

SPECIAL
SURVEY

77

COVID-19's IMPACTS ON BRAZILIAN INDUSTRY



Brazilian National Confederation of Industry
THE FUTURE OF INDUSTRY



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ON BRAZILIAN INDUSTRY

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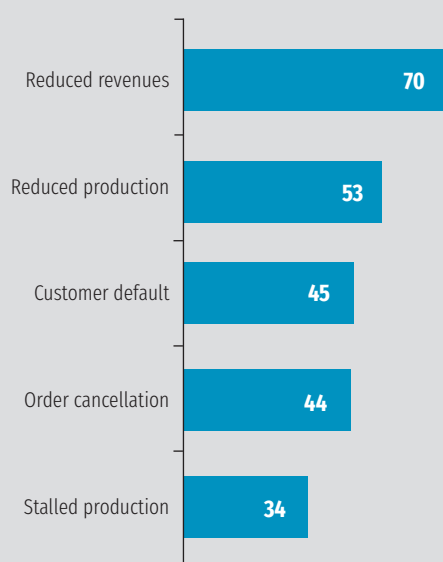


EXECUTIVE SUMMARY

DECREASED REVENUE WAS THE MAIN PROBLEM CAUSED BY THE PANDEMIC IN APRIL

Graph 1 - Main impacts of the new coronavirus crisis

Percentage of companies that marked each item (%)



Note: The sum of the percentages exceeds 100% because each company could mark up to five impacts.

The new coronavirus pandemic hit industrial companies mainly due to the downturn in demand, which resulted in decreased or even stalled production. Most companies are struggling to make current payments and facing greater difficulties to access working capital finance. Its impact on employment is still limited. The main measures taken by companies include granting vacations to workers, making adjustments via hour bank and reducing working hours. Dismissals were one of the solutions adopted by less than 2 out of 10 companies. The survey reflects the responses of industrial entrepreneurs collected between April 1st and 14th.

For 70% of the industrial companies surveyed¹, decreased sales was one of the five main impacts of the crisis triggered by the new coronavirus.

The shutdown of activities for a fixed or indefinite period affected 31% of all industrial companies.

Almost all companies (95%) adopted measures in relation to their employees in response to the crisis. The commonest measures adopted by them were giving leaves of absence for employees falling under the risk group and promoting information and prevention campaigns, with extra hygiene measures in their premises, both of which were adopted by 65% of industrial companies.

Among the measures taken, special mention should also be made of home office work, adopted by 61% of the companies, granting vacations to part of the employees, adopted by 50% of them, and allowing sick leaves for employees with symptoms, adopted by 49% of the companies. Among the companies surveyed, 15% indicated that they had laid off or dismissed workers.

¹ In this survey, industrial companies are those operating in the mining and quarrying, manufacturing and construction industries.

On the supply side, companies have been facing difficulties in the logistics for transporting their products or inputs/raw materials as a result of the pandemic, a problem reported by 76% of the respondents. In addition, 77% of the industrial companies surveyed indicated that they were facing difficulties to obtain inputs or raw materials used in their operations.

The need to keep paying current expenses with reduced revenues has been making it difficult for six out of ten industrial companies to honor routine payments. As a result, demand

for working capital finance has been rising, but accessing it has become more difficult: 55% indicated that the coronavirus pandemic has made access to working capital finance more difficult or much more difficult.

Overall, 91% of the industrial entrepreneurs surveyed reported that the new coronavirus pandemic had a negative impact on their companies, with only 6% of them reporting that their company had not been impacted and 3% indicating that its impact had been positive.



1 MAIN IMPACTS

Reduced revenues and decreased production are the main impacts of the crisis

The impacts of the new coronavirus have been felt in several ways by industrial companies, such as reduced revenues, decreased production, logistical difficulties, problems with the labor force and difficulties for accessing credit.

The impacts related to reduced revenues were the ones manufacturing entrepreneurs mentioned the most among the top five problems they were facing. In addition to reduced revenues, mentioned by 70% of industrial entrepreneurs, 45% cited customer defaults, 44% cited the cancellation of orders and 34% cited stalled production.

The impacts on production or on construction and/or construction-related activities ranked second: 53% of the entrepreneurs surveyed indicated that decreased production was one of the top five impacts of the pandemic, while 34% mentioned stalled production.

In another group of difficulties, 21% of the companies indicated that the five main impacts of the pandemic included lower labor productivity, while 16% mentioned the lack of urban mobility or public transportation for workers or difficulties in this area and 13% mentioned the unavailability of workers, with increased absenteeism.

Logistical difficulties resulting from the crisis were mentioned by 21% of the entrepreneurs who indicated that lack of inputs and raw materials was one of the five main impacts of the pandemic and by 20% of those who reported difficulties to transport or market their production, inputs and/or raw materials.

