

INDUSTRIAL COST INDICATOR

ECONOMIC INDICATORS **CNI**

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Brazilian National Confederation of Industry
THE FUTURE OF INDUSTRY

Industrial costs saw the third-lowest growth in their series in 2019

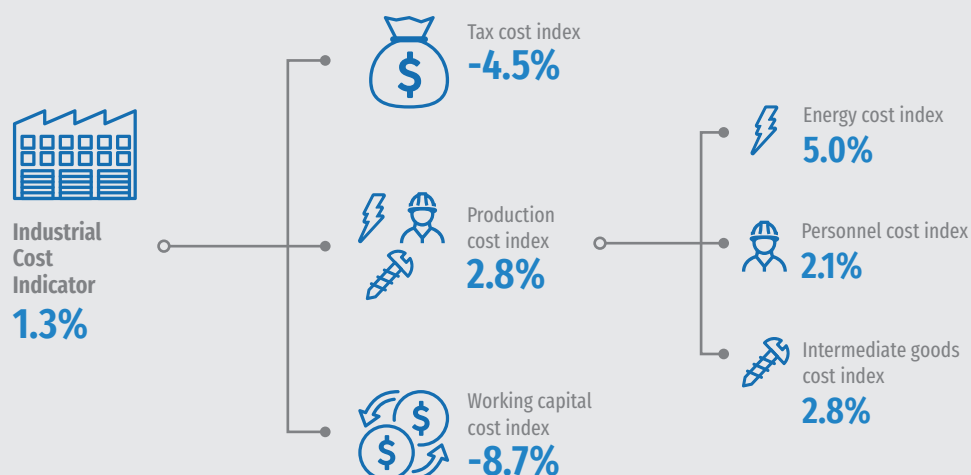
The industrial cost indicator grew by 1.3% in the 2019 average compared to the average in 2018. This is the third-lowest growth in the annual series, second only to the retraction seen in 2009 and to the 1.0% growth recorded in 2017.

The moderate growth observed in industrial costs in 2019 was influenced by the modest increase seen in the cost of personnel and intermediate goods and was brought about by the drop in working capital and tax costs. As opposed to other components of the index, energy costs increased by 5.0% in the 2019 average compared to the average recorded in 2018.

In 2019, industry at large showed an increase in its profitability, as industrial costs increased less than the prices of manufactured products in Brazil. Brazilian industry also gained competitiveness in 2019 both in the domestic and in the international market.

In the domestic market, the gain in competitiveness was caused by the fact that costs increased less than the prices of imported products, which compete with Brazilian industry. In the international market, the gain in competitiveness resulted from a greater increase in the prices in reais of products manufactured in the United States, which compete with Brazilian exports. Both shifts were driven by the devaluation of the Brazilian currency.

