

# SMALL INDUSTRY OUTLOOK



Brazilian National Confederation of Industry  
THE FUTURE OF INDUSTRY

## Small industry on a recovery path

**Small industry has rebounded after posting a negative result in the second quarter.** The Performance Index grew strongly in July, causing it to exceed both its historical average and the figure registered in the same month in 2018. Despite the declines in August and September, **the Performance Index closed the third quarter of 2019 above the level observed in the same quarter in 2018.**

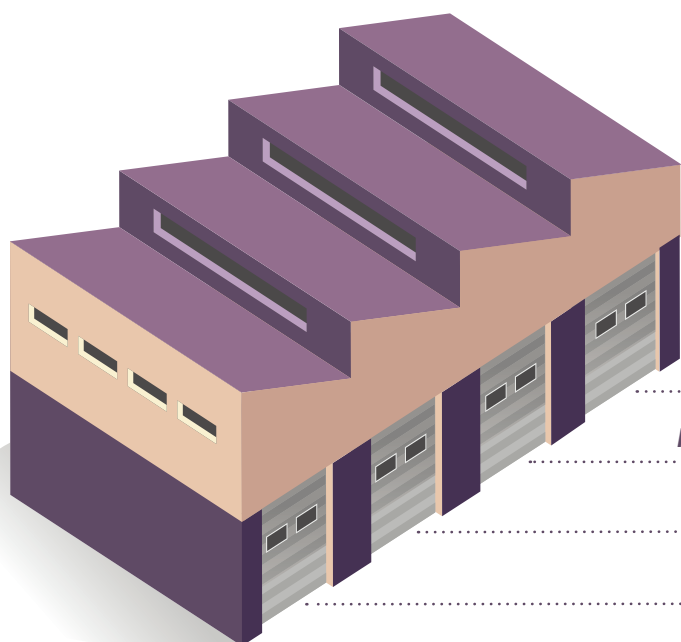
**The financial situation of the small industry across all industrial segments (mining and quarrying, manufacturing, and construction) also improved in the third quarter of 2019** after holding steady in the previous quarter.

**Lack of demand, which hurt small industry activity in the first half of 2019, lost importance in the ranking of major problems in the third quarter.**

The decline in the percentage of companies indicating the issue of lack of demand shows that small businesses are noticing a pick-up in the Brazilian economy, which has already reflected in an increase in the index measuring small industry performance.

**The Outlook Index improved over the quarter, while confidence held steady at a high level in October.**

*Performance, Financial Situation, Outlook and Confidence Indices for small industry\**



Performance

Financial situation

Outlook

Confidence Index - ICEI

Q3 2018	Q3 2019	Historical average
45.2	46.2	42.9
37.2	38.2	37.2
Oct/2018	Oct/2019	Historical average
46.6	48.5	45.4
52.1	57.5	52.5

\*Diffusion index (0-100 points)

## PERFORMANCE OF SMALL INDUSTRY IN THE THIRD QUARTER OF 2019

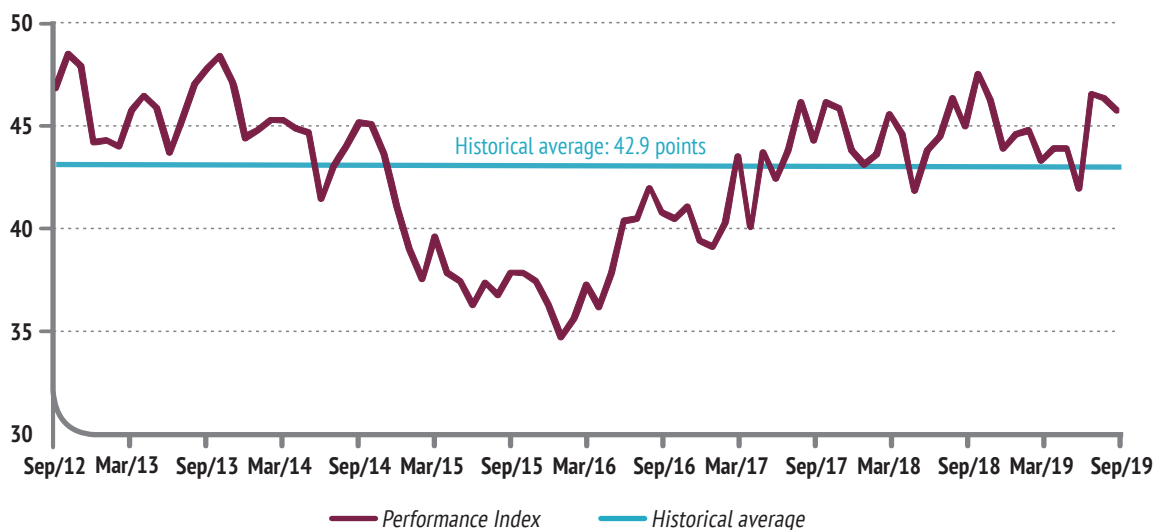
## Small industry rebounds in the quarter