Table 1 – Main impacts of the new coronavirus crisis

Percentage of companies that marked each item (%)

70%	Reduced revenues
53%	Reduced production or construction activities
45%	Customer default
44%	Order cancellation
34%	Stalled production or construction activities
22%	Greater difficulties to access credit
21%	Lower labor productivity
21%	Lack of inputs/raw materials
20%	Difficulties to transport and market production and inputs and/or raw materials
16%	Lack of mobility/public transportation for workers or difficulties related to these factors
13%	Unavailability of workers (absenteeism)
2%	No impact
2%	Doesn't know/didn't respond
2%	Other impacts

Note: The sum of the percentages exceeds 100% because each company could mark up to five impacts.

In addition, 22% of the entrepreneurs indicated that more difficult access to credit was one of the main impacts of the pandemic.

Manufacturing industry is the industrial segment that has been suffering the most from loss of revenue. While 71% of the companies operating in the manufacturing industry indicated that reduced sales constituted one of the top five impacts of the crisis, the percentage declines to 67% for those operating in the construction industry and to 51% for those operating in the mining and quarrying industry.

Among entrepreneurs of the manufacturing industry, 48% reported that customer default was one of the top five impacts, against 35% among those of the construction industry and 34% among those of the mining and quarrying industry. Order cancellation was one of the top five impacts for 51% of the entrepreneurs in the manufacturing industry, as is for 35% of those in the mining and quarrying industry and for 15% of those in the construction industry.

Nevertheless, reduced or stalled production has been impacting the construction industry more strongly than other industrial segments. Among construction entrepreneurs, 40% indicated that stalled production is one of the five main impacts of the crisis, against 33% of manufacturing entrepreneurs and 18% of mining and quarrying entrepreneurs. In addition, 58% of the entrepreneurs in the construction industry reported that reduced production was one of the top five impacts, as did 53% of those in the manufacturing industry and 35% of those in the mining and quarrying industry.

Construction industry is also the one that sees the fall in labor productivity as one of the five main impacts of the crisis: 40%, against 26% in the mining and quarrying industry and 17% in manufacturing industry.

The mining and quarrying industry has been the most affected by the unavailability of workers, or absenteeism, with 25% of the segment's entrepreneurs citing this problem as one the top five impacts of the pandemic, as did 12% of the entrepreneurs in the manufacturing and construction industries. That segment is also the most affected by difficulties related to public transportation for workers: 21% of entrepreneurs in the mining and quarrying industry cite this problem as one of the top five impacts, against 16% of those in the construction industry and 15% of those in the manufacturing industry.

The mining and quarrying industry has also been experiencing more logistical difficulties for transporting its production and obtaining its productive inputs, as this factor was mentioned by 27% of entrepreneurs in the segment as one of the top five impacts, against 20% of those in the manufacturing industry and 17% of those in the construction industry.

The mining and quarrying industry has been less affected than the other sectors by the worsening in access to credit: this impact was mentioned as one of the top five impacts of the crisis by only 9% of entrepreneurs in the segment, against 22% of those in the construction industry and 23% of those in the manufacturing industry.

2 IMPACTS ON DEMAND AND PRODUCTION

Three out of four industrial companies report drop in demand

When asked how demand for their companies' products and services was affected by the new coronavirus pandemic, 38% of the entrepreneurs reported a sharp drop in demand and another 38% reported a drop, suggesting that demand had declined for 76% of the companies.

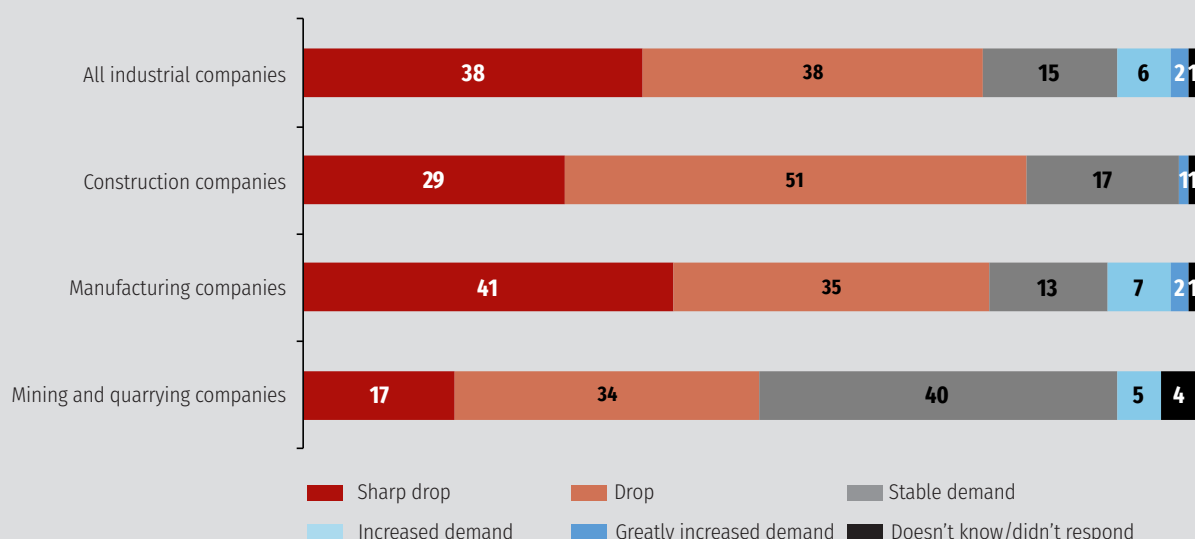
The mining and quarrying industry is the one that reported the lowest retraction in demand, with 51% of the companies mentioning a sharp decline or decline in demand and 40% indicating stability in demand for their products.

