INVESTMENTS IN INDUSTRY

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

Brazilian industry reduces investment again

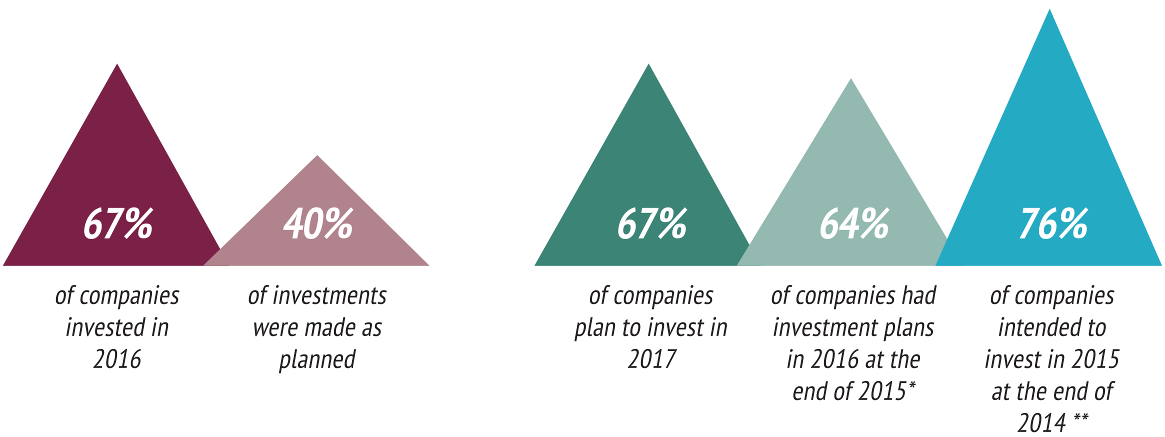
The year 2016 marked the third consecutive year of great difficulty for the Brazilian industry, undermining companies' investment plans. Demand remained at a low level, enterprises continued to face challenges to access credit, and idleness closed last year at a record high level. Economic uncertainty was mentioned as the main reason for frustrated investment plans by 80% of companies in 2016 and as the main reason not to invest in 2017 by 89% of firms.

Only 67% of enterprises invested in 2016, a figure seven percentage points lower than that recorded in 2015 and the lowest level since the survey began in 2010. Among these companies, only 40% carried out their investment plans as expected – also the lowest percentage since 2010.

This scenario of crisis is not expected to be reserved in 2017. The percentage of companies with investment plans for 2017 stands at 67%. The figure is slightly higher than that recorded at the end of 2015, when 64% of companies intended to invest in the following year. Planned investments are focused primarily on innovating products and processes, as the search for greater competitiveness increases in an environment of high idleness levels. Investments in expanding production capacity remain at very low levels.

Investment in crisis

Share (%) in total valid responses



*Source: 2016 Investments in Industry survey.
*** Source: 2015 Investments in Industry survey.*

INVESTMENT IN 2016

Industrial investment slows down again in 2016

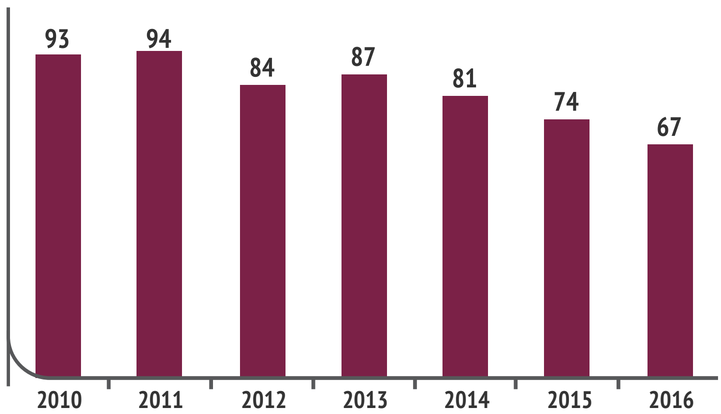
Share of firms that invested reaches lowest level since the survey began to be carried out, in 2010

The proportion of industrial companies that invested is down again in 2016. While 74% of companies made some kind of investment in 2015, this percentage dropped to 67% in 2016. The figure is the lowest ever recorded in the series started in 2010.

Among the companies that invested in 2016, 36% allocated their funds to new projects. This percentage is slightly higher than the one observed between 2013 and 2015, but is significantly down from 2012 levels, when the percentage of new developments reached 47%. The remaining investments (64%) were focused on continuing ongoing projects.

