

# SMALL INDUSTRY OUTLOOK

ECONOMIC INDICATORS **CNI**

**CNI**  
Brazilian National Confederation of Industry  
THE FUTURE OF INDUSTRY

## Industrial activity of small companies starts the year with a decline

The impacts of the crisis caused by the second wave of the pandemic were felt in the industrial activity in the first quarter of 2021, as reflected in the indices measuring performance, financial situation, main problems, confidence, and prospects of small companies.

The Small Industry Performance Index changed slightly, by 0.3 point, from February to March 2021, remaining above the historical average of 43.1 points. It should be noted, however, that the index came from five consecutive falls.

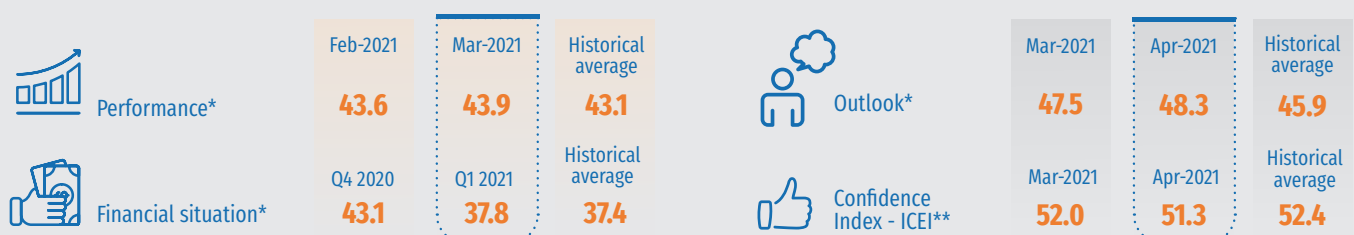
The Financial Situation Index dropped 5.3 points, to 37.8 points. The decline in the financial situation is driven by the fall in sales and production of small companies, combined with the greater difficulty in accessing credit and the high price of inputs and raw materials. The shortage or high cost of raw materials remains the top problem faced by the small industries in the first quarter of 2021.

The Industrial Entrepreneur Confidence Index (ICEI) for small industries stood at 51.3 points in April, falling 0.7 points in relation to March. The index fell in three of the last four months, but remained above the historical average of 52.4 points.

The Outlook Index reached 48.3 points in April, increasing 0.8 points. This figure suggests optimism for the coming months, albeit less than the usual for the first quarter of previous years, as the index came from three consecutive falls.

### 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 FIRST QUARTER OF 2021

# Performance of small industries breaks the downward trend, but is still affected by pandemic

The Small Industry Performance Index was 43.9 points in March, which is also the average of the first quarter of 2021. The industrial activity of small companies remained above its historical average of 43.1 points.

The slight increase in performance, of 0.3 points between February and March (from 43.6 points to 43.9 points), broke a downward trend recorded throughout the last quarter of 2020, as well as in the first two months of 2021.

Since October 2020, the index had been recording successive falls: 1.5 points in

October, 0.4 points in November, 3.5 points in December, 2.7 points in January, and 0.6 points in February.

The downward trend between October 2020 and February 2021 and the slight increase in March 2021 reflects the negative evolution in the production volume. Industrial activity was especially strong in October because of the recovery after the critical period of the pandemic in 2020, and lost strength in the following months.

An improvement in this index is expected in the coming months, due to the increase in the number of vaccinated people in Brazil and the improvement of the business environment, necessary for the resumption of growth in the production volume and in the number of employees.

### 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 FIRST QUARTER OF 2021

# Financial situation of small industries declined in the first quarter of 2021

The worsening of the pandemic, increased uncertainty, intensification of social isolation measures, and increase of input and raw material prices directly influenced the perception of industrial entrepreneurs regarding the financial situation in the first quarter of 2021.

