

INDUSTRIAL COST INDICATOR

ECONOMIC INDICATORS **CNI**

CNI

Brazilian National Confederation of Industry
THE FUTURE OF INDUSTRY

Input prices push up industrial costs

The Industrial Cost Indicator rose by 8.6% in the third quarter of 2020. It is the largest increase ever recorded since the beginning of the historical series, in 2006.

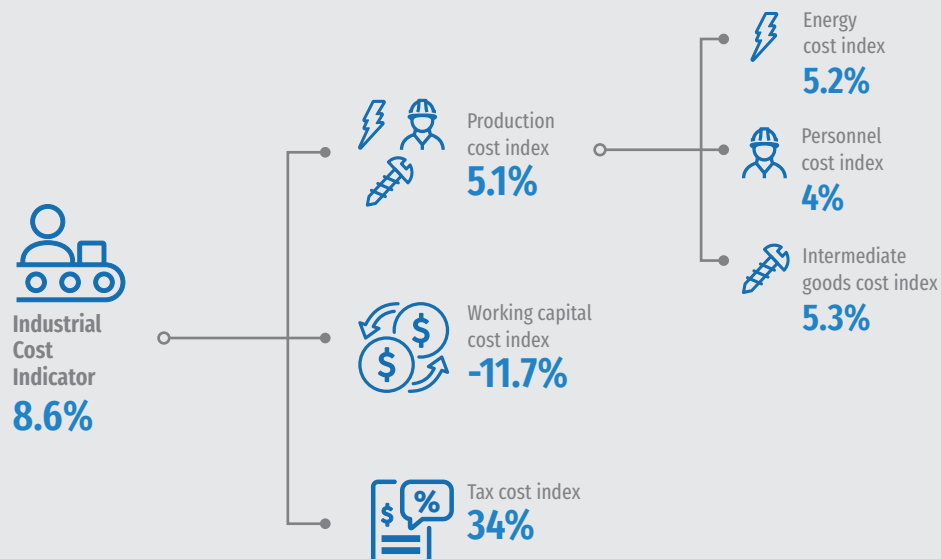
Part of the increase was driven by an adjustment in relation to the second quarter of 2020, when many industrial costs had fallen temporarily due to the economic crisis and government measures to mitigate its effects. This is the case with tax costs, energy costs, and personnel costs.

Tax costs increased 34%, reversing a 22.1% drop recorded in the second quarter. Energy costs and personnel costs increased 5.2% and 4%, respectively, and did not reverse the drops recorded on the second quarter.

The main driver of cost increase in 2020 is the cost of intermediate goods. This cost increased due to circumstances also caused by the crisis, but with a continuing nature. Intermediate good costs increased 5.3% in the third quarter of 2020, after rising 6.2% in the previous quarter. Working capital costs remained on a downward trend.

Change in the third quarter of 2020 compared to the second quarter of 2020

Seasonally adjusted



INDUSTRIAL COST INDICATOR AND ITS COMPONENTS

Economic recovery is marked by rising industrial costs

Comparing the Industrial Cost Indicator for the third quarter of 2020 with that for the second quarter, there was an increase of 8.6%, in the series, on a seasonally-adjusted basis.

Production costs and the tax costs increased in the quarter, while working capital costs remained on a downward trend. Among the components of production cost, the main driver of cost increase in 2020 is the cost of intermediate goods. The cost of domestic intermediate goods has increased steadily throughout 2020 and this increase is expected to continue in the fourth quarter and in 2021.

Personnel costs

Personnel costs increased by 4% in the third quarter of 2020. This increase, however, does not reverse the 6% drop recorded in the second quarter. Comparing the first three quarters of 2020 with the same period of 2019, personnel costs remained stable.

The increase in personnel costs in the third quarter of 2020 is primarily driven by the reduction in the number of agreements to reduce working hours and wages or suspend labor contracts. Secondly, payroll growth was also driven by the opening of nearly 400,000 formal jobs by the industry in the third quarter.

