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CONSTRUCTION INDUSTRY SURVEY

ECONOMIC INDICATORS CNI

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Fast and steep decline in construction

The negative impacts caused by the COVID-19 pandemic have already hit the construction industry sector.

The index measuring actual-usual inventory levels, which indicates the extent to which construction activity is heated up, fell to 25.5 points. This marked the second lowest point in the series, falling only behind the 25.3-point mark observed in February 2016.

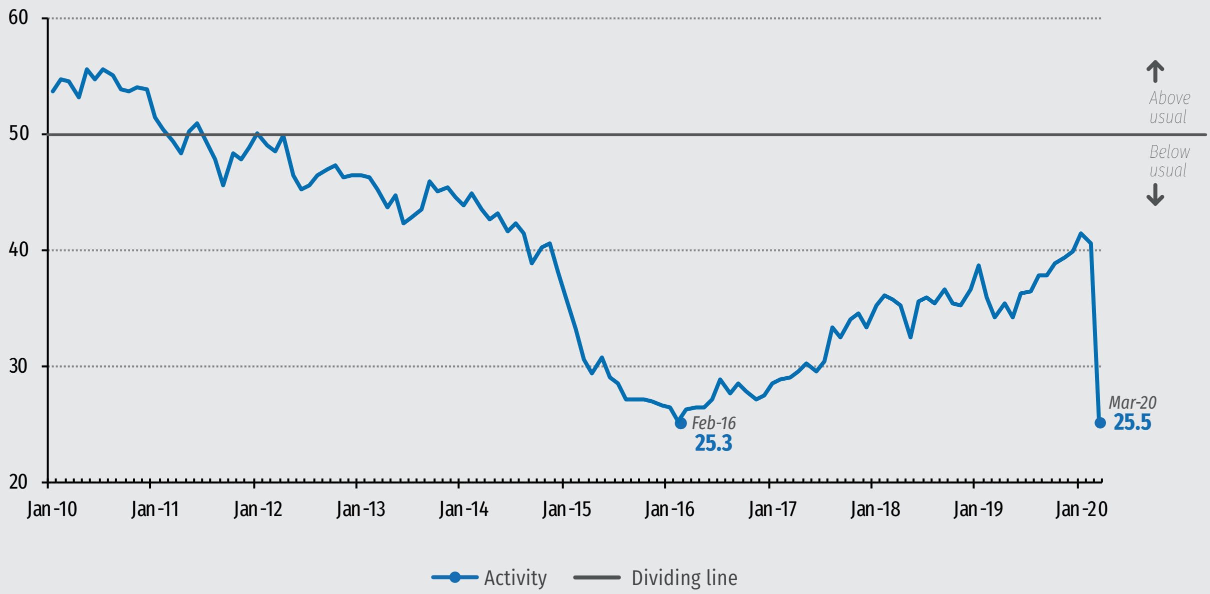
The indicators of number of employees and activity levels have recorded the fastest and most widespread involution in the series, while the sector has experienced the most sudden increase in idle capacity.

Business financial conditions have also worsened, reversing the positive results registered in the previous three quarters.

Given the current scenario, entrepreneurs have shown a marked decline in confidence and expect to see low growth rates over the coming months.

Actual-usual activity level

Diffusion index (0-100 points)*



*Figures below 50 points indicate lower than usual activity level. Figures above 50 points indicate higher than usual activity level. The further away from 50 points, larger and widespread the distance is from the usual.

PERFORMANCE OF CONSTRUCTION INDUSTRY IN MARCH 2020

Activity sees steepest decline in the series in March

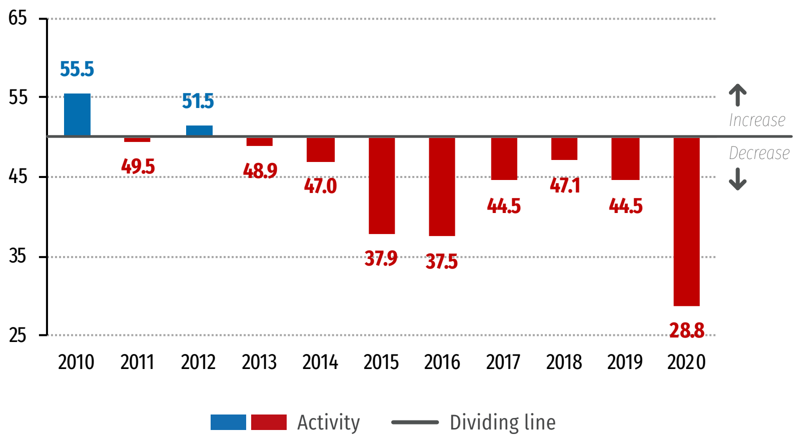
Activity levels in the construction industry fell sharply in March, hampered by the effects of the COVID-19 pandemic. Employee numbers have also declined.

