

SMALL INDUSTRY OUTLOOK

ECONOMIC INDICATORS **CNI**



The activity of small companies grew in the second quarter

The second quarter of 2021 was marked by the positive change in the performance, financial situation, confidence, and outlook indices for small companies.

The small industry Performance Index showed a reaction from small companies, by reflecting activity not only stronger than the previous quarter, but also stronger than the one recorded in the same quarter of previous years.

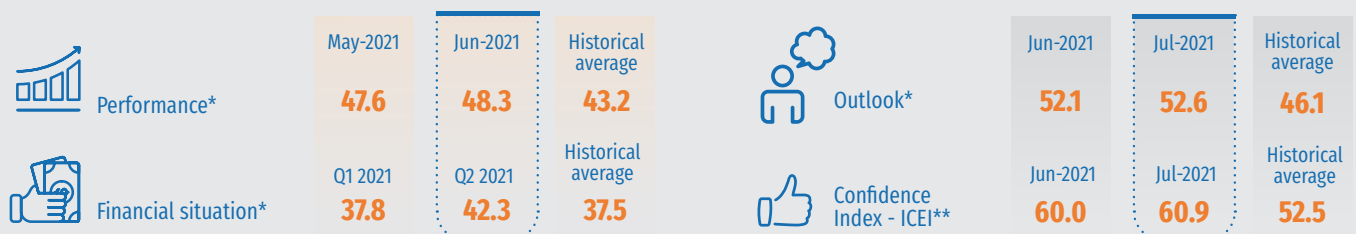
The Financial Situation Index also increased as a result of the improvement in billing and production of small industries, coupled with new measures to facilitate access to credit.

The Business Confidence Index (ICEI) and the Outlook Index for small industries show growing confidence and optimism among entrepreneurs for the coming months.

The lack or high cost of raw materials and high tax burden still top the ranking of problems faced by the small industry in the second quarter of 2021. The importance of the lack or high cost of inputs and raw materials reflects the difficulty that Industry is facing to raise its inventories to the desired level.

Performance Indexes, Financial Situation and Perspectives of the small company

Diffusion indexes (0 to 100 points)



* The higher the index, the better is the performance in the month or the better is the financial situation of small companies in the quarter, or the more positive is the outlook for small industry entrepreneurs in the month.

** Figures above 50 points indicate business confidence. The further above 50 points, the greater and more widespread is the confidence. Figures below 50 points indicate lack of business confidence. The further below 50 points, the greater and more widespread is the lack of confidence.

PERFORMANCE OF SMALL INDUSTRIES IN THE SECOND QUARTER OF 2021

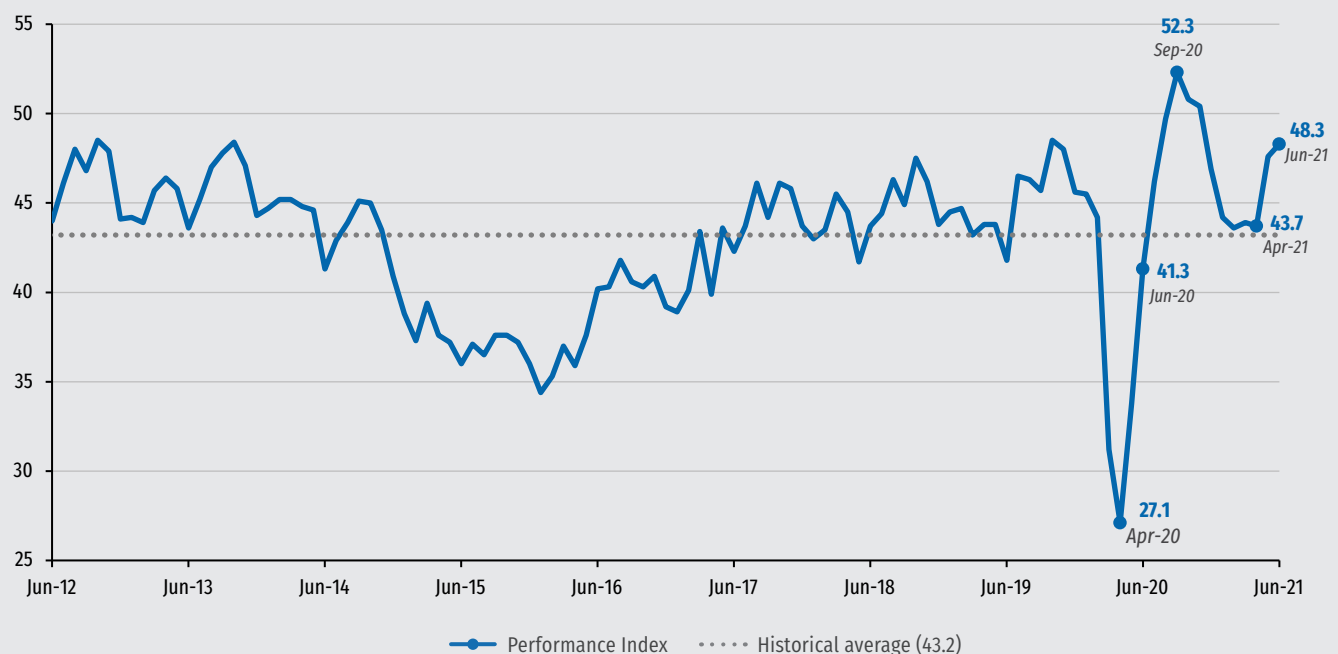
Performance of small industries shows greater reaction