Percentage of companies that invested in the year

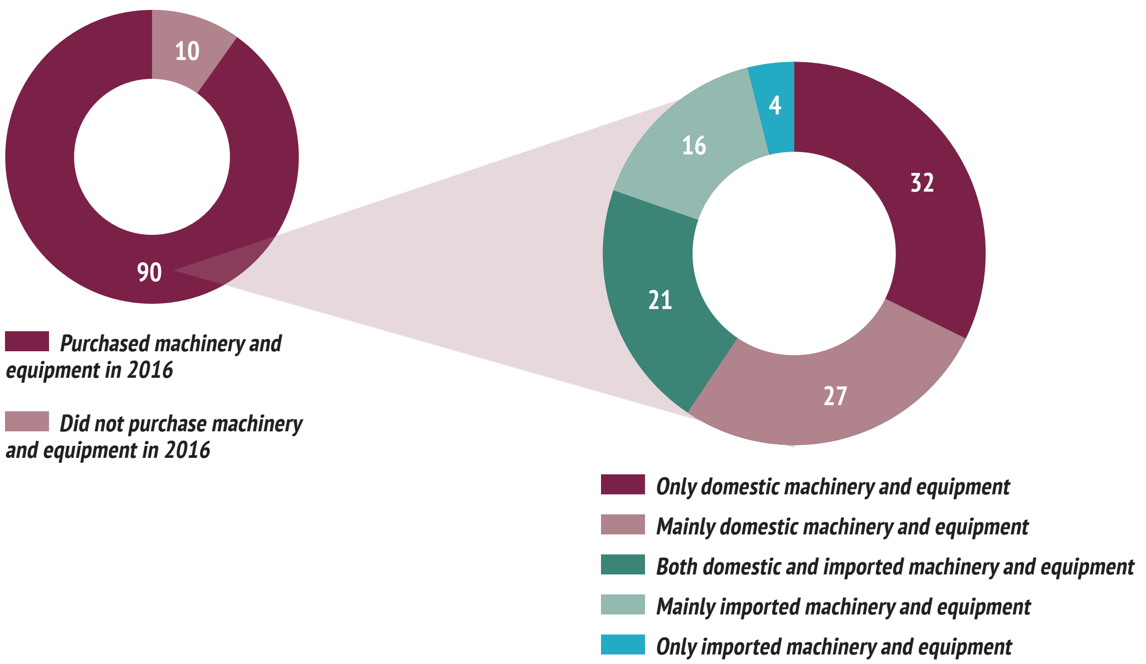
Share (%) in all valid answers



Purchases of machinery and equipment increase in 2016

Out of the firms that invested, 90% purchased machinery and equipment (domestic or imported) in 2016. In 2015, this figured amounted to 86%. Among the companies that made such purchases in 2016, 32% said they bought only domestic machinery and equipment, while 27% purchased mainly domestic machinery and equipment and 21% bought both domestic and imported machinery and equipment.

Share of imports in purchases of machinery and equipment
Percentage (%) of all companies that invested in 2016

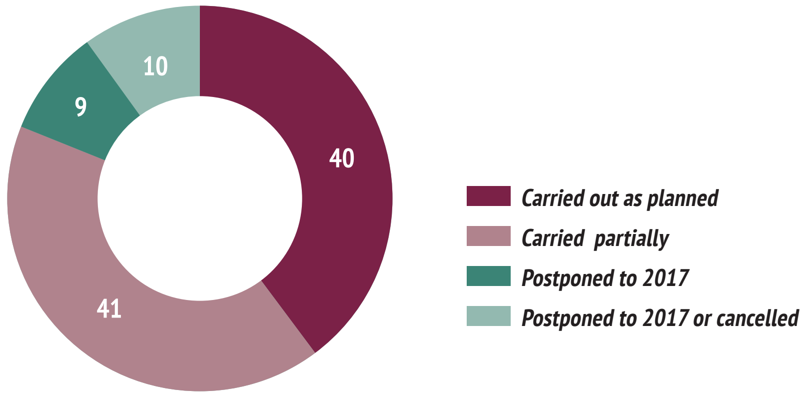


Investment plans continue to be frustrated
Over half of companies did not invest as planned

In 2016, only 40% of companies with investment plans managed to make their investments as planned. This percentage is the lowest ever recorded since the series began to be conducted in 2010, when 65% of companies managed to carry out their investments as planned.

