ABDI
Agência Brasileira de Desenvolvimento Industrial

BULLETIN

INDUSTRIAL CONJUNCTURE

SEPTEMBER 2011

Agência Brasileira de Desenvolvimento Industrial

BULLETIN

INDUSTRIAL CONJUNCTURE

SEPTEMBER 2011

The Brazilian Agency of Industrial Development - ABDI
Mauro Borges Lemos
President

Maria Luisa Campos Machado Leal
Director

Clayton Campanhola
Director

Rogério Dias Araújo
Coordinator

Carlos Henrique de Mello Silva
Technician

Supervisor
Maria Luisa Campos Machado Leal

Technical Team

The Brazilian Agency of Industrial Development - ABDI
Rogério Dias de Araújo - *Competitive Intelligence Coordinator*
Carlos Henrique de Mello Silva - T*echnician*

State University of Campinas, Economics Department - IE/Unicamp
Cláudio Schuller Maciel
Director

Center of Industrial and Technological Economics - NEIT/IE-Unicamp
Fernando Sarti - *Project Coordinator ABDI/NEIT-IE-UNICAMP*
Célio Hiratuka - *Project Coordinator ABDI/NEIT-IE-UNICAMP*
Adriana Marques da Cunha - *Executive Coordination*
Beatriz Freire Bertasso - *Information Coordination*
Marcelo Loural - *Researcher*
Samantha Cunha - *Researcher*
Marco Antonio Martins da Rocha - *Reseacher*

INTRODUCTION

The Brazilian Agency of Industrial Development (*Agência Brasileira de Desenvolvimento Industrial, ABDI*), which is linked to the Ministry of Development, Industry and International Trade (*Ministério do Desenvolvimento, Indústria e Comércio Exterior, MDIC*), was created in December 2004 with the aim of promoting the execution of Industrial Policies in Brazil, in agreement with the International Trade and Science and Technology policies (Law 11.080/2004). Its principle focus regards the programs and projects established by Brazilian industrial policy. The agency is also a part of the *Brasil Maior* Plan, being responsible not only for the alignment and consolidation of its programs and actions, but also its monitoring.

With the purpose of following the progress of Brazilian industry, the ABDI works on developing a group of studies and research projects on industrial intelligence to guide its work and help the Brazilian Government define and develop actions in the scope of industrial policy. Among them is the Industrial Conjuncture Bulletin which provides information and analyzes the evolution of Brazilian industry, highlighting the principle challenges faced and the opportunities available to speed up development.

The Industrial Conjuncture Bulletin, published every three months, has been developed in partnership with the Center of Industrial and Technological Economics (*Núcleo de Economia Industrial e da Tecnologia, NEIT*) of the State University of Campinas's Economics Department. In this edition, the first part shows the deceleration in the Brazilian economy´s growth rate in the second quarter of 2011. Through a behavoral analysis of the distinct components of internal aggregate demand, a decrease in the growth rate of household consumption and the gross fixed capital formation was observed. The fall in Gross Domestic Product (GDP), however, was even more prominent, primarily because of the increase in the import of goods and services, which resulted in a fall in the pace of expansion of industrial activity and employment generated in industry. On the other hand, the second section of the bulletin aims to detail the impacts of the increase in imports on domestic industrial production. The data analyzed indicates that various Brazilian industrial sectors have actually felt the direct loss of market share to foreign products.

The Brazilian Agency of Industrial Development

BRAZILIAN ECONOMIC AND INDUSTRIAL CONJUNCTURE IN THE SECOND QUARTER OF 2011

The second quarter of 2011 was marked by decelerated growth of the Brazilian economy. According to the National Accounts System/Brazilian Institute of Geography and Statistics (*Sistema de Contas Nacionais/Instituto Brasileiro de Geografia e Estatística*, *SCN/IBGE)* data, the GDP at market price increased by 0.8% in the second quarter in comparison to the first quarter of 2011, taking into consideration the seasonal adjustment (Table 1). The fall in the growth rate is evident when one observes the product variation in the first quarter of the year (1.2%). Using the same quarter from the previous year as a base, a fall in growth to 3.1% in the second quarter, compared to 4.2% in the first, can also be verified. When taking into consideration the accumulated rate in the twelve months up to June 2011, GDP increased by 4.7% compared to a high of 7.5% in 2010 and 6.2% in the twelve months previous to March 2011.