The activity level indicator fell to 28.8 points, down by 21.2 points from the 50-point dividing line between growth and decline in activity levels. This figure represents an all-time low in the historical series, meaning that such a strong and widespread decline in the indicator is unprecedented in the monthly series.

The indicator measuring number of employees amounted to 39 points, down by 11 points from the 50-point mark. One can see that employment has not declined as strongly as activity. This is probably explained by the quick and unexpected decline in activity and by the reaction of companies through temporary adjustments such as collective vacations, reduced working hours and/or suspension of employment contracts.

Activity index

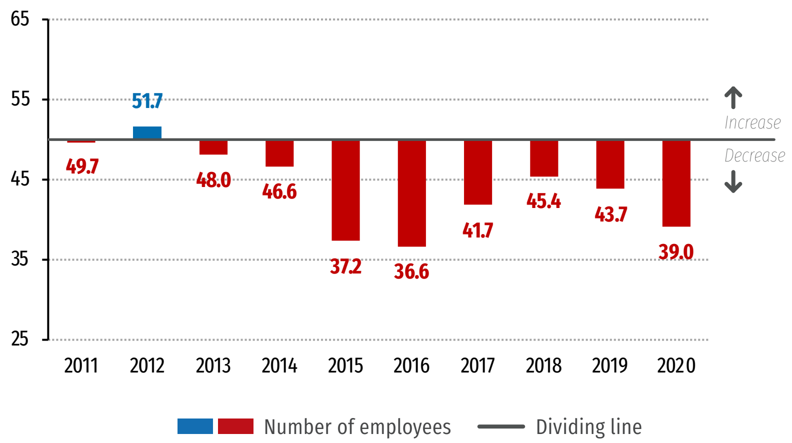
Diffusion index (0-100 points)*



*Figures below 50 points indicate a decline in activity and employment levels. Figures above 50 points indicate an increase in activity and employment levels. The further away from 50 points, larger and widespread the variation is.

Employment index

Diffusion index (0-100 points)*



*Figures below 50 points indicate a decline in activity and employment levels. Figures above 50 points indicate an increase in activity and employment levels. The further away from 50 points, larger and widespread the variation is.

Operating capacity utilization hits all-time low in the series

The indices measuring operating capacity utilization and actual-usual activity levels reflect the shutdown of production activities in the construction industry caused by the COVID-19 pandemic.

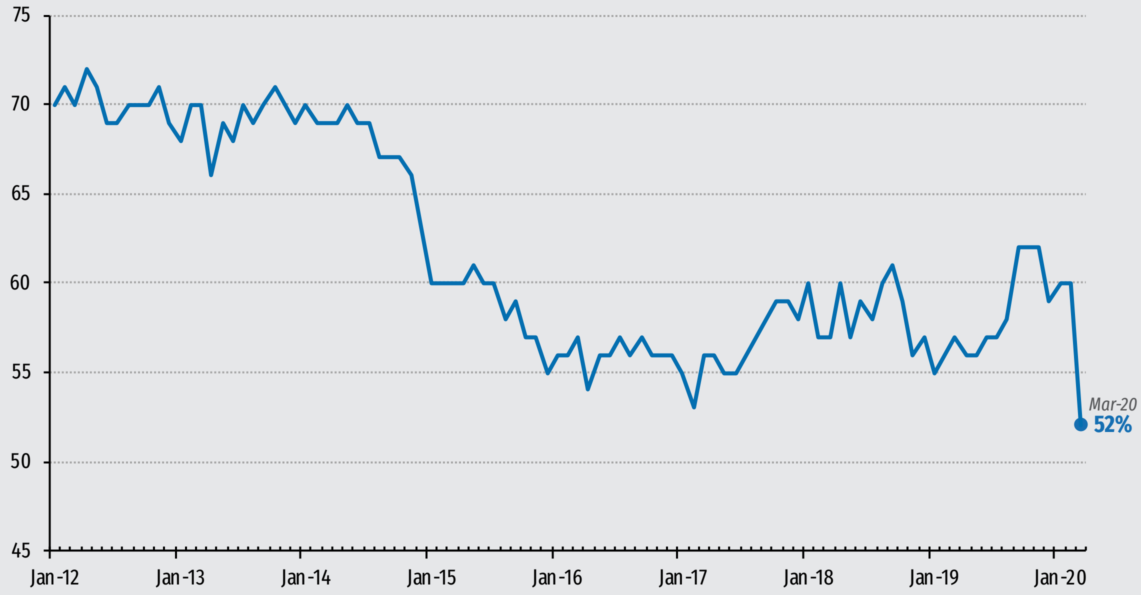
The indices have approached the levels seen during the most critical period of the recent crisis in the sector.