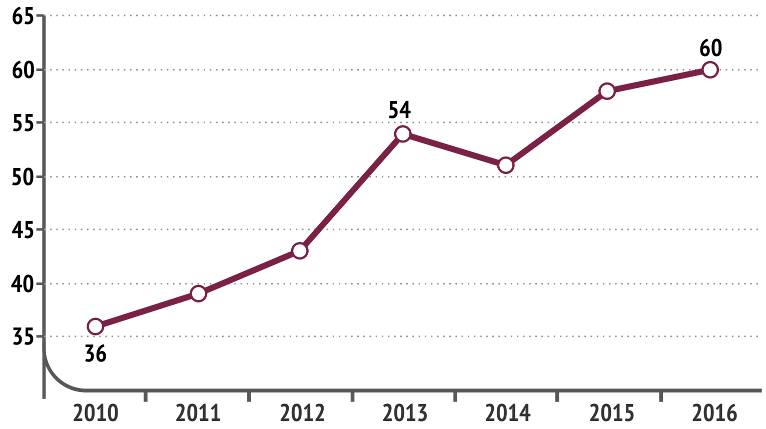
Among the companies with investment plans, 41% implemented them only partially, while 9% postponed them to next year and 10% either canceled or postponed them indefinitely.

Fulfillment of investment plans
Percentage (%) of all companies with investment plans for 2016



Investments carried out partially, postponed or canceled

Percentage (%) of all companies with investment plans

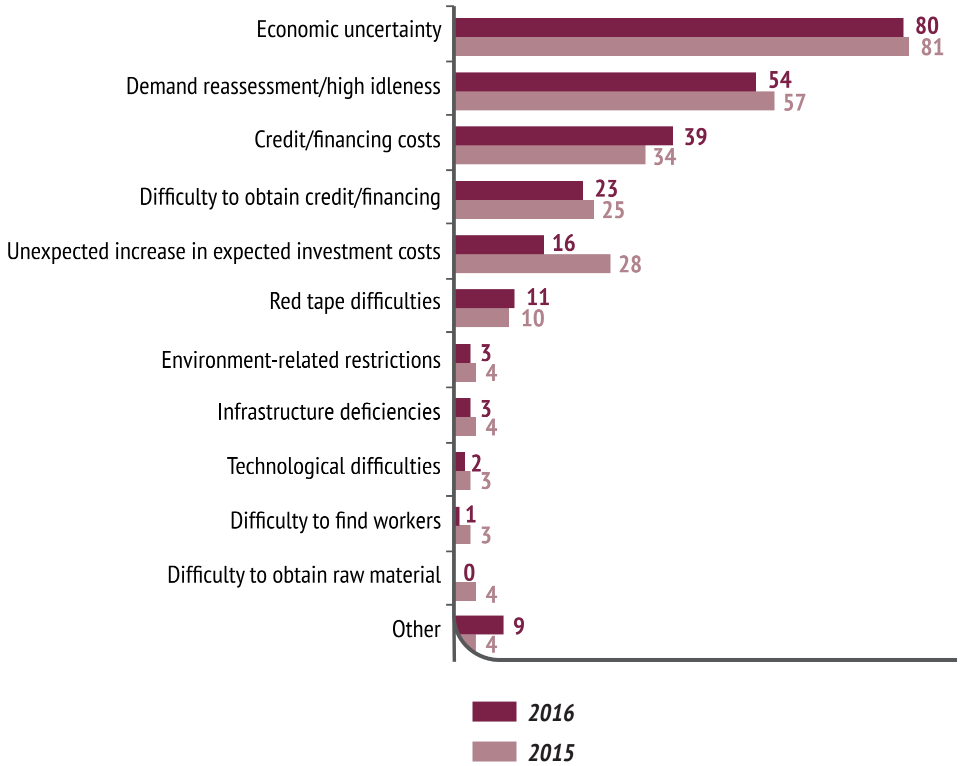


Economic uncertainty continues to frustrate investment plans

Economic uncertainty was mentioned as the main reason for frustrated investment plans in 2016, as reported by 80% of companies that either postponed or made their investments partially. Demand reassessment comes next with 54% of answers, followed by credit/financing costs (39%). The problems are the same as those indicated in 2015. While the percentage of companies indicating the first two issues experienced a slight decline, the third problem showed a five-percentage point increase in the number of answers.