One factor that helps explain this result is that exports account for a large share of the demand

for its products and China is one of the main destinations for these exports. Even though China was the first country to be affected by the pandemic, its demand for products from the mining and quarrying industry remained high, reducing the impact of the pandemic on this segment of industry.

Among all sectors of the mining and quarrying industry, the one that suffered the sharpest drop in demand was that of the extraction of non-metallic minerals, as 75% of companies operating in this sector reported a drop or a sharp drop in demand. This sector extracts inputs closely related to the Brazilian construction industry, such as sand and gravel, so the negative impact of the pandemic on the construction industry affected it quickly².

Graph 2 - Impact of the new coronavirus pandemic on demand for products and/or services³
Percentage of responses (%)



Note: The sum of the percentages can be different from 100% for rounding reasons.

² It is worth mentioning that we are not disclosing the results for the extraction of metallic minerals and support activities for the extraction of minerals because the number of responding companies is not high enough for results to fall within the desired margin of error.

³ In the questionnaire designed for the construction industry, the question was adapted to include services in addition to products.

In manufacturing industry, two sectors stand out for having more companies mentioning increased demand than those reporting a drop in demand: the personal hygiene, cleaning and perfumery (HPPC) and the pharmaceutical chemicals and pharmaceuticals sectors.

The food and paper and cellulose sectors deserve to be mentioned as sectors that, despite not having experienced a net positive impact, were less negatively affected than the others. In each of these two sectors, 19% of companies reported an increase in demand, but the percentage of companies that reported decreased demand was 55% in the food sector and 66% in the paper and cellulose sector.

The sectors that reported a sharp drop in demand the most were the following ones: apparel (82%); footwear (79%); furniture (76%); printing and reproduction (65%); and textiles (60%).

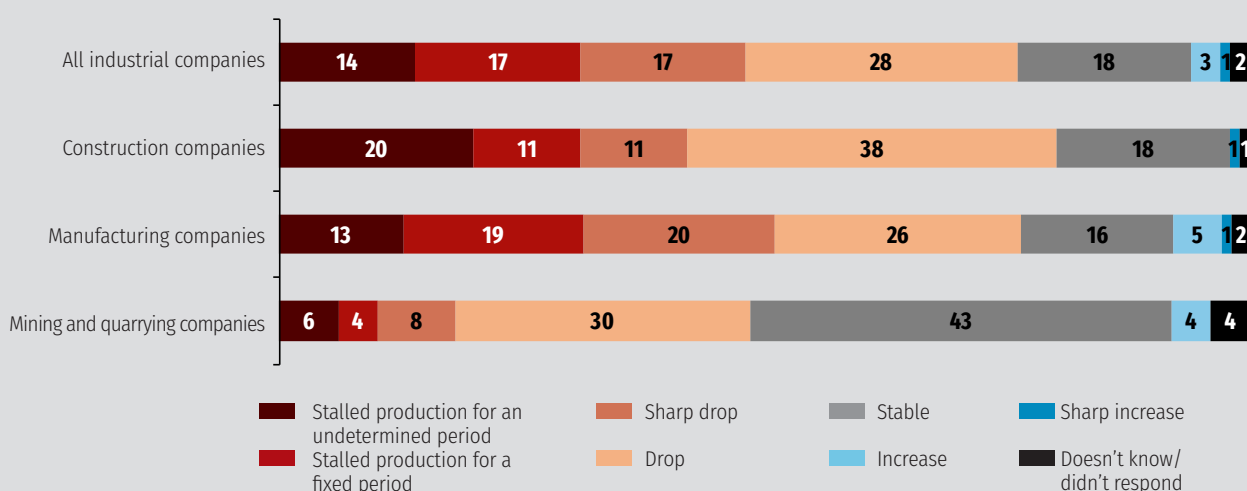
Small enterprises have been more affected by lack of demand than medium and large enterprises. While 84% of small enterprises reported a sharp decline or decline in demand, the percentage decreases to 78% among medium enterprises and to 72% among large enterprises.

Production of three out of four industrial companies has been affected by the pandemic

In response to falling demand, industrial companies have reduced or even stalled production: 76% of the companies surveyed.

The shutdown of activities for a fixed or indefinite period affected 31% of all industrial companies. Despite remaining in operation, another 45% of companies recorded a sharp drop or drop in production. Only 4% of entrepreneurs reported an increase or sharp increase in production.

