

INVESTMENTS IN **INDUSTRY**

2020-2021



Brazilian National Confederation of Industry
THE FUTURE OF INDUSTRY



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INVESTMENTS IN **INDUSTRY** **2020-2021**

ECONOMIC INDICATORS **CNI**

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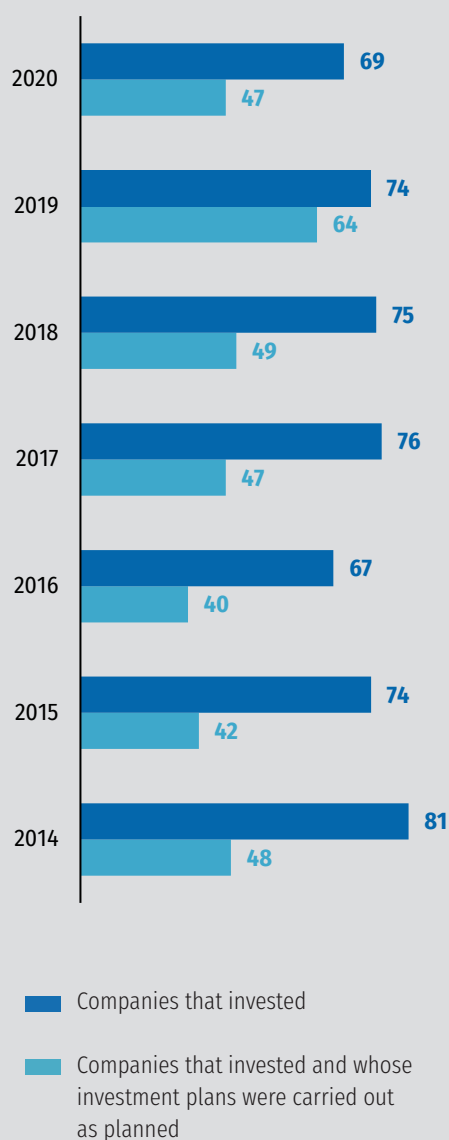


EXECUTIVE SUMMARY

The pandemic frustrated investment plans for 2020

Graph 1 - Investments made and investments carried out as planned

Share in all valid responses (investments made) and in all companies that invested in the year (as planned)



More than two thirds (69%) of large industrial companies invested in 2020, a figure that is among the lowest in the survey's historical series. Among companies with plans to invest, more than half of them (53%) carried out only partially, postponed, or canceled their investment plans.

The reassessment of demand and the unexpected increase in investment costs were mentioned as the main reason behind the frustration of investment plans. Both are directly influenced by the COVID-19 pandemic, which has restricted demand for industrial products, brought exchange rate fluctuation, and put pressure on costs. The pandemic and its effects, such as shutdowns, drop in demand, impact on the company's financial health, and uncertainty/insecurity, were spontaneously mentioned by one third of the entrepreneurs as one of the main reasons behind the frustration of investment plans.

For 2021, a return to normality is expected, with investment intentions returning to a level similar to that of recent years. It should be noted that concerns over efficiency and productivity continue to guide industrial investment plans (improving the production processes remains the main goal of the investment plans), but the search for increased production capacity has gained importance in the investment plans. One third of the companies have as their main goal for investment plans in 2021 to increase the capacity of their production lines.

1 INVESTMENT IN 2020

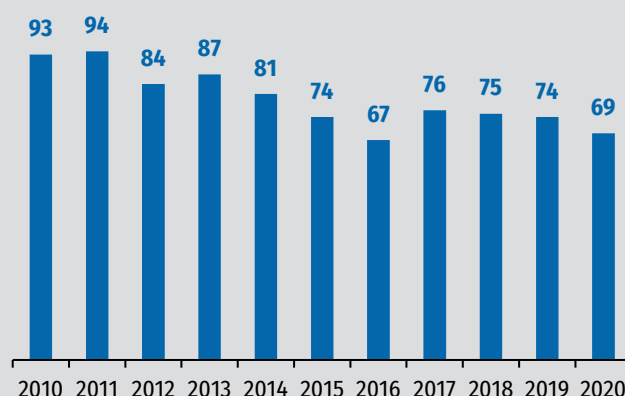
Fewer companies invested in 2020 and frustration of investment plans was high

More than two thirds (69%) of large companies invested in 2020. This figure is 5 percentage points lower than that recorded in 2019 and is the second lowest in the historical series: it only exceeds the result observed in 2016, 67%.

