INVESTMENTS IN INDUSTRY

2019-2020

CNI
Brazilian National Confederation of Industry
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ECONOMIC INDICATORS CNI

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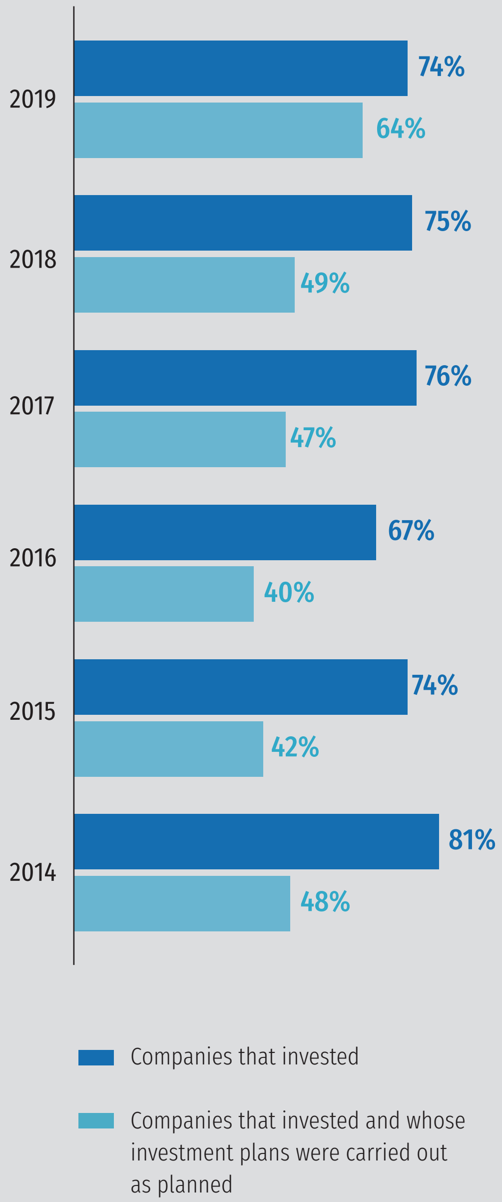
Share in all valid responses (investments made) and in all companies that invested in the year (as planned)



Nearly three out of four large industrial companies invested in 2019, a figure very close to that recorded in the last two years. However, there is a very important difference in 2019 as compared to previous years: the percentage of frustrated investment plans in 2019 was much smaller. More importantly, the percentage of investments plans carried out as anticipated hit its highest point since 2010.

Furthermore, investments are not only expected to remain on the current path, but also to accelerate their growth rate. The percentage of large companies with plans to invest next year reached its highest level in six years.

The focus on increasing productivity and cutting costs continues to guide investments in industry. The main goal of investment plans for 2020 is to improve production processes.

Low demand frustrates investment plans and reliance on own funds remains high

The main reason behind the frustration of investment plans in 2019 was a combination of low demand and an unexpected increase in investment costs. In addition, many entrepreneurs have complained about financial problems and the lack of own funds to invest; the high reliance on equity capital, a long-standing barrier to investment, has remained unchanged. On average, nearly three quarters of all investments in 2019 were made with companies' own funds. While the share of private commercial banks has reached a record high, the percentage is still very low at 14%.

1 REDUCING INVESTMENT COSTS WILL MAKE THE COUNTRY GROW MORE AND BETTER

Investments are crucial to improve competitiveness of both industry and Brazil. High investment rates represent: an improvement in Brazilian infrastructure, which is very poor in several areas; technologically up-to-date machinery and equipment, a key underlying factor to take part in global chains; and greater knowledge generation with the introduction of new products and technologies. Investments support and allow the acceleration of economic growth and, therefore, of the country's wealth.

It is thus exciting to see that frustrated investment plans in industry have reached a record low in many years. Moreover, industry is signaling that it will likely accelerate its investments in 2020. Lack of demand, which is the main reason behind the frustration of investment plans in 2019, is showing signs of dissipation – so one less concern for 2020.

However, part of the companies that do not intend to invest in 2020 have identified the need to invest and would like to do so in 2020, but have no means to do it.