Graph 3 - Impact of the pandemic on companies' production or construction activities and/or construction-related activities⁴
Percentage of responses (%)



Note: The sum of the percentages can be different from 100% for rounding reasons.

⁴ In the questionnaire for the construction industry, the question was adapted to include construction and/or construction-related activities, in addition to production.

The mining and quarrying industry has been the least affected by the decline in its production resulting from the pandemic, which is consistent with the lower impact suffered by the segment in terms of falling demand. In this segment, 10% of entrepreneurs reported full stalling of activities for a fixed or indefinite period, and 38% reported a sharp drop or drop in production.

Among manufacturing industry sectors, the food sector is the one recording the lowest percentage of companies with stalled production either for a determined period or for an indefinite time: 8%. The personal hygiene, cleaning and cosmetics sector ranked second, with 12% of companies stalled, followed by the pharmaceutical chemicals and pharmaceuticals sector (15%). The latter two sectors also stand out for the highest percentage of companies experiencing a sharp increase or increase in production: 36% and 33%, respectively.

Small enterprises were the ones that felt the negative effect of the crisis on production the most. Among them, 81% reported decreased or stalled production. In the case of medium enterprises, this percentage drops to 77%, and among large ones it decreases to 73%.

It should be noted that, in terms of stalled production, no significant difference was recorded between company sizes: among small enterprises, 31% reported stalled production for a fixed or indefinite period, while the percentage for medium enterprises was 28% and for large companies 33%. The difference can be felt in companies that remain in operation, among which large enterprises report greater stability in their production: 20%, against 17% among medium enterprises and 13% among small ones.

3 MEASURES IN RELATION TO WORKERS

9 out of 10 industrial companies have adopted measures in relation to their workers in response to the pandemic

Among industrial companies, 95% indicated that they had adopted at least one measure in relation to their workers in response to the crisis caused by the new coronavirus.

The most adopted measures were giving leaves of absence to employees falling under the risk group and promoting information and prevention campaigns, with extra hygiene measures in their premises, both of which were adopted by 65% of industrial companies. Among the measures taken, special mention should also be made of home office work, adopted by 61% of the companies, granting vacations to part of the employees,

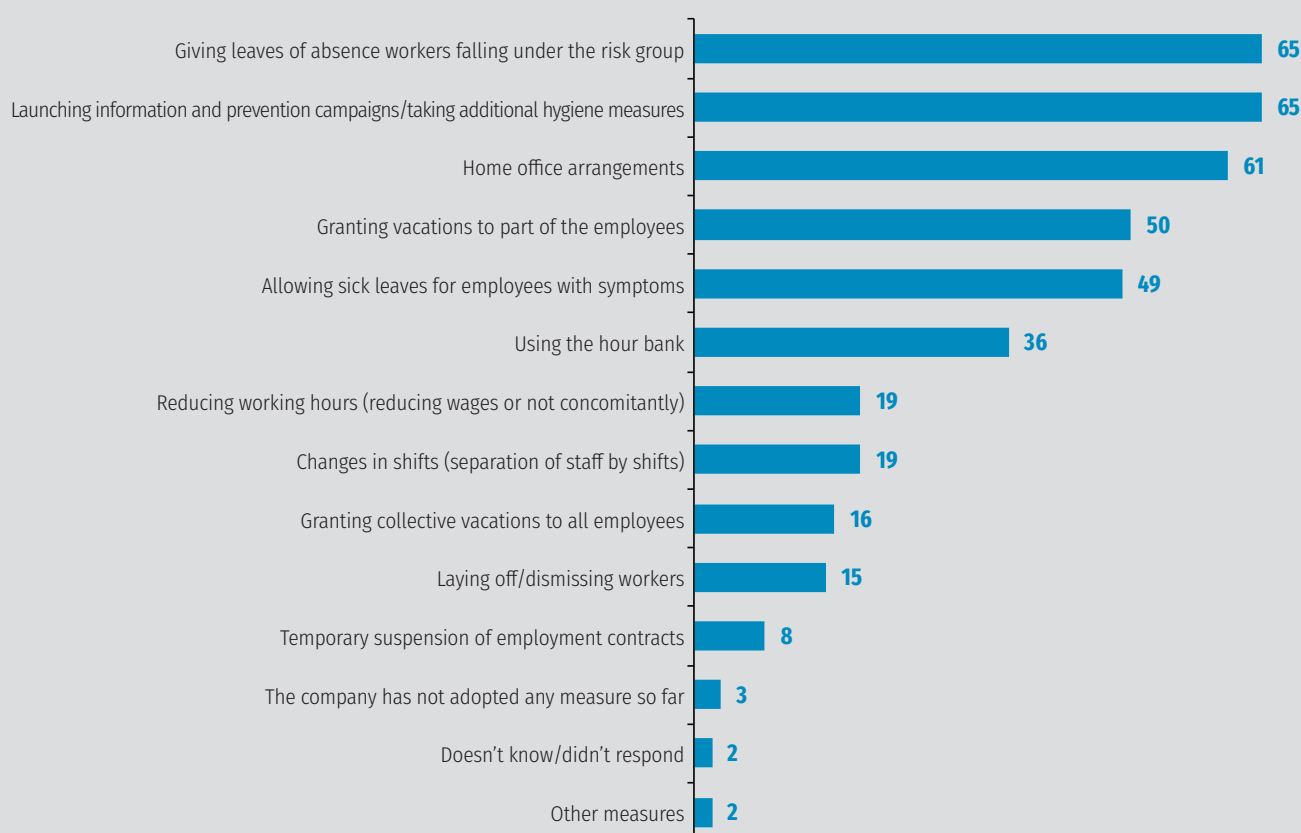
adopted by 50% of them, and allowing sick leaves for employees with symptoms, adopted by 49% of the companies.

