

INDUSTRIAL COST INDICATOR



Brazilian National Confederation of Industry
THE FUTURE OF INDUSTRY

Industrial costs edge down in the third quarter of 2019

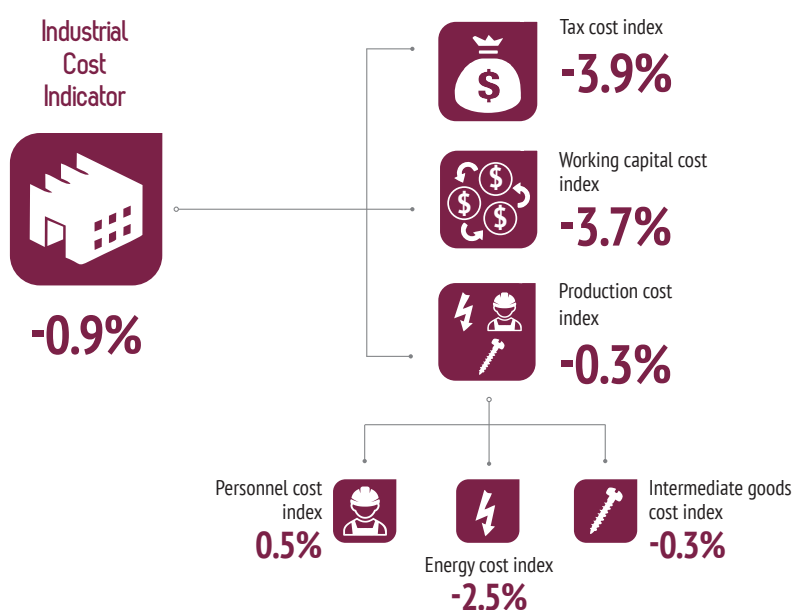
The industrial cost indicator dropped by 0.9% in the third quarter of 2019 on a quarter-over-quarter seasonally adjusted basis. Among the components making up the indicator, the labor cost index was the only one to post growth between the second and third quarters of 2019, while all others decreased.

The component that experienced the steepest quarterly decline was that of tax costs, which fell by 3.9%, followed by working capital costs, with a 3.7% drop. Energy costs registered the third largest drop: -2.5%.

The decline in industrial costs in the quarter was higher than that in prices of goods manufactured in Brazil, which indicates profitability gains for companies in the quarter. Industry also gained competitiveness both in the domestic market and in foreign markets. While industrial costs are down, prices in reais of imported manufactured goods competing with Brazilian industry in the domestic market increased by 0.7%. Prices in reais of goods manufactured in the US also increased, indicating that products competing with Brazilian exports in the foreign market also became more expensive as Brazilian industrial costs edged down.