Regarding demand components, a fall in the growth rate together with a number of other worrying signs can be highlighted. Firstly, even though all internal demand components grew in comparison to the previous quarter, this was not reflected in the total GDP. The growth in imports (6.1%) largely eliminated part of the gains derived from the increase in internal demand (Table 1). When comparing data from the second quarter of 2011 with the same period of 2010, it is possible to verify that the growth rate of imports continued at an elevated level (14.6%), an increase in relation to the first quarter (13.1%). Exports also increased, although at a much lower rate than imports in the same period. Growth in imports has remained higher than exports when comparing to both 2010 and the accumulated amount from the previous twelve months.

Another component of demand that presented accelerated growth in the second quarter of this year in relation to the same period in the previous year was government expenditure. Both household consumption and investments fell in dynamism from one quarter to the next, compared to the 2010 behavior. It is worth pointing out, however, that even though the quarterly growth of gross fixed capital formation has remained superior in relation to consumer growth, the difference between the two rates fell substantially from the first to the second quarter of this year, compared to the same periods in 2010.

Table 1 - Variation Rate of GDP by Activities and Demand Components (1Q/2011 and 2Q/2011) (%)

	Quarterly rate versus previous quarter(*)		Quarterly rate versus the same quarter in the previous year		Accumulated rates of the past four quarters	
	I/2011	II/2011	I/2011	II/2011	I/2011	II/2011
Agriculture and Stock Raising	3.0	(0.1)	3.1	0.0	5.8	2.6
Industry	2.2	0.2	3.5	1.7	7.4	4.4
Mining	-	-	4.0	2.7	12.9	9.3
Manufacturing	-	-	2.4	1.2	6.4	3.3
Civil construction	-	-	5.2	2.1	9.2	5.7
Electricity, gas and water supply	-	-	4.9	3.4	6.9	5.3
Services	0.7	0.8	4.0	3.4	4.9	4.2
GDP at basic price	1.3	0.7	3.8	2.7	5.6	4.1
GDP at market prices	1.2	0.8	4.2	3.1	6.2	4.7
Household consumption expenditure	0.7	1.0	5.9	5.5	6.4	6.2
Government consumption expenditure	0.9	1.2	2.1	2.5	3.2	2,4
Gross fixed capital formation	1.0	1.7	8.8	5.9	17.1	11.9
Goods and services exports	(3.1)	2.3	4.3	6.0	9.2	8.8
Goods and services imports (-)	(1.4)	6.1	13.1	14.6	29.2	23.2

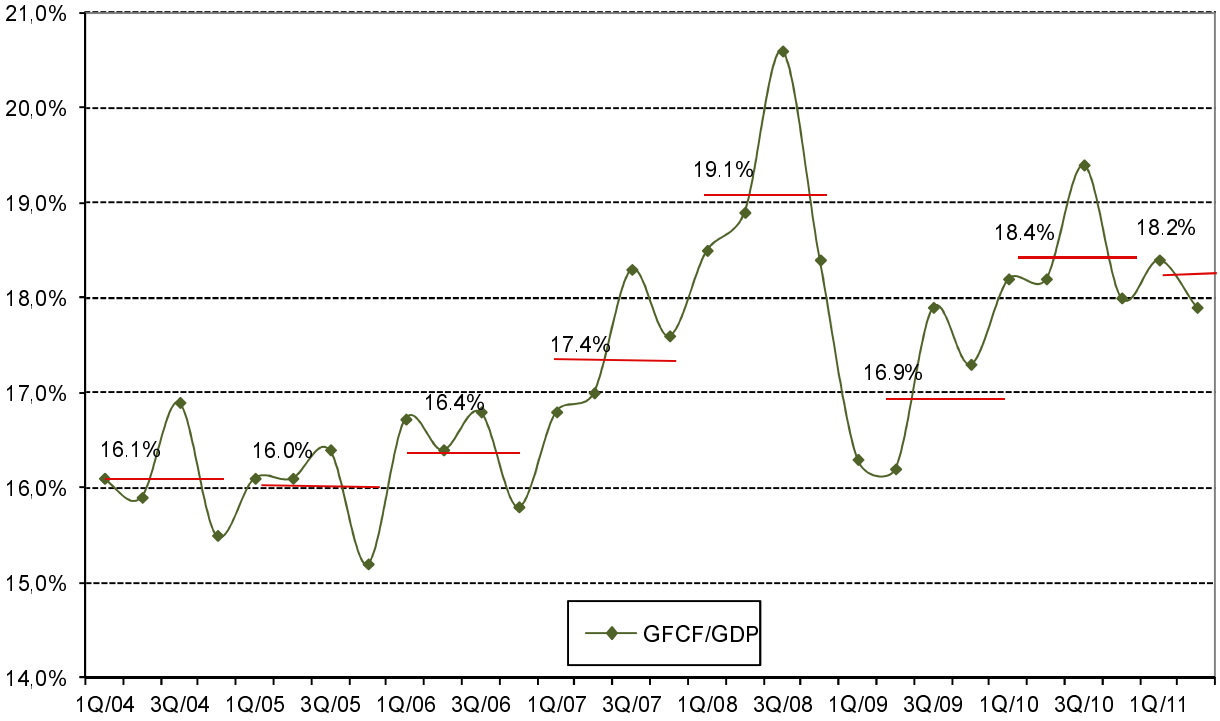
(*) Seasonally adjusted. Note: The data incorporates the revision of the numbers previously published by the IBGE. Therefore, there may be differences in relation to the previous industrial conjuncture bulletins. The 2011 data from the 2nd quarter are preliminary.