The operating capacity utilization rate dropped by 8 percentage points on a month-over-month basis to 52% in March, marking its lowest point ever in the historical series started in January 2012.

The index measuring actual-usual inventory levels, which measures the degree to which construction activity is heated up, edged down to 25.5 points. Readings below 50 points indicate sluggish activity. In March 2020, the index hit its second lowest point in the series, trailing only the 25.3-point mark registered in February 2016.

Operating capacity utilization

Percentage (%)



FINANCIAL CONDITIONS OF CONSTRUCTION INDUSTRY IN THE FIRST QUARTER OF 2020

Worsening financial conditions

Financial situation of construction companies has worsened as a result of the sharp decline in sales and activity levels brought about by the pandemic. The deterioration in financial conditions comes after three consecutive increases in the indicators over the past year. Construction entrepreneurs' dissatisfaction with their companies' financial situation and profits margin is back to the levels seen in early 2019.

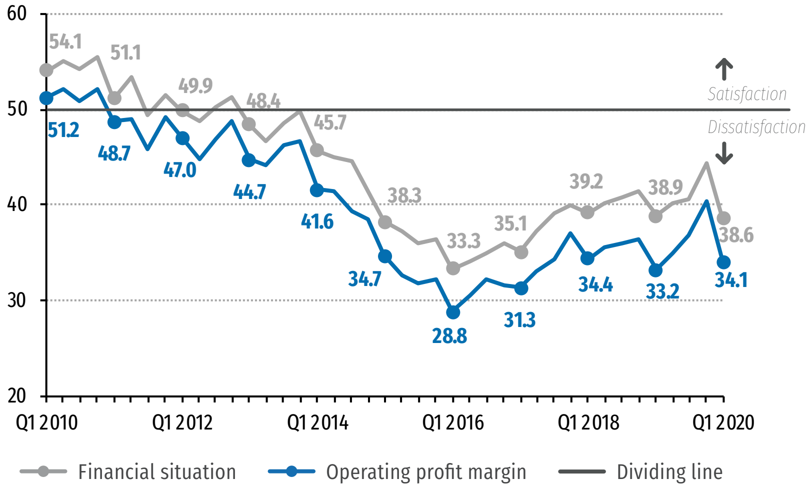
The index measuring satisfaction with financial situation stood at 38.6 points, down by 6.2 points from the fourth quarter of 2019. The decline reverses most of the gains registered in 2019.

Profitability has been also affected negatively. The index measuring satisfaction with profits amounted to 34.1 points, down by 5.8 points as compared to the fourth quarter of 2019.

Companies also had a harder time accessing credit in the first quarter of 2020. The index measuring ease of access to credit declined by 5.4 points, down from 37.6 to 32.2 points.

Satisfaction with profits and financial situation

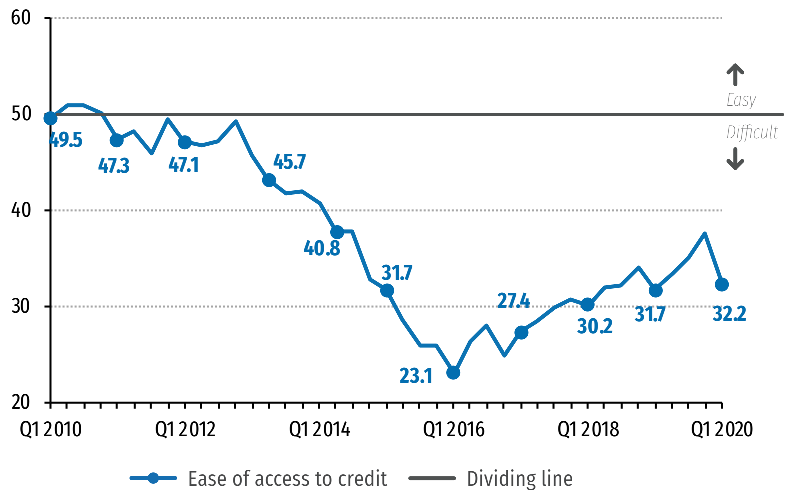
Diffusion index (0-100 points)*



*Figures above 50 points indicate satisfaction with profits and financial situation. Figures below 50 points indicate a dissatisfaction with profits and financial situation. The further away from 50 points, larger and widespread the satisfation or dissatisfaction is.

