

SMALL INDUSTRY OVERVIEW

ECONOMIC INDICATORS **CNI**



High Tax Load and High-Interest Rates Were the Main Problems in Q4 2022

Small industries faced high tax loads and high-interest rates as their primary challenges in Q4 2022. The lack or high cost of raw materials, which was becoming less of a concern among entrepreneurs, is no longer a top-ranked issue across all sectors.

As is typical, the small business Performance Index declined in the final months of 2022. In the last months of the year, industrial activities slowdown, resulting in a lower performance

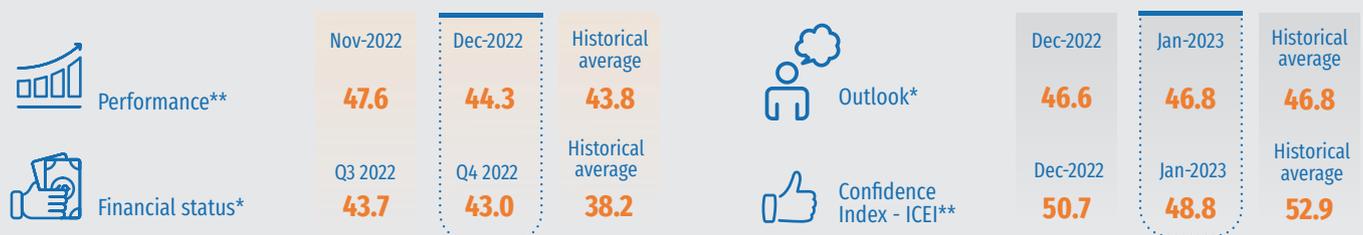
compared to other months. However, the retreat in 2022 was milder than in previous years and occurred after a particularly positive third quarter for small businesses.

The last quarter of 2022 showed a slight drop in the Financial Situation Index, highlighting industrial entrepreneurs' dissatisfaction with credit access.

The Industrial Business Confidence Index (ICEI) and the Outlook Index both displayed negative results in the last months of the year, starting 2023 in a negative field due to a lack of confidence and pessimism among business owners.

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 is 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 Q4 2022

Performance Presents the Usual Drop for the Period

The Small Industries Performance Index was 44.3 points in December, down 3.3 points compared to November. At the end of the year, it is usual for industrial activities to slow down, which generates a lower performance when compared to other months of the year.

Despite the result being below 50 points, which indicates worsening performance in the month, throughout the historical series, it is typical for this index to fall below the dividing line in the last months of each year. However, it is worth noting that the decline observed in the last three months of 2022 was milder than the historical average for the period. Moreover, this drop comes after a third quarter of positive performance for small-scale industry.

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 Quarry, Manufacturing, and Construction small-scale industry performance indices.

SMALL-SCALE INDUSTRY FINANCIAL STATUS IN Q4 2022

Small Scale Industry's Financial Status shows a Slight Decline

The Financial Status Index for small-scale industries in Q4 2022 was 43.0 points. The index slightly decreased by 0.7 points compared to Q3 2022. Compared to Q4 2020, the index shows a practically stable financial situation, with a drop of 0.1 points.

The result is still above the historical average of 38.2 points, indicating that financial conditions in Q4 2022 were less negative compared to previous periods.

Small business owners across all industries reported the highest level of dissatisfaction with their access to credit in Q4 2022. It is important to note that credit access is crucial for both restructuring and expanding small businesses.

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 Quarry, Manufacturing, and Construction small-scale industry performance indices.

SMALL-SCALE INDUSTRIES MAIN PROBLEMS IN Q4 2022

High Tax Load and High-Interest Rates Emerge as the Main Challenges

Small business owners in manufacturing and construction industries rated high tax load and high-interest rates as their top concerns in Q4 2022.

Manufacturing entrepreneurs identified high tax load as their major concern, with 37.6% indicating it, up by 2.8 p.p. from the previous quarter. Although the percentage of construction entrepreneurs indicating high tax load decreased by 4.2 p.p., it remained the second major concern, with 24.5% of the citations.

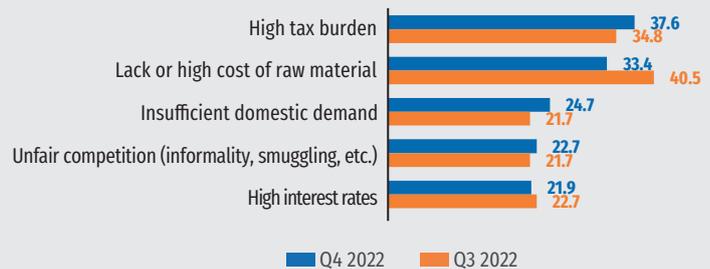
The construction industry ranked high-interest rates as the top issue, with 29.3% of the votes, while in manufacturing, it was the fifth major problem, with 21.9% of the votes. It's important to note that the increase in the basic interest rate, Selic, which has been at a high level of 13.75% since August 2022, is the main reason behind this problem.

The lack or high cost of raw materials, on a downward trend, is no longer the main problem faced by small companies. In Q4, the lack or high cost of raw materials ranked second in the manufacturing industry, down by 7.7 p.p. from the previous quarter. In the construction industry, the issue dropped to fourth place decreasing by 2.2 p.p..

