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ECONOMIC INDICATORS CNI

CNI
Brazilian National Confederation of Industry
THE FUTURE OF INDUSTRY

Industry continues to rebound, but impacts of the pandemic remain strong

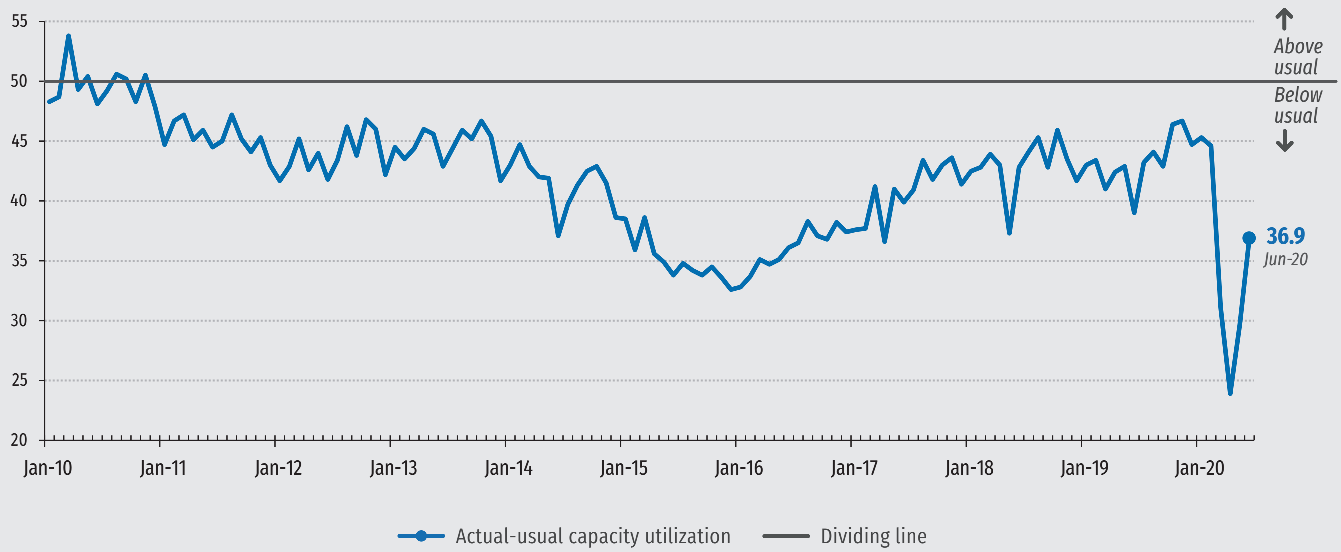
As in May, industry shows new signs of recovery in June after the strong impacts of the pandemic seen in April. Production increased from the previous month and idle capacity remained on a downward trend.

Despite the improved performance in recent months, the pandemic's impacts on industrial activity are still visible. Spare capacity remains at a high level. Lack of demand continues to top the list of major problem faced by industry in the quarter, with issues such as lack/high cost of raw materials and client delinquency gaining more importance. In addition, dissatisfaction with profits increased, as did difficulties in accessing credit.

In this environment, investment intentions remain low. On the other hand, entrepreneurs are once again optimistic: after three months of negative expectations, industrial entrepreneurs are once again expecting to see an increase in demand, employment, exports and purchases of raw materials over the next six months.

Actual-usual capacity utilization

Diffusion index (0-100 points)*



* Figures above 50 points indicate that capacity utilization is above usual levels for the month. Figures below 50 points indicate that capacity utilization is below usual levels for the month. The further away from 50 points, the greater and more widespread the distance from usual levels for the month.

PERFORMANCE OF INDUSTRY IN JUNE 2020

Production increases in June

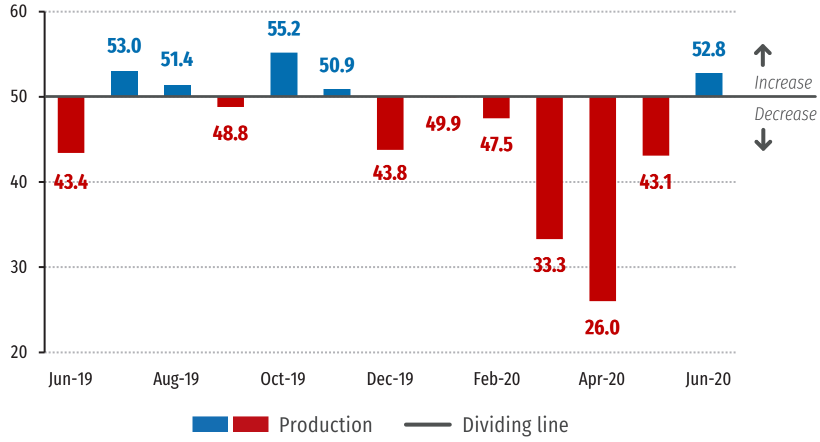
While the coronavirus pandemic remains in force, production and employment showed better results in June as compared to May. Production edged up and, albeit the results still point to a drop in number of employees, the decline is less intense and affects fewer companies than in previous months.