Reducing working hours was a measure adopted by 19% of companies and 8% of them suspended employment contracts. Laying off workers was a measure adopted by 15% of industrial companies.

It should be noted that more than one measure may have been taken simultaneously for the same group of workers or for different groups of workers.

Graph 4 - Measures taken in relation to workers

Percentage of respondents who checked each option (%)



Note: The sum of percentages is greater than 100% because each company marked all the measures it took in relation to its employees.

Overall, the larger the company, the more measures it took in relation to workers. For example, while 32% of small enterprises adopted home work arrangements, this percentage goes up to 77% among large ones. Giving leaves of absence to workers falling under the risk group was a measure adopted by 43% of small enterprises and by 74% of large ones. Information and prevention campaigns were adopted by 50% of small enterprises and by 72% of large ones.

The greater adoption of measures and the greater variety of measures adopted by large enterprises is explained by the greater organizational capacity of large enterprises in relation to small ones. The HR departments of larger companies tend to be better structured. In addition, their greater number of employees makes it possible to grant holidays to some of their workers while keeping the company in

operation or to change work shifts, which is more difficult for companies with a smaller number of employees.

Suspending employment contracts and reducing wages and working hours were measures adopted by companies of all sizes in a similar way, i.e. no greater adoption of such measures was recorded in larger or smaller companies.

On the other hand, 20% of small companies dismissed workers, a percentage that drops to 13% among large enterprises. The higher percentage of small enterprises that dismissed workers reflects the greater financial fragility of small enterprises in facing the crisis. Small companies tend to face greater difficulties to access working capital financing, so they have no way of keeping workers in a situation of marked reduction in revenues.

Differences in relation to the measures adopted by industrial segment were also recorded. In the mining and quarrying industry, the measures were more focused on selective leaves of absence of employees falling under the risk group (78%) and of employees with symptoms of Covid-19 (67%), as well as on information campaigns (71%) and home office arrangements (73%).

In this segment, companies adopted less measures that stall production, such as laying off and dismissing workers (10%), granting collective vacations to all workers (2%) and suspending employment contracts (0%). The measures adopted are consistent with a lower need to reduce production in companies operating in the mining and quarrying industry, given the reduced demand experienced in this industrial segment.

In the remaining segments, a high number of companies adopted selective leave of absence measures, launched information campaigns and implemented home office arrangements, but in

lower numbers than those operating in the mining and quarrying industry. Dismissing workers was a measure adopted by 15% of companies operating in the manufacturing industry and by 18% of those operating in the construction industry. They also granted collective holidays to all workers in greater numbers than those operating in the mining and quarrying industry: 17% of companies operating in the manufacturing industry and 13% of those operating in the construction industry. The same occurred in relation to suspending employment contracts, which was done by 8% of companies operating in the manufacturing industry and by 7% of those operating in the construction industry.

The adoption of more intense measures by companies operating in the manufacturing and in the construction industries reflects the sharper drop in demand experienced by companies operating in these segments in relation to those operating in the mining and quarrying industry.

Table 2 - Measures adopted in relation to workers, by industrial segment

Percentage of respondents who checked each option (%)

	Mining and quarrying companies	Manufacturing companies	Construction companies	All industrial companies
Giving leaves of absence to workers falling under the risk group	78	65	62	65
Launching information and prevention campaigns/taking additional hygiene measures	71	66	60	65
Home office arrangements	73	60	64	61
Granting vacations to part of the employees	47	48	56	50
Allowing sick leaves for employees with symptoms	67	49	42	49
Using the hour bank	25	37	33	36
Reducing working hours (reducing wages or not concomitantly)	19	19	19	19
Changes in shifts (separation of staff by shifts)	15	20	17	19
Granting collective vacations to all employees	2	17	13	16
Laying off/dismissing workers	10	15	18	15
Temporary suspension of employment contracts	0	8	7	8
The company has not adopted any measure so far	2	3	4	3
Doesn't know/didn't respond	5	1	1	2
Other measures	1	2	1	2

Note: The sum of percentages is greater than 100% because each company marked all the measures it took in relation to its employees.