The index measuring small industry performance shows a positive result in the third quarter. The index stood at 46.2 points in the third quarter of 2019, up by 1.0 point from the same quarter a year ago. This marked the highest third-quarter figure since 2014. The result was driven mainly by July's result, when the indicator grew by 4.7 points on a month-over-month basis.

The improvement in the Performance Index is important as it signals a recovery of small industry activity following a sequence of declines that started in November 2018 and culminated in a particularly weak second quarter.

*Performance Index for small industry*

Diffusion index (0-100 points)



Note: The Performance Index for small industry is the weighted average of the indices measuring the performance of small mining and quarrying, manufacturing and construction companies. The performance indices for the mining and quarrying and manufacturing industries are the average of the indicators measuring production volume and number of employees and actual-usual capacity utilization. In the case of the construction industry, the indicators of activity levels and actual-usual activity levels, as well as the indicator measuring number of employees, are used.

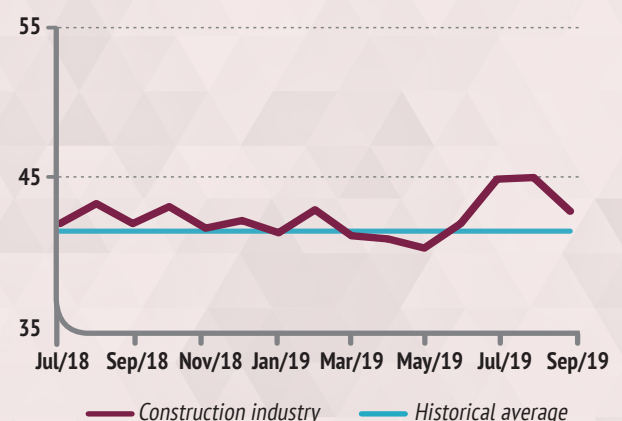
**CONSTRUCTION**

The index measuring performance of small construction industry posted two consecutive increases in June and July. Despite the decline in September, the Performance Index remains above the figure observed in 2018.

The average performance for the quarter is the highest since 2014 and the one with the best improvement compared to 2018 among all industrial segments.