The Performance Index for small industries improved from the previous quarter. It grew 3.9 points between April and May (from 43.7 to 47.6 points) and 0.7 points between May and June (from 47.6 to 48.3 points). This improvement in performance over the last two months stops the instability recorded at the beginning of the year, when a drop of 0.6 point between January and February, an increase of 0.3 points between February and March, and a drop of 0.2 points between March and April were recorded.

The average of the second quarter of 2021 was 46.5 points, a result above the average of the first quarter of 2021 (43.9 points) and the second quarter of 2020 (34.1 points, influenced by the pandemic).

For the coming months, a new increase in this index is expected due to the progress of vaccination in Brazil, which is reaching age groups that include the economically active population, due also to the increase in production volume, and the continuing job creation in the industrial sector.

Small Industry Performance Index
Index (0 to 100 points)*



*The higher the index, the better the performance of small enterprises in the month.
Note: The Performance Index for small industry is the weighted average of the indices measuring the performance of small mining and quarrying, manufacturing and construction companies.

FINANCIAL SITUATION OF THE SMALL INDUSTRY IN THE SECOND QUARTER OF 2021

Improved financial situation of the small industry

The Financial Situation Index for small industries reached 42.3 points, an increase of 4.5 points in relation to the first quarter of 2021. This increase recorded in the second quarter only partially reverses the drop in the first quarter of 2021 of 5.3 points in relation to the last quarter of 2020. However, the index once again moved away from its historical average of 37.5 points.

The improved financial situation is related to the growth in the indices measuring satisfaction with the operating profit margin, satisfaction with the financial situation, and ease of access to credit in the period.

New credit measures aimed at small industries, such as the renewal and permanence of the National Support Program for Micro and Small Enterprises (Pronampe) and the Credit Incentive Program (PEC) expand the segment's possibility to access credit and possibly have a positive impact on agents' expectations.

Financial Situation Index for Small Industry
Index (0-100 points)*



*The higher the index, the better the financial situation of small industry in the quarter.

Note: The Financial Situation Index for small industry is the weighted average of the indices measuring financial conditions of small mining and quarrying, manufacturing and construction companies.

MAIN PROBLEMS FACED BY THE SMALL INDUSTRY IN THE SECOND QUARTER OF 2021

Lack or high cost of raw materials and high tax burden stand out among the main problems faced by small industries

The lack or high cost of raw materials and the high tax burden are the main problems faced by small industries in the second quarter of 2021. The lack or high cost of raw materials remained as the top problem faced by small companies in the manufacturing and construction industries (with 60.4% and 58.5% of mentions, respectively), and in second place for the mining and quarrying industry (36.2%).

The high tax burden remained as the top problem for the mining and quarrying industry (43.1%) and in second place for the manufacturing and construction industries (37.2% and 32.7%, respectively).

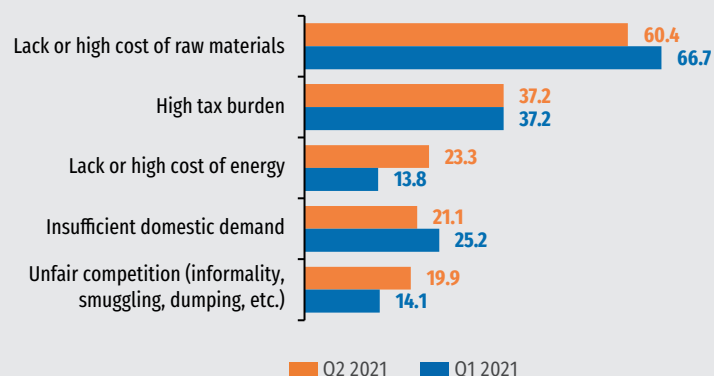
The importance of the lack and high cost of inputs and raw materials reflects the difficulty that the Industry is facing to raise its inventories to the desired level, contrary to entrepreneurs' expectations.