Change in the 2019 average in relation to the average in 2018



INDUSTRIAL COST INDICATOR AND ITS COMPONENTS

Industrial cost indicator increases by 1.3% in 2019

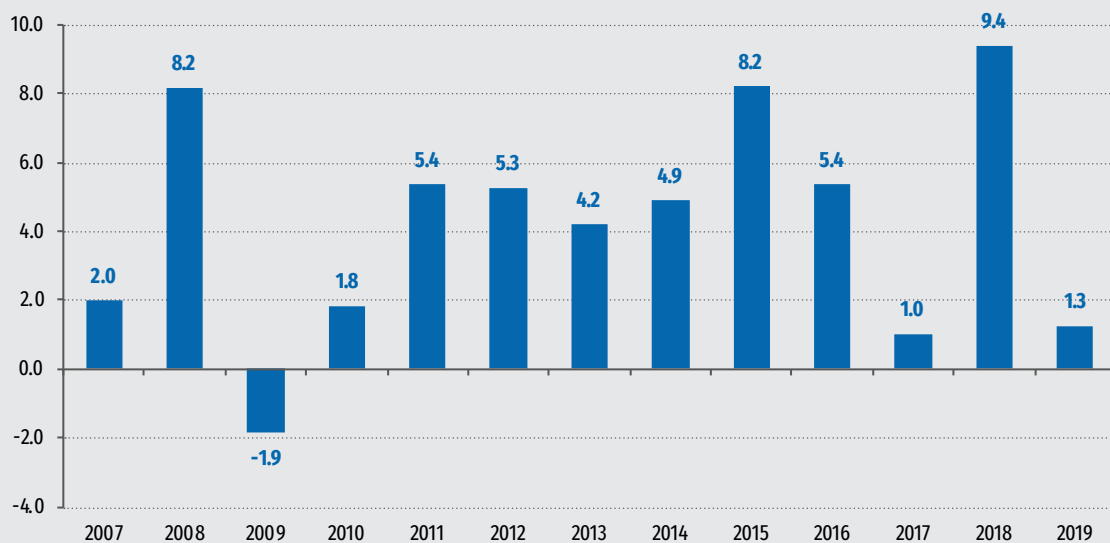
The industrial cost indicator had the third-lowest average annual growth since the beginning of its annual historical series in 2006. The increase in the indicator is only higher than that seen in 2009, the year in which the Brazilian economy faced the global financial crisis, and in 2017, when inflation was controlled and Brazil was still recovering from the 2015-2016 recession.

The moderate growth observed in the indicator is welcome, especially after it experienced its highest growth in the historical series in 2018.

Two of the components that put the most pressure on industrial costs in 2018, namely, the costs of domestic intermediate goods and of imported intermediate goods, took a moderate upturn in 2019. The cost of domestic intermediate goods rose by 11.9% in 2018 and by 2.9% in 2019, while the cost of imported intermediate goods increased by 22.3% in 2018 and by 2.7% in 2019.

Industrial cost indicator

Average annual growth

**Personnel costs show second-lowest annual growth since the beginning of the series**

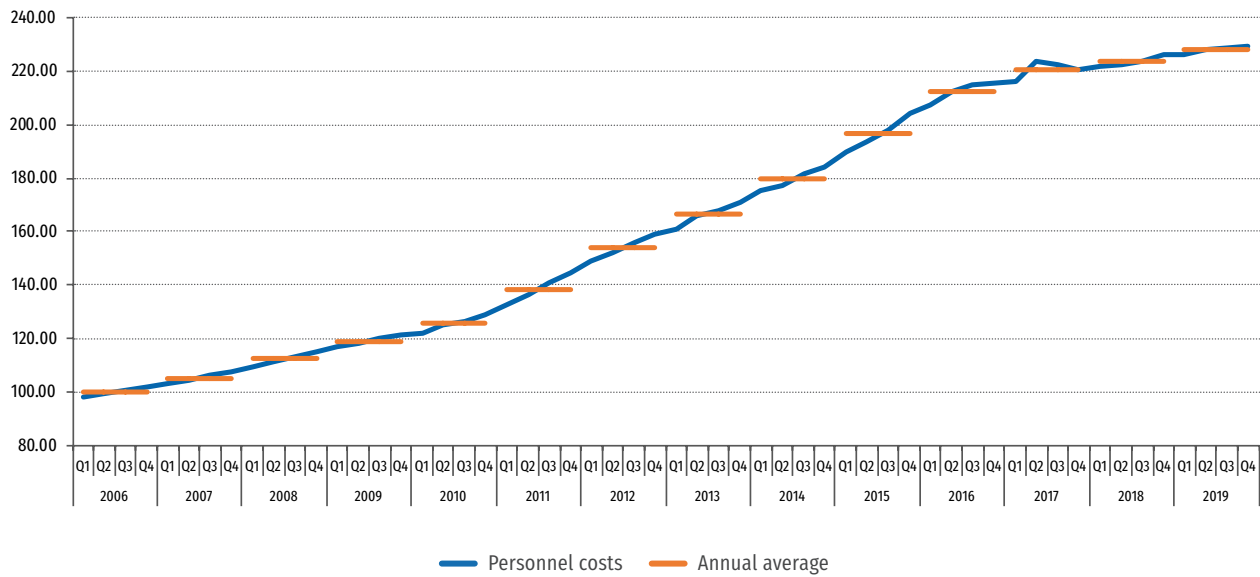
Personnel costs increased by 2.1%, considering the 2019 average in relation to the 2018 average. This is the second lowest growth seen in the indicator since the beginning of the annual series, in 2006, second only to the 1.3% growth observed in 2018.