Ease of access to credit

Diffusion index (0-100 points)*



*Figures above 50 points indicate ease on acess to credit. Figures below 50 points indicate difficulties on acess to credit. The further away from 50 points, larger and widespread the ease or the difficulty is.

PROBLEMS FACED BY CONSTRUCTION INDUSTRY IN THE FIRST QUARTER OF 2020

Construction sector shows greater concern over client delinquency

The main problems faced in the first quarter of 2020 reflect difficulties facing industry since the outbreak of the crises caused by the COVID-19 pandemic.

A high tax burden has continued to top the list of major problems, even though it experienced the sharpest decline in responses: down by 5.9 percentage points between the fourth quarter of 2019 and the first quarter 2020 to 36.8%.

Consumer isolation has caused the problem of lack of demand to move up from third to second place, with 32.9% of answers. Lack of working capital has also gained importance, moving up to third place with 26.9% of responses.

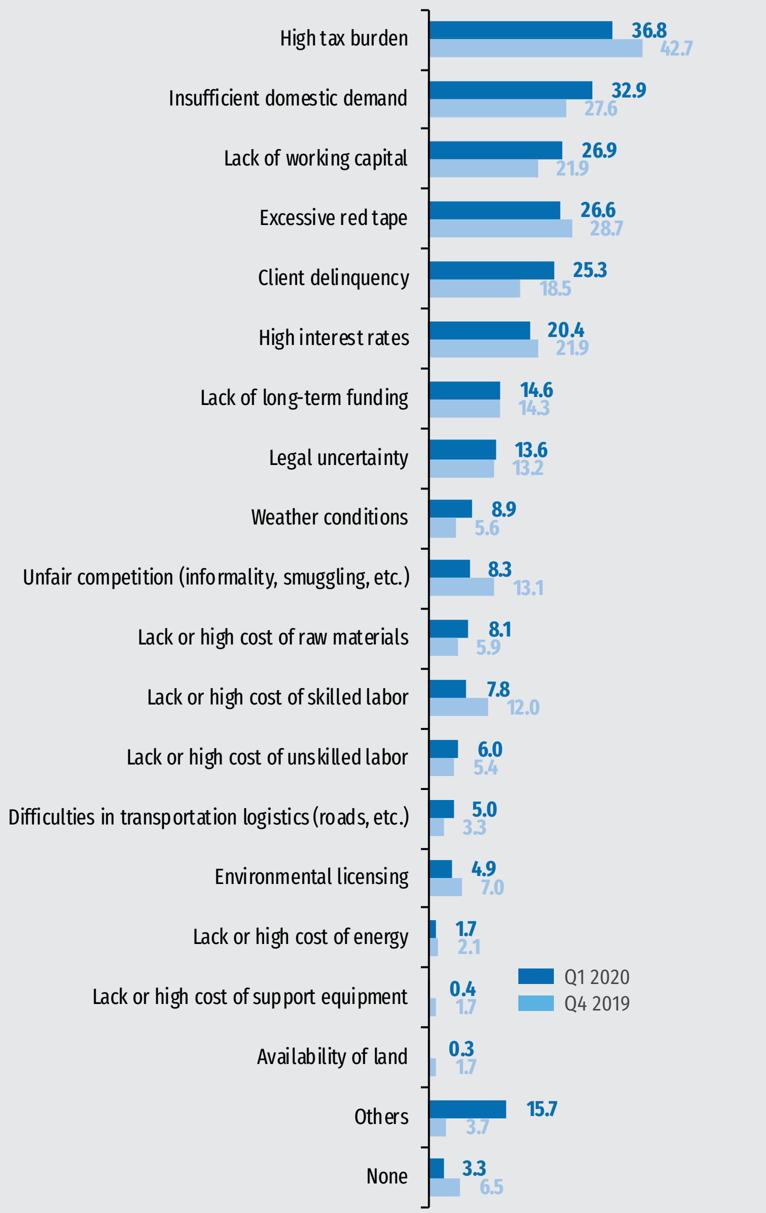
Ranking fourth is excessive red tape with 26.6% of responses, after the percentage of companies indicating it as a major problem fell by 2.1 percentage points – the issue moved down from second place in the last quarter of 2019.