Not only did a smaller share of companies invest in 2020, the level of frustration with investment plans was also high. More than half (53%) of the large companies with plans to invest in 2020 carried out only partially, postponed, or canceled their investment plans. In 2019, only 36% of large companies with plans to invest had partially carried out, postponed, or canceled their investment plans.

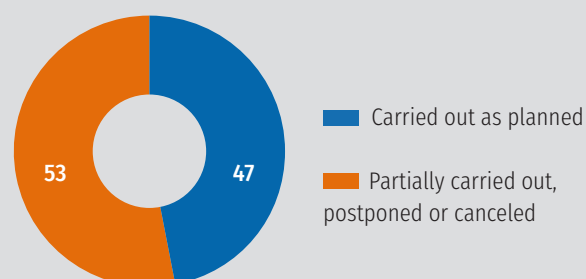
Over three quarters (76%) of large companies that invested in 2020 purchased machinery and equipment, of which 23% purchased used machinery. Just over two thirds (68%) invested in maintaining or upgrading their machinery in 2020, while 33% invested in research and development, 30% in training personnel, and 24% in improving business management. The figures are close to those observed in 2019.

Graph 2 - Percentage of companies that invested in the year
Share (%) in total valid answers



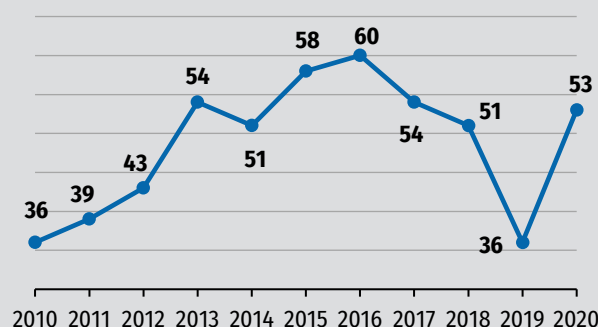
Graph 3 - Fulfillment of investment plans

Percentage (%) of all companies with investment plans for 2020



Graph 4 - Investments partially carried out, postponed or canceled

Percentage (%) of all companies with investment plans



Reassessment of demand and increased costs were the main reasons behind frustrated investment plans in 2020

Two problems were practically tied as the main reasons behind frustrated investment plans in 2020: reassessment of the domestic market for their products (mentioned by 36% of large companies) and the unexpected increase in expected investment costs, including increases due to exchange rate fluctuations (35%). In 2019, reassessment of the domestic market for their products was alone in first place.

The uncertainty and drop in demand caused by the pandemic affected demand and forced companies to reassess it, explaining the first position.

The increase in expected investment costs is certainly related to the exchange rate and is analogous to the shortage or high cost of raw materials, which has been monitored by the CNI's Industrial Survey and Special Surveys on the subject. The Industrial Survey of December