The low growth in personnel costs was brought about by the low inflation

observed in the Brazilian economy over the period and by the slow recovery of the economy. On the one hand, lower inflation allows for companies and trade unions to agree on a lower percentage of increase in wages, considering that a lower percentage of increase is sufficient to preserve the purchasing power of workers. On the other hand, the low demand for labor by companies resulting from slow recovery of the economy reduces competition for skilled workers, alleviating the pressure on wages.

Personnel cost index - Historical series

Base: 2006 average = 100



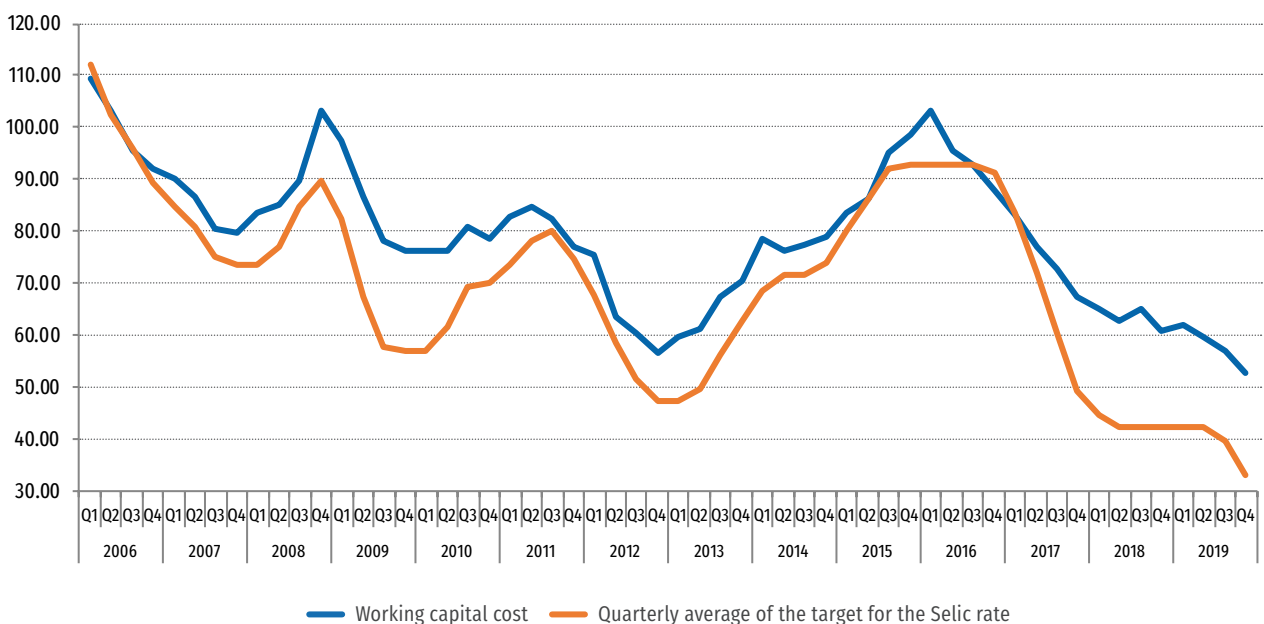
Working capital costs decline for the third year in a row

In 2019, the average decline of 8.7% seen in working capital costs contributed to contain industrial costs in the year. This is the third year in a row in which this component has been declining, albeit at a decreasing rate, from -20.9% in 2017 to -15.5% in 2018, and hitting the mark of -8.7% in 2019.

Despite a marked difference between capital costs, especially working capital costs, for companies in relation to the basic interest rate set by the Central Bank, caused by the high bank interest spread, loan costs for borrowers have been on the decline.