Energy costs

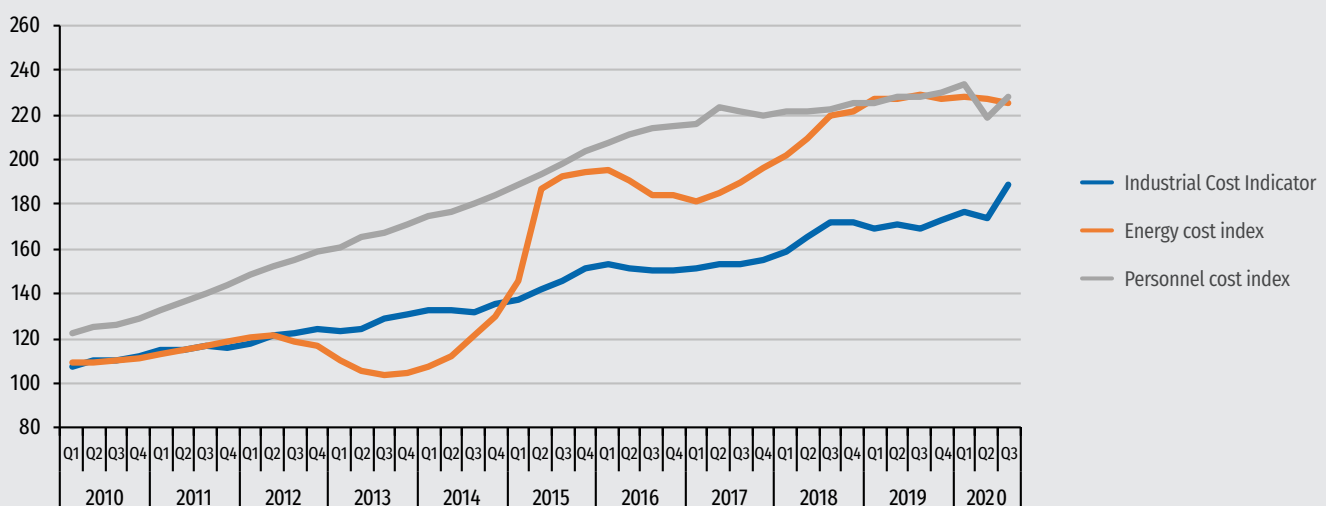
Energy costs for the industry increased by 5.2% in the third quarter of 2020. This increase, however, does not reverse the 9.5% drop recorded in the second quarter of 2020. Thus, in the year-to-date figure for 2020 up to the end of the third quarter, energy costs accumulated a drop of 1.2% in relation to the same period in 2019.

Regarding the result of the third quarter of 2020, the increase is mainly driven by the price of fuel oil, whose cost rose 35.9% in relation to the second quarter. The electricity cost fell by 1.1%.

In the third quarter of 2020 the price of oil in the international market experienced a recovery after the sharp drop recorded in the second quarter, which raised the price of oil products, such as fuel oil.

Industrial Cost Indicator, Energy cost index and Personnel cost index

Fixed-base index - Seasonally adjusted - Base: 2006 average = 100



Cost of intermediate goods

Intermediate good costs increased 5.3% in the third quarter of 2020 compared to the second quarter.

The cost of imported intermediate goods fell by 0.7%. This result hardly changes the increase accumulated in previous quarters. In the year-to-date figure for 2020 up to the end of the third quarter, compared to the same period of 2019, the cost of imported intermediate goods rose by 22.3%.

The cost of domestic intermediate goods increased steadily over the first three quarters of 2020. In the first quarter the costs increased by 2.6%, followed by a 4.1% increase in the second quarter and a 6.6% increase in the third quarter.