Source: National Accounts System (SCN)/IBGE.

Looking at the behavior of economic activity, a fall in the growth rate of Brazilian industry in the second quarter of 2011 in relation to the quarter immediately prior to this (to 0.2%) was also observed, being outperformed by the service industry only (0.8%), while agriculture and stock raising experienced a small contraction (-0.1%) in the same period (Table 1). The generalization of a decline in the growth rate of distinct activities is also evident when one compares the data from the first two quarters of 2011 in relation to the same periods in 2010. Industry growth fell (to 1.7%), while agriculture and stock raising remained stagnant in the second quarter of 2011 when compared to the same period in 2010. Only the service industry, less vulnerable in terms of international competition, was able to maintain a higher rate, albeit modest, in the same period. Despite internal demand presenting a certain level of dynamism, the consumption of goods produced overseas seems to be displacing national production which has suffered from the intensified international competition and the appreciation of the exchange rate.

The fall in the rate of investments is also a worrying sign. The investment rate decreased to 17.9% in the second quarter of 2011. This was less than the average rate of investment in 2010 (18.4%) and far from the rate desired to enable sustainable growth of the Brazilian economy (Graph 1). However, the loosening of the high interest rate policy as well as the measures carried out by the *Brasil Maior* Plan, are new factors that could positively affect short term future investments, contributing to strengthening of the Brazilian economy and industry.

Graph 1 - Investment Rate Evolution
(IQ/2004 to IIQ/2011) (%)



Source: National Accounts System (SCN)/IBGE.

A fall in the pace of industrial activity is confirmed by the Monthly Industrial Research-Physical Production (*Pesquisa Industrial Mensal-Produção Física, PIM-PF/IBGE*) data. The data shows that the growth rate of Brazilian industry production continued to decelerate in the four quarters prior to June 2011, showing a variation of 6.8% for the mining industry, 3.5% for manufacturing and 3.7% for industry as a whole (Table 2). When comparing the data from the second quarter of 2011 with that of the same period of 2010, a deceleration in the increase in physical production of Brazilian industry (to 0.7%) was confirmed. This accompanied the behavior of the manufacturing industry (0.6%). The mining industry, despite enjoying high international prices for its products, also suffered with a loss of impetus in the expansion of physical production in the second quarter of the year (to 2.8%), regardless of having presented relatively higher growth than the manufacturing industry.

The deterioration in the marginal performance of the manufacturing industry's physical production can also be highlighted. Consequently, the industry as a whole fell again in the second quarter compared to the first quarter of 2011, taking into consideration the seasonal adjustment. Both the physical production of the manufacturing industry and the industry as a whole fell (-0.9% and -0.7% respectively). The data on general industry production referring to July 2011 show a decrease when compared to the same month of the previous year, with a slight increase in relation to the previous month, including the seasonal adjustment. Therefore, the latest available data on the monthly variation of Brazilian industrial production confirmed the difficulties encountered to sustain growth.