Change in the third quarter of 2019 as compared to the second quarter of 2019

Seasonally adjusted



INDUSTRIAL COST INDICATOR AND ITS COMPONENTS

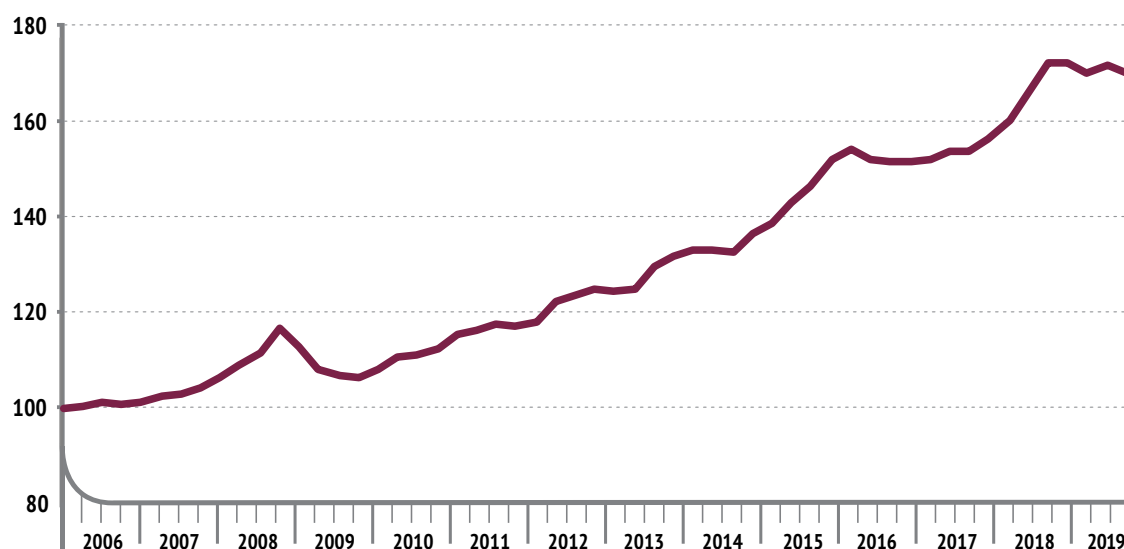
Costs shrink in the third quarter

Virtually all components making up the industrial cost indicator declined in the third quarter of 2019 on a quarter-on-quarter basis, except for personnel costs. The indicator is calculated on a

seasonally adjusted basis, i.e., disregarding the typical movements seen in a specific period of the year, which is influenced by weather, holidays, among other factors.

Industrial Cost Indicator

Seasonally adjusted - Base: 2006 average = 100



The component with the largest influence on the decline in the industrial cost indicator was that of tax costs, which fell by 3.9% between the second and third quarters, marking the fourth largest decrease in the historical series started in 2006. The three periods with larger declines are the fourth quarter of 2011, followed by the first and second quarters of 2009.

Tax costs are calculated by dividing the actual collection of ICMS, IPI and social security contribution in the industrial sectors by the industrial GDP for the quarter. Considering only the industrial sectors, ICMS revenues in the third quarter of 2019 decreased by 0.4%, while IPI revenues increased by 0.3% and social security contribution revenues edged down by

0.7%. During the same period, industrial GDP at current prices in the original non-seasonally adjusted series grew by 8.9%, driven by the increase in mining and quarrying industry. As a result, tax collection as a percentage of GDP experienced a 2.5% decline in the period on a seasonally adjusted basis.

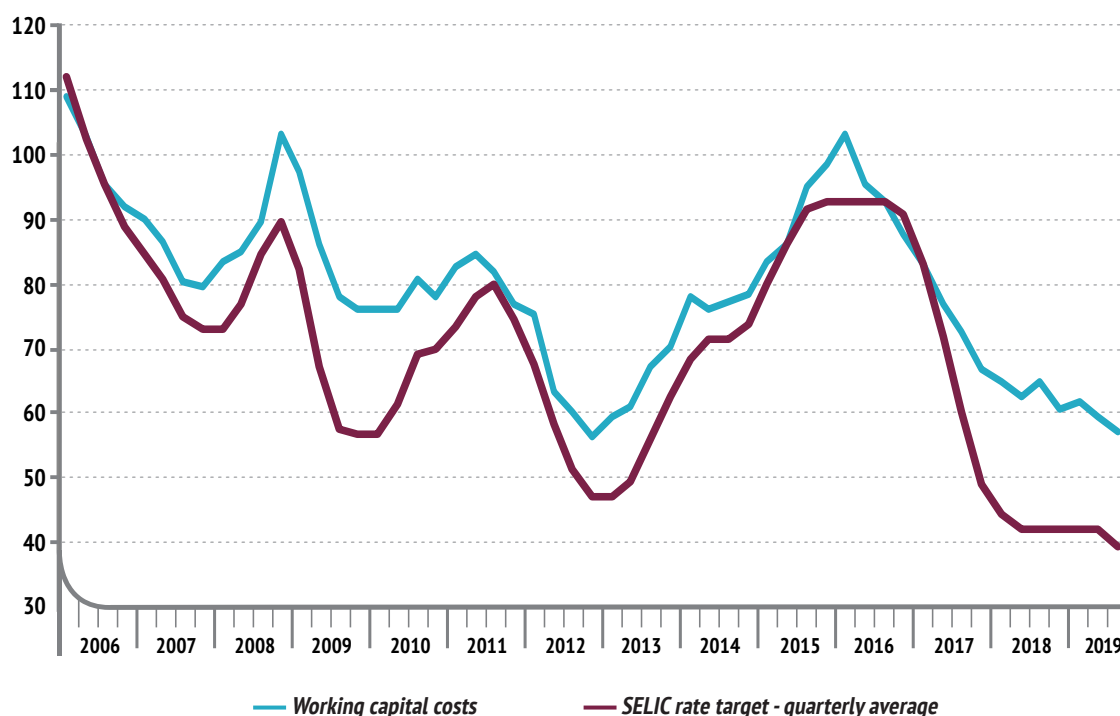
The decline in tax costs may be related to the fact that tax collection does not occur simultaneously to production, which causes industrial GDP to increase before tax collection during production growth rebounds. Another possible explanation is that the increase in production was partly oriented toward export, which is exempt from ICMS and IPI taxes.