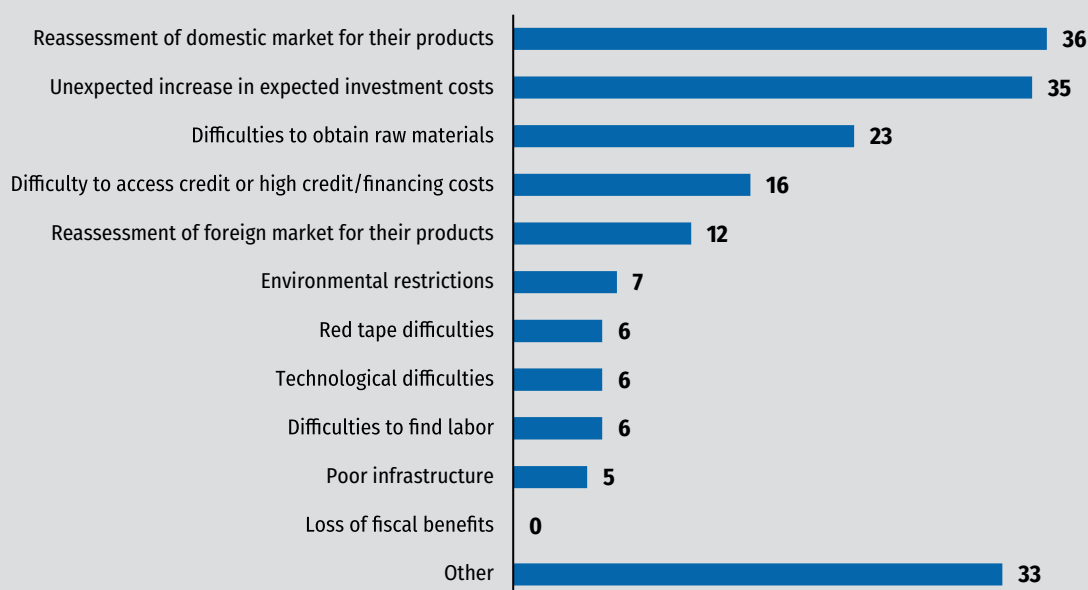
showed that in the second half of 2020, the shortage or high cost of raw materials became the top ranked problem faced by companies. In the fourth quarter of 2020, almost two out of three companies mentioned this as one of their top three problems.

The shortage of raw materials is ranked fourth among the main reasons behind frustrated investment plans in 2020 – the indicator “difficulty to obtain raw materials” was indicated by 23% of the surveyed companies. In 2019 only 2% of companies had indicated this item.

It should also be noted that in 2020, the option “Other” ranked third. Many entrepreneurs pointed to the pandemic and one (or several) of its consequences, such as shutdowns, drop in demand, impact on the company's financial health, and uncertainty/insecurity. Problems such as energy supply were also mentioned.

Graph 5 - Reasons behind frustrated investment plans in 2020

Share (%) in all companies whose investment plans had been partially carried out, postponed or canceled



Lack of alternative sources of investment financing

Since 2015, about three quarters of the investments made by companies financed with their equity capital. In 2020, the percentage stood at 72%, identical to that recorded in 2019. This shows the lack of feasible alternatives of third-party investment funding available.

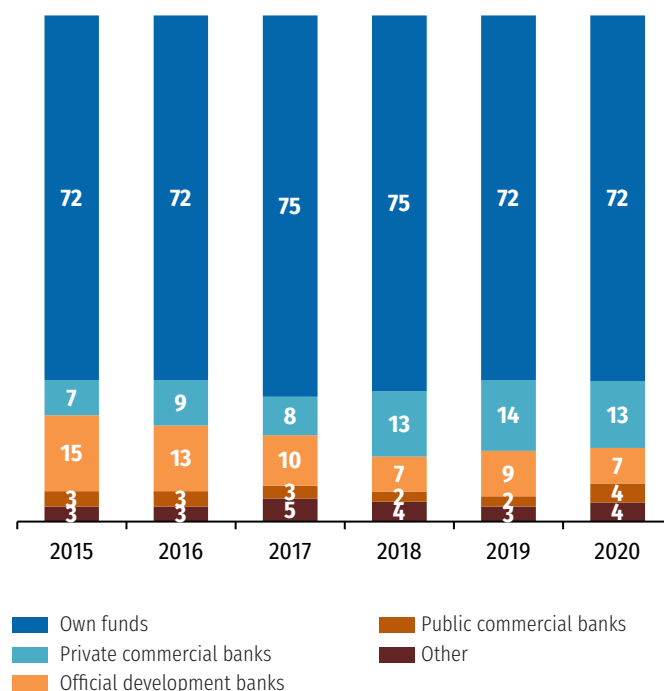
The share of private commercial banks stood at 13%, dropping by one percentage point from 2019.