Table 2 - Variation Rate of Brazilian Industrial Production (3Q/2010 to 2Q/2011) (%)

Activities	IIIQ 2010	IVQ 2010	IQ 2011	IIQ 2011
Accumulated variation rate in the last four quarters				
General Industry	**11.2**	**10.5**	**6.9**	**3.7**
Mining	11.6	13.4	9.6	6.8
Manufacturing	11.2	10.3	6.7	3.5
Quarterly variation rate in relation to the same quarter of the previous year				
General Industry	**8.0**	**3.3**	**2.6**	**0.7**
Mining	11.4	10.2	3.3	2.8
Manufacturing	7.8	2.9	2.6	0.6
Quarterly variation rate in relation to the previous quarter (seasonally adjusted)				
General Industry	**(0.5)**	**0.0**	**2.0**	**(0.7)**
Mining	2.2	0.5	(1.4)	1.5
Manufacturing	(0.6)	0.0	2.2	(0.9)

Note: The data incorporated the eventual revision of the numbers previously published by the IBGE. Therefore, there may be differences in relation to the previous industrial conjuncture bulletins.
Source: Monthly Industrial Research-Physical Production (PIM-PF)/IBGE.

Considering the information on category of use, a decline in the production of consumer goods stands out (Table 3). The physical production of durable consumer goods decreased, when comparing both the second quarter of 2011 with the same quarter of 2010 (-1.0%), and with the first quarter of 2011 (-6.2%), taking into consideration the seasonal adjustment. This performance very evidently cancelled out the positive behavior presented in the first quarter of the current year. The data on the latest available month (July) showed a marginal elevation in the production of durable goods when compared to June 2011 (2.9%), considering the seasonal adjustment. The positive monthly performance, however, did not compensate for the substantial reduction in the production of durable gods in April in relation to March 2011 (-10%). This reduction led to a slowdown in the second quarter of the year. A monthly fall in the production of durable goods of such magnitude was observed only in the last two months of 2008, at the time of the financial crisis (PIM-PF/IBGE).

The physical production of semi-durable and non-durable consumer goods also decreased in the second quarter of 2011. A fall was noted when comparing to the same period in 2010 (-0.3%) and the first quarter of 2011 (-1.2%), taking into consideration the seasonal effects. With that, the variation rate accumulated over the 12 months up to June 2011 showed a growth rate of just 1.7%. Based on the latest available monthly data (July), an increase in the physical production of semi-durable and non-durable goods in relation to June (3.8%) occurred. Under these circumstances, it was also not possible to compensate for the negative marginal behavior in April in relation to March (-2.1%) and in June in relation to May (-3.0%), taking into consideration the seasonal adjustments (PIM-PF/IBGE).

The negative performance of consumer goods production stands out, considering that household consumption, despite having decelerated, continued to present a reasonable performance in the quarter analyzed. In this context, the disparity between household consumption expenditure and the industrial production of consumer goods could be associated either with an adjustment in order to reduce the level of stocks or an increase in competition due to imported products. The analysis of growth and pattern of its imports justify the predominance of the second effect[1].

[1] The second section of this bulletin analyzes the issue in a more systematic way.

Table 3 - Variation Rate of Industrial Production by Category of Use (3Q/2010 to 2Q/2011) (%)

Category of Use	III 2010	IV 2010	I 2011	II 2011
Accumulated variation rate in the last four quarters				
Capital goods	18.2	20.9	16.6	10.0
Intermediary goods	12.3	11.4	7.3	3.7
Durable consumer goods	16.3	10.3	5.5	1.9
Semi-durable and non-durable consumer goods	5.5	5.3	3.3	1.7
Quarterly variation rate in relation to the same quarter of the previous year				
Capital goods	21.3	7.1	8.6	4.5
Intermediary goods	8.7	3.9	1.9	0.5
Durable consumer goods	2.4	1.5	5.1	(1.0)
Semi-durable and non-durable consumer goods	4.7	1.6	0.7	(0.3)
Quarterly variation rate in relation to the previous quarter (seasonally adjusted)				
Capital goods	(1.3)	0.5	4.8	0.3
Intermediary goods	(0.5)	0.0	0.9	0.2
Durable consumer goods	(1.3)	1.5	5.3	(6.2)
Semi-durable and non-durable consumer goods	0.1	(0.2)	1.0	(1.2)

Note: The data incorporated the eventual revision of the numbers previously published by the IBGE. Therefore, there may be differences in relation to the previous industrial conjuncture bulletins.
Source: Monthly Industrial Research-Physical Production (PIM-PF)/IBGE.