4 IMPACTS ON LOGISTICS

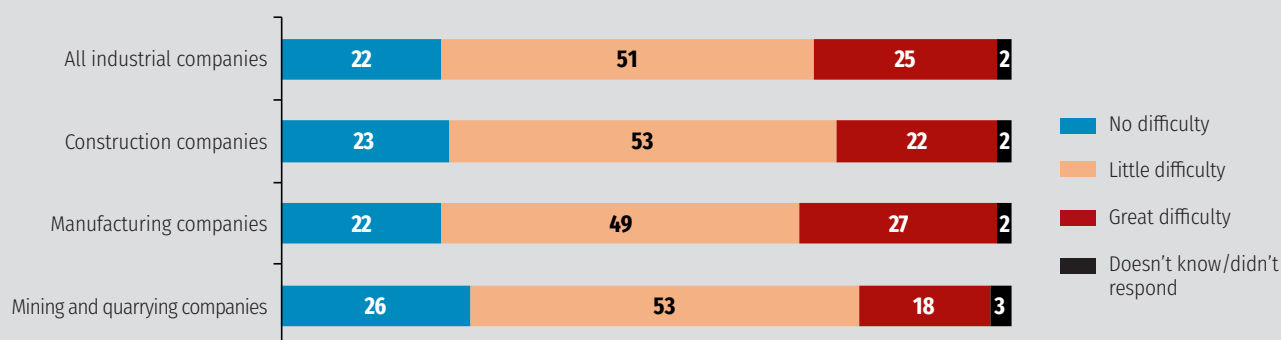
Pandemic also made logistics and access to inputs and raw materials difficult

Apart from affecting production on the demand side, the crisis has also been causing problems on the supply side. The crisis has been disrupting the logistics framework and making it difficult to obtain necessary inputs or raw materials for production.

Among industrial companies, 76% reported difficulties in the logistics of transporting their products or inputs/raw materials due to the pandemic. These logistical difficulties were brought about by the impacts of quarantine on companies in the logistics chain, such as those providing transportation and even support services, such as restaurants and gas stations on highways.

Graph 5 - Degree of difficulty in the logistics of transporting products, services or inputs⁵

Percentage of responses (%)

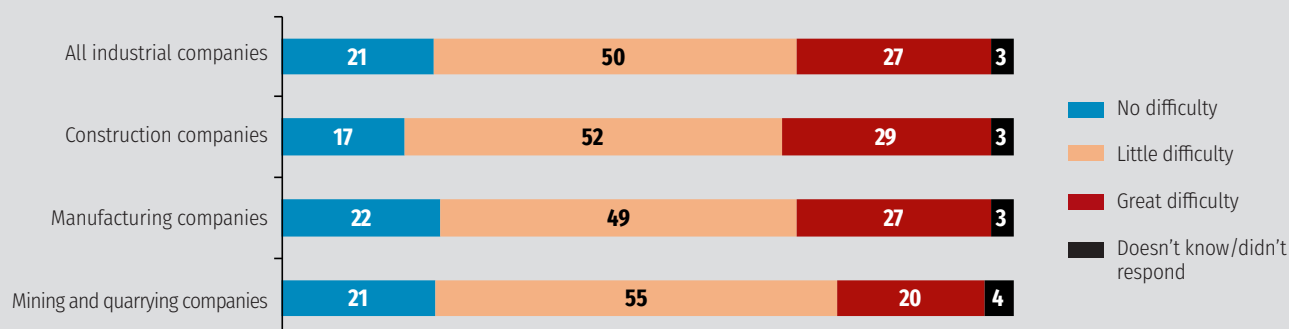


In addition, 77% of the industrial companies surveyed indicated that they were facing difficulties to obtain inputs or raw materials used in their operations. The difficulties for obtaining

raw materials derive both from logistical difficulties and from the stalling of activities in sectors involved in the production chain of those companies.

Graph 6 - Degree of difficulty in obtaining inputs or raw materials

Percentage of responses (%)



Note: The sum of the percentages can be different from 100% for rounding reasons.

⁵ In the questionnaire designed for the construction industry, the question was adapted to include services in addition to products.