Working capital cost index and quarterly average of the SELIC rate target - Historical series

Seasonally adjusted - Base: 2006 average = 100



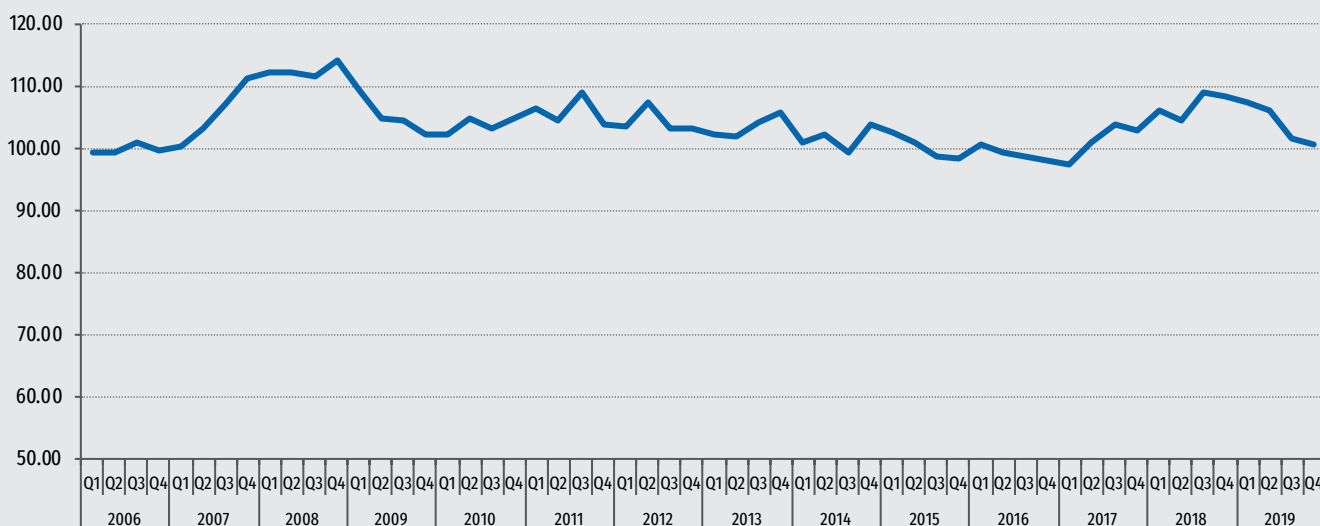
Tax costs close the year on the decline, mitigating the increase of the indicator

Tax costs closed the year down by 4.5% in the 2019 average in relation to the average recorded in 2018. This component of the industrial cost indicator is calculated considering the actual revenues from the turnover tax (ICMS), from the tax on industrial products (IPI) and from social security contributions paid by industry over the period in relation to industrial GDP.

In 2019, a reduction was observed both in revenues from the ICMS tax levied on industry in relation to industrial GDP and in revenues from social security contributions paid by industry in relation to industrial GDP. Revenues from the IPI tax in relation to industrial GDP held steady over the period.

Tax cost index - Historical series

Seasonally adjusted - Base: 2006 average = 100



PROFITABILITY AND COMPETITIVENESS

Brazilian industry gains competitiveness and profitability in 2019

The profitability of Brazilian industry, in general, increased in 2019 as compared to 2018. This occurred because the industrial cost indicator increased by 1.3%, less than the prices of manufactured products, which rose by 4.3%.

