

Brazil's Industry Shows Signs of Cooling Off

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The rhythm of activity in the transformation industry in the second quarter of this year was greater than in the first three months of the year and also than in the same period last year. But the first signs that industrial production may decelerate in the second half have already started showing.

This is the conclusion of the Industrial Analysis, a research conducted through interviewing 1,488 companies throughout Brazil between June 26 and July 30 by the National Confederation of Industries (CNI).

"It seems to us that there may be accommodation in the rhythm of industrial activity in coming months," stated Flávio Castelo Branco, economic policy manager at the CNI. This may be seen by the increase in the level of stocks and by the greater difficulty in getting credit, movement identified by the study.

The Industrial Study shows that industrial production has grown both in comparison to the preceding quarter and to the same quarter last year. Production indices reached 56.5 points in the second quarter, against 52.2 points in the first quarter and 56.2 points in the same period in 2007 (the index ranges from zero to 100 points, and those above 50 show positive evolution).

Of the 27 sectors researched, 20 registered figures above 50 points. Of these, nine were above 60 points, including oil refining (68.2 points), vehicles (63.2) and other transport equipment (82.5).

"There has not yet been significant change in the economic environment to affect demand in a stronger manner. Consumers also purchased in the second quarter, as there is inertia in the sector," explained Castelo Branco.

But with growing inflation and the constant increases of exchange rates, the most recent of 0.75 percentage point, reduction in demand is expected, and it should be reflected in the next editions of the study, evaluated Renato da Fonseca, Evaluation, Research and Development manager at the CNI.

Greater production in the second quarter was accompanied by positive evolution in industrial employment. The index rose from 53.1 points in the first three months of the year to 53.6 points in the current edition of the study. In the same quarter of 2007, it had been 52.6 points. "It is high growth, as employment normally does not vary so much," said Fonseca.

Employment is still raising more among larger companies, which posted an index of 55.5 points. But small companies posted the greatest variation from one quarter to the other, from growth of 50.7 points in the first to 52.9 points in the

second quarter of this year.

The index of level of use of installed capacity is another that shows that the second quarter of the year had stronger activity than the first. It reached 77%, against 75% at the end of the first quarter, and also 75% in the second quarter of last year. Of the 27 sectors studied, 17 posted growth in use of installed capacity when compared to the same period in 2007.

If the level of activity has grown in the second quarter, some indices show CNI economists that there should be a slowing down in the third and fourth quarters. "Stocks are above what is desired, it is harder to find credit and company profit margins are lower, due to greater prices of raw materials," said Flávio Castelo Branco.

This shows, according to him, that production may drop to accommodate the stocks and that demand may cool, due to less credit and also to possible price hikes.

The level of stocks of end products was 50.6 points, 0.8 point above the previous index, which was 49.5 points. Effective planned stock, which measures not if stocks are high or low but within those planned by the company, also grew. The index rose from 50.2 points in the first quarter to 50.4 points in the current study. This shows that companies have more products in stock than desired.

The situation is more critical among large companies, among which the effective planned stock index reached 52.1 points, against 51.5 points in the previous research. "Large companies are always the first to feel market changes. This shows that there may be a dampening of production to accommodate stocks," stated Castelo Branco.

Businessmen's expectations for the coming six months are a little below those in the first quarter of the year, but they are still high. "Businessmen have not yet come to feel the increase in interest rates, and are still looking at their companies, not at the economy as a whole. It is therefore normal for expectations to continue positive for some more time," said Renato da Fonseca.

With regard to demand, the index was 61.2 points, well above the 50 points that mark the division between optimism and pessimism. In the previous quarter, the index had been 62.1 points. The index of expected number of employees was 54 points, stable with regard to the previous research. Producers of inputs posted 59.4 points, against 59.6 points in the first quarter.

Last of all, expectations regarding exports were the only ones below 50, at 48.1 points. "This is the result of exchange rates, which reduce the interest of companies of all sizes," stated Castelo Branco.

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