The share of official development banks was only 7%. This is 2 percentage points below that recorded in 2019, and equals the historical low recorded in 2018. Prior to 2015, this percentage hovered around 20%.

Other funding sources, such as public commercial banks, external financing, and partnerships or *joint ventures* amounted to 8%.

Graph 6 - Funding sources for investments made in 2020

Average percentage (%) considering valid responses from investing companies



2 INVESTMENT IN 2021

More investments expected for 2021

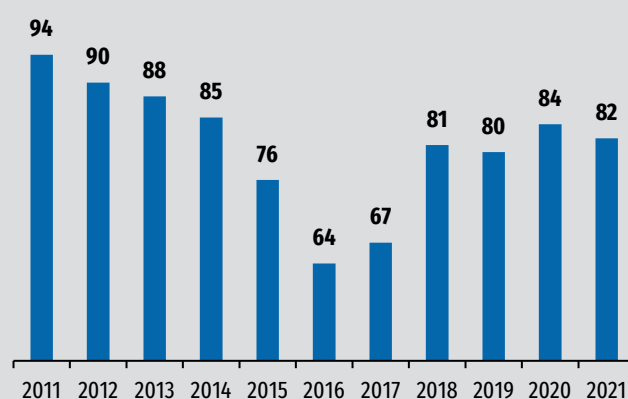
The percentage of large companies with plans to invest in 2021 is close to that observed in the previous three years: 82% of large companies are willing to invest in 2021. This figure is 2 percentage points lower than the result for 2020 and slightly higher than the result for 2018 and 2019, as shown in graph 7. The percentage of companies with plans to invest in 2021 is 13 percentage points higher than the percentage of companies that actually invested in 2020 (82% versus 69%).

The companies were divided when pointing out the reasons why the company have no plans to invest in 2021. Over one third (35%) of large companies that have no plans to invest in 2021 said that they will not invest because there is no need to do so. The others identified a need to

invest, but 33% will not invest because they chose not to do so in 2020, while another 33% will not invest because they have no means to invest.

Graph 7 - Investment intentions

Share (%) in all valid responses



Increased production capacity gains importance in the investment plans

Improving production processes continues remains the main goal of the investment plans. For 2021, this goal was indicated by 35% of companies, a figure almost identical to the two previous years.

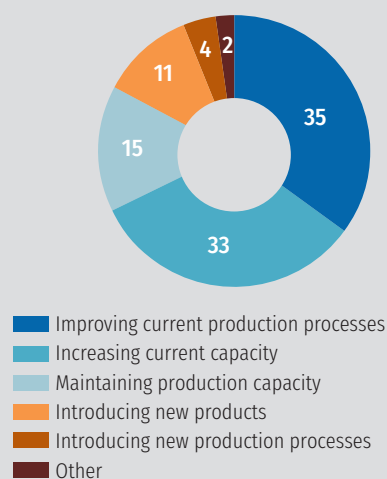
Increasing production capacity remained in second place among the main goal of the investment plans, but the percentage went from 23% of the investment plans for 2020 to 33% for 2021. The percentage had not exceeded 30% since 2011, the beginning of the historical series, and is the highest level recorded. This high percentage of indications suggests the expected consolidation of the strong recovery of industrial activity after the most critical period of the pandemic.

Most investments planned for 2021 are focused on the acquisition of machinery: 66% of the total.

Among these acquisition plans, 23% are focused on the purchase of used machinery and equipment.