5 WORKING CAPITAL FINANCE AND ACCESS TO CREDIT

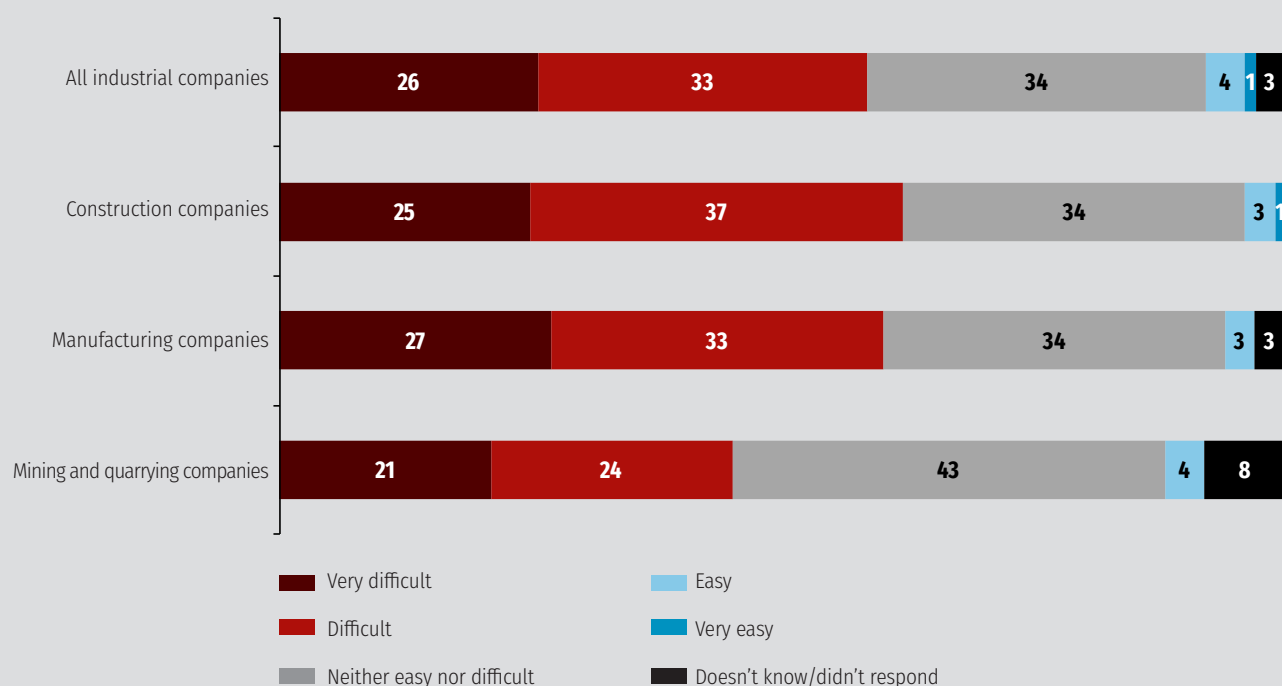
Six out of ten industrial companies are struggling to honor routine payments

Among industrial companies, 59% consider that financial availability to make routine payments – such as taxes, suppliers, wages, electricity bills, rent – has become difficult or very difficult. The mining and quarrying industry stands out for having the lowest percentage of companies facing difficulties to honor their payments: 45%.

The smaller the size of the companies, the greater the difficulties they have been facing to make their routine payments. While 50% of large enterprises reported difficulties in honoring their routine payments, the percentage rises to 64% among middle enterprises and to 71% among small industrial companies.

Graph 7 - Level of difficulty to make routine payments

Percentage of responses (%)



Note: The sum of the percentages can be different from 100% for rounding reasons.

Despite the policies announced, over half of the industrial companies have been facing greater difficulties to access working capital finance

Among industrial companies, 55% indicated that the coronavirus pandemic has made access to working capital finance more difficult or much more difficult. This perception is lower among companies operating in the mining and quarrying industry, as 41% of them reported greater difficulties in this regard.

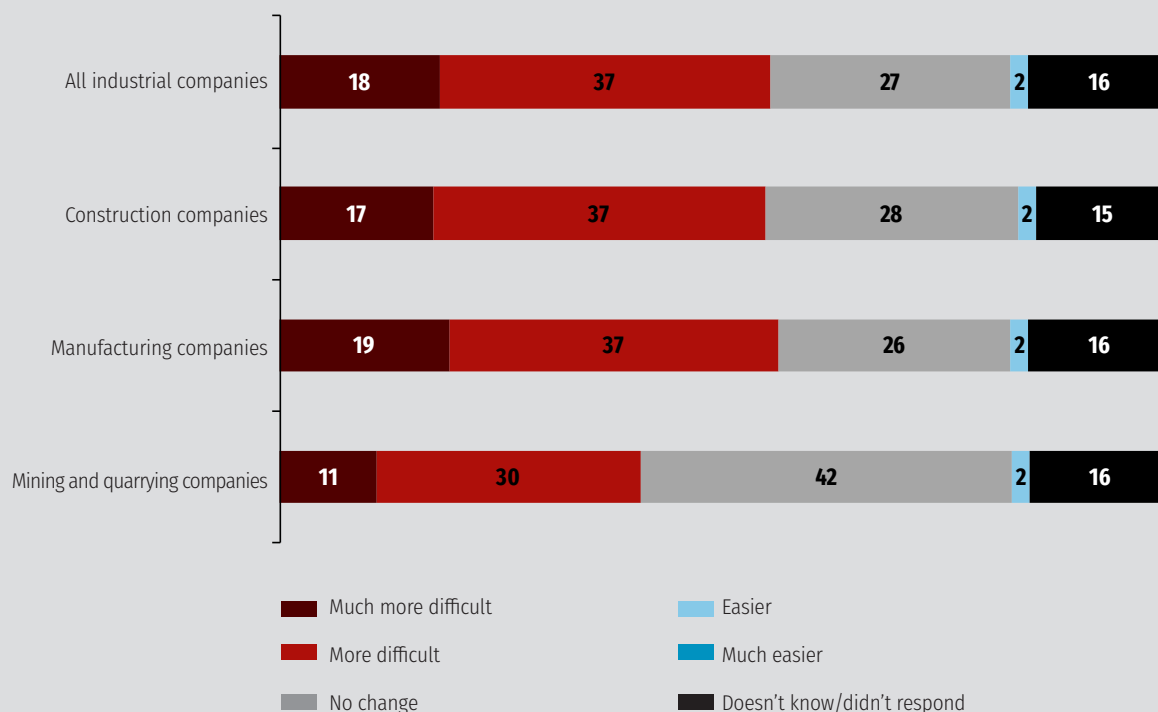
Small enterprises were already facing greater difficulties in accessing credit before the crisis, as shown by the index of ease of access to credit reported in the Industrial Survey, which is usually lower for small and medium enterprises and higher for large ones.