Capital costs hit second lowest point in series started in 2006

Working capital costs fell again in the third quarter of 2019, this time by 3.7%. With this decline, the indicator hit its second lowest level in the series started in 2006, only behind the figure registered in the fourth quarter of 2012.

Working capital cost index and quarterly average SELIC rate target

Base: 2006 average = 100

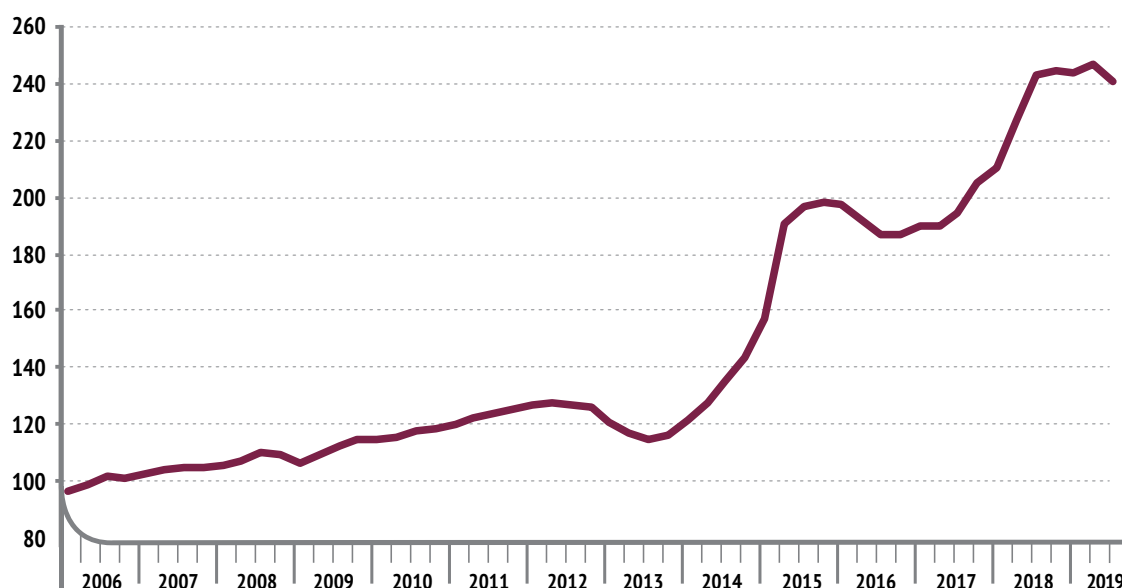


Energy costs fall in the third quarter driven by lower fuel oil prices

Energy costs fell by 2.5% between the second and third quarters of 2019, led by the 11.5% decrease in fuel oil prices. Electricity, another component that makes up energy costs, held relatively steady in the period as it edged up by 0.1% in the seasonally adjusted series.

