

SMALL INDUSTRY OVERVIEW

ECONOMIC INDICATORS **CNI**



Small-scale Entrepreneurs Are Expressing Strong Confidence and Harboring More Favorable Expectations

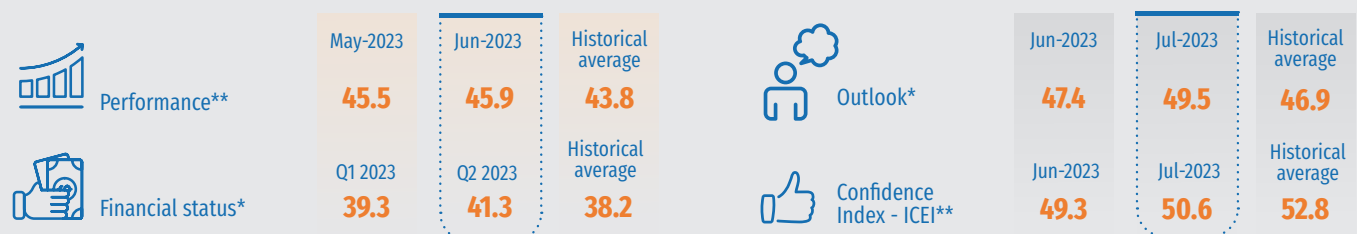
During the second quarter of 2023, the Performance Index for small-scale industries increased, yielding a notably positive outcome. Furthermore, the Financial Situation Index experienced a rise, surpassing expectations for the second quarter and indicating improved financial conditions.

In light of these developments, the Industrial Business Confidence Index (ICEI) for small enterprises exhibited an ascent in July, marking the first instance of confidence this year. Similarly, the Outlook Index exhibited a more optimistic outcome.

It is worth noting that small-scale entrepreneurs identified high tax load and high-interest rates as the foremost challenges faced by the manufacturing and construction sectors in the second quarter of 2023.

Small Industry Performance indices, Financial Status, Outlook, and Confidence

Diffusion indices (0-100 points)



* The higher the index, the better the performance of the small-scale industry in the quarter, the better the financial situation of the small-scale industry in the quarter, or the more positive the outlook of the small-scale industry entrepreneur for the month.

** A score above 50 points indicates entrepreneur confidence. The further the point score is from 50 points, the greater and more widespread the confidence. A score below 50 points indicates entrepreneurs' lack of confidence. The further the point score is from 50 points, the greater and more widespread the lack of confidence.

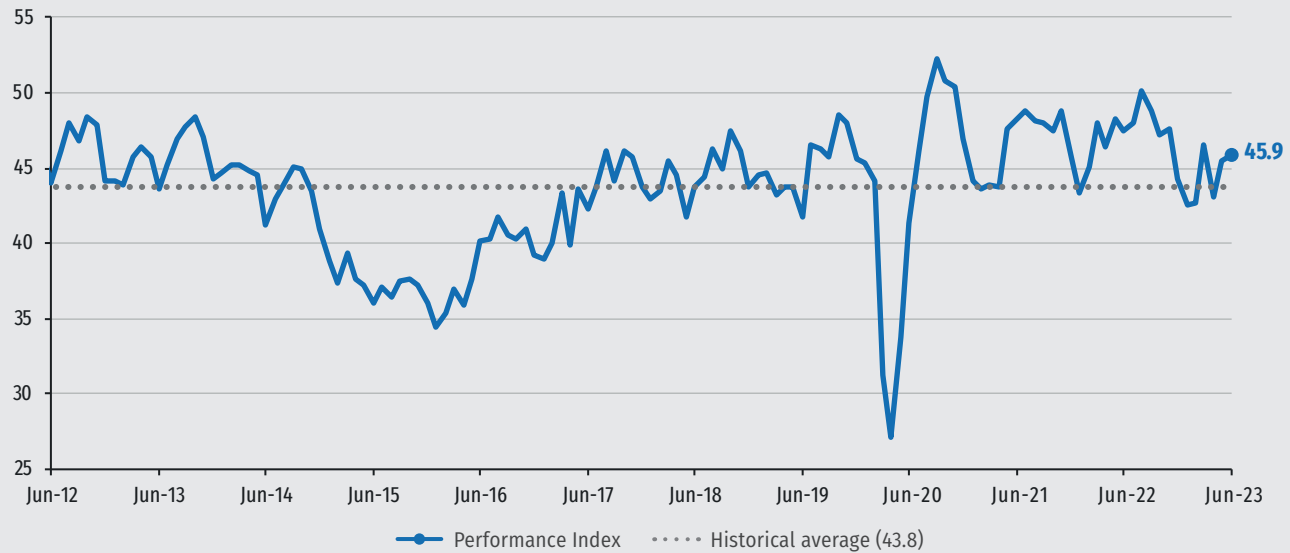
PERFORMANCE OF SMALL-SCALE INDUSTRIES IN Q2 2023

