CNI Indicators
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ECONOMIC FACT 2

CNI
National Confederation of Industry
Brazil
CNI. THE STRENGTH OF THE BRAZILIAN INDUSTRY

Economy moves out of recession, but industry is yet to recover from it

Short-term growth will continue as existing production capacity is utilized, but stepping up the pace will depend on investment picking up

THE MATTER

The 0.2% increase in GDP in the second quarter of 2017 shows that the worst of the crisis is behind us. This marked the second consecutive quarter of GDP growth. General industry fell by 0.5% between the first and second quarter of this year. The negative result was influenced mainly by the construction industry. While investments – as measured by the gross fixed capital formation – keep falling, they will likely not limit growth in the short term.

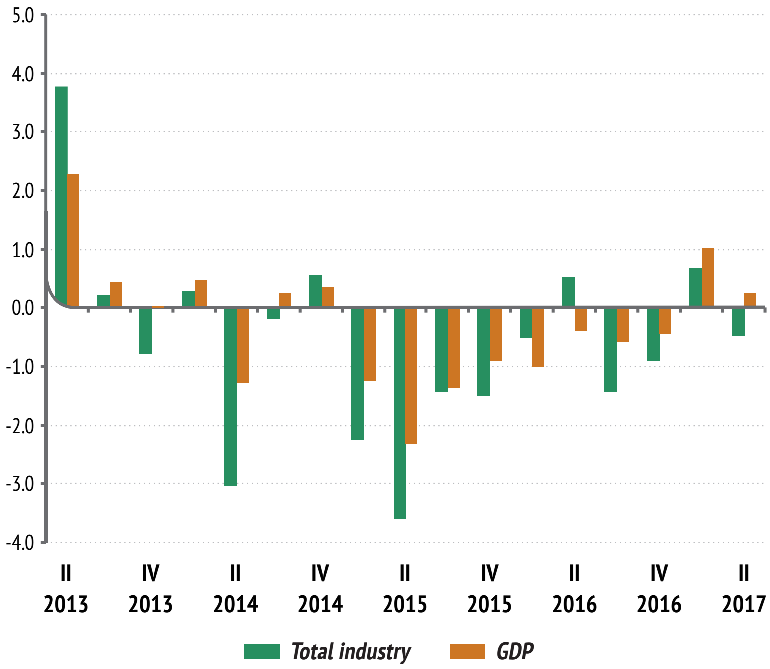
THE FACTS

1. INDUSTRY IS YET TO CONSOLIDATE A RECOVERY TREND

While the manufacturing and mining and quarrying industries grew respectively by 0.1% and 0.4%, the construction and public utility industries recorded a decline, with the former falling by 2.0% and the latter dropping by 1.3%. In the case of manufacturing, it is worth noting that the second-quarter increase came after a 1.1% growth in the first quarter. On the other hand, the construction industry had dropped by 0.5% and is now down for the sixth quarter in a row.

Graph 1 – Quarterly GDP

Seasonally adjusted quarter-over-quarter change



Source: IBGE / Quarterly National Accounts

2. MANUFACURING INDUSTRY IS IN TRANSITION

The manufacturing industry is going through a transition period of high volatility, a behavior that is usually expected when emerging from a crisis. The July issue of CNI's Industrial Indicators survey shows that while this volatility persists, the number of positive changes is – slightly – exceeding that of negative variations. The three-month period to July saw an increase in sales (+2.4%) and capacity utilization (+0.5 percentage points, from 76.8% to 77.3%) and a stability in hours worked as compared to the previous three months.

3. GROWTH DRIVEN BY CONSUMPTION

Household consumption increased by 1.4% as compared to the previous period, reaching its highest point since the first quarter of 2014. The renewed consumer confidence is explained basically by a sharp decline in the inflation rate and in interest rates, which are essential factors to increase household purchasing power. Furthermore, consumption was also favored by withdrawals from inactive FTGS (Employee Severance Indemnity Fund) accounts, by an increase in real total payroll and by an uptick in net job creation.

4. FALLING INVESTMENT

The Gross Fixed Capital Formation (GFCF) has been falling almost uninterruptedly for 15 quarters (except for the second quarter of 2016, when it grew by 0.4%). Investments, as measured by the GFCF, accounted for only 15.5% of GDP in the second quarter, while this figure stood at around 20% before the crisis. It is worth stressing that the construction industry, which accounts for more than half of the GFCF, represents a significant share of investments.

THE IMPLICATIONS

Albeit gradually, the economy will likely keep growing in the second half of the year, initiating a recovery process. In the first quarter, GDP was boosted by an exceptional result of the agricultural sector. In the second quarter, growth was more widespread across the GDP components, with emphasis on the increase in household consumption and its impacts on trade. This performance is explained both by one-off factors (FGTS, for example) and cyclical factors (falling inflation, interest rates and unemployment). Except for FGTS withdrawals, the other factors will continue to have a positive impact on consumption and, consequently, on activity levels in coming months.

For industry, the slow recovery of consumption will allow for a more widespread increase in production. Activity levels are expected to keep oscillating slightly in coming months, but the negative changes in activity will become gradually milder, leaving room for more pronounced positive variations.

Low investment levels are unlikely to limit the recovery of activity in the short term. Production installed capacity is more than enough to meet expected demand by the end of the year. In the future, however, investments will need to be made to increase productive capacity. For this reason, it is essential to create appropriate conditions to bring investment back on track – reducing costs and uncertainties – for the Brazilian industry to increase its competitiveness and fulfill its market potential.

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