Production of intermediate goods also decreased in the four quarters up to June 2011 (to 3.7%) (Table 3). When comparing the second quarter of 2011 with the same quarter of 2010, a modest rise in the production of intermediate goods can be noted (0.5%). Furthermore, production of intermediate goods also rose slightly in the second quarter compared to the third in 2011 (0.2%) and experienced a fall in dynamism in terms of the growth observed in the first quarter of this year, compared to the last quarter of last year (0.9%), always taking into consideration the seasonal adjustment. Based on the monthly data, once again production of intermediate goods in July 2011 in relation to June of the same year behaved negatively (-0.7%), following the fall in April compared to March (-0.7%) and in June compared to May 2011 (-1.6%), including the seasonal adjustment (PIM-PF/IBGE). Intermediate goods have faced difficulties in terms of the recovery of external demand for basic inputs and primary products, despite the maintenance of the Chinese demand stimulus, as well as the continuation of internal demand that behaved as an additional stimulus to intermediate production in Brazil at the time of post-crisis recovery.

Lastly, a clear slowdown in the expansion of capital goods production was also noted. Even though capital goods have stood out among the categories of use when compared to production data from last year, the slowdown of physical production suffered in the second quarter of 2011 must not be ignored. In relation to the same period of 2010, the growth rate, at 4.5% in the second quarter of 2011, was substantially lower than the 8.6% observed in the first quarter of the current year, compared to the same quarter last year. In addition, capital goods production achieved a relatively low marginal increase in the second quarter in relation to the first of 2011 (0.3%), after having presented relevant growth in the first quarter of the current year, compared to the last quarter of 2010 (4.8%), including the seasonal adjustment. Based on the monthly data, the latest available data referring to July revealed a growth in capital goods production when compared to June 2011 (1.7%), including the seasonal adjustment. This behavior allowed partial recovery of the losses suffered in April in relation to March (-4.5%), as

well as June in relation to May (-0.7%) (PIM-PF/IBGE). Despite the decelerated growth rate, it must be highlighted that the growth in capital goods production is still expressive in terms of the accumulated rate in the twelve months prior to June 2011 (10%), as well as reaching an index superior to the other categories of use in the same period.

The data regarding capital goods reinforces however, the concerns about the decelerated physical production. These concerns reflect the challenges faced by investments, particularly public, as well as the increased competition from imported products that began to compete with domestic production for the internal market in a context of high interest rates and a high exchange rate.

Detailing the evolution of industrial activity's physical production, it is possible to verify that, among the 27 sectors analyzed by the PIM-PF/IBGE, the majority (14) suffered a decline in physical production in the second quarter, including many industrial sectors (8) that reverted previous growth, and a number of others (5) that increased the speed of contraction that was already evident in the first quarter of the year. Just one (1) sector managed to lessen the reduced production, though still with a negative variation in the period analyzed. Some of the industrial sectors (13) were able to increase physical production in the same period. Among the remaining sectors are those that suffered a slowdown in the growth of their production (6), those that enjoyed a reversal of the previously negative performance (3) and those that intensified the expansion in production (4). Very few Brazilian industrial sectors, however, managed to achieve consistent growth in physical production in the second quarter of the current year, compared to the same period of last year.

The industrial sectors that presented the most expressive growth rates of physical production in the period previously mentioned were the following: tobacco (18.4%), medical-hospital instrument equipment and optics (16.8%); other transport equipment (11.7%); pharmaceuticals (8.6%) and electronic equipment, communication equipment and apparatus (6.4%). The first of them managed to compensate for the contraction in production observed in the previous quarter and the last two were able to increase the rate of growth in production verified at the beginning of the year. On the other hand, the medical-hospital instrument equipment and optics and transport equipment sectors suffered with a slowdown in physical production. The slowdown also occurred in other relevant sectors of Brazilian industry, such as motor vehicles and the mining sectors. Machinery and equipment production, which strongly recuperated in the recovery period (2010), decreased in the second quarter of the current year, compared to the same period last year, also because of its vigorous expansion that served as a reference for analysis (2Q/2010).

When comparing the second quarter of 2011 with the first, taking into consideration the seasonal influences, marginal growth can be verified, albeit at a reduced rate, in just eight industrial sectors of the IBGE research. Among them, the only ones to present significant marginal growth were the tobacco sector (25.4%), more than recuperating the loss of production in the first quarter, and electronic equipment, communication equipment and apparatus (6.6%), confirming vigorous expansion in the first quarter. The remaining industrial sectors included in the research (17) suffered due to the decline in their physical production in the given period.