The production index stood at 52.8 points in June. The fact that the index stood above the 50-point line indicates a month-over-month increase in industrial activity.

The index measuring number of employees stood 3.1 points below the dividing line at 46.9 points. While it still remains below the 50-point mark, indicating a decline in employment, this drop is less significant and widespread than in previous months, when the index was more distant from the dividing line: in April, that distance reached 11.8 points, and in May, it was 8.0 points.

Evolution of production

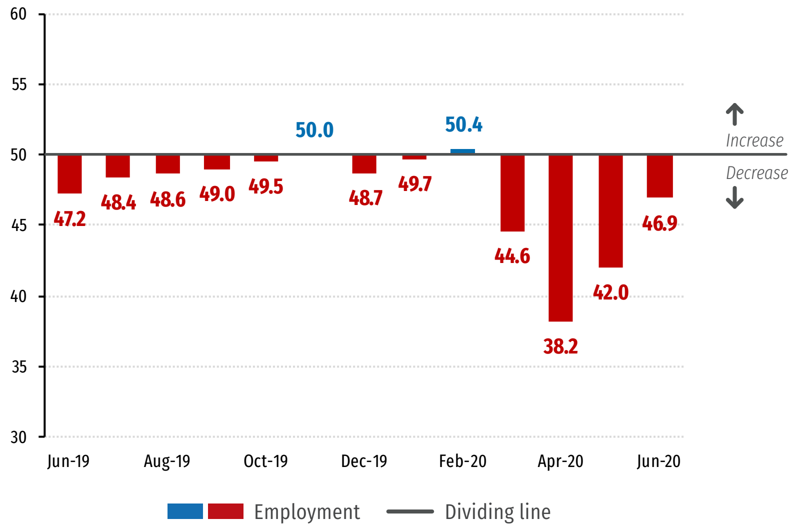
Diffusion index (0-100 points)*



*Figures above 50 points indicate a month-over-month increase in production. Figures below 50 points indicate a month-over-month decline in production. The further away from 50 points, the greater and more widespread the change.

Evolution of the number of employees

Diffusion index (0-100 points)*



*Figures above 50 points indicate a month-over-month increase in employment. Figures below 50 points indicate a month-over-month decline in production. The further away from 50 points, the greater and more widespread the change.

Spare capacity remains high, but on a downtrend

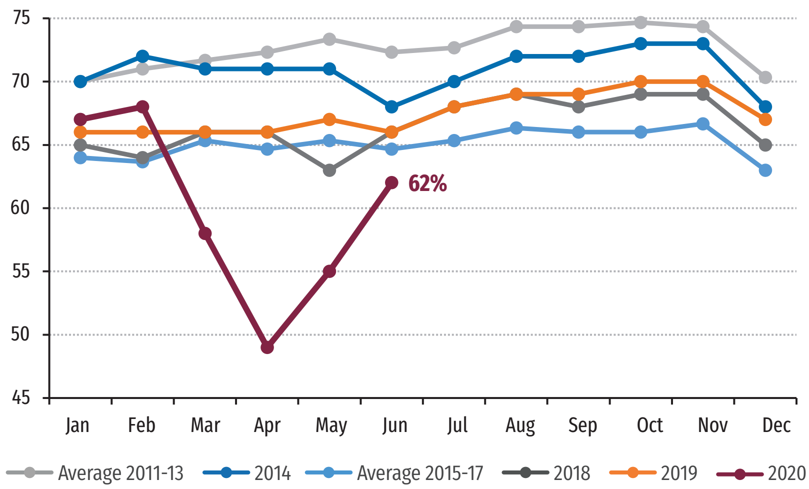
The capacity utilization indices also reflect an improvement in industrial activity and remain on track to return to pre-pandemic levels.

The actual-usual capacity utilization index, which measures the degree to which construction activity is buoyant or slack, edged up by 7.2 points in June to 36.9 points. As the index is down by 13.1 points from the 50-point mark, it still indicates that activity is below usual levels for the month. However, the distance to the dividing line has halved since April, when it was 26.1 points.

Between May and June, the capacity utilization rate increased by 7 percentage points to 62%. With this increase, the indicator is now 4 percentage points below the level registered in June 2019, showing a significant rebound after the pronounced declines registered in March and April. In April, capacity utilization was down by 17 percentage points from the figure registered in April 2019.

Average capacity utilization

Percentage (%)



Inventory levels continue to fall

Inventories continued to decline and are below the level planned by industry.