The lack or high cost of energy ranked third for the mining and quarrying and manufacturing industries (29.3% and 23.3%, respectively). As the electric bills tend to keep getting more expensive, this problem is expected to remain high on the list.

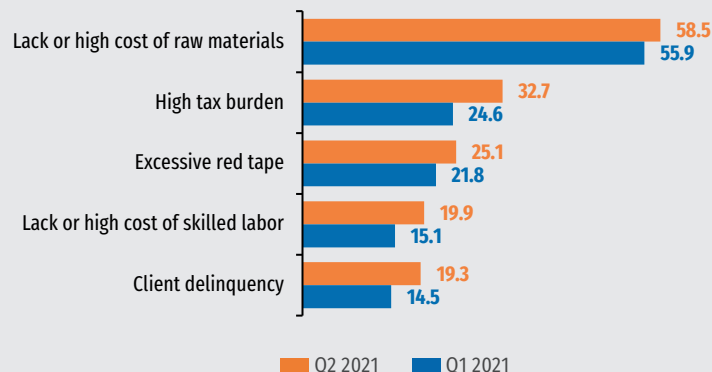
Insufficient domestic demand remains among the main problems, still as a consequence of the pandemic. It ranks fourth for the mining and quarrying and the manufacturing industries (19.0% and 21.1%, respectively). These results show a reduction in relation to the previous quarter, which may indicate a recovery of current and future demand.

Main problems faced by small industries in the 2nd quarter of 2021
Percentage (%)

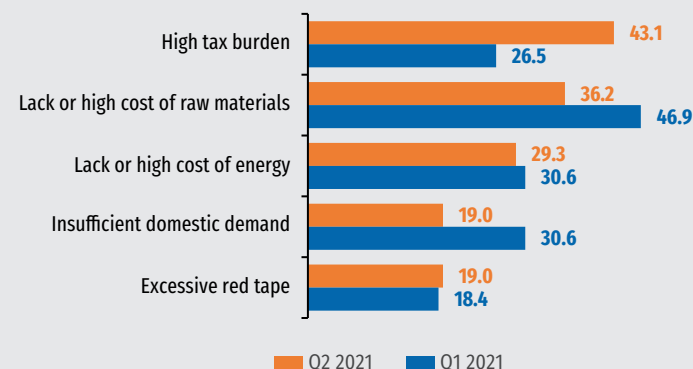
Manufacturing



Construction



Mining and quarrying



Note: For the question of main problems, a list of answer options is presented to the entrepreneur. The entrepreneur can choose to indicate up to three response options.

Excessive red tape stands out as a relevant issue for construction (third position) and for the mining and quarrying industries (fifth position), with 25.1% and 19.0% of mentions, respectively.

The construction industry pointed out the lack or high cost of skilled labor in the fourth position, with 19.9% of mentions, an increase of 4.8 percentage points in relation to the previous quarter.

In fifth place for the manufacturing industry is unfair competition (informality, smuggling etc.), which was mentioned by 19.9% of small enterprises, an increase from the previous quarter, when it recorded 14.1%. Customer default ranks fifth in the civil construction ranking. Both problems reflect the current economic crisis, which led to an increase in the informal economy and the difficulty in meeting financial obligations.

SMALL INDUSTRY CONFIDENCE AND OUTLOOK IN JULY 2021

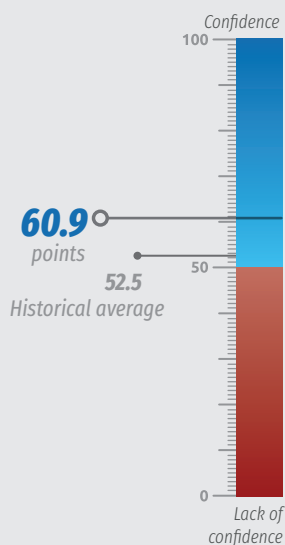
Increased small industry confidence reflects the segment's recovery and optimism

The Business Confidence Index (ICEI) for small industries reached 60.9 points in July 2021, after growing three consecutive times. The ICEI for small industries is well above the 50-point dividing line that separates confidence from lack of confidence, showing