For this reason, other investment problems need to be overcome. One of them is the excessive reliance on equity capital as a source of investment funding. As pointed out by CNI's Special Survey #74 – Short- and Long-Term Credit, high capital costs, coupled with lack of access due to collateral-related difficulties and the lack of credit facilities tailored to companies, limit the use of long-term credit for funding investment projects.

Companies are thus left with the only alternative to use their own funds. Three-quarters of all funds used in investments in 2019 come from companies themselves. In a situation such as the current one, in which companies are still in the process of adjusting their financial situation after the long economic crisis and with very tight profit margins, there are few funds left for investment purposes.

Diversifying sources of funding could mitigate risks and reduce investment costs. Hence, an agenda focused on increasing non-bank investment financing alternatives should be implemented with the aim of offering viable alternatives of investment funding sources. At the same time, efforts should be made to reduce investment costs by eliminating taxation on fixed assets.

2 INVESTMENT IN 2019

Almost two thirds of investments were carried out as planned

Nearly three quarters of large companies (74%) made investments in 2019. The figure is very similar to that observed in the last two years, albeit slightly lower. Considering the entire historical series started in 2010, the result for 2019 only exceeds the one observed in 2016.

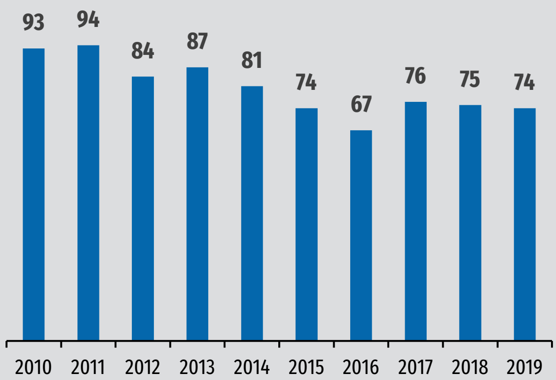
While the percentage is historically very similar to that observed in the previous two-year period, there is a very important difference with regard to fulfillment of investment plans. The percentage of frustrated investment plans in 2019 was much smaller than in previous years. Almost two thirds of large businesses (64%) carried out their investments as planned. The last time that the percentage of investments made as planned exceeded the 60% mark was in 2011. Another 34% carried out their investment plans partially.

Just 2% said they postponed their investment plans for 2020 and no respondent cancelled or postponed their investment plans to after 2020. The sum of percentages of companies saying that they either postponed or canceled their investments hit an all-time low in the series started in 2010.

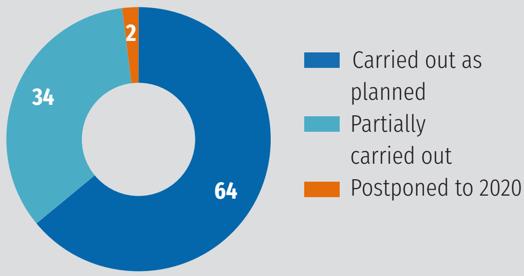
The high percentage of investments made as planned is an excellent news, as it suggests increased confidence in making investments in the future.

Over three quarters (76%) of companies purchased machinery and equipment in 2019, of which 21% bought used machinery. Just over two thirds of businesses (67%) invested in maintaining or updating their machinery in 2019, while 42% invested in training personnel, 33% in research and development, and 30% in improving business management.

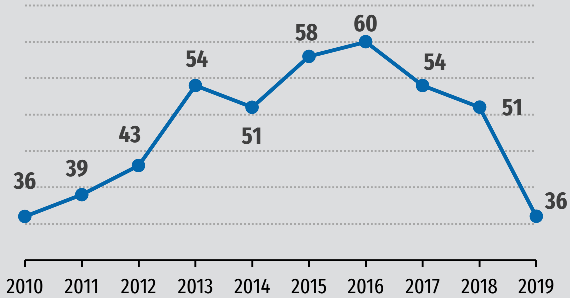
Graph 2 - Percentage of companies that invested in the year
Share (%) in total valid responses