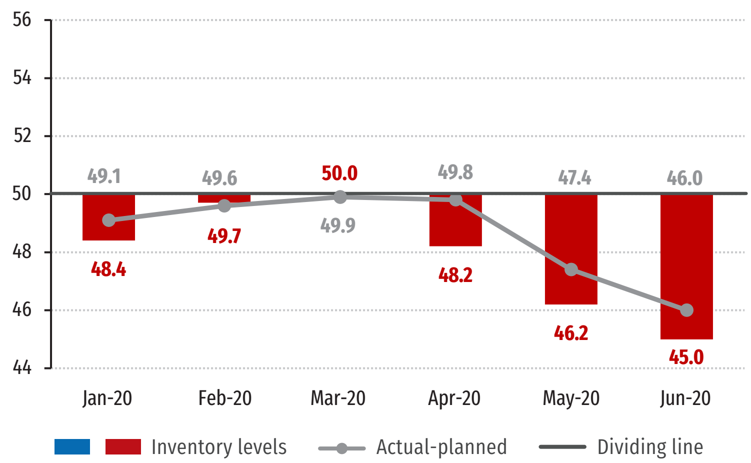
The inventory evolution index reached 45 points in June, marking the third consecutive monthly reduction in inventory levels. The index measuring actual-planned inventory levels in turn stood at 46 points, suggesting that inventories remain below the levels planned by industry.

The low inventory levels might possibly be a result of depressed demand, without perspectives of acceleration in recovery, combined with a lack of working capital. In this situation, companies tend to keep a minimum level of inventory, thus not immobilizing resources that could attend to financial commitments in the short run.

As sales of inventory products are enough to meet the lowered demand, entrepreneurs avoid the cost of raising production and risking new accumulation of inventory.

Inventory levels and actual-planned inventory levels

Diffusion index (0-100 points)*



*Figures above 50 points indicate an increase in inventory levels or that actual inventory is above planned levels. Figures below 50 points indicate a decline in inventory levels or that actual inventory is below planned levels. The further away from 50 points, the greater the change or the distance from planned levels.

FINANCIAL CONDITIONS OF INDUSTRY IN THE SECOND QUARTER OF 2020

Access to credit becomes even tougher

Still impacted by the pandemic, entrepreneurs continue to show dissatisfaction with their financial situation and their businesses' profits. Companies are having an even harder time accessing credit.

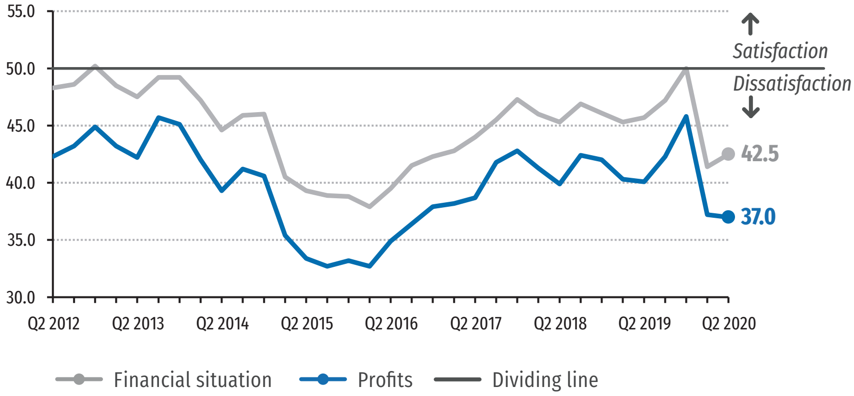
The index measuring satisfaction with financial situation grew by 1.1 points to 42.5 points in the second quarter of 2020. Despite the increase in the index, dissatisfaction remains very high. Excluding the figure for the first quarter of 2020, the index is currently at its lowest point since the fourth quarter of 2016, when it amounted to 42.3 points.

Corporate earnings continue to be negatively affected by the pandemic. The index measuring satisfaction with profits dropped by 0.2 points to 37 points in the second quarter of 2020. With the new drop, the index hit its worst level since the third quarter of 2016, accumulating a decrease of 8.8 points as compared to the fourth quarter of 2019.

The index measuring ease of access to credit also experienced a decline in the quarter: down by 0.7 points to 33.1 points. Compared to the last quarter of 2019, the index is down by 10.1 points.