Graph 8 - Main objective of investments planned for 2021

Percentage (%) of all companies with investment plans



Investments directed mainly towards the domestic market

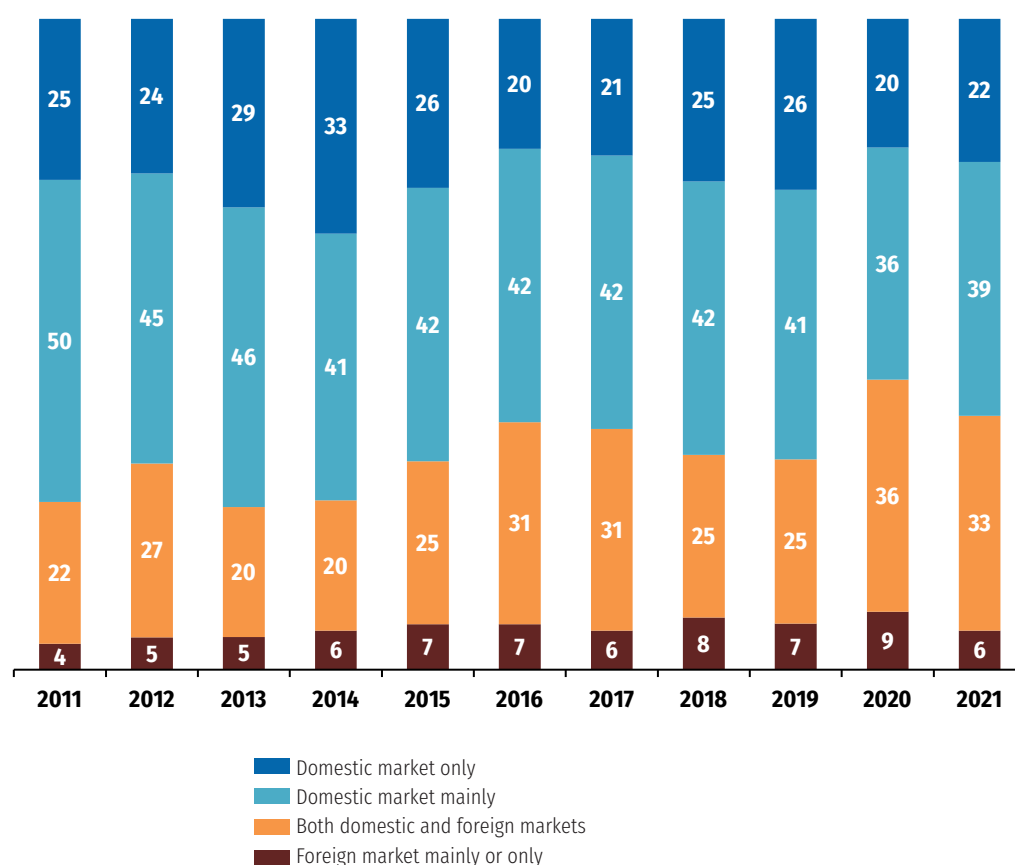
As observed every year, most investments are still directed only or mainly to towards the domestic market. The plans for 2021 indicate a greater focus on the domestic market than in 2020. It should be noted that in 2020, the focus on the foreign market was greater than usual. When comparing with the historical series, the focus on the foreign market in 2021 is slightly higher than in previous years.

The percentage of investment plans focused only on the domestic market edged up from 20% to 22%, but remains below the historical average of 25%. Likewise, the percentage of investment plans targeted mainly at the domestic market edged up from 36% to 39%, but also remains below the historical average of 42%.

On the other hand, the percentage of investment plans directed both toward the domestic and foreign markets dropped from 36% to 33%, but is still above the historical average of 27%.

Graph 9 - Target market for planned investments

Percentage (%) of all companies with investment plans





TECHNICAL SPECIFICATIONS

The survey was conducted with 462 large companies from January 4-15, 2021.



LEARN MORE

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



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