Client delinquency, another problem related to the pandemic, saw the biggest increase in responses in the quarter, accounting for an additional 6.8 percentage points of answers as compared to the previous quarter. The percentage of responses rose from 18.5% to 25.3% in the quarter, causing the issue to move up to fifth place.

The strong impact of the new coronavirus on Brazilian industry is illustrated in the 'Others' item, where respondents spontaneously point out unidentified problems. Among the entrepreneurs participating in this issue of the Construction Industry Survey, 14% mentioned the COVID-19 crisis and its impacts (coronavirus, epidemic, quarantine and shutdown of activities, among others) as one of the three main problems faced by their businesses in the quarter.

Main problems faced by the construction industry in the first quarter 2020

Percentage (%)*



*The sum of percentages exceeds 100% because each company may indicate up to three items.

CONSTRUCTION BUSINESS CONFIDENCE INDEX IN APRIL 2020

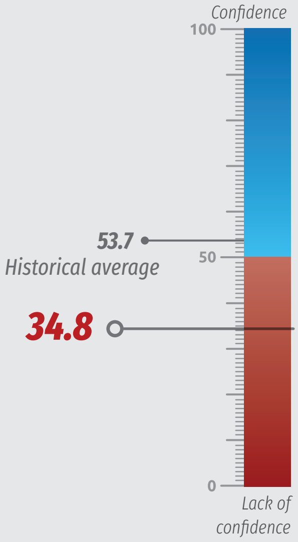
Confidence shows record drop

The Construction Business Confidence Index (ICEI-Construction) reached 34.8 points in December after falling by 24.5 points, representing its highest monthly decline in the series. With the drop, the ICEI-Construction index reached its lowest point in the series since October 2015, when it stood at 34.4 points.

The lack of confidence reflects the current scenario of strong contraction in activity and high uncertainty due to the COVID-19 pandemic. This lack of business confidence will contribute to bringing investments to a standstill, i.e. to worsening the economic crisis.

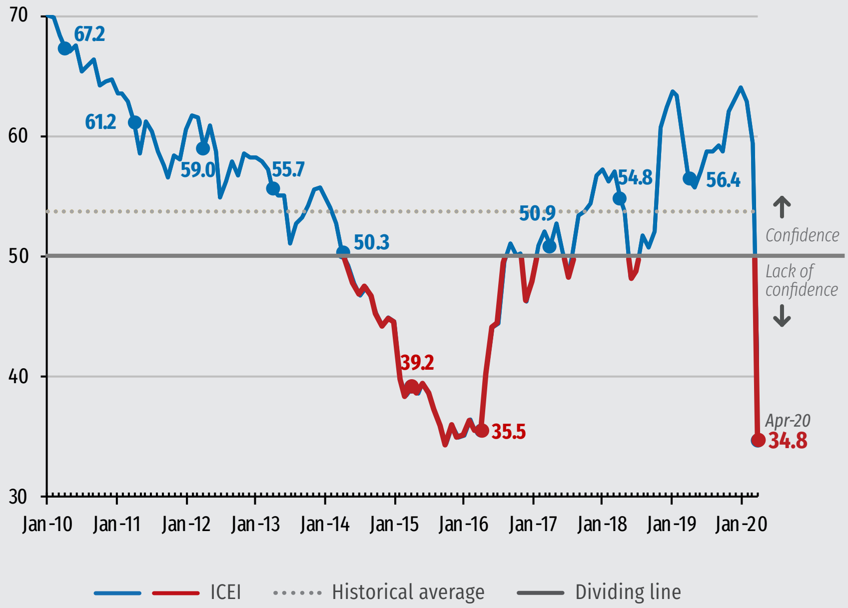
ICEI Construction

Index (0-100 points)*



Historical series

Index (0-100 points)*



*Figures above 50 points indicate business confidence. The further above 50 points, the greater and more widespread is the confidence. Figures below 50 points indicate lack of business confidence. The further below 50 points, the greater and more widespread is the lack of confidence.