Reasons for frustrated investment plans

Share (%) in all companies whose investments were postponed or partially carried out



Improving production processes was the main investment objective in 2016

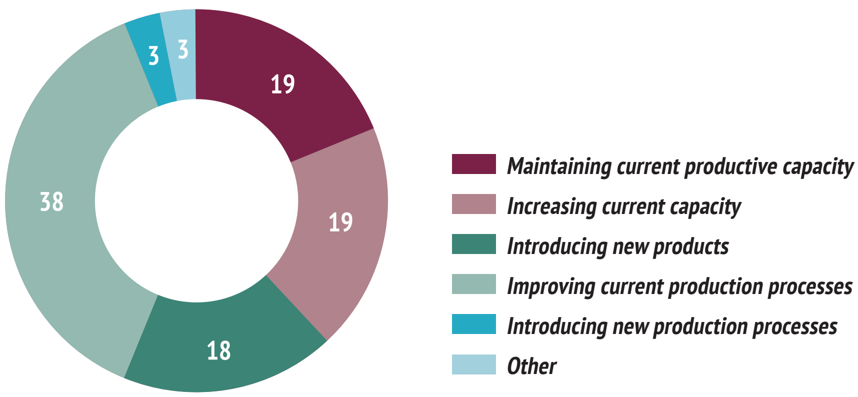
Empresas seguem buscando aumento de competitividade

As in previous years, companies reported that their investments in 2016 were focused mainly on improving production processes. Thirty-eight percent of investments in 2016 were made for this purpose, reflecting companies' intention to reduce costs and step up competitiveness.

Maintaining productive capacity and increasing current capacity are tied in second place with 19% of answers each. Both of these objectives experienced a slight increase in the percentage of answers as compared to 2015, suggesting a small reduction in industrial idleness. Introducing new products comes next with 18%, while introducing new production processes was indicated by 3% of companies. Thus, innovating processes or products was the main objective of 59% of all investments made in 2016.