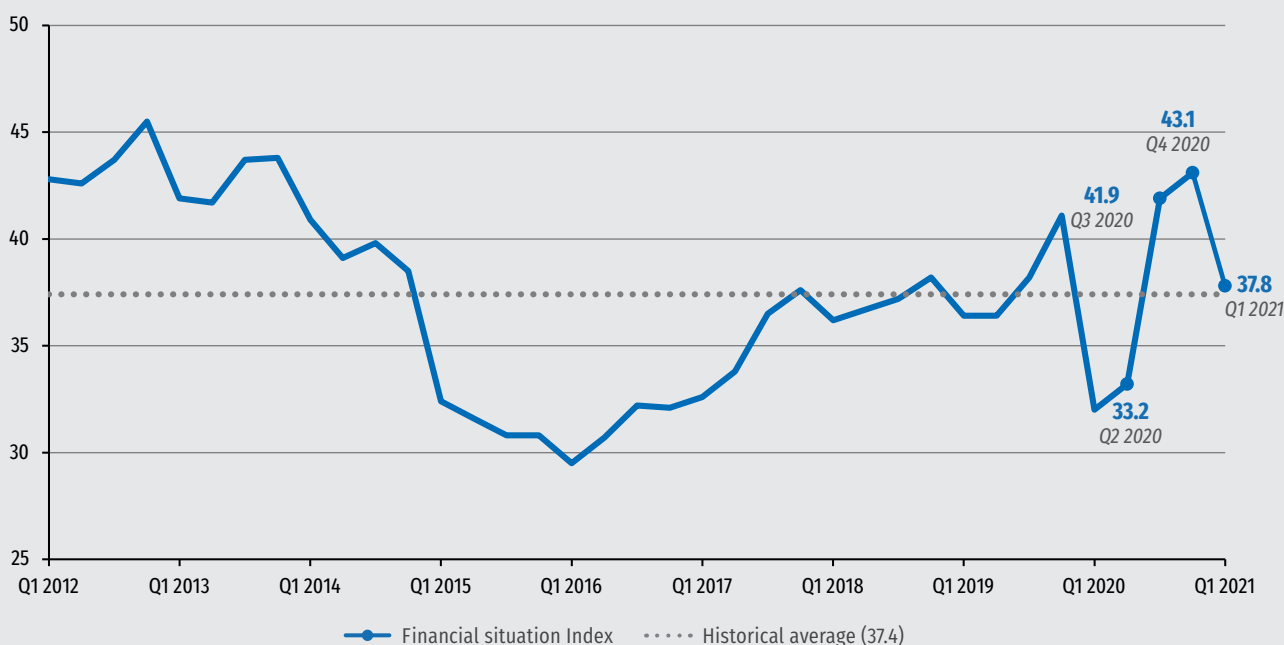
The Financial Situation Index for small industries in the first quarter of 2021 reached 37.8 points, dropping 5.3 points

in relation to the fourth quarter of 2020. However, the indicator remained above its historical average of 37.4 points.

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

The suspension of emergency credit lines which were aimed at small businesses, due to the end of the state of emergency, at the end of 2020, negatively impacted access to credit by the small industry and resulted in the decline of the index.

**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 FIRST QUARTER OF 2021

## Shortage or high cost of raw materials remains the main problem faced by small industries

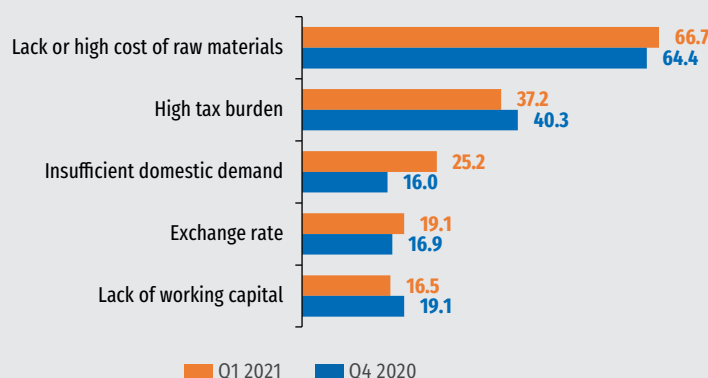
The shortage or high cost of raw materials remains the main problem faced by small industries. The number of mentions for this problem increased in the first quarter of 2021 in relation to the last quarter of 2020 and remained as the top problem faced by small companies in the mining and quarrying, manufacturing, and construction industries. The most recent results for these three segments were: 46.9% of mentions in mining and quarrying, 66.7% in manufacturing, and 55.9% in construction.

Despite the first quarter's trend of lower inventory needs, the actual level is still below the planned level, showing that Brazilian industry seems to be unable to raise inventories to the desired level. This is probably due to the difficulties in obtaining inputs and raw materials.