INDUSTRY'S EXPECTATIONS IN APRIL 2020

Entrepreneurs show strong pessimism for coming months

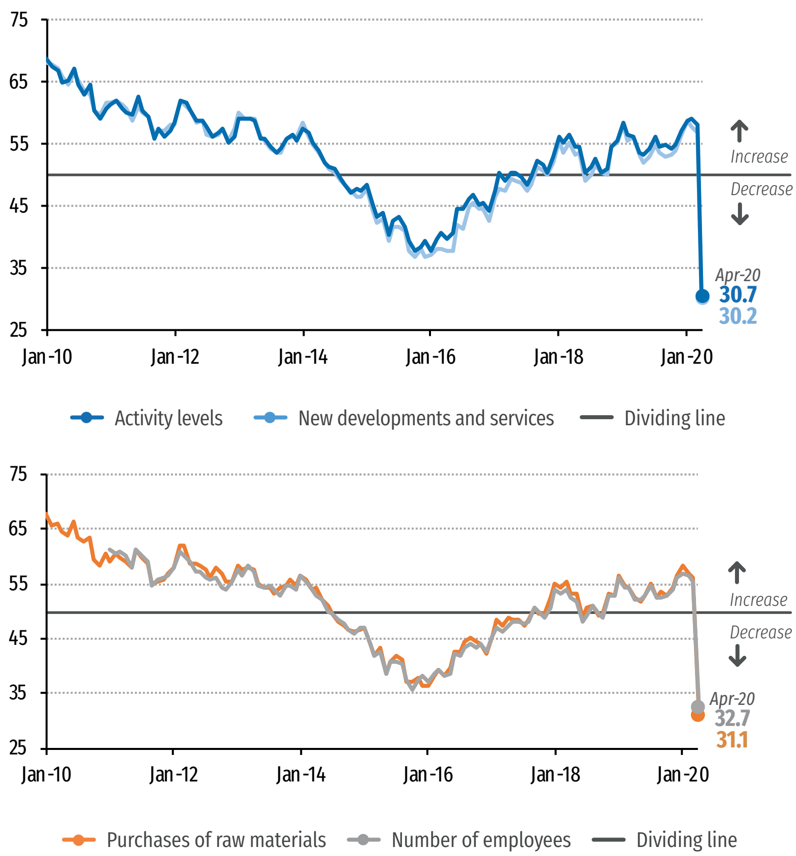
In keeping with the decline in business confidence, expectations for the next six months experienced the biggest declines in the historical series. Entrepreneurs are pessimistic about the immediate future.

The indicators measuring expected activity levels and expected new developments and services dropped respectively by 27.4 and 26.6 points on a month-over-month basis. On the same comparison basis, the indices of expected purchases of inputs and raw materials and of expected number of employees edged down by 24.9 and 22.8 points respectively.

The readings for April 2020 represent the lowest levels reached by all expectation indicators since the beginning of their respective monthly historical series.

Expectation indices

Index (0-100 points)*



*Figures above 50 points indicate growth expectations. Figures below 50 points indicate shrinking expectations. The further away from 50 points, larger and widespread the rexpectations are.

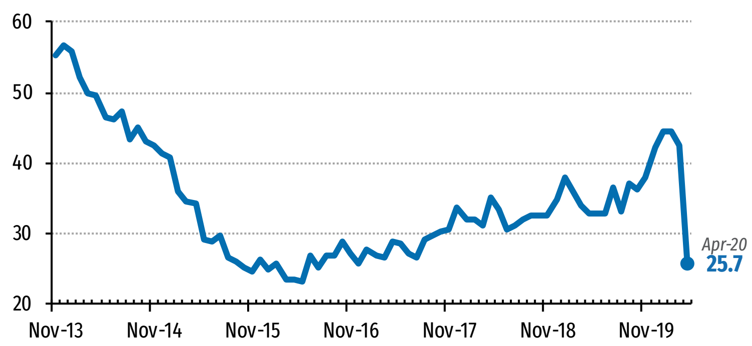
April sees lower investment intentions

Investment intentions dropped sharply, reflecting both the worsening financial conditions and entrepreneurs' high uncertainty and lower confidence.

The index measuring investment intentions (purchases of machinery and equipment, research and development, and product or process innovation) dropped by 16.9 points in April, representing the steepest monthly decline registered in the series. The indicator dropped to 25.7 points this month, down by 8.5 points from the historical average. This marked the lowest point in the indicator since July 2016, when it stood at 25.3 points during the previous crisis.

Investment intentions

Diffusion index (0-100 points)*



*The higher the index, the more industry is likely to invest.