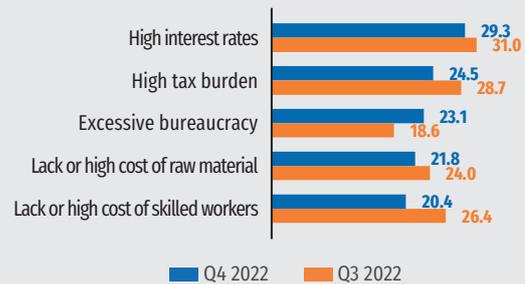
The top problem for the mining and quarrying industry was insufficient domestic demand, followed by excessive red tape, and unfair competition. All three received more votes than in the previous quarter. The lack or high cost of energy and difficulties in transport logistics completed the top five problems faced by small companies in the mining and quarrying industry.

Main problems faced by Small Scale Industry Percentage (%)

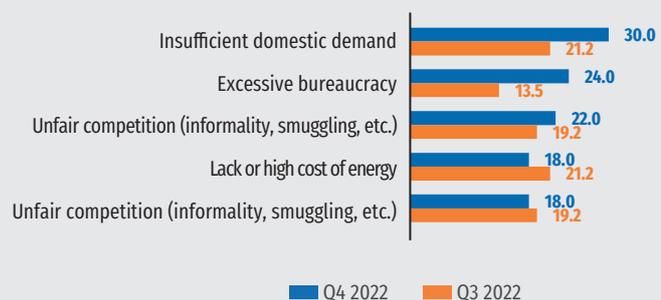
Manufacturing



Construction



Mining and Quarry



Note: For the main problem question, the entrepreneur is presented with a list of options. The entrepreneur may choose to indicate up to three options.

SMALL-SCALE INDUSTRY CONFIDENCE AND OUTLOOK IN JANUARY 2023

Small Companies' Entrepreneurs Signal Lack of Confidence

The Industrial Business Confidence Index (ICEI) for small scale industries dropped 1.9 points to 48.8 in January 2023 compared to December. This is the first time since July 2020 that small scale business entrepreneurs have indicated a lack of confidence.

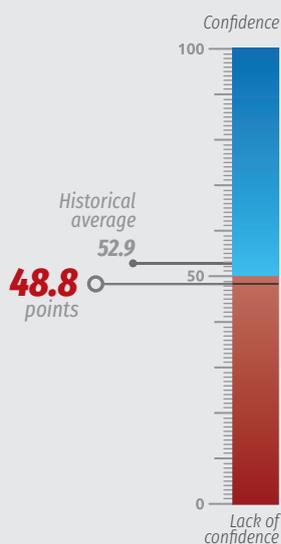
When the score falls below the 50-point dividing line, it indicates a shift from confidence to lack of confidence. This lack of confidence leads to more cautious behavior by entrepreneurs in making investments and hiring.

Upon analyzing the confidence indexes of the different sectors of the small-sized industry, it can

be observed that the manufacturing industry identified a lack of confidence in the period (with an index of 48.1 points), which brought down the Business Confidence Index. In contrast, the small construction industry registered a lack of confidence in December 2022 (with an index of 49.7 points) but showed confidence again in January 2023 (with an index of 50.4 points).

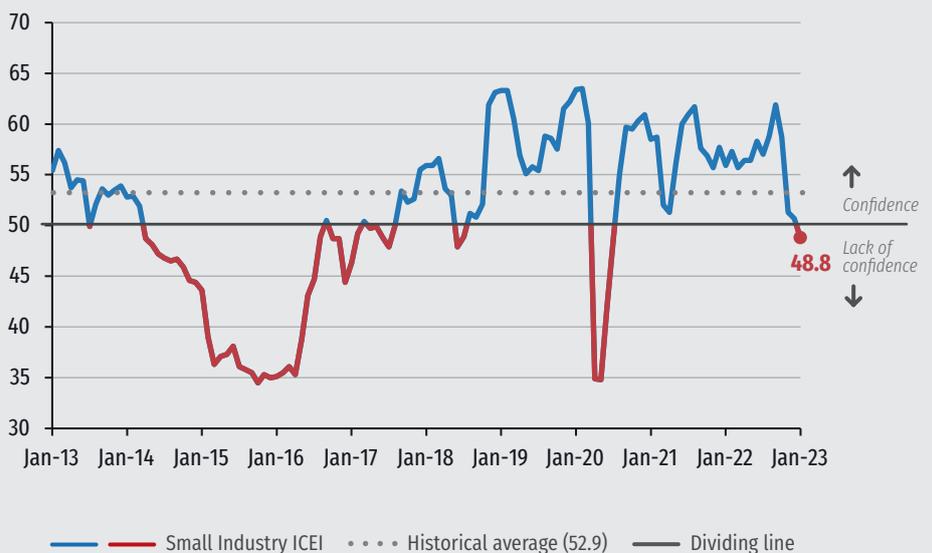
The Current Conditions Index, which reflects the businessman's perception of the current conditions of the Brazilian economy and the company, was 47.5 points among the components of the ICEI. This indicates a perception of worsening current conditions in the last few months. The Expectations Index, which analyzes expectations regarding the Brazilian economy and the company, was 49.5 points, indicating that the expectations for the coming months are pessimistic. It is important to note that, although the Expectations Index was below the 50-point dividing line, expectations regarding the company remained at an optimistic level (53.2 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.

Small-Scale Industry Faces Unfavorable Outlook

In January 2023, the small-scale industry Outlook Index marginally increased to 46.8 points, compared to December 2022. This result aligns with the historical average.

Since November 2021, the outlook index has been consistently above 50 points. Nevertheless, in the last three months, November and December 2022 and January 2023, the index remained below 50 points, signaling an unfavorable outlook for small-scale industry entrepreneurs in the coming months.

Small Industry Outlook Index

Index (0 to 100 points)*



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

Technical specifications

The Small Industry Outlook (SIO) 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_ppj

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