The crisis has further aggravated this difficulty for smaller companies: the smaller the size of the companies, the greater the percentage of companies reporting that access to working capital finance has become much more difficult: 16% among large enterprises and 24% among small ones.

When the percentages of companies that indicated that access to credit became much more difficult are added to those of companies that reported that it became more difficult, this pattern disappears: 54% among small enterprises, 51% among medium enterprises and 58% among large ones.

Graph 8 - Impact of the pandemic on the degree of difficulty in accessing working capital finance

Percentage of responses (%)



Note: The sum of the percentages can be different from 100% for rounding reasons.

Nine out of ten industrial companies reported suffering negative impacts as a result of the crisis

Overall, 91% of manufacturing entrepreneurs reported that the new coronavirus pandemic had a negative impact on their companies. Of this total, 6% of entrepreneurs indicated that their company had not been impacted, while for 3% of them the impact had been positive. For 26% of the companies, the impact was very negative (intensity 3 on a scale of 1-3).

Among industrial segments, manufacturing industry is the one that reported the greatest negative impact, with an average score of -1.8 points on a scale of -3 to 3. The construction industry ranked second, with an average score of -1.5 points. The segment that reported the lowest intensity of negative impacts was the mining and quarrying industry, with an average score of -1.3 points.

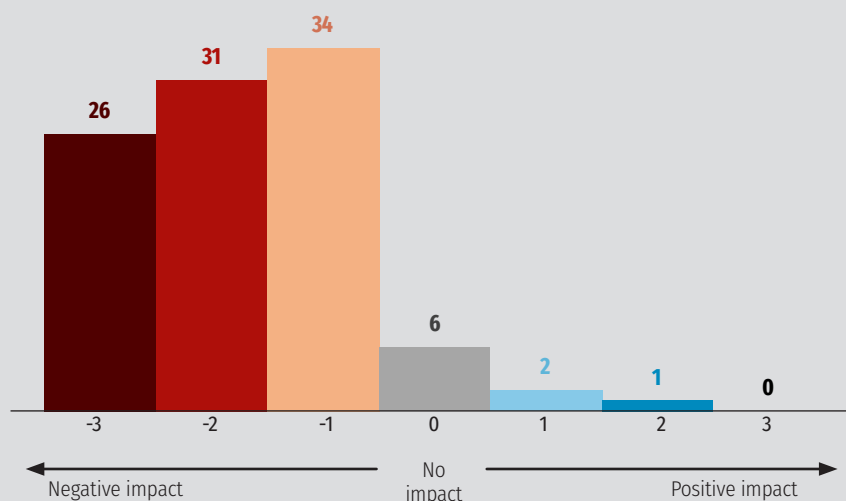
The sectors with the highest percentage of companies reporting positive impacts are those operating in the segment of hygiene, cleaning, perfumery and cosmetics products, with 24%, and of pharmaceutical chemicals and pharmaceuticals, with 15%.

Considering the average score, the pharmaceutical chemicals and pharmaceuticals sector was the one that reported the lowest average negative impact: -0.6 points, followed by the hygiene, cleaning, perfumery and cosmetics products sector, with -0.8 points.

At the other end, the average score of several sectors was below -2.0 points: Footwear (-2.6 points); Furniture (-2.5 points); Apparel (-2.4 points); Textiles (-2.3 points); Printing and reproduction (-2.2 points); and leather and coke and oil by-products, for all of which the same average score of -2.1 points was recorded.

Graph 9 - Intensity at which the coronavirus pandemic is affecting the company

Percentage of responses (%)





TECHNICAL SPECIFICATIONS

Sample profile: 1,740 enterprises, including 718 small, 578 medium and 444 large companies.

Data collection period: April 1-14, 2020.



LEARN MORE

For more information on the survey, visit:

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