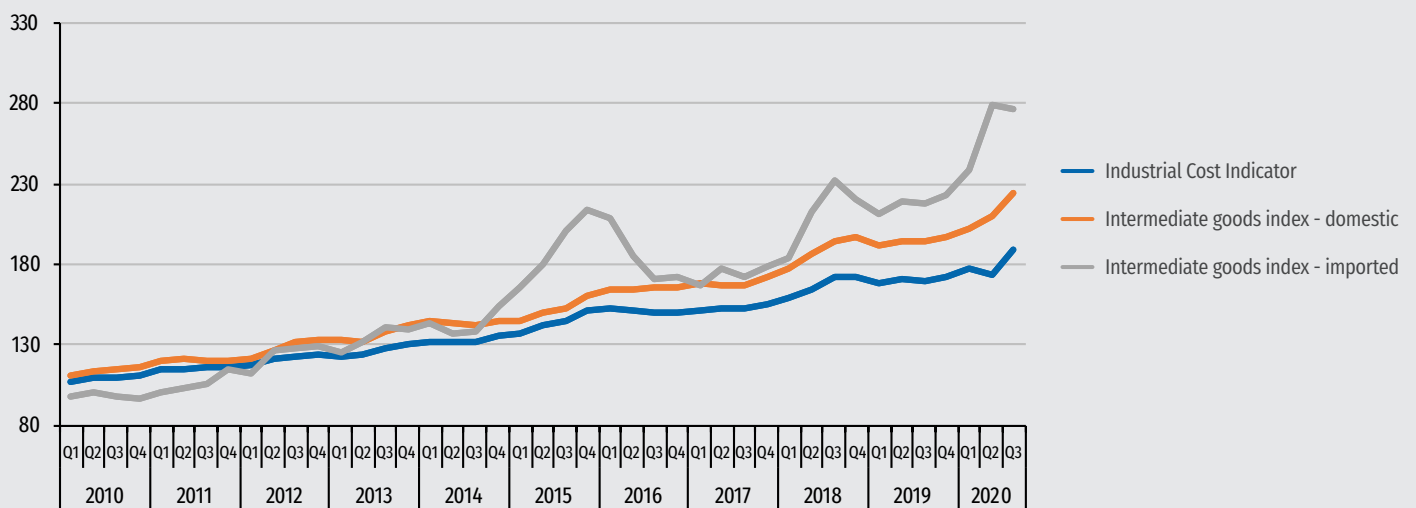
These results are related to the exchange rate, as the depreciation of the Brazilian real in the second quarter of 2020 pushes up the prices, in reais, of both imported and domestic inputs that are traded and priced based on the international market, such as iron ore, steel, among others. Furthermore, the initial impact of the increased cost of imported inputs tends to spread throughout the chain, affecting prices gradually over the months.

The faster than expected economic recovery, which emptied the industry's inventories, also affects the cost of intermediate goods. The shortage of inputs unbalanced the market and put pressure on the price of these goods.

The cost of intermediate products is expected to continue to rise in the fourth quarter of 2020 and in 2021, both due to the gradual effect of the increase in inputs priced in dollars, and due to the shortage of inputs.

Industrial Cost Indicator and Intermediate goods cost index (domestic and imported)

Fixed-base index - Seasonally adjusted - Base: 2006 average = 100



Capital costs

Capital costs, which are measured by the interest rate for working capital, reached in the third quarter of 2020 the lowest level of the historical series (beginning in the first quarter of 2006). The index declined by 11.7% in comparison with the second quarter of 2020 and accumulates a 23% drop in the first three quarters of 2020.

The cost of capital remained in decline throughout 2020, responding to the measures put in place by the Central Bank of Brazil, the federal government,

and the National Congress to fight the crisis. The Central Bank of Brazil acted by reducing the Selic interest rate and promoting measures to increase liquidity, such as the purchase of private securities in the secondary market, changes in compulsory deposit requirements, reductions in capital requirements, direct loans to banks backed by debentures and treasury financial bills, among other measures.

In addition, the government and the National Congress created financing programs such as the National Program to Support Micro and Small Businesses (PRONAMPE) and the Emergency Program for Access to Credit (PEAC). Such programs have allowed the provision of working capital to the private sector at low interest rates.