Performance of Small-scale Industries Improves in the Quarter

The Performance Index for small-scale industries recorded a value of 44.8 points during the second quarter of 2023. This outcome can be deemed positive when compared against the second quarter's average performance (42.5 points), and even more so when measured against the historical average (43.8 points).

Following a decline of 3.5 points in April, as is customary for the period, the index displayed improvement throughout the remaining quarter, with gains from April to May (+2.4 points) and from May to June (+0.4 points). Consequently, the index concluded the quarter with a reading of 45.9 points.

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



*The higher the index, the better the performance of the small-scale industry in the month.
 Note: The Small Industry Performance Index is a weighted average of the Mining and Quarrying, Manufacturing, and Construction small-scale industry performance indices.

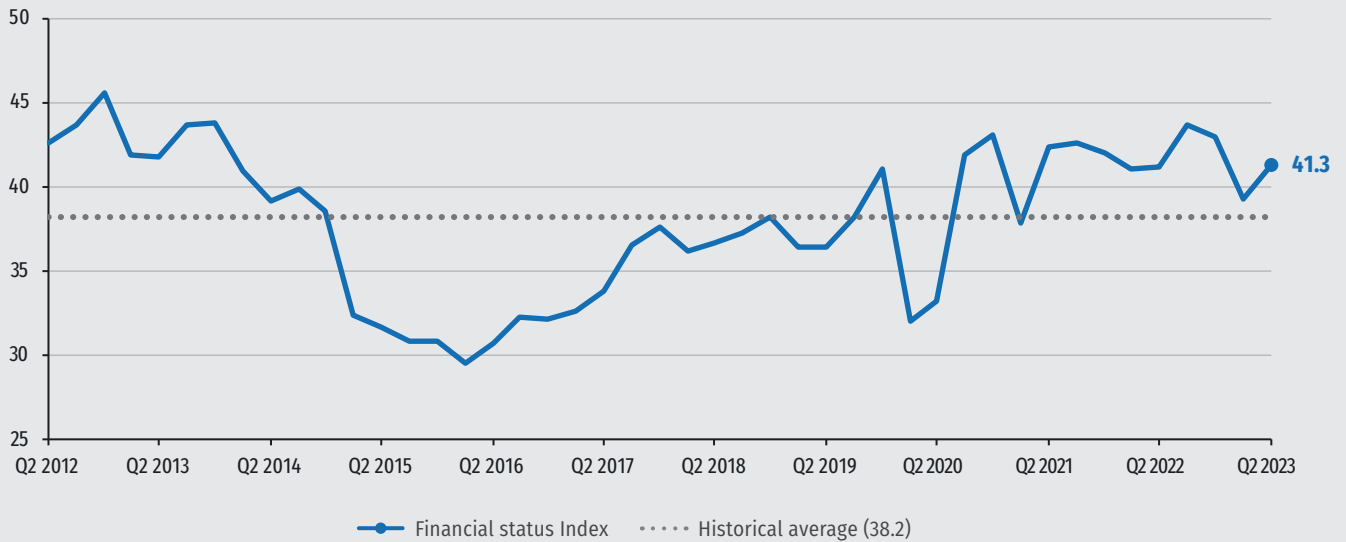
SMALL-SCALE INDUSTRY FINANCIAL STATUS IN Q2 2023

Small-scale Industry's Financial Status Shows Slight Decline

The Financial Situation Index for small industries, which factors in operating profit margin, financial standing, and credit accessibility, saw a 2.0-point increase in the second quarter of 2023, reaching 41.3 points.

This ascent only partially offsets the decline experienced in the first quarter of 2023 when the index dropped by 3.7 points from 43.0 points in the final quarter of 2022 to 39.3 points. Nonetheless, the index remains above the average for the second quarter of each year (37.6 points) and also surpasses the historical average of 38.2 points.

Small Industry Financial Status Index
 Index (0 to 100 points)*



*The higher the index, the better the financial status of small industries in the quarter.
 Note: The Financial Status Index is a weighted average of the Mining and Quarrying, Manufacturing, and Construction small-scale industry performance indices.