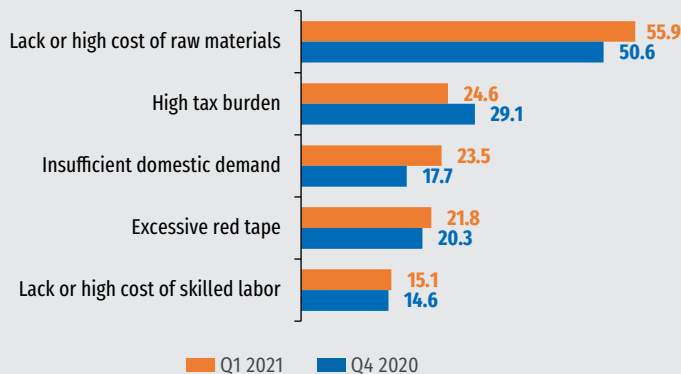
In the manufacturing and construction segments, the high tax burden ranks second among the main problems, with a slight decrease in relation to the last quarter. In the manufacturing segment, 37.2% of respondents mentioned the problem, while 24.6% of respondents mentioned the problem in construction. In the mining and quarrying segment, the shortage or high cost of energy ranks second, with 30.6% of mentions, and high tax burden ranks fourth with 26.5%.

Main problems faced by industry in the 1st quarter of 2021  
Percentage (%)

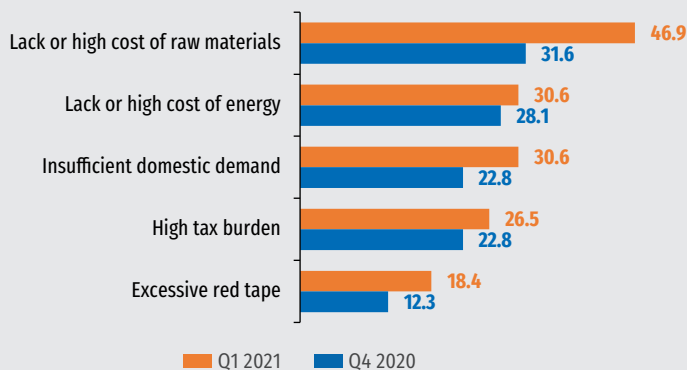
### Manufacturing



### 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.

Insufficient domestic demand is still a problem mentioned by entrepreneurs and ranks third in all industrial segments. In the mining and quarrying segment, this problem was mentioned by 30.6% of respondents, tied with the problem ranked second in this segment, shortage or high cost of energy.

The exchange rate ranks fourth in the manufacturing segment, with an increase

of 2.2 percentage points in relation to the previous quarter. The high volatility of the Brazilian reais to dollar exchange rate affects micro and small importing industries more directly.

Excessive red tape stands out as a relevant issue for the mining and quarrying (ranked fifth) and for the construction (ranked fourth) segments, with 18.4% and 21.8% of responses, respectively. Ranked fifth is the lack of working capital for the manufacturing segment (16.5% of respondents) and the lack or high cost of skilled labor for the construction segment (15.1%).

## SMALL INDUSTRY CONFIDENCE AND OUTLOOK IN APRIL 2021

# The drop in small industry confidence reflects the uncertainty in this sector

The Industrial Entrepreneur Confidence Index (ICEI) for small industries stood at 51.3 points in April 2021, falling 0.7 points in relation to March.

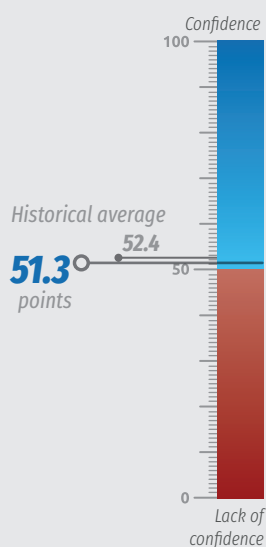
The confidence of small industry entrepreneurs dropped in the first months of the year: 2.4 points in

January; 6.7 points in March; and 0.7 points in April. Only in February an increase of 0.2 points was recorded.

The drop in the confidence index for small industries in the first quarter of 2021 was a total of 8.9 points. When adding the month of April, the year-to-date drop reaches 9.6 points.