Graph 3 - Fulfillment of investment plans
Percentage (%) of all companies with investment plans for 2019



Graph 4 - Investments partially carried out, postponed or canceled
Percentage (%) of all companies with investment plans



Domestic demand was the main reason behind frustrated investment plans in 2019

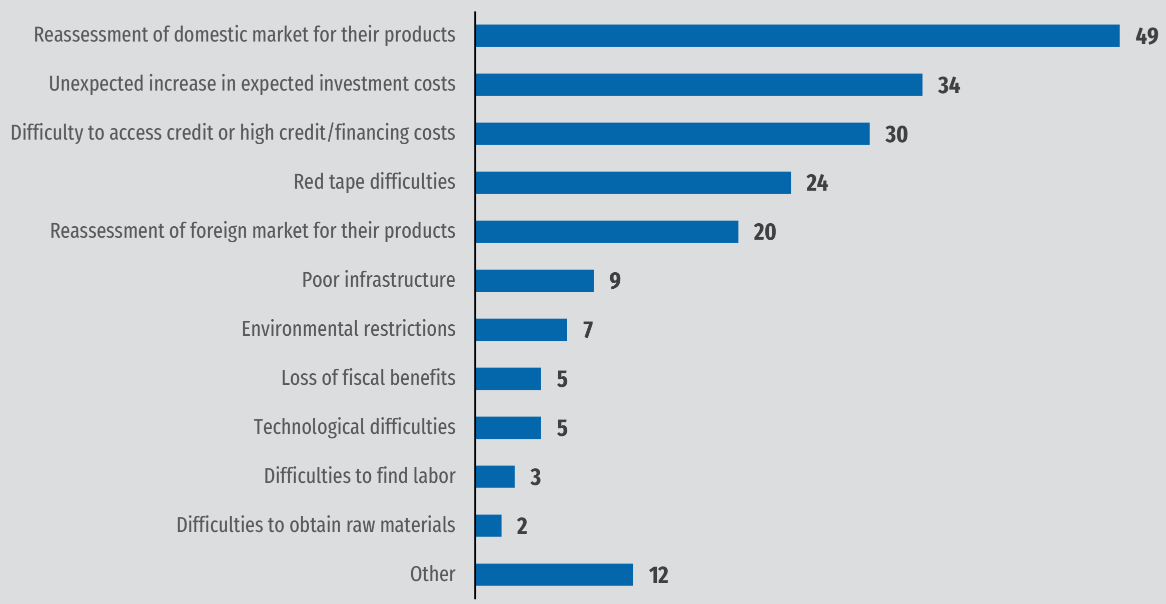
The main reason why investments planned for 2019 were either partially carried out or postponed to 2020 was frustration over demand. Nearly half of large firms (49%) said that reassessment of the domestic market for their products was one of the three main reasons for frustrated investments.

This problem was pointed out by CNI's Industrial Survey, which showed that lack of demand was a major issue facing industrial firms. The survey showed, particularly in the first half of the year, that insufficient domestic demand was gaining ground as one of the most significant problems faced by industry. The percentage of companies indicating it as a major issue edged up from 31.1% in the last quarter of 2018 to 41.1% in the second quarter of 2019. In the third quarter, the situation improved, with insufficient domestic demand falling to 34.6% of answers. This change underpins the increase in the percentage of companies with plans to invest in 2020, as shown in Section 5 of this report.

Ranking second with 34% of answers is the issue of unexpected increase in expected investment costs, including an increase due to the exchange rate fluctuations. This reinforces the need to take actions to bring down costs and address the uncertainties surrounding purchases of capital goods.

Difficulties to access credit or high credit/financing costs ranked third, accounting for 30% of responses. Companies' high reliance on equity capital as a source of investment financing (as shown in the next section of this report) results from this problem while also explaining part of all frustrated investment plans. Many entrepreneurs even spontaneously said that the financial difficulties faced by their businesses and the resulting lack of own funds were among the top three reasons for not having invested in 2019.