*Performance Index for small construction industry*

Diffusion index (0-100 points)\*



# FINANCIAL SITUATION OF SMALL INDUSTRY IN THE THIRD QUARTER OF 2019

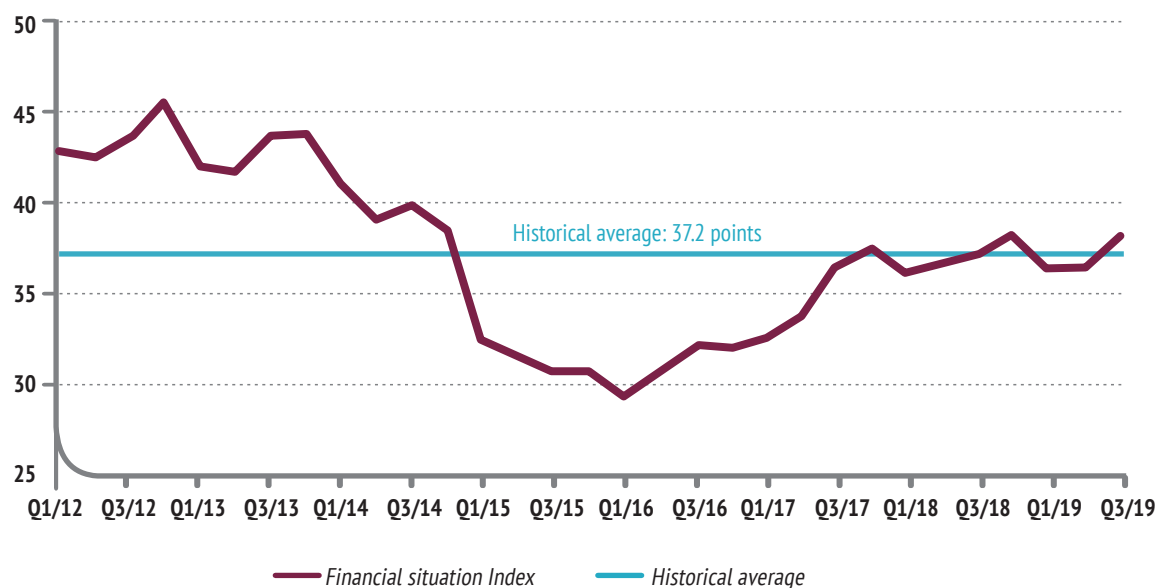
## Financial conditions in small industry improve

Financial conditions of small businesses improved in the third quarter of 2019. The Financial Situation Index for small industry reached 38.2 points, representing a 1.0-point increase from the third

quarter in 2018 and from its historical average. Financial conditions in the sector have been hovering around the historical series since mid-2017, without showing any upward trend.

### Financial Situation Index for small industry

Diffusion index (0-100 points)



Note: The Financial Situation Index for small industry is the weighted average of the indices measuring financial conditions of small mining and quarrying, manufacturing and construction companies. Each financial situation index is the average of the indices measuring satisfaction with profits, satisfaction with financial conditions, and ease of access to credit.

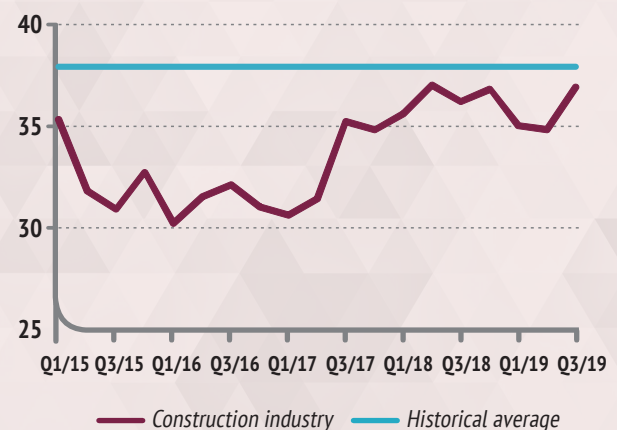


The Financial Situation Index for small construction industry declined in the first and second quarters in 2019, but edged up in the third quarter from 34.9 points to 37.0 points.

With the increase, the index is now up from the third quarter of 2018, but remains below its historical average.

### Financial Situation Index for small construction industry

Diffusion index (0-100 points)\*



## MAIN PROBLEMS FACED BY SMALL INDUSTRY IN THE THIRD QUARTER OF 2019

### Lack of demand in manufacturing loses importance

As usual, a high tax burden was indicated as the number one problem facing small industry in the third quarter of 2019 across all industrial segments (manufacturing, mining and quarrying, and construction).

Special mention should be made of the decline in importance of lack of demand among major problems faced by small manufacturing companies.

The percentage of companies indicating this problem, which had risen significantly in the first quarter, fell by six percentage points between the second and third quarters. This drop suggests that small industry has noticed an improvement in economic activity in recent months, which has reflected in orders to small businesses.