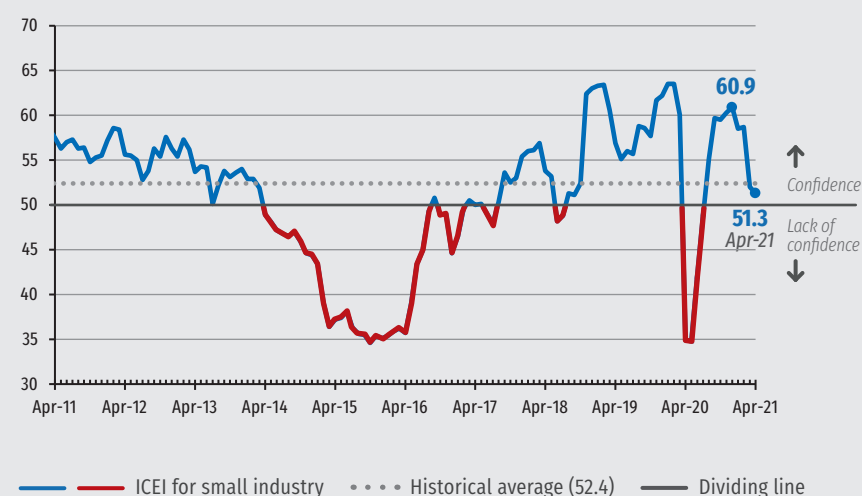
### Industrial Entrepreneur Confidence Index (ICEI) - Small business

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.

Despite the drop, the confidence index for small industry shows that business confidence is above the 50-point dividing line which separates confidence from lack of confidence, but just below the historical average of 52.4 points.

Despite the downward trend of the period, when comparing March and April 2021 (confidence index drop from 52 points to 51.3 points) with March and April 2020 (confidence index drop from 60.1 points to 34.8 points), we can see that the drop in confidence has been significantly reduced in 2021.

The drop in small industry confidence reflects the severity of the problem of shortage or high cost of raw materials, which directly impacts the production and supply of this industrial segment.

In addition, the drop in the confidence index for small industry may also reflect the suspension, in the first quarter of 2021, of emergency government measures aimed at micro and small businesses. With the end of the state of emergency in December 2020, small businesses could no longer count on government support as before.

Despite the drop in the ICEI, the index is expected to rise again in the coming months, with an improvement in the pace of recovery in activity.

## Prospects remain favorable for small industry

The Small Industry Outlook Index increased 0.8 points in April 2021, to 48.3 points.

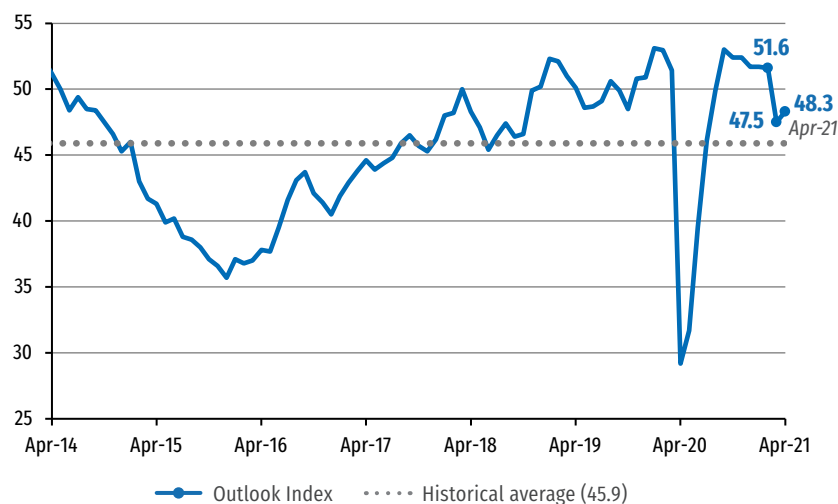
The figures for the months of January, February, and March had been, respectively, 51.7 points, 51.6 points and 47.5 points.

Despite the improvement in the last month, the outlook is less favorable than at the beginning of the year.

The increase in the outlook index in April is related to the expected demand and the expected increase in the number of employees. An increase in the expectation of demand is possible when the problem of lack or high cost of inputs and raw materials decrease. In

this case, the decrease in the supply of industrial goods may be causing a pent-up demand and the expectation is that there will be an increase in demand in the future.

### 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 May 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](http://www.cni.com.br/e_ppi)



**SMALL INDUSTRY OUTLOOK** | English version of "Panorama da Pequena Indústria, Jan-Mar 2021" Quarterly publication of the National Confederation of Industry - CNI | [www.cni.com.br](http://www.cni.com.br) | Board of Industrial Development and Economy - DDIE | Industrial Policy Office - GPI | Industrial Policy Executive Officer: João Emilio Padovani Gonçalves | Analysis: Caroline Lompa e Paula Verlangero Vieira | Economics Office - ECON | Economics Executive Officer: Renato da Fonseca | Economic Analysis Unit - GAE | Manager: Marcelo Souza Azevedo | Statistics Unit - GEST | Manager: Edson Velloso | Team: Aretha Silícia Soares | Editing Unit - CDIV | Coordinator: Carla Gadelha | Graphic Design: Simone Marcia Broch  
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