Graph 5 - Reasons behind frustrated investment plans in 2019
Share (%) in all companies whose investment plans had been partially carried out, postponed or canceled



Few alternative sources of investment financing

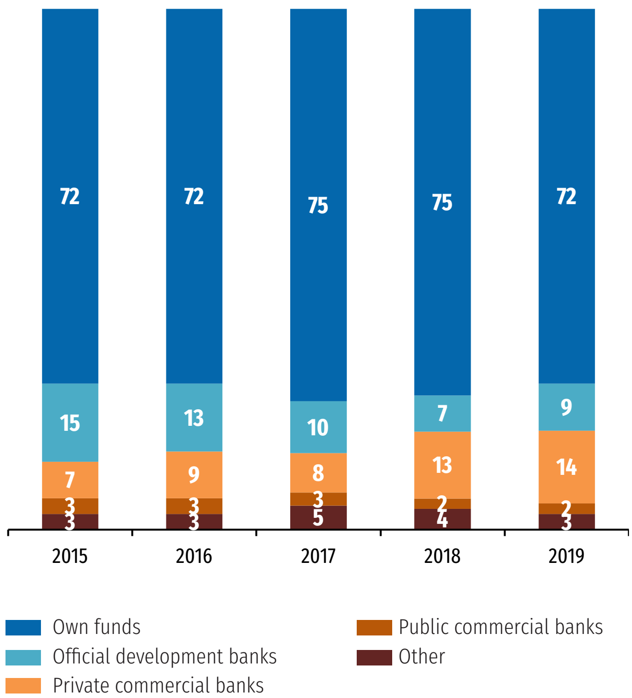
Nearly three quarters (72%) of investments made by companies in 2019 were financed with their equity capital. While the figure is lower than the one registered in 2018 (75%), it shows that there are still very few feasible alternatives of third-party investment funding available.

The share of private commercial banks stood at 14%, representing a one percentage-point increase from 2018 and a record high in the series started in 2010. The share of official development banks amounted to only 9% – 2 percentage points higher than in 2018, but much lower than in previous years, particularly before 2015, when it exceeded 20%.

Other funding sources, such as public commercial banks, external financing and partnerships and joint ventures amounted to 6%.

Graph 6 - Funding sources for investments made in 2019

Average percentage (%) considering valid responses from investing companies



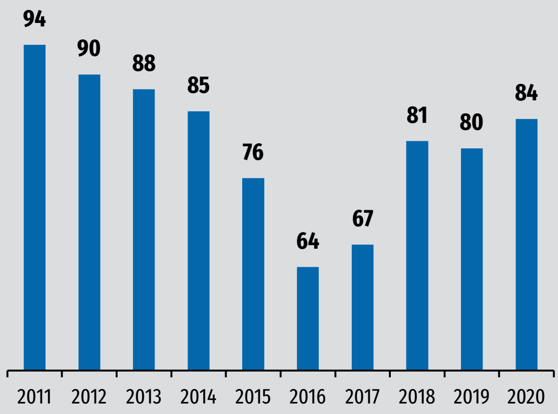
3 INVESTMENT IN 2020

More investments expected for 2020

The percentage of large companies with plans to invest next year hit its highest point in six years: 84% are willing to invest in 2020. The figure is up by 4 percentage points from the result for 2019, which stood at 80% when the previous survey was conducted (in the first quarter of 2018), and up by 10 percentage points from the percentage of companies that actually invested in 2019.

Among the companies that have no plans to invest in 2020 (16% of all companies), exactly one third, 33%, said they will not invest because there is no need to do so. Meanwhile, 31% identified a need to invest, but chose not to do so in 2020, while another 36% also indicated such a need but have no means to invest.

Graph 7 - Investment intentions
Share (%) in all valid responses

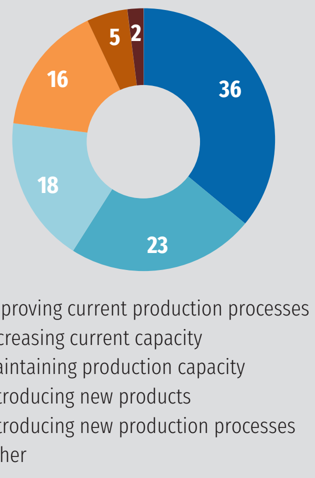


Planned investments are focused mainly on increasing productivity

Concerns over efficiency and productivity continues to guide industrial investment plans. The main goal of investment plans for 2020 is to improve production processes, as indicated by 36% of businesses – exactly the same figure for investments expected for 2019. Ranking second among major investment objectives is increasing current capacity, with 23% of responses.