SMALL-SCALE INDUSTRIES MAIN PROBLEMS IN Q2 2023

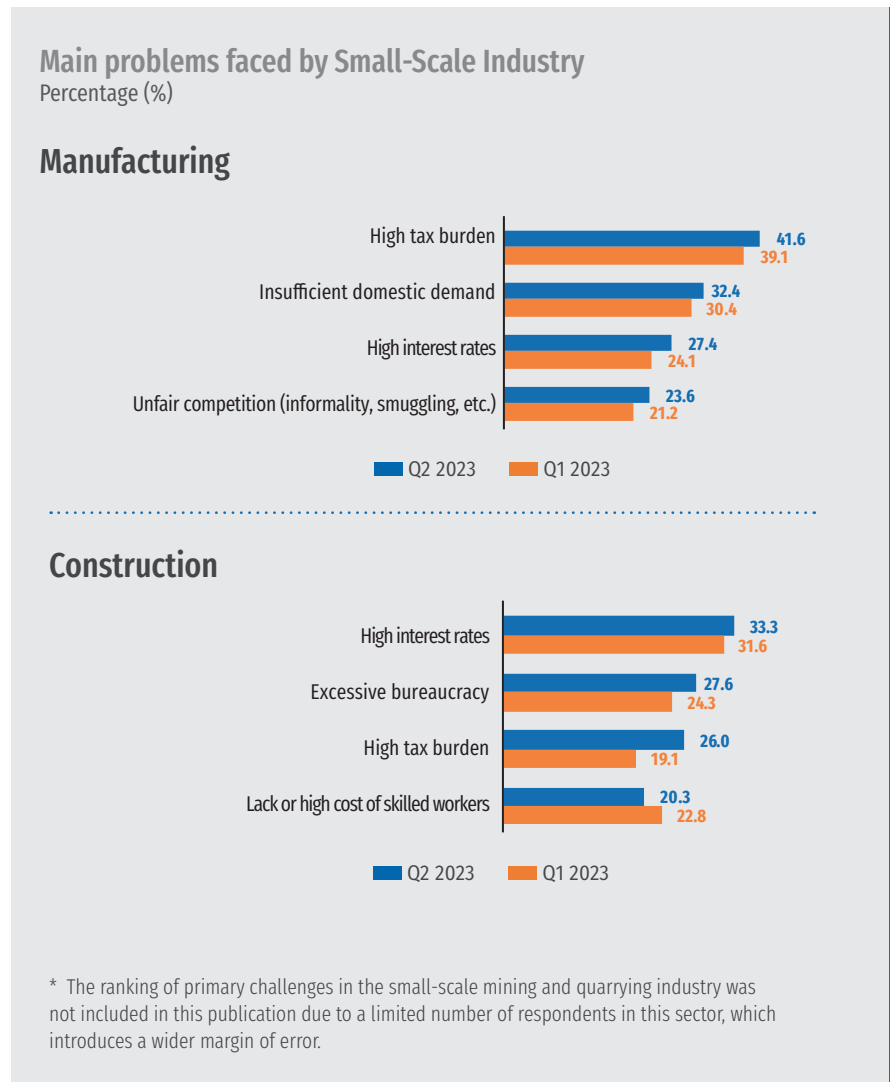
The Primary Challenges for Small-scale Industries: High Tax Load and High-Interest Rates

During the second quarter of 2023, small-scale entrepreneurs emphasized that the foremost challenge for the manufacturing sector is the weight of the high tax load, accounting for 41.6% of feedback. At the construction industry, this concern claimed the third spot, constituting 26.0% of responses, after a notable increase of 6.9 percentage points (p.p.) within the quarter. It's worth noting that this issue typically maintains its top position, underscoring the substantial impact of high taxes on small enterprises.

For the construction industry, high-interest rates take the lead, capturing 33.3% of comments, while they secure the third spot for the manufacturing sector at 27.4%. Maintaining the benchmark interest rate, Selic, at elevated levels has adversely affected credit accessibility for small businesses, amplifying costs and restrictions. Consequently, this has deepened the negative perception among small industrialists regarding the issue.

The manufacturing industry identifies insufficient domestic demand as the second prominent concern, accounting for 32.4% of comments. The second quarter witnessed a rise of 2.0 percentage points. This particular concern has been growing in significance over recent quarters, influenced by elevated default rates and a deceleration in household consumption.