RESULTS

Construction industry performance

	OPERATION CAPACITY UTILIZATION (%)[1]			ACTIVITY LEVEL[2]			ACTUAL-USUAL ACTIVITY LEVELS[3]			NUMBER OF EMPLOYEES[2]		
	Mar-19	Feb-20	**Mar-20**	Mar-19	Feb-20	**Mar-20**	Mar-19	Feb-20	**Mar-20**	Mar-19	Feb-20	**Mar-20**
CONSTRUCTION	**57**	**60**	**52**	**44.5**	**47.5**	**28.8**	**34.3**	**40.5**	**25.5**	**43.7**	**47.7**	**39.0**
SMALL	52	54	**44**	44.0	46.0	**25.9**	36.2	40.0	**22.6**	43.7	44.9	**38.6**
MEDIUM	57	55	**49**	44.7	45.9	**25.6**	34.8	38.2	**22.2**	43.2	45.2	**37.6**
LARGE	58	65	**56**	44.6	49.0	**31.6**	33.3	42.0	**28.4**	43.9	50.2	**39.9**

1 - The indicator varies in the 0%-100% interval.
2 - The indicator varies in the 0-100 interval. Figures above 50 points indicate growth.
3 - The indicator varies in the 0-100 interval. Figures above 50 points indicate higher-than-usual activity levels.

Financial conditions in the quarter

	SATISFACTION WITH PROFIT MARGINS[1]			PRICES OF RAW MATERIALS AND INPUTS[2]			FINANCIAL SITUATION[3]			EASE OF ACCESS TO CREDIT[4]		
	Q1 2019	Q4 2019	**Q1 2020**	Q1 2019	Q4 2019	**Q1 2020**	Q1 2019	Q4 2019	**Q1 2020**	Q1 2019	Q4 2019	**Q1 2020**
CONSTRUCTION	**33.2**	**40.3**	**34.1**	**56.7**	**56.7**	**55.6**	**38.9**	**44.4**	**38.6**	**31.7**	**37.6**	**32.2**
SMALL	34.0	38.6	**31.9**	56.0	56.4	**57.2**	38.2	42.5	**35.2**	33.0	39.0	**32.4**
MEDIUM	34.2	40.8	**33.2**	56.3	57.2	**57.7**	39.9	45.0	**37.6**	33.1	37.4	**33.7**
LARGE	32.4	40.7	**35.5**	57.1	56.5	**53.8**	38.5	44.7	**40.4**	30.4	37.2	**31.3**

1 - The indicator varies in the 0-100 interval. Figures above 50 points indicate satisfaction.
2 - The indicator varies in the 0-100 interval. Figures above 50 points indicate growth.
3 - The indicator varies in the 0-100 interval. Figures above 50 points indicate growth.
4 - The indicator varies in the 0-100 interval. Figures above 50 points indicate ease of access.

Construction Business Confidence Index (ICEI - Construction) and its components

	ICEI - CONSTRUCTION[1]			CURRENT CONDITIONS[2]			EXPECTATIONS[3]		
	Apr-19	Mar-20	**Apr-20**	Apr-19	Mar-20	**Apr-20**	Apr-19	Mar-20	**Apr-20**
CONSTRUCTION	**56.4**	**59.3**	**34.8**	**46.5**	**53.5**	**33.3**	**61.3**	**62.2**	**35.6**
SMALL	55.9	58.5	**34.6**	46.6	51.2	**31.4**	60.5	62.2	**36.2**
MEDIUM	57.9	58.3	**33.4**	47.8	51.8	**30.5**	62.9	61.6	**34.8**
LARGE	55.7	60.1	**35.8**	45.7	55.3	**35.5**	60.7	62.5	**35.9**

1 - The ICEI varies in the 0-100 interval. Figures above 50 points indicate business confidence.
2 - The indicator varies in the 0-100 interval. Figures above 50 points values indicate a better situation as compared to the last six months.
3 - The indicator varies in the 0-100 interval. Figures above 50 points indicate optimistic expectations for the next six months.

Expectations of construction industry

	EXPECTATIONS[1]														
	ACTIVITY LEVEL			NEW DEVELOPMENTS AND SERVICES			PURCHASES OF RAW MATERIALS AND INPUTS			NUMBER OF EMPLOYEES			ÍNDICE DE INTENÇÃO DE INVESTIMENTO[2]		
	Apr-19	Mar-20	**Apr-20**	Apr-19	Mar-20	**Apr-20**	Apr-19	Mar-20	**Apr-20**	Apr-19	Mar-20	**Apr-20**	Apr-19	Mar-20	**Apr-20**
CONSTRUCTION	**53.6**	**58.1**	**30.7**	**53.2**	**56.8**	**30.2**	**52.4**	**56.0**	**31.1**	**52.1**	**55.5**	**32.7**	**32.8**	**42.6**	**25.7**
SMALL	53.5	57.3	**29.4**	53.9	55.0	**28.7**	53.4	54.5	**28.6**	51.2	53.9	**30.4**	33.1	38.8	**23.0**
MEDIUM	54.3	55.2	**29.9**	52.9	53.7	**30.0**	52.8	54.0	**30.1**	52.0	53.9	**32.7**	32.4	38.2	**23.0**
LARGE	53.2	60.0	**31.7**	53.2	59.3	**30.9**	51.9	57.6	**32.6**	52.5	57.0	**33.5**	32.9	46.5	**28.2**

1 - The indicator varies in the 0-100 interval. Figures above 50 points indicate positive expectations.
2 - The indicator varies in the 0-100 interval. The higher the index, the greater the willingness to invest.