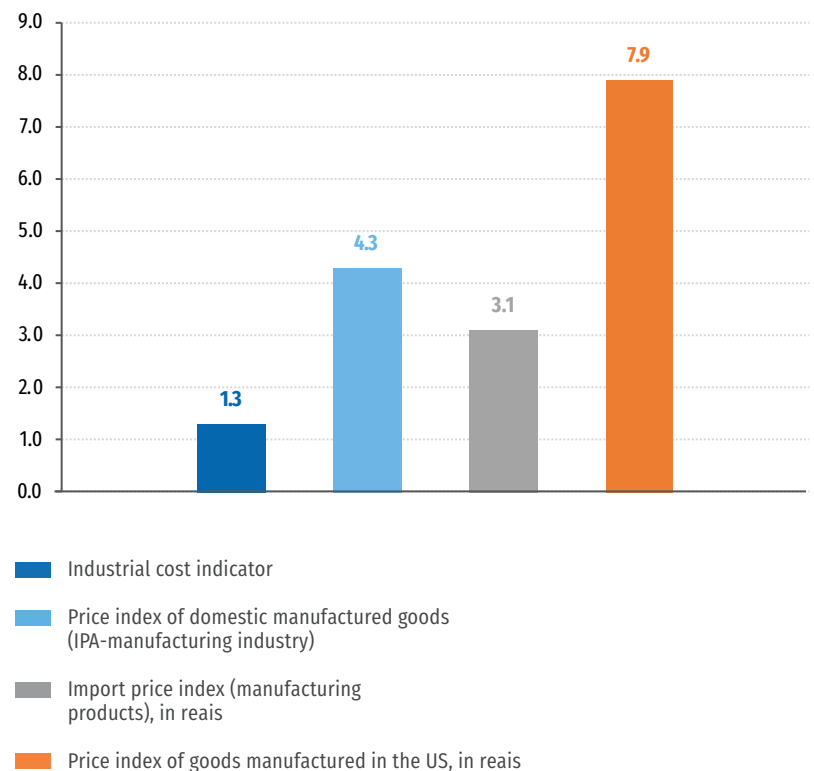
Industry also gained competitiveness in both the domestic and in the international market, mainly as a result of the devaluation of the Brazilian currency throughout 2019.

The prices of imported manufactured products in reais increased by 4.3%, exceeding the increase observed in industrial costs for Brazilian industry over the period. As a result, Brazilian products became relatively cheaper to manufacture throughout 2019 as compared to the prices of imported products competing with them in the domestic market.

In addition, the prices in reais of products manufactured in the United States increased by 7.9%. Such prices represent international prices for manufactured products. Considering that costs increased less than the prices of products on the world market, our exports tend to become more competitive.

Profitability and competitiveness

Percentage change in the 2019 average in relation to the 2018 average



Industrial cost indicator and its components

	Q4 2019/ Q3 2019*	Q4 2019/ Q4 2018**	2019 AVERAGE/ 2018 AVERAGE**
Industrial cost indicator - ICI	0.9	-2.5	1.3
Production cost index	1.4	0.3	2.8
Personnel cost index	0.2	1.2	2.1
Intermediate goods cost index	1.5	0.1	2.8
Domestic intermediate goods cost index	1.4	-0.1	2.9
Imported intermediate goods cost index	2.3	1.1	2.7
Energy cost index	4.3	-1.0	5.0
Working capital cost index	-7.7	-13.4	-8.7
Tax cost index	-1.0	-13.1	-4.5

Source: CNI.

Note: * seasonally adjusted results.

** original results.

Industrial cost indicator and price indices

	Q4 2019/ Q3 2019*	Q4 2019/ Q4 2018**	2019 AVERAGE/ 2018 AVERAGE**
Industrial cost indicator - ICI	0.9	-2.5	1.3
Price index of domestic manufactured goods (IPA-manufacturing industry)	2.5	2.8	4.3
Import price index (manufacturing products), in reais	2.4	1.4	3.1
Price index of goods manufactured in the US, in reais	3.7	7.4	7.9

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

Document closed by April 1, 2020.

INDUSTRIAL COST INDICATOR | English version of "Indicador de Custos Industriais Outubro/Dezembro de 2019" | Quarterly Publication of the National Confederation of Industry - CNI | www.cni.com.br | Industrial Development Board - DDI | Research and Competitiveness Unit - GPC | Executive manager: Renato da Fonseca | Statistics Unit | Manager: Edson Velloso | Team: Maria Carolina Correia Marques and Edson Velloso | Editing Unit | Coordinator: Carla Gadêlha | Graphic design: Simone Marcia Broch

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