In the meantime, excessive bureaucracy emerged as the second-most cited



challenge among small construction entrepreneurs, making up 27.6% of comments—an increment of 3.3 p.p. during the quarter. The root of this issue lies in the perception of redundant and unnecessary procedures, which can escalate costs and impede the competitiveness of small enterprises.

Similarly, unfair competition occupies the fourth position within the manufacturing industry, while the lack of skilled workers claims the same rank within the construction sector.

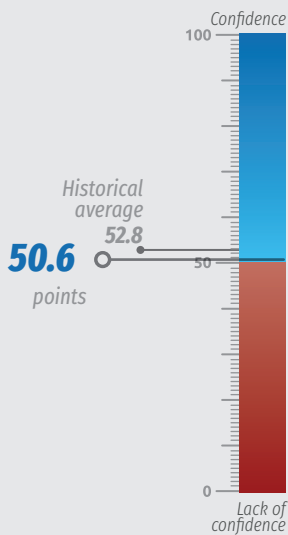
SMALL-SCALE INDUSTRY CONFIDENCE AND OUTLOOK IN JULY 2023

For the First Time This Year, Small-scale Entrepreneurs Have Expressed Confidence

The Industrial Business Confidence Index (ICEI) for small-scale industries rose by 1.3 points from June to July 2023, reaching 50.6 points. With this consecutive rise, marking the second in a row, the index has crossed the

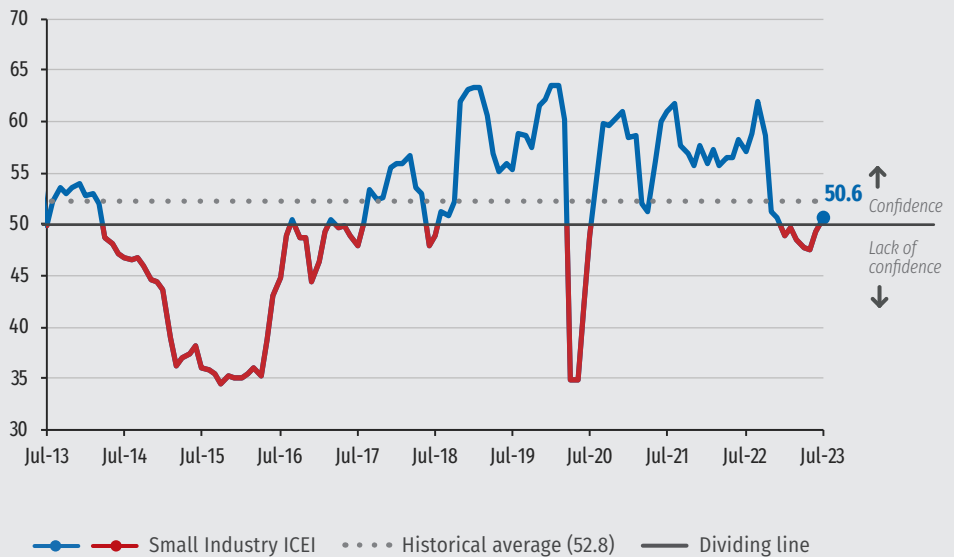
pivotal 50-point threshold that distinguishes confidence from uncertainty. Notably, this marks the first instance in 2023 where the Business Confidence Index has surpassed the 50-point mark. Although the Business Confidence Index has approached the December 2022 value of 50.7 points with this increase, it remains below its historical average of 52.8 points.

Small Industry ICEI
Index (0 to 100 points)*



Historic Series

Index (0 to 100 points)*



*A score above 50 points indicates entrepreneur confidence. The further the point score is from 50 points, the greater and more widespread the confidence. A score below 50 points indicates entrepreneurs' lack of confidence. The further the point score is from 50 points, the greater and more widespread the lack of confidence.

Prospects Are Favorable for Small-scale Industry

The Outlook Index for the small-scale industry, a gauge of expectations over the next six months, experienced a substantial surge in July 2023, climbing by 2.1 points to reach 49.5 points. This marks the index's second consecutive increase.

July's result represents the year's highest thus far and surpasses the historical average of 46.9 points.

This upswing in the outlook indicator primarily stems from improved anticipations concerning demand and forthcoming activity levels.

Small Industry Outlook Index

Index (0 to 100 points)*



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



Technical specifications

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

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Learn More

The research methodology and the historical series of the indices of Performance, Financial Conditions, Perspectives, the main problems, and the ICEI of small-scale industry are available at www.cni.com.br/e_ppi

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