The data on industrial activity production for the second quarter of the current year therefore confirmed the worrying slowdown experienced by the majority of industrial sectors. Some of the capital goods and durable consumer goods sectors that were able to maintain market leadership in industrial growth at the time of post-financial crisis recovery (2010), ended up highlighting the Brazilian industry's recent loss in dynamism. The adoption of credit restriction measures and the high exchange rate in a context of intensified international competition, as well as budgetary cuts that had harmful effects on public investment, ended up contributing to the deceleration of Brazilian industrial growth (Industrial Conjuncture Bulletin, June 2011). In this context, the recovery of investments and taking greater advantage of

internal demand make them fundamental requisites in order to bring back positive perspectives for the Brazilian industry from the second half of 2011 onwards.

Industrial employment also showed signs of slowdown in the period analyzed. According to The General Database of Employed and Unemployed/Work and Employment Ministry (*Cadastro Geral de Empregados e Desempregados / Ministério* do *Trabalho e Emprego, CAGED/MTE*)[2] data, there was a net creation of jobs in the second quarter of 2011 (117,000), albeit at an inferior level to that observed in the first quarter of the year (128,000) (Table 4). From April to June 2011, the industrial sectors that led net hirings (subtracting those dismissed and resignees) were as follows: manufacturing of food products (creation of more than 29,000 jobs) and manufacture of coke, products derived from petroleum and biofuels (more than 21,000 jobs). With a lower contribution, though still relevant, was manufacturing of motor vehicles, trailers and semi-trailers (8,500 jobs), however, the sector was less dynamic in terms of the net creation of jobs in the first quarter of the year (-28.3%). This behavior was observed in various industrial sectors that generated formal employment at a much lower rate, however, than in the first quarter, as with other transport equipment (-77.6%), apparatus and electronic equipment (-76.6%), machinery and equipment (-69.8%) and manufacture of wearing apparel and accessories (-30.4%). The sectors that suffered a contraction of formal employment in the same period were as follows: leather preparation and manufacturing of leather products, travel items and footwear (-4,000 jobs) and manufacturing of textile products (-1,300 jobs) (CAGED/MTE). Either the slowdown or the contraction of industrial employment, however, looks to have greatly affected the sectors that faced ruthless competition from imported products and greater difficulties to increase their exports.

When considering a longer time period, the slowdown of formal employment generated by the Brazilian industry becomes more evident. Comparing the first half of 2011 (creation of 245,000 jobs) with the same pre-crisis period of 2008 (creation of 320,000 jobs) and the recovery period in 2010 (creation of 385,000 jobs), a significant deceleration in the net creation of jobs by the Brazilian industry can be noted (-23% and -36% respectively). The creation of industrial employment only stands out in the first half of 2011, when the period of comparison is the first half of 2009, in the context of the world financial crisis (Table 4).

The net generation of jobs in the first half of 2011 added 3.2% to the number of existing industrial jobs in 2010. This was inferior to the increase of 5.4% as a result of the net creation of jobs in the first half of 2010 on the number of formal industrial jobs in Brazil at the end of 2009. Even considering the inflated comparison bases of 2008 and 2010, a loss of dynamism regarding the creation of formal employment must be highlighted. This was also worrying in terms of the future performance of Brazilian industry.

A surplus of almost R$ 42 million in net wages (wages of those hired minus wages of those dismissed or resignees) of industry workers in the second quarter of 2011 was verified. This reaffirmed the gain also observed in the first quarter of the current year (R$ 46 million), however without managing to recover the significant loss in net wages that took place in the last quarter of 2010 (Table 4). Confirming the changes in the first quarter of the year, decelerated growth of the net hiring wages was more vigorous than the net creation of jobs, indicating that workers with relatively low salaries were hired. The increase in net wages in the second quarter of 2011 represented 54% of the increase in the same period in 2010, while this proportion remained at 63% in terms of the creation of jobs in Brazilian industry.

[2] CAGED/MTE presents the results of all companies that hired/dismissed people from formal jobs in the period analyzed, thus achieving census coverage, while the PIMES/IBGE analyzes samples, including companies with five or more employees. Therefore there may be divergent trends regarding the two sources of data used, principally in the sectors that have predominantly small and medium-sized companies.