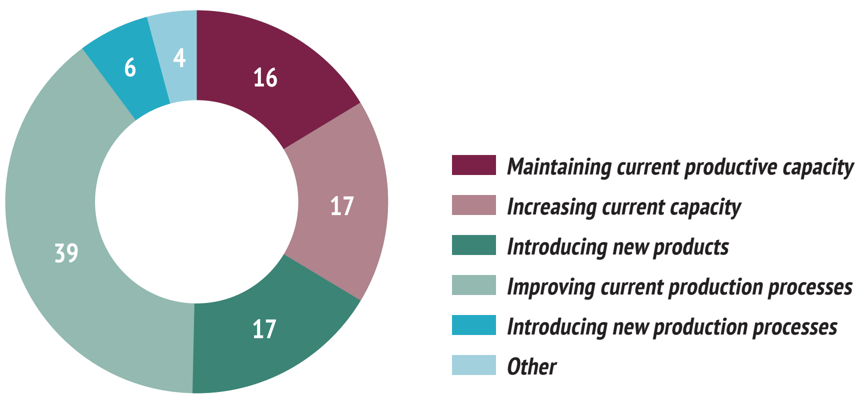
Main investment goal in 2016

Percentage (%) of all companies with investment plans for 2016



*Main investment goal in 2015**

Percentage (%) of all companies with investment plans for 2015



** Source: Investments in Industry 2016*

Companies are still highly dependent on their own funds to invest

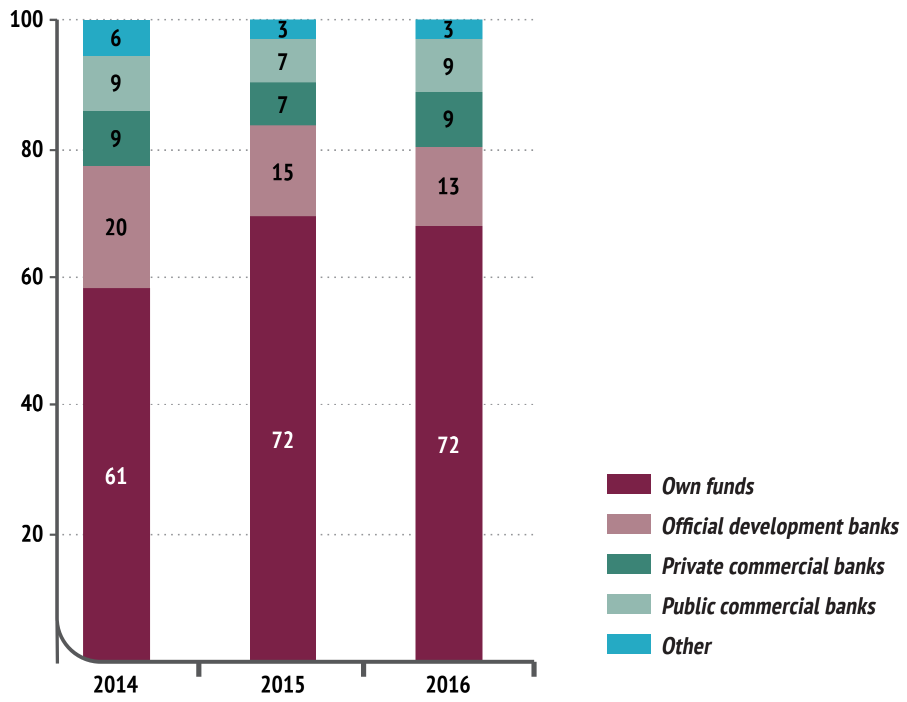
72% of investments were made with enterprises' own funds

In 2016, companies continued to rely on their own funds to make investments. As in 2015, 72% of companies had to use their own funds to carry out investments. One can also see a decline in the financing granted by official development banks, which fell from 15% in 2015 to 13% in 2016. Compared with 2014, the drop is even more significant, as shown in the graph "Average distribution of funding sources for investments made" below.

In addition, loans granted by private commercial banks increased by two percentage points between 2015 and 2016, which can be explained by the reduction in lending by official development banks.

Average distribution of funding sources for investments made

Average percentage (%) considering only companies that made investments



INVESTMENT IN 2017

Firms have little need to invest in increasing production

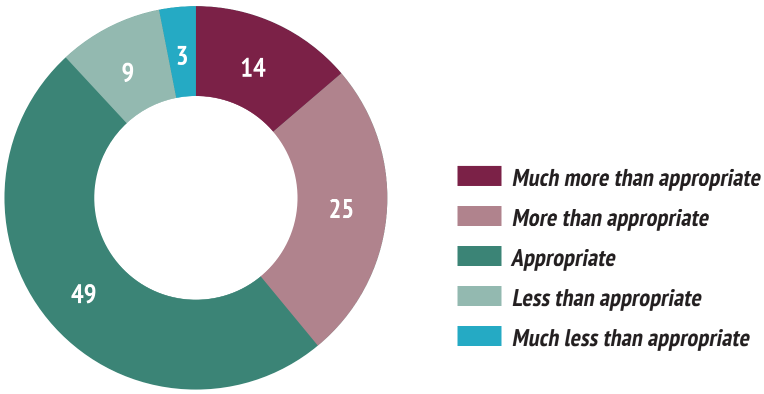
Just over 10% of companies need to step up their production capacity to meet expected demand

Almost 90% of enterprises say their current installed capacity is enough to meet the expected demand for the year. Thirty-nine percent of firms believe their current capacity is more or much more than appropriate, meaning that it exceeds the anticipated demand. The figures are similar to those recorded in the previous Investments in Industry survey released at the beginning of 2016.

Only 12% of companies believe their current production capacity is less or much less than appropriate (insufficient) to meet the expected demand. The fact that companies have little need to invest in increasing capacity is attributed to the high idleness levels in industrial parks, which closed 2016 at record highs.

Adequacy of installed capacity to meet expected demand

Share (%) in all valid responses



Investment forecasts remain weak

Economic uncertainty and high idleness are major reasons for low investment levels

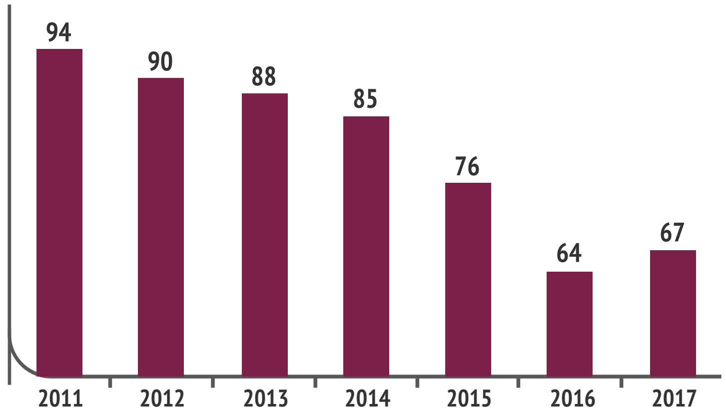
Sixty-seven percent of companies plan to invest in 2017. The percentage is slightly up from 2016 (64%) and significantly down from previous years, as shown in the graph "investment intentions" below.