Energy cost index

Seasonally adjusted - Base: 2006 average = 100



PROFITABILITY AND COMPETITIVENESS

Industry gains competitiveness in the third quarter 2019

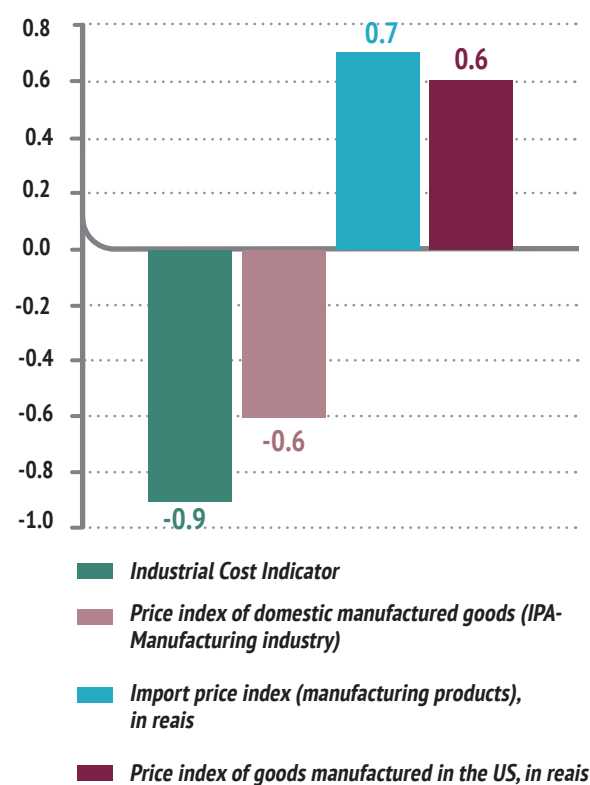
Prices in reais of imported manufactured goods rose by 0.7% between the second and third quarters of 2019, while industrial costs edged down in the period. This indicates that Brazilian industry has gained competitiveness in the domestic market in relation to imported products.

Competitiveness gains were also recorded in foreign markets, where Brazilian exports compete with products from other countries. Prices in reais of goods manufactured in the US increased by 0.6%, while costs of Brazilian companies experienced a decline.

The third quarter also saw an increase in profitability of Brazilian industry. Prices of goods manufactured in Brazil dropped by 0.6% from the second to the third quarter of 2019, which is smaller than the 0.9% decline in industrial costs in the period.

Profitability and competitiveness

Percentage change in the third quarter of 2019 as compared to the second quarter of 2019



Industrial cost indicator and its components

	Q3 2019/ Q2 2019*	Q3 2019/ Q3 2018**
INDUSTRIAL COST INDICATOR - ICI	-0.9	-2.1
Production cost index	-0.3	-0.6
Personnel cost index	0.5	2.6
Intermediate goods cost index	-0.3	-1.3
Domestic intermediate goods price index	-0.3	-0.5
Imported intermediate goods price index	-0.6	-5.7
Energy cost index	-2.5	-2.7
Working capital cost index	-3.7	-11.6
Tax cost index	-3.9	-8.3

Source: CNI.

Note: * seasonally adjusted results.

** original results.

Industrial cost indicator and price indices

	Q3 2019/ Q2 2019*	Q3 2019/ Q3 2018**
INDUSTRIAL COST INDICATOR - ICI	-0.9	-2.1
Price index of domestic manufactured goods (IPA-Manufacturing industry)	-0.6	1.1
Import price index (manufacturing products), in reais	0.7	-6.6
Price index of goods manufactured in the US, in reais	0.6	-0.4

Source: CNI.

Note: * seasonally adjusted results.

** original results.



Learn more

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