Satisfaction with profits and financial situation

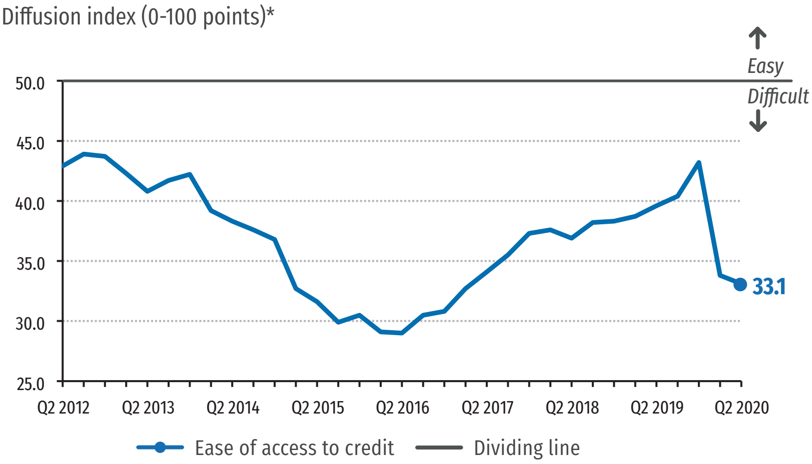
Diffusion index (0-100 points)*



* Figures above 50 points indicate satisfaction with profits and with financial conditions. Figures below 50 points indicate dissatisfaction with profits and with financial conditions. The further away from 50 points, the greater and more widespread the satisfaction or dissatisfaction.

Ease of access to credit

Diffusion index (0-100 points)*



* Figures above 50 points indicate easy access to credit. Figures below 50 points indicate difficult access to credit. The further away from 50 points, the greater and more widespread the difficulty or ease of accessing credit.

PROBLEMS FACED BY INDUSTRY IN THE SECOND QUARTER OF 2020

Lack of demand remains the number one problem faced by industry

The main problems faced in the second quarter of 2020 continue to demonstrate the difficulties faced by the industry as a result of the impact of the COVID-19 pandemic on economic activity.

Lack of domestic demand, restricted by social distance measures, continues to rank first among the main problems. The number of companies indicating this issue grew by 2.5 percentage points on a quarter-over-quarter basis to 38.3%.

A high tax burden was mentioned by 32% of companies in the second quarter – down by 2 percentage points as compared to the previous quarter.

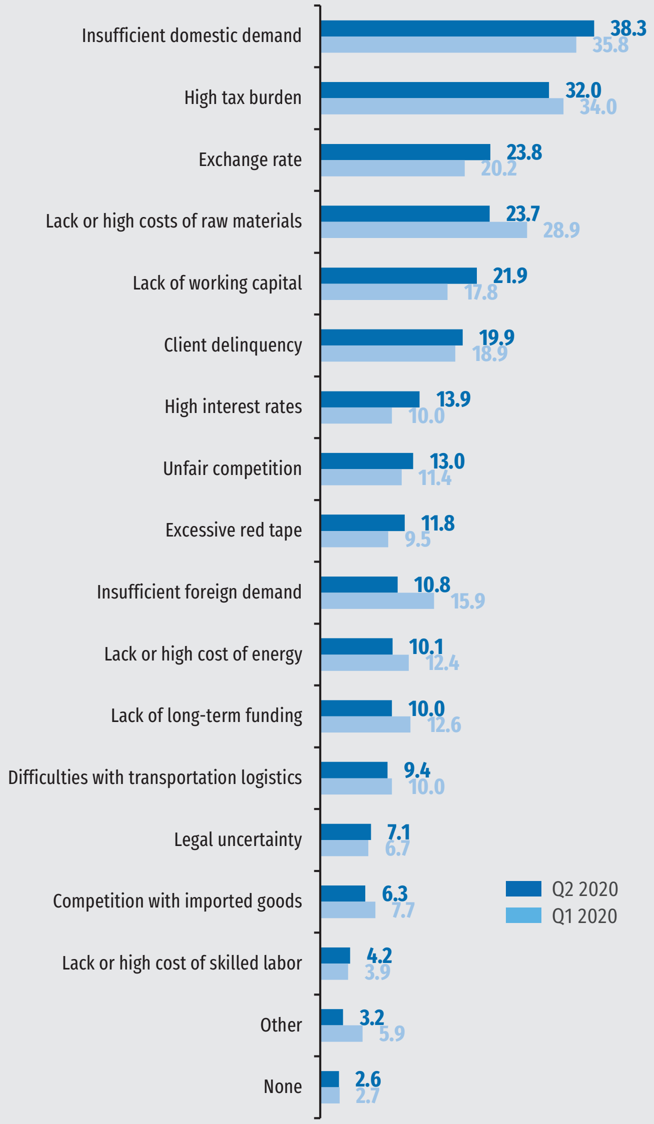
Ranking third, the issue of lack or high cost of raw materials increased by 3.6 percentage points to 23.8% of responses. The percentage reflects the logistical and production difficulties faced during the epidemic, as well as the disruption in the supply of raw materials by foreign trade due to the shutdown of production activities in other countries.

Coming next with virtually the same percentage of responses is the issue of exchange rate, which was mentioned by 23.7% of companies, representing a decline of 5.2 percentage points from the figure registered in the first quarter. The fact that this issue is appearing high in the ranking is explained by exchange rate volatility and by the intense devaluation of the Brazilian currency (real) against the US dollar due to uncertainties around the global economy triggered by the pandemic.