Almost a third (35%) of planned investments will be targeted at new projects. The figure is somewhat higher than that recorded in 2016 (33%) and lower than the one observed in previous years, particularly in 2011 and 2013, when it exceeded 40%.

According to companies that have no plans to invest in 2017, economic uncertainty is the main reason behind the decision not to invest, as indicated by 89% of enterprises. The issue of high idleness/demand reassessment ranked second with 65%. Credit-related problems come next: credit/financing costs, with 38%, and difficulty to obtain credit/financing, with 29% of responses. The figures are very similar to those recorded in 2016.

Investment intentions

Share (%) in all valid answers



Investment focused more on innovation

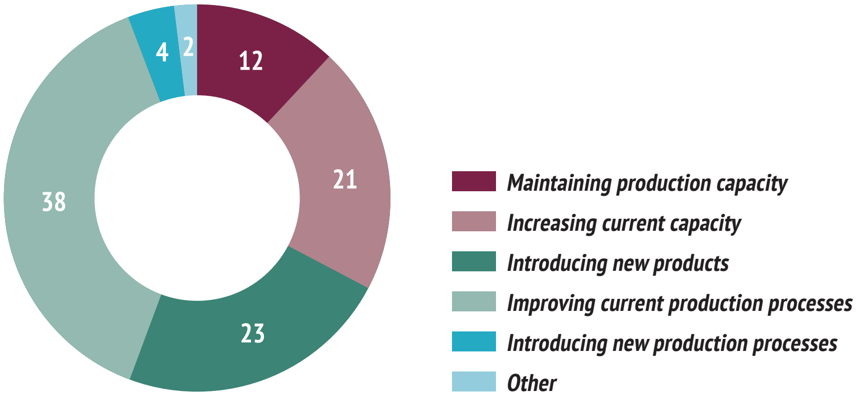
Percentage of investments designed to step up production capacity hit one of its lowest levels in the series

In an environment of great industrial idleness, companies focus their investments on innovation. Forty-three percent of firms say their investments are targeted mainly at innovating production processes (38% are focused on improvements and 4% on introducing new processes). Another 23% said their investments are focused on introducing new products. This is to say that almost two-thirds of industry (65%) will prioritize investment in innovation – the highest level since the series began in 2011.

The percentage of companies targeting their investments mainly toward increasing production capacity is the second smallest in the series: 21%, compared to 20% in 2016. The low percentage is a result of the high idleness levels and the large number of companies expecting demand in 2017 to fall short of the production capacity already installed.