Most investments planned for 2020 are focused on purchasing machinery, with this objective accounting for 67% of answers. Among these acquisition plans, 12% are targeted at purchasing used machinery and equipment.

Graph 8 - Main objective of investments planned for 2019
Percentage (%) of all companies with investment plans

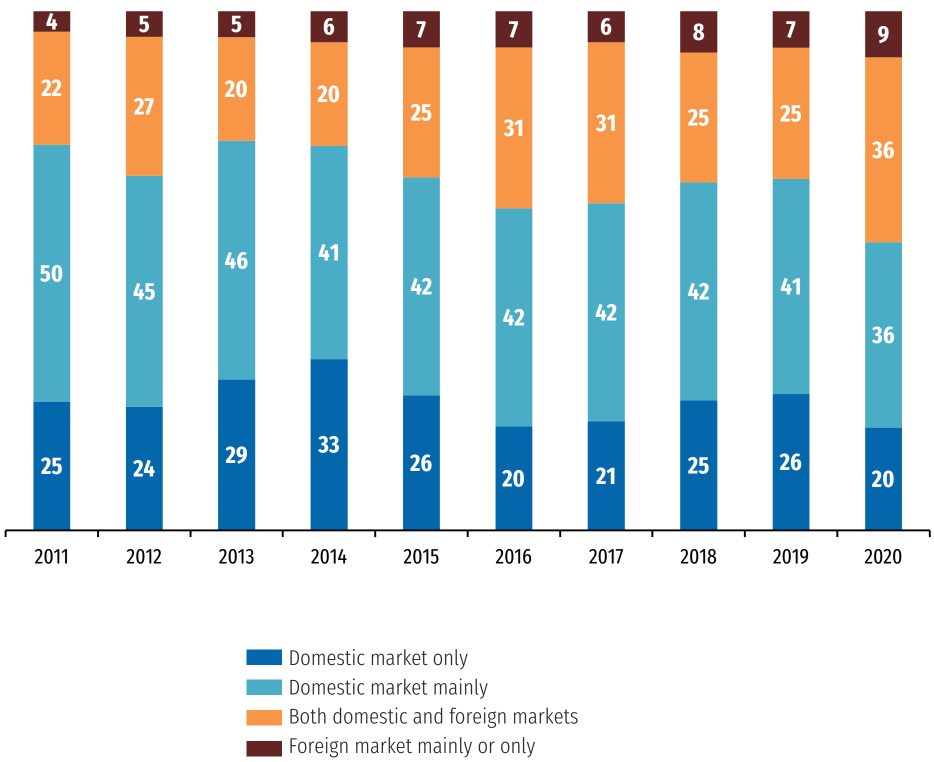


Foreign market investments on corporate radar

Most investments are still directed only or mainly toward the domestic market, but the focus on the foreign market is greater than in 2019. The percentage of planned investments focused only on the domestic market edged down from 26% to 20%. On the other hand, the percentage of investment plans targeted mainly at the domestic market dropped from 41% to 36%. The percentage of investment plans directed both toward the domestic and foreign markets rose from 25% to 36%.

This shift in orientation toward the foreign market, despite a challenging and uncertain external scenario, is important. By focusing on foreign markets, entrepreneurs enable an increase in production scale, knowledge acquisition, and gains in global value chain links. The international market environment still drives the search for competitiveness and innovation.

Graph 9 - Target market for planned investments
Percentage (%) of all companies with investment plans



TECHNICAL SPECIFICATIONS

The survey was conducted with 478 large companies from November 1-12, 2019.

LEARN MORE

For more information on the survey, including historical series and methodology, kindly visit: www.cni.com.br/e_investindustria

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