Special mention should also be made of the increase in the number of companies indicating client delinquency as a major issue, which grew by 4.1 percentage points in the quarter and is now ranking fifth. This marked the second consecutive increase in responses for this problem, which had already grown by 4.2 percentage points in the first quarter.

Main problems faced by industry in the quarter

Percentage (%)*



*In the survey, entrepreneurs are asked to indicate up to three items representing the main problems faced by their companies, so the sum of the percentages exceeds 100%.

As in the previous quarter, the strong impact of the pandemic on Brazilian industry is reflected in the "Others" item, where respondents spontaneously point out problems not listed in the survey. Among the entrepreneurs participating in this issue of the Industrial Survey, 92.1% of those who indicated this option mentioned the COVID-19 crisis and its repercussions (coronavirus, epidemic, quarantine, and shutdown of activities, among others) as one of the three main problems faced in the quarter.

INDUSTRY'S EXPECTATIONS IN JULY 2020

Entrepreneurs once again optimistic in July

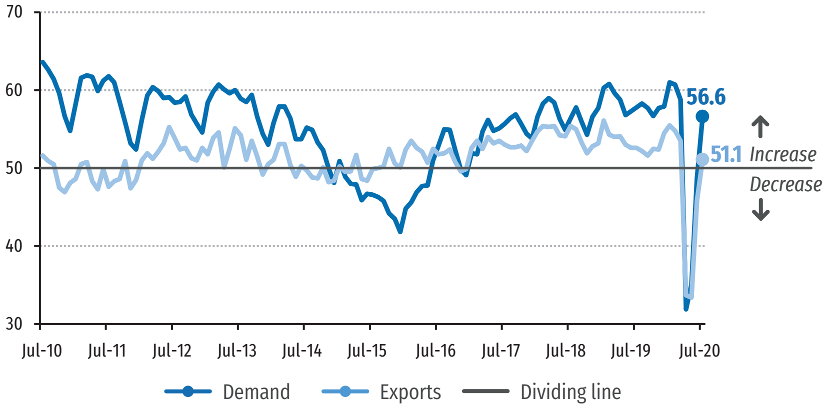
The expectations indices for July show that industrial entrepreneurs are once again optimistic after showing pessimism for the previous three months. All indices are now above the 50-point dividing line, after standing below that mark for three consecutive months.

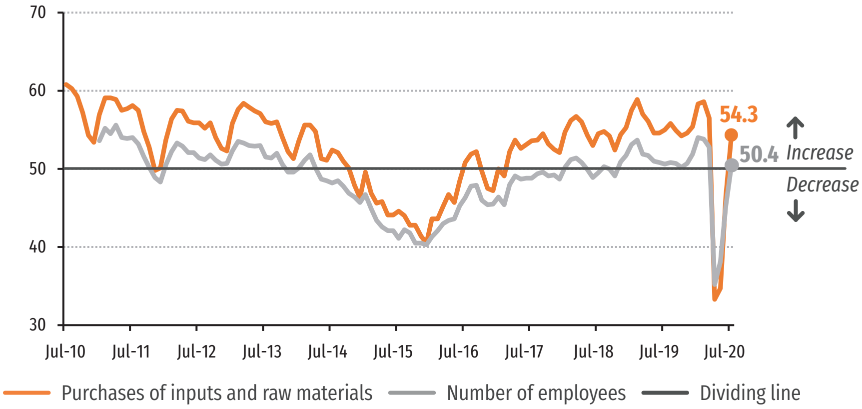
The index measuring expected demand grew by 7.9 points in June month-on-month to 56.6 points. The index of expected export volumes in turn grew by 5.3 points from May to 51.1 points.

The index of expected number of employees edged up by 5.1 points in the month to 50.4 points, while the index measuring expected purchases of raw materials rose by 7.8 point to 54.3 points.

Expectation indices

Diffusion index (0-100 points)*





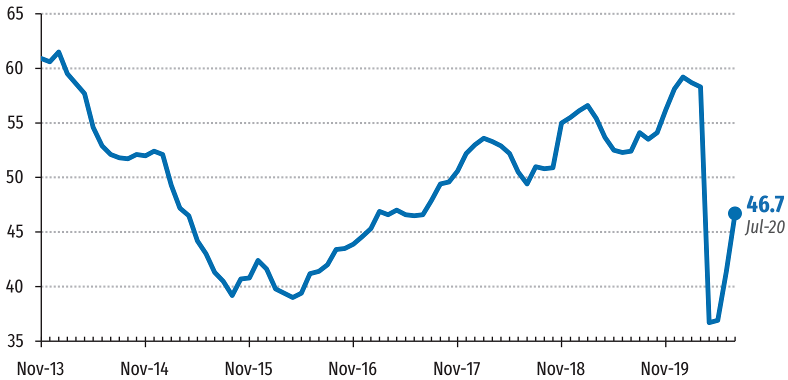
* Figures above 50 points indicate an expected growth. Figures below 50 points indicate an expected decline. The further away from 50 points, the greater and more widespread the expected change.