Main purpose of planned investment

Percentage (%) of all companies with investment plans



Percentage of companies planning to purchase machinery falls again

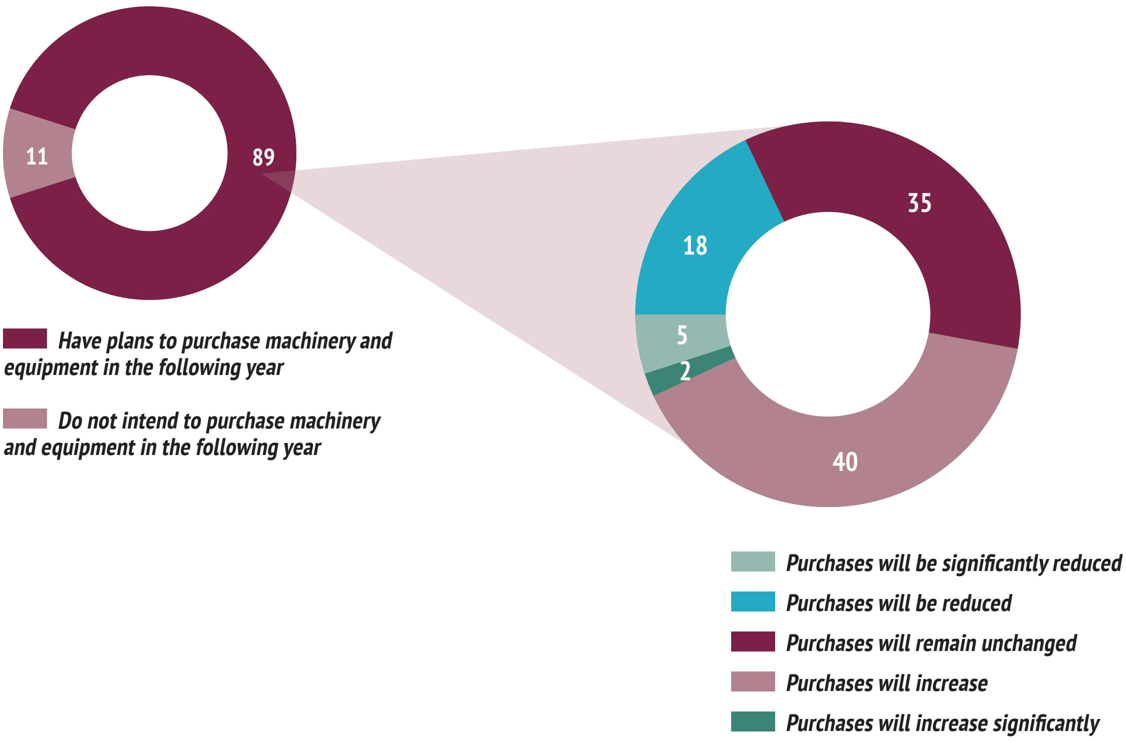
However, companies with plans to make purchases will increase their purchases as compared to 2016

Eleven percent of companies with plans to invest in 2017 do not intend to buy machinery and equipment in 2017. The figure is the highest ever recorded in the series started in 2011.

On the other hand, considering the firms that have plans to buy machinery and equipment in 2017, the percentage of those willing to step up their purchases edged up on a year-on-year basis. In 2016, 27% of companies that had plans to invest and buy machinery and equipment said they would increase or significantly increase their purchases. That percentage hit the mark of 42% in 2017.

Purchases of machinery and equipment

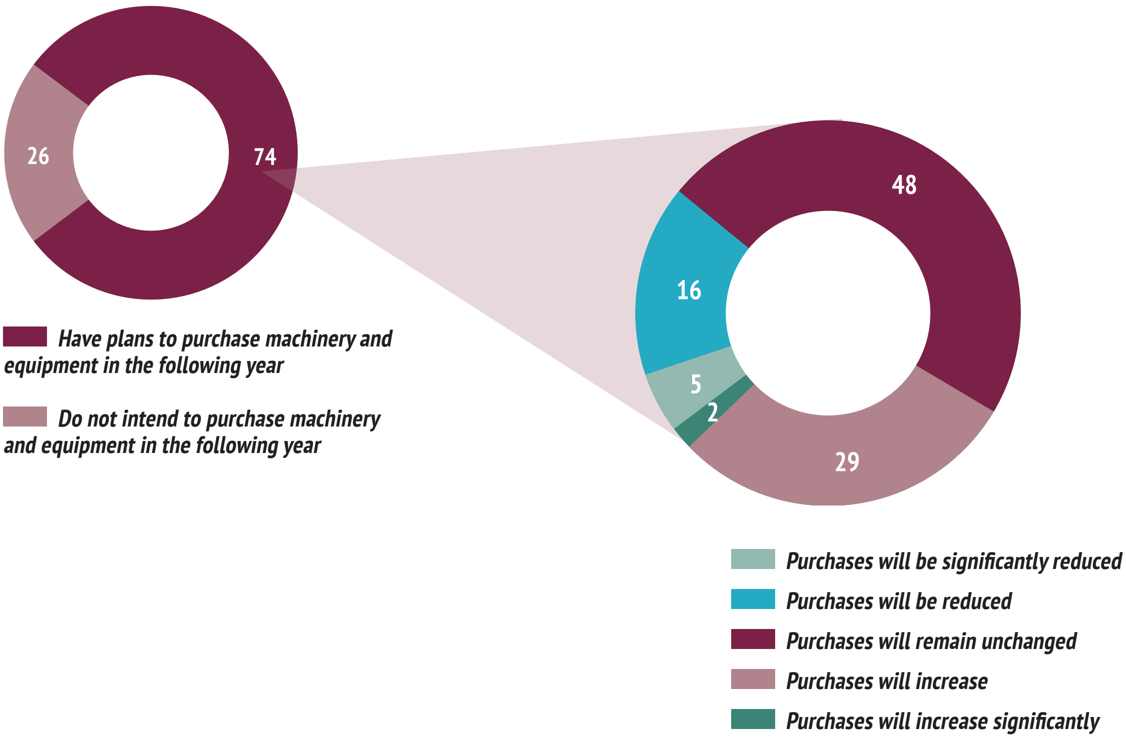
Percentage (%) of all companies with investment plans