Table 4 - Creation of Jobs and Net Hiring Wages in Brazilian Industry (1Q/2008 to 2Q/2011)

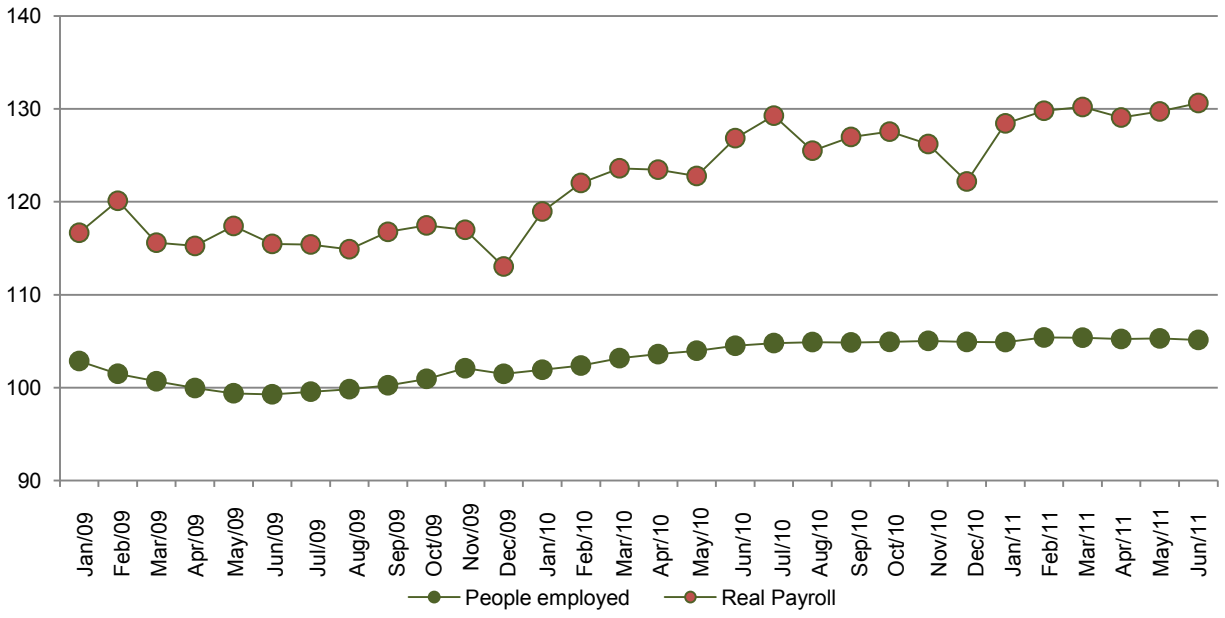
Year	Creation of Jobs				Wages (Net Hiring) (R$ thousand – dec./2010*)			
	1st quarter	2nd quarter	3rd quarter	4th quarter	1st quarter	2nd quarter	3rd quarter	4th quarter
2008	153.090	167.668	193.793	-348.295	69.627	63.471	67.494	-372.616
2009	-146.761	2.578	203.323	-52.009	-308.501	-153.828	37.893	-105.773
2010	199.187	186.139	203.873	-111.408	104.290	76.794	92.038	-147.372
2011	127.798	117.211	-	-	46.400	41.794	-	-

* IPCA (IBGE) data.

Source: The General Database of Employed and Unemployed (CAGED)/MTE.

The Monthly Industrial Research on Employment and Wages (*PIMES/IBGE*, *Pesquisa Industrial Mensal de Emprego e Salário*) data indicate a stagnated number of people employed in Brazilian industry in the second quarter of 2011 compared to the first, taking into consideration the seasonal adjustment, and modest positive variation at 1.1% in relation to the second quarter of 2010. The number of people employed in Brazilian industry grew throughout 2010, considering seasonal changes. However, in the first half of 2011 this number remained relatively stable, with only a slight variation (Graph 2). On the other hand, the PIMES data, which showed the important increase in real payroll throughout 2010, pointed out a small increase in the first half of 2011, after a decline in the last month of 2010, with the seasonal adjustments.

Graph 2 - Real Payroll Evolution and People Employed in Brazilian Industry (jan/2009 to jun/2011) (numbers-index)



Note: January/2001 = 100.

Source: Industrial Monthly Research on Employment and Wages (PIMES)/IBGE.

