming from imported wine, mostly from Argentina and Chile, economic partners of Brazil. Imported wines are flooding the domestic market at very competitive prices against to the national ones. Data from SECEX, from 1995 to 2012, show that the importation increased at the rate of 10.7% per year, on average. In 1995, the importation of wine was US$ 58.7 million and ended up in 2012 to US$ 298.6 million.

From the consumption side, recent data, 2008/09, are showing that families are spending on alcoholic beverage around BRL7.30 (US$3.80) per month, on average. Most is on beer, about BRL5.35 (US$2.79) per month, followed by wine consumption, about BRL1.10 (US$ 0.57), and has been increasing ever since. These figures either from demand or supply suggest that wine, imported or national, has become a very important product among the alcoholic beverages and deserves further investigation.

The main objective of this paper is to analyze the consumption of wine in the Brazilian market and its recent changes in supply and demand. To our best knowledge, the dynamics of the wine consumption has not been well documented in the literature. Our major hypothesis is that the recent rise in the family income, promoted by the stabilization plan in 1994 and cash transfer programs, is substantially driving up the domestic consumption in all levels of income. On the other hand, there is also another important effect caused by the valuation of national currency that is lessening the prices of imported wine and becoming the domestic wine less competitive in the domestic market. The empirical strategy is based on the estimation of an Almost Ideal Demand System (AIDS) and Vector Autoregressive (VAR) models. The paper is divided in two steps, the first is to analyze the domestic demand on consumption of wine against other beverages since 1995; and the second is to investigate the influence of the exchange rate on the importation of wines.

The data used in this study are from POF — Household Budget Surveys (1995/96, 2002/03 and 2008/09) executed by Brazilian Geography and Statistical Institute (IBGE, in Portuguese acronym) and the International Trade Secretary (SECEX, in Portuguese acronym). The POF covers a wide range of topics —household composition, health, education, income and expenditures — and compiles the data at the national level. SECEX covers data about all traded product for Brazil, including wine. The main variables include value and volume of import and export, origin and destination, country and economic block.

Preliminary results from the AIDS model show that the price elasticity of demand for wine is about 0.35, while the elasticities for other beverages is 0.89 and beer, 0.13. Regarding to the income elasticity we found 0.26 for wine, 0.17 for beer and 0.09 for other beverages. These results suggest that the income growth has more influenced the consumption of wine than other important beverages such as beer. To supply the domestic market, the process that drives the wine importation is not well known yet. As we showed, the importation of wine has been growing over the last decades under higher rates as is the consumption. To explain such behavior more deeply, we add to our initial hypotheses three other reasons. First, it may be due to the prices of imported wines that have been relatively low in the domestic market, which would be related to the exchange rate. Second, it is also possible that is, indeed, occurring changes in the consumption preferences of Brazilian consumers who could be putting more weight for the quality of the product instead of

2 The data for wine we refers include wine of fresh grapes and sparkling
quantity and/or lower prices only.. Finally, this higher consumption may be also related to the income increases at real terms experienced in recent years motivated by stabilization of prices since 1994. The empirical strategy to corroborate these three hypotheses is based on a Structural VAR model. Under this approach it is possible to perform an analysis economically significant, by imposing a minimum number of restrictions that are consistent with a set of theoretical models to identify structural shocks, build impulse response functions and obtain the historical variance decomposition. The selected variables include the wine importation prices, the exchange rate and the national income and others. We will also test for the influence of some structural breaks in the Brazilian economy from 1995 to 2009. Our expected results (under investigation) intend to show that is the valuation of exchange rate the most important factor to explain the dynamics of growing wine importation in the recent years

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