The result is similar when considering only imported machinery and equipment. The percentage of companies that have plans to invest in 2017 and at the same time are not willing to buy imported machinery and equipment hit an all-time high in the series: 26%. Considering investing companies with plans to make purchases, however, the percentage of those willing to increase or significantly increase their purchases is higher than the one recorded in 2016: 31% against 20%.

Purchases of machinery and equipment

Percentage (%) of all companies with investment plans



Investment still predominantly oriented toward domestic market

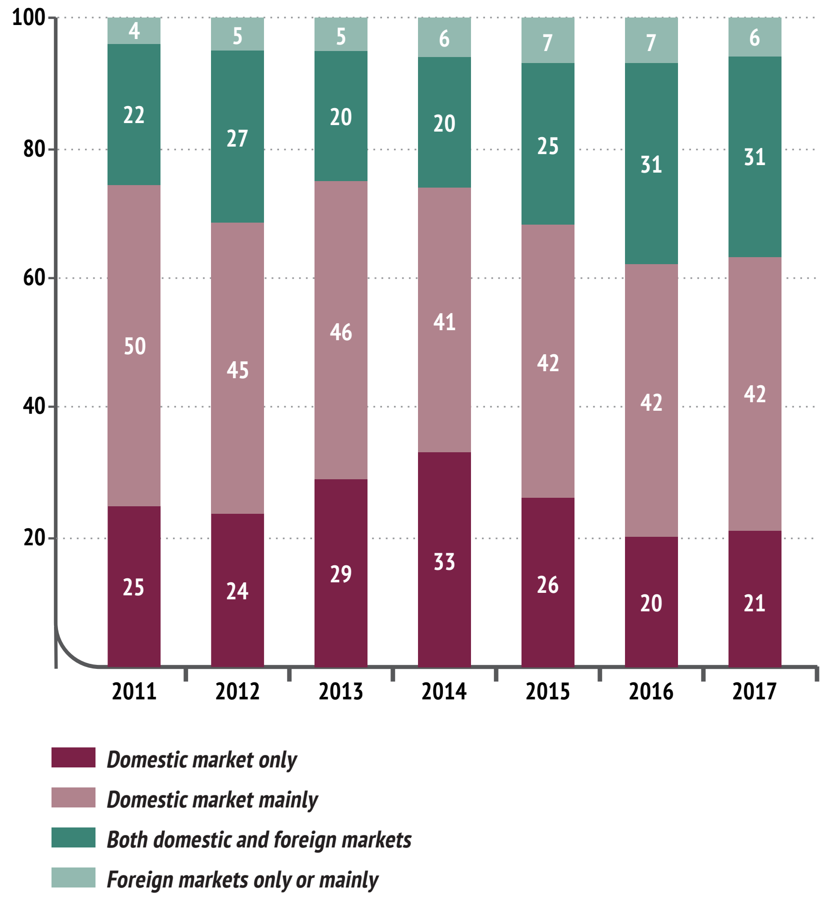
Share of investments focused on foreign markets remains low

A low domestic demand caused the share of investments targeted at the external market to increase in 2016 as compared to previous years – though it remained small. There will be no changes in 2017: investments will be focused mainly on the domestic market.

Among the companies with investment plans for 2017, only 6% will focus their investments mainly or only on the foreign market. The figure is almost the same as that recorded in 2016 (7%). The other percentages also remained almost unchanged, as shown in the graph “Target market for planned investment” below.

Target market for planned investment

Share (%) in all companies with plans to invest



Investment in factories abroad remains at low levels

Eighty percent of industrial companies have no productive investment overseas and are not willing to have, while 8% have no productive investment abroad but intend to have. Among the responding companies, 12% are investing already, with 11% planning to step up this investment and the remaining 1% intending to reduce it or even sell their stake.

Learn more

For more information on the survey, including its historical series and methodology, kindly visit:
www.cni.org.br/investindustria

Technical specifications

Sample profile: 584 large companies, i.e.
Data collection period: November 21-December 9, 2016.

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