Investment intentions remain low

Despite the growth observed in July, the investment intentions index remains at a low level. The index, which grew by 5.3 points between June and July to 46.7 points, sits 12.5 points below the reading for January and 2.7 points below its historical average.

Investment intentions

Diffusion index (0-100 points)*



*The higher the index, the more industry is likely to invest.

RESULTS BY SECTOR

Performance in June

An analysis of the industrial performance indicators in June (evolution of production and number of employees, capacity utilization, and actual-usual capacity utilization) shows an increase in most sectors and a reduction in spare capacity in the industrial park.

Among the sectors for which the sharpest increases in production were recorded, special mention should be made of Rubber products, Electrical equipment, Plastic products, Textile products, and Pharmaceutical chemicals and pharmaceuticals, all of which recorded production indices in excess of 55 points.

On the other hand, the sectors that still show the greatest decline in production are Wearing apparel, Printing and reproduction of recorded media, Leather and leather goods, and Footwear and parts, all with an index hovering around 35-45 points.

Financial conditions in the second quarter

In terms of financial conditions, all sectors are dissatisfied with their finances in the second quarter. The sectors with the least negative indices are Biofuels, Soap and detergents, cleaning preparations and others, and Chemicals, with indicators close to, but still below the 50-point mark.

The sectors that show the greatest dissatisfaction with financial conditions are Printing and reproduction of recorded media (index of 27.4 points), Wearing apparel (29.6 points), and Leathers and leather goods (31.9 points).

Expectations in July

Entrepreneurs in the Pharmaceutical chemicals and pharmaceuticals, Furniture, Chemicals, and Plastic products sectors were the most optimistic about an increase in demand in the coming months. On the other hand, the Repair and installation of machinery and equipment, Leather and leather goods, Wearing and apparel, and Footwear and parts sectors were the only ones to show a negative outlook on demand trends in the coming months.

Results by industrial sectors (selected indexes)*

Sectors	Production evolution index	Employees	Actual-usual capacity utilization index	Demand expectations index
MINING AND QUARRYING	**53.7**	**49.5**	**40.1**	**57.5**
MANUFACTURING	**52.6**	**46.7**	**36.7**	**56.5**
Food products	48.4	46.5	41.3	56.4
Beverages	50.5	44.8	43.8	59.0
Textiles products	55.7	45.7	36.1	58.6
Wearing apparel	35.4	38.4	23.3	47.6
Leather and related products	41.7	41.7	24.3	47.2
Footwear and parts	44.4	38.9	19.4	49.3
Wood products	45.4	48.1	34.3	51.9
Pulp and Paper	52.0	46.8	38.5	53.2
Printing and reproduction of recorded media	35.5	39.5	16.9	51.6
Biofuel	55.3	51.3	48.7	53.9
Chemicals (except Soap and detergents, cleaning preparations and others)	54.9	49.0	41.1	61.5
Soap and detergents, cleaning preparations and others	54.5	50.0	47.3	55.4
Pharmaceutical chemicals and pharmaceuticals	55.7	50.0	55.7	65.5
Rubber products	61.8	46.5	41.7	59.7
Plastics products	57.9	46.2	40.2	59.8
Non-metallic mineral products	53.6	49.7	39.6	59.7
Basic metals	52.0	46.0	36.3	53.6
Metal products (except machinery and equipment)	49.6	49.2	33.7	56.6
Computers, electronics and optical products	46.9	46.1	30.5	57.0
Electrical equipment	59.1	48.5	40.2	55.3
Machinery and equipment	52.0	46.9	35.8	55.4
Motor vehicles, trailers and semi-trailers	50.4	42.8	25.4	54.2
Other transport equipment	53.8	47.5	31.3	51.3
Furniture	55.7	46.7	40.0	64.0
Other manufacturing	45.6	44.4	33.1	53.8
Repair and installation	45.8	45.8	37.5	44.8

* The indicators vary in the 0-100 interval. Figures above 50 points indicate an increase in production, that capacity utilization is above usual levels for the month, satisfaction with financial situation or an expected growth. Figures below 50 points indicate a decline in production, that capacity utilization is below usual levels for the month, disstisfation with financial situation or an expected decline.