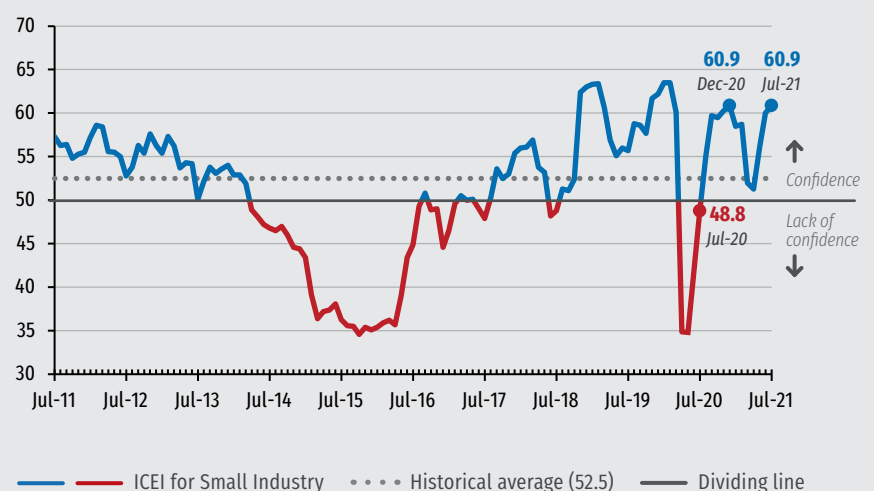
that business confidence is high and widespread. The index continues above its historical average of 52.5 points.

The confidence of small industry entrepreneurs dropped in the first quarter of 2021, but this decline was completely reversed in the following months, recording, in July, the same level as in December 2020. The ICEI increase in the period is mainly

Industrial Entrepreneur Confidence Index (ICEI) - Small business
Index (0 to 100 points)*



Historical series
Index (0-100 points)*



*Figures above 50 points indicate business confidence. The further above 50 points, the greater and more widespread the confidence. The further below 50 points, the greater and more widespread the lack of confidence.

due to the perception of entrepreneurs of better current conditions of their companies.

The positive evolution in the confidence index for small industries also reflects the expectation of improvement over the coming months, maintaining the pace of recovery of small enterprises.

Prospects remain favorable for small industries

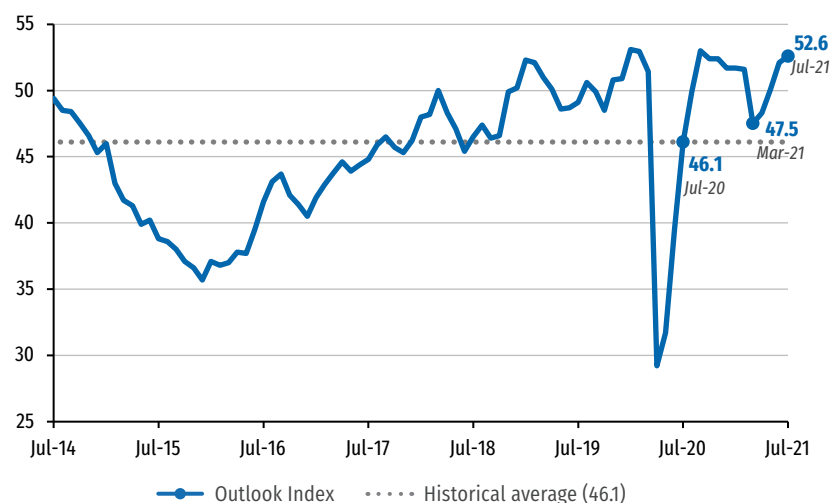
The Small Industry Outlook Index increased 0.5 points in July 2021, reaching 52.6 points.

The figures for the months of April, May, and June had been, respectively, 48.3 points, 50.1 points and 52.1 points. These results show continuous improvement in the outlook of small industry entrepreneurs. The outlook index remained above the historical average of 46.1 points throughout the quarter.

The expectation for the coming months, with the recovery of the economy, is the consolidation of the prospects at this optimistic level.

Small Industry Outlook Index

Index (0 to 100 points)*



*The higher the index, the more positive is the outlook for small industry entrepreneurs.



Technical specifications

Small Industry Outlook is a quarterly publication prepared from the results of CNI's Industrial Survey, Construction Industry Survey and Business Confidence Index (ICEI).

Document closed by August 11, 2021.



Learn more

For more information on the survey methodology and the historical series of the Performance Index, the Financial Situation Index and the Outlook Index, as well as data on major problems and the ICEI for small businesses, please visit: www.cni.com.br/e_ppi

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