Main problems

	CONSTRUCTION			SMALL			MEDIUM			LARGE		
	Q4 2019	Q1 2020		Q4 2019	Q1 2020		Q4 2019	Q1 2020		Q4 2019	Q1 2020	
ITEMS	%	%	Ranking	%	%	Ranking	%	%	Ranking	%	%	Ranking
High tax burden	42.7	**36.8**	**1**	8.7	**3.6**	**13**	28.6	**28.5**	**3**	21.7	**30.2**	**3**
Insufficient domestic demand	27.6	**32.9**	**2**	23.1	**28.8**	**2**	24.1	**30.2**	**2**	34.0	**36.0**	**2**
Lack of working capital	21.9	**26.9**	**3**	22.0	**11.5**	**9**	21.1	**25.7**	**4**	13.2	**25.6**	**4**
Excessive red tape	28.7	**26.6**	**4**	2.3	**2.9**	**14**	6.5	**5.6**	**12**	3.8	**5.8**	**10**
Client delinquency	18.5	**25.3**	**5**	1.2	**0.0**	**16**	43.7	**35.8**	**1**	45.3	**37.2**	**1**
High interest rates	21.9	**20.4**	**6**	8.1	**3.6**	**13**	12.1	**11.2**	**8**	15.1	**16.3**	**6**
Lack of long-term fundingo	14.3	**14.6**	**7**	9.2	**7.9**	**11**	14.1	**8.9**	**9**	3.8	**11.6**	**7**
Legal uncertainty	13.2	**13.6**	**8**	1.7	**1.4**	**15**	2.5	**1.1**	**15**	1.9	**0.0**	**13**
Weather conditions	5.6	**8.9**	**9**	22.5	**23.7**	**5**	2.0	**1.7**	**14**	2.8	**2.3**	**12**
Unfair competition (informality, smuggling, etc.)	13.1	**8.3**	**10**	28.3	**21.6**	**6**	4.0	**6.7**	**11**	6.6	**7.0**	**9**
Lack or high cost of raw materials	5.9	**8.1**	**11**	13.3	**18.7**	**7**	6.5	**5.0**	**13**	4.7	**2.3**	**12**
Lack or high cost of skilled workers	12.0	**7.8**	**12**	21.4	**25.9**	**4**	3.5	**5.0**	**13**	8.5	**4.7**	**11**
Lack or high cost of unskilled workers	5.4	**6.0**	**13**	24.9	**26.6**	**3**	14.1	**8.4**	**10**	6.6	**10.5**	**8**
Difficulties in transportation logistics (roads, etc.)	3.3	**5.0**	**14**	12.1	**10.1**	**10**	18.6	**24.6**	**5**	31.1	**25.6**	**4**
Environmental licensing	7.0	**4.9**	**15**	5.2	**4.3**	**12**	21.6	**17.9**	**7**	15.1	**16.3**	**6**
Lack or high cost of energy	2.1	**1.7**	**16**	1.7	**0.0**	**17**	4.5	**24.0**	**6**	22.6	**19.8**	**5**
Lack or high cost of support equipment	1.7	**0.4**	**17**	36.4	**37.4**	**1**	7.0	**5.0**	**13**	1.9	**5.8**	**10**
Availability of land	1.7	**0.3**	**18**	2.3	**13.7**	**8**	1.5	**0.6**	**16**	0.9	**0.0**	**13**
Others	3.7	**15.7**	**-**	11.0	**9.4**	**-**	13.1	**6.1**	**-**	11.3	**8.1**	**-**
None	6.5	**3.3**	**-**	5.8	**10.1**	**-**	4.5	**3.4**	**-**	6.6	**11.6**	**-**

Note: The sum of percentages exceeds 100% because each company may indicate up to three items.

Technical specifications

Sample profile
411 enterprises, including 143 small, 181 medium and 87 large companies.

Data collection period
April, 1-14, 2020.

Document closed by May 19, 2020.

Learn more

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

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