RESULTS

Main problems

	TOTAL			SMALL			MEDIUM			LARGE		
	Q1 2020	Q2 2020		Q1 2020	Q2 2020		Q1 2020	Q2 2020		Q1 2020	Q2 2020	
ITEMS	%	%	Ranking	%	%	Ranking	%	%	Ranking	%	%	Ranking
Insufficient domestic demand	35.8	**38.3**	**1**	35.2	**32.9**	**2**	34.6	**38.8**	**1**	36.8	**40.8**	**1**
High tax burden	34.0	**32.0**	**2**	34.0	**33.4**	**1**	37.6	**34.5**	**2**	32.1	**30.1**	**3**
Lack or high costs of raw materials	20.2	**23.8**	**3**	20.1	**27.7**	**3**	22.4	**23.6**	**3**	19.1	**22.0**	**5**
Exchange rate	28.9	**23.7**	**4**	12.5	**12.3**	**9**	24.2	**20.8**	**5**	39.6	**30.8**	**2**
Client delinquency	17.8	**21.9**	**5**	22.3	**24.0**	**5**	20.3	**18.5**	**6**	14.2	**22.6**	**4**
Lack of working capital	18.9	**19.9**	**6**	22.7	**24.8**	**4**	21.2	**23.6**	**3**	15.8	**15.6**	**7**
Insufficient domestic demand	10.0	**13.9**	**7**	8.1	**8.2**	**12**	9.7	**8.8**	**13**	11.1	**19.4**	**6**
Excessive red tape	11.4	**13.0**	**8**	10.9	**12.3**	**9**	13.6	**14.7**	**7**	10.4	**12.4**	**8**
Lack of long-term funding	9.5	**11.8**	**9**	9.6	**13.3**	**7**	11.1	**13.8**	**8**	8.7	**10.0**	**9**
Unfair competition	12.4	**10.1**	**10**	21.0	**15.4**	**6**	13.8	**12.2**	**9**	7.3	**6.4**	**13**
High interest rates	12.6	**10.0**	**11**	15.0	**11.4**	**11**	14.3	**11.4**	**10**	10.6	**8.5**	**10**
Lack or high cost of energy	10.0	**9.4**	**12**	14.3	**13.0**	**8**	9.9	**10.9**	**11**	8.0	**6.8**	**11**
Legal uncertainty	6.7	**7.1**	**13**	5.7	**5.0**	**15**	6.2	**9.6**	**12**	7.5	**6.8**	**11**
Difficulties with transportation logistics	7.7	**6.3**	**14**	5.5	**5.7**	**13**	7.1	**7.9**	**14**	9.2	**5.8**	**14**
Lack or high cost of skilled labor	3.9	**4.2**	**15**	5.1	**5.2**	**14**	4.9	**5.2**	**15**	2.8	**3.2**	**16**
Competition with imported goods	5.9	**3.2**	**16**	5.8	**3.1**	**16**	4.4	**2.4**	**16**	6.8	**3.6**	**15**
Other	15.9	**10.8**	-	16.7	**11.0**	-	11.3	**7.8**	-	17.9	**12.2**	-
None	2.7	**2.6**	-	2.4	**3.6**	-	3.4	**2.6**	-	2.4	**2.1**	-

Note: In the survey, entrepreneurs are asked to indicate up to three items representing the main problems faced by their companies, so the sum of percentages exceeds 100%.

Performance of industry

	PRODUCTION EVOLUTION			NUMBER OF EMPLOYEES EVOLUTION			CAPACITY UTILIZATION (%)			ACTUAL-USUAL CAPACITY UTILIZATION			INVENTORIES LEVELS EVOLUTION			ACTUAL-PLANNED INVENTORIES		
	Jun-19	May-20	**Jun-20**	Jun-19	May-20	**Jun-20**	Jun-19	May-20	**Jun-20**	Jun-19	May-20	**Jun-20**	Jun-19	May-20	**Jun-20**	Jun-19	May-20	**Jun-20**
Total	**43.4**	**43.1**	**52.8**	**47.2**	**42.0**	**46.9**	**66**	**55**	**62**	**39.0**	**29.7**	**36.9**	**51.1**	**46.2**	**45.0**	**52.2**	**47.4**	**46.0**
BY INDUSTRIAL ACTIVITY																		
Mining and quarrying	48.9	48.4	**53.7**	53.6	47.4	**49.5**	72	67	**70**	45.6	42.0	**40.1**	50.9	48.2	**51.4**	53.7	48.4	**52.2**
Manufacturing	43.2	42.8	**52.6**	47.0	41.7	**46.7**	66	54	**61**	38.7	29.1	**36.7**	51.0	46.0	**44.8**	52.2	47.3	**45.7**
BY COMPANY SIZE																		
Small[1]	42.4	35.6	**46.3**	46.1	40.4	**45.3**	58	48	**54**	37.3	28.0	**35.2**	48.0	41.8	**42.4**	47.2	40.5	**40.1**
Medium[2]	43.9	42.4	**50.4**	46.7	41.2	**46.1**	65	54	**61**	39.4	29.6	**37.2**	51.5	45.7	**44.2**	50.5	45.4	**43.5**
Large[3]	43.6	47.2	**57.2**	48.1	43.2	**48.1**	71	58	**66**	39.6	30.5	**37.6**	52.4	48.6	**46.7**	55.6	51.8	**50.2**

The indicators vary in the 0-100 interval. Figures above 50 points indicate an increase in inventory levels, that actual inventory is above planned levels or that capacity utilization is above usual levels for the month. Figures below 50 points indicate a decline in inventory levels, that actual inventory is below planned levels or capacity utilization is below usual levels for the month.
1 - Company with 10 to 49 employees. 2 - Company with 50-249 employees. 3 - Company with 250-plus employees.