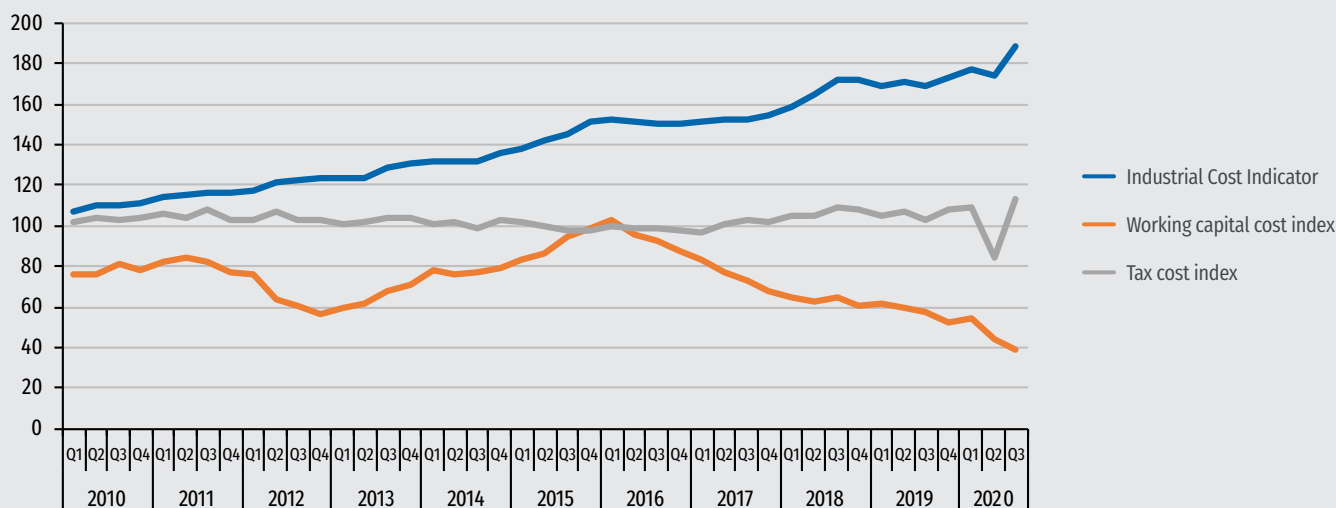
Tax costs

Tax costs increased 34% in the third quarter of 2020 compared to the second quarter. It should be noted, however, that the second quarter of 2020 had been an atypical quarter for tax collection due to the crisis and measures to postpone the period for payment of taxes put in place by the government. Furthermore, agreements to suspend labor contracts or reduce the working hours and wages had a negative impact on the collection of social security contributions.

Payments of social security contributions by the industry rose in the third quarter, influenced by the reduction in the number of agreements to suspend labor contracts or reduce working hours and wages and by the recovery of formal employment in the third quarter. In addition, part of the second quarter's social security contributions could be paid exceptionally in the third quarter of 2020.

Industrial Cost Indicator, Working capital cost index and Tax cost index

Fixed-base index - Seasonally adjusted - Base: 2006 average = 100



PROFITABILITY AND COMPETITIVENESS

Profitability varies during the crisis and recovery, but no change is recorded in the year-to-date figure

Industry profitability fell in the third quarter of 2020, since the 7.1% increase in the prices of goods sold by the manufacturing industry was not enough to compensate the high costs of 8.6%.