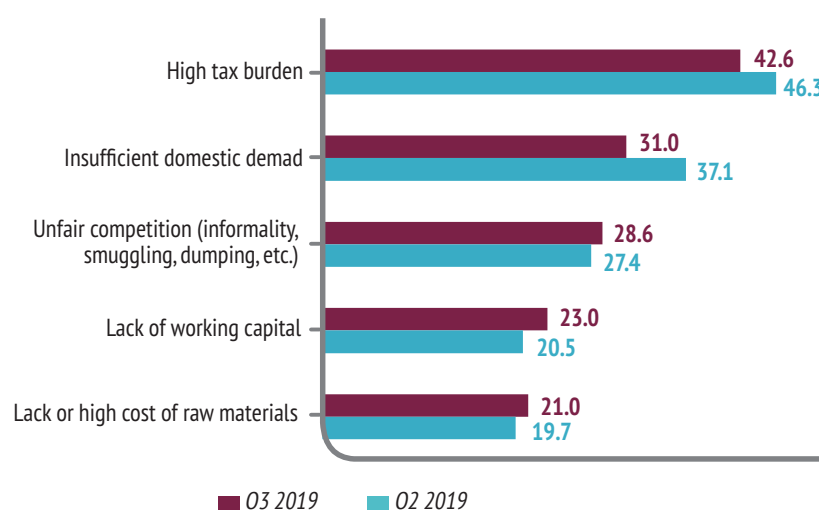
### Manufacturing industry

Insufficient domestic demand gained relevant importance in the first half of 2019, reaching 37.1% of answers in the second quarter. In the

third quarter, companies have noticed a slight pick-up in demand, as the number of responses fell to 31%.

#### *Main problems faced by small manufacturing industry*

Percentage (%)



Note: When asked about the main problems they face, entrepreneurs are presented with a list of response options. They are then asked to indicate up to three items.

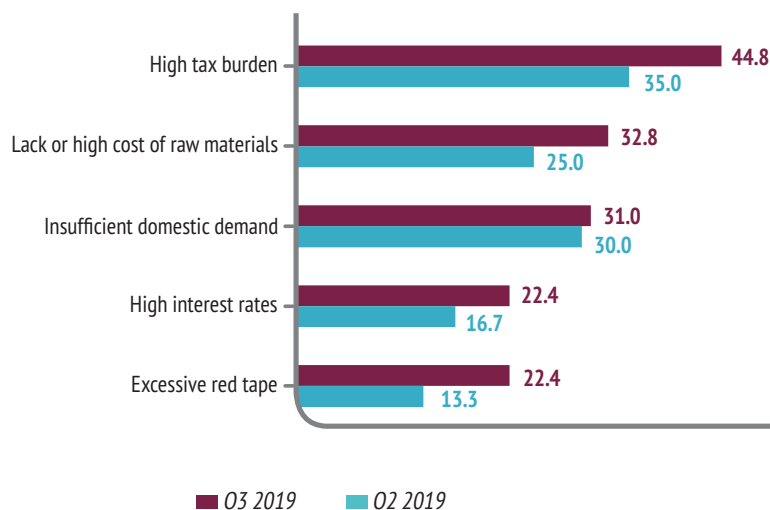
## Mining and quarrying industry

The number of companies indicating the issue of insufficient domestic demand remained almost unchanged between the second and third quarter of

2019. Yet, this problem fell from 2nd to 3rd place in the ranking of major problems, as the issue of lack or high cost of energy gained importance after growing from 25% to 32.8% of answers.