Financial conditions in the quarter

	PROFITS			AVERAGE PRICE OF RAW MATERIALS			FINANCIAL SITUATION			ACCESS TO CREDIT		
	Q2 2019	Q1 2020	Q2 2020	Q2 2019	Q1 2020	Q2 2020	Q2 2019	Q1 2020	Q2 2020	Q2 2019	Q1 2020	Q2 2020
Total	**40.1**	**37.2**	**37.0**	**58.3**	**63.1**	**64.3**	**45.7**	**41.4**	**42.5**	**39.6**	**33.8**	**33.1**
BY INDUSTRIAL ACTIVITY												
Mining and quarrying	46.2	44.3	**47.6**	59.7	57.0	**56.6**	47.0	44.3	**47.5**	48.6	41.6	**41.6**
Manufacturing	39.8	36.9	**36.5**	58.3	63.4	**64.7**	45.6	41.3	**42.2**	39.4	33.6	**32.8**
BY COMPANY SIZE												
Small[1]	35.8	31.8	**33.5**	59.6	62.9	**66.7**	39.5	34.7	**37.2**	35.3	29.0	**28.5**
Medium[2]	37.5	35.2	**35.5**	58.5	64.5	**65.3**	42.6	38.4	**40.3**	38.7	32.2	**30.6**
Large[3]	43.5	41.0	**39.5**	57.6	62.4	**62.5**	50.4	46.4	**46.2**	42.2	37.1	**36.6**

The indicators range in the 0-100 interval. Figures above 50 points indicate satisfaction with profits and with financial conditions, easy access to credit or an increase in the average price of raw materials. Figures below 50 points indicate dissatisfaction with profits and with financial conditions, difficult access to credit or a decrease in the average price of raw materials.
1 - Company with 10 to 49 employees. 2 - Company with 50-249 employees. 3 - Company with 250-plus employees.

Industrial expectations

	DEMAND			EXPORTS VOLUMES			PURCHASES OF RAW MATERIALS			NUMBER OF EMPLOYEES			INVESTMENT INTENTIONS*		
	Jul-19	Jun-20	Jul-20	Jul-19	Jun-20	Jul-20	Jul-19	Jun-20	Jul-20	Jul-19	Jun-20	Jul-20	Jul-19	Jun-20	Jul-20
Total	**57.8**	**48.7**	**56.6**	**52.6**	**45.8**	**51.1**	**55.0**	**46.5**	**54.3**	**50.6**	**45.3**	**50.4**	**52.4**	**41.4**	**46.7**
BY INDUSTRIAL ACTIVITY															
Mining and quarrying	54.3	47.4	**57.5**	51.6	48.1	**55.1**	52.5	44.3	**50.1**	51.8	47.7	**49.8**	51.5	52.2	**49.4**
Manufacturing	58.0	48.6	**56.5**	52.7	45.7	**50.9**	55.2	46.6	**54.4**	50.7	45.2	**50.4**	52.4	40.9	**46.5**
BY COMPANY SIZE															
Small[1]	56.9	46.1	**54.6**	49.5	42.3	**47.0**	54.9	43.2	**51.7**	51.1	43.2	**49.3**	40.4	31.5	**35.9**
Medium[2]	58.8	48.3	**56.3**	54.9	44.4	**51.7**	56.5	46.0	**54.3**	51.2	44.9	**49.4**	48.9	39.3	**44.3**
Large[3]	57.8	50.2	**57.8**	52.9	48.2	**52.8**	54.3	48.5	**55.6**	50.1	46.6	**51.4**	60.2	47.4	**53.3**

The indicators vary in the 0-100 interval. Figures above 50 points indicate an expected growth. Figures below 50 points indicate an expected decline.
* The indicator varies in the 0-100 interval. The higher the index, the more industry is likely to invest.
1 - Company with 10 to 49 employees. 2 - Company with 50-249 employees. 3 - Company with 250-plus employees.

Technical specifications

Sample profile
1,880 enterprises, including 754 small, 658 medium and 468 large companies.

Data collection period
July 1-13, 2020.

Document closed by July 21, 2020.

Learn more

For more information on the survey, including sectoral and regional results, previous editions, methodology and historical series, kindly visit: *www.cni.com.br/e_sondindustrial*

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