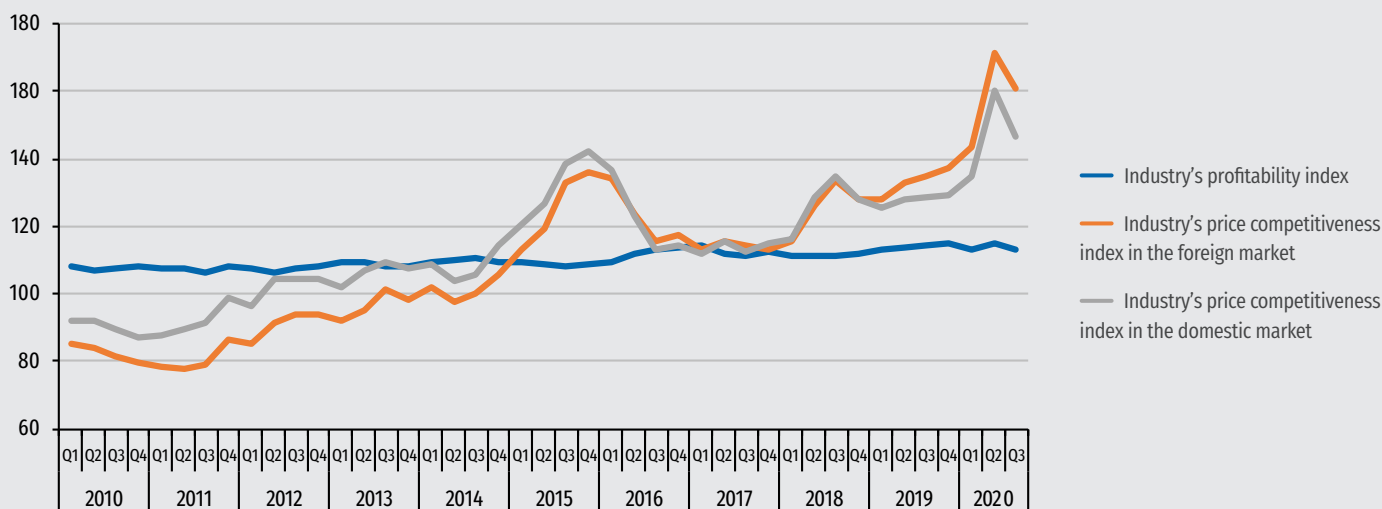
However, comparing the 6.3% increase in industrial costs in 2020 up to the end of the third quarter, with the 6.2% increase in the price of goods produced by the manufacturing industry in the same period, no significant change is observed in the profit margin of industrial companies.

The Brazilian industry lost competitiveness in the international market in the third quarter, as the increase, in Brazilian reais, in the price of products sold by industries in other countries, such as the United States (increase of 1.9%), was much lower than the increase in costs of the Brazilian industry (8.6%).

In the year-to-date figure for 2020 up to the end of the third quarter, however, the Brazilian industry gains competitiveness, since the 6.2% increase in the price of domestic industry products does not come close to the 22.2% increase, in Brazilian reais, in the cost of imported goods and 27.2% increase in the cost of goods manufactured in the United States, because of the devaluation of the Brazilian real in the first and second quarters of 2020.

Industry's profitability index and Industry's price competitiveness index in foreign and domestic markets

Fixed-base index - Seasonally adjusted - Base: 2006 average = 100



Notice: Industry's profitability index is computed by dividing the Domestic manufacturing prices index (IPA-Manufacturing) by the Industrial Cost Indicator. Industry's price competitiveness indexes in foreign and domestic market, on the other hand, are the result of the division of the USA manufacturing price index, in Brazilian reais, and of the Imported price index, in Brazilian reais, respectively, by the Industrial Cost Indicator.

Industrial cost indicator and its components

Percent change (%)

	Q3 2020/ Q2 2020*	Q3 2020/ Q3 2019**	Q1 2020 TO Q3 2020/ Q1 2019 TO Q3 2019**
Industrial Cost Indicator - ICI	8.6	11.9	6.3
Production cost index	5.1	12.9	8.5
Personnel cost index	4.0	0.7	0.0
Intermediate goods cost index	5.3	17.3	11.5
Domestic intermediate goods price index	6.6	15.5	9.6
Imported intermediate goods price index	-0.7	2.0	22.3
Energy cost index	5.2	-2.6	-1.2
Working capital cost index	-11.7	-31.8	-23.0
Tax cost index	34.0	11.7	-1.0

Source: CNI.

Note: * seasonally adjusted results. ** original results.

Industrial cost indicator and price indices

Percent change (%)

	Q3 2020/ Q2 2020*	Q3 2020/ Q3 2019**	Q1 2020 TO Q3 2020/ Q1 2019 TO Q3 2019**
Industrial Cost Indicator	8.6	11.9	6.3
Price index of domestic manufactured goods (IPA-manufacturing industry)	7.1	10.8	6.2
Import price index (manufacturing products), in Brazilian reais	-0.6	27.0	22.2
Price index of goods manufactured in the US, in Brazilian reais	1.9	32.8	27.2

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

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