### Main problems faced by small mining and quarrying industry

Percentage (%)



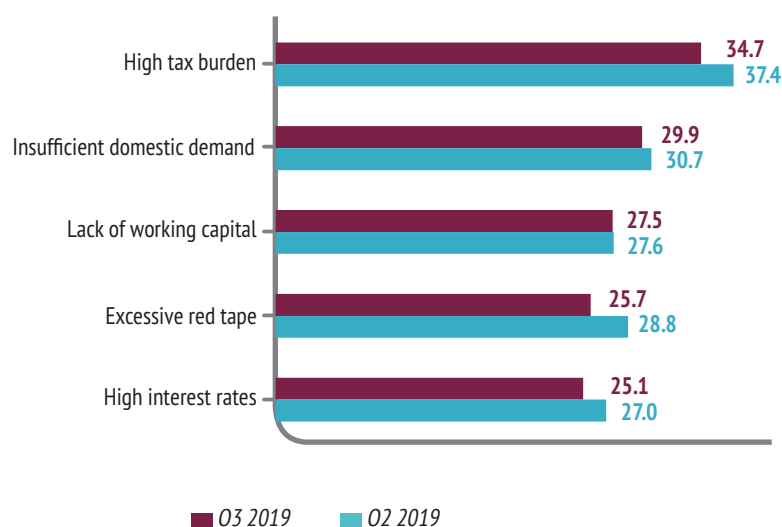
Note: When asked about the main problems they face, entrepreneurs are presented with a list of response options. They are then asked to indicate up to three items.

## Construction Industry

Client delinquency, which ranked third among major problems in the second quarter of 2019, lost importance and dropped to sixth place, with the percentage of answers dropping from 30.1% to 23.4%.

### Main problems faced by small construction industry

Percentage (%)



Note: When asked about the main problems they face, entrepreneurs are presented with a list of response options. They are then asked to indicate up to three items.

# OUTLOOK AND CONFIDENCE IN SMALL INDUSTRY IN OCTOBER 2019

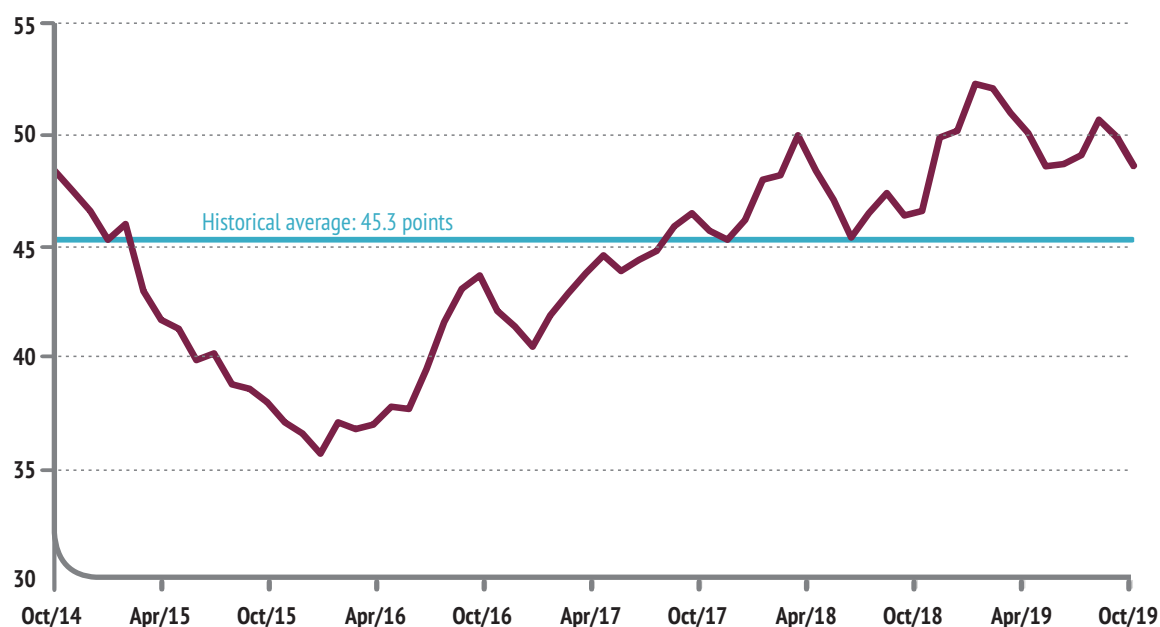
## Outlook remains favorable

The Outlook Index for small industry shows that prospects remain positive despite the October slowdown. The index fell from 50.7 points in September to 49.9 points in October, but remains

above its current 45.3-point historical average. The indicator is up by 3.5 points from the figure registered in October 2018.