The CAGED/MTE and PIMES/IBGE data therefore indicated decelerated growth of industrial employment in the second quarter of 2011. It was confirmed that wages decelerated by more, when comparing to the number of jobs created. This indicated that workers with relatively lower salaries were being hired, as was mentioned in the last bulletin (Industrial Conjuncture Bulletin, June 2011).

All of the data and information analyzed made clear that the Brazilian economy slowed down. Brazilian industry continued to face decreasing growth in production in comparison to last year, presenting marginal decline in the second quarter in comparison to the first of the current year. The lower rate of formal employment generation followed the changes in industrial production in the period analyzed. Deceleration was accompanied by a number of worrying signs, with the lower investment rate and large increase in imports standing out.

It is important to highlight, however, that the majority of data analyzed does not yet reflect the total information which could significantly impact the scenario for the future periods. On one hand, the international scenario appears to point to a longer period of stagnation for the core economies, which is reflected by the fall in the growth forecast for the coming years. On the other hand, the *Brasil Maior* Plan, submitted in August 2011, resulted in a number of incentives for investment, innovation, foreign trade and protection of the internal market, that could result in positive effects, helping to overturn the current scenario of slower industrial activity. Finally, signs by the Central Bank to cut the interest rates could result in a new combination of exchange rate and interest rates that are more favorable to industrial activity and investment in production.

EVOLUTION OF BRAZILIAN FOREIGN TRADE AND THE IMPACTS OF THE INCREASE IN IMPORTS ON INDUSTRIAL PRODUCTION

Brazilian foreign trade sustained a substantial surplus in the second quarter, despite being affected by the vigorous expansion in imports. In the second quarter of 2011 the Brazilian trade surplus was US$ 9.8 billion (FUNCEX). This amount represented important growth of the balance of trade compared to the same period of the previous year, as a result of the increasing exports (34.3%) compared to the rise in imports (33.3%) in the same period.

The increase in the price of exported products (29.0%) continued to drive the increase in value of Brazilian exports in the second quarter of 2011 compared to the same quarter in 2010, with a lower contribution of the amount exported (4.1%). Comparing export behavior in the second quarter with the first of the current year, it can be seen that the growth in exports (30.9%) was driven by the increase in amounts exported (21.3%), with export prices having less of an influence (8.0%) (Table 1).

Table 1 - Variation Rates of Exports by Aggregate Factor and Imports by Category of Use (%)

Flow	Category	2nd quarter. 2011/2nd quarter. 2010			2nd quarter. 2011/1st quarter. 2011		
		Value	Price	Quantum	Value	Price	Quantum
Exports	**Total**	**34.3**	**29.0**	**4.1**	**30.9**	**8.0**	**21.3**
	Basics	43.7	44.2	(0.1)	46.3	10.3	32.7
	Semi-manufactured goods	30.4	22.1	7.0	21.0	6.9	13.4
	Manufactured goods	23.1	15.0	7.1	16.9	3.9	12.5
Imports	**Total**	**33.3**	**16.1**	**14.9**	**19.1**	**7.1**	**11.3**
	Capital goods	31.1	4.7	25.1	16.1	1.6	14.4
	Intermediate goods	27.5	14.9	11.0	13.8	6.6	6.8
	Durable goods	40.3	6.2	31.5	14.1	4.9	8.7
	Non-durable goods	30.1	10.3	17.8	2.6	2.8	0.0
	Fuels	53.3	42.4	8.6	56.1	16.2	35.3

Source: FUNCEX.

By analyzing data on exports according to aggregate factor, it can be seen that Brazilian exports in the second quarter of 2011 in relation to the same period in 2010 were influenced, in particular, by an increase in exports of raw materials (43.7%) and semi-manufactured goods (30.4%), with a significant contribution from increased export prices in both cases, driven by

sustained Asian demand. Considering a longer period of time by comparing the first half of 2011 with the same period in 2008, before the emergence of the crisis, it can be seen that exports of raw materials and semi-manufacured goods enjoyed substantial increases of 75.5% and 32.6% respectively, with price movements having a large influence (FUNCEX). On the other hand, exports of manufactured goods contracted in the first half of 2011 in relation to the same period in 2008 (-1.5%), principally due to the fall in the quantum exported (-16.3%). Analysis of the marginal behavior of exports according to aggregate factor in the second quarter compared to the first of the current year points to a similar trend for the three groups: growth in exports stimulated by an increase in quantities exported (Table 1). This shows an important difference in relation to the behavior observed in the previous quarters, when exports were influenced primarily by the increase in prices.