### Outlook Index for small industry

Diffusion index (0-100 points)



*Note:* The Outlook Index for small industry is the weighted average of the indices measuring the outlook for small mining and quarrying, manufacturing and construction companies. The outlook indices for mining and quarrying and manufacturing are the average of the investment intention index and indices of expected demand and number of employees. In the case of the construction industry, it is the average of the investment intention index and indices of expected activity levels and number of employees.

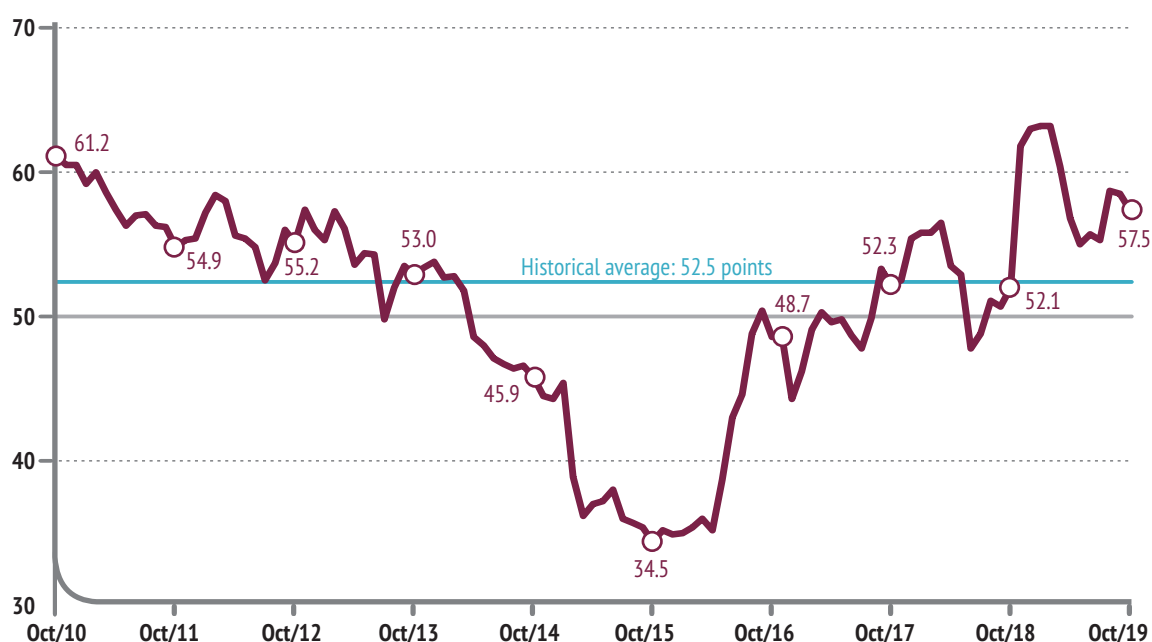
# Confidence in small industry remains high despite October's drop

The Business Confidence Index (ICEI) for small industry dropped by 1.1 points in October 2019 to 57.5 points. We can say, however, that confidence among small entrepreneurs remains high: the ICEI

for small industry is still up by 5.0 points from its historical average and by 5.4 points from the reading for October 2018.

## Business Confidence Index (ICEI) for small industry

Diffusion index (0-100 points)



Note: The Business Confidence Index (ICEI) ranges from 0 to 100 points and figures above 50 points indicate business confidence. The further above 50 points, the higher the confidence.



### Technical specifications

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



### Learn more

For more information on the survey methodology and the historical series of the Performance Index, the Financial Situation Index and the Outlook Index for small companies, as well as data on major problems and the ICEI for small businesses, please visit [www.cni.com.br/e\\_ppi](http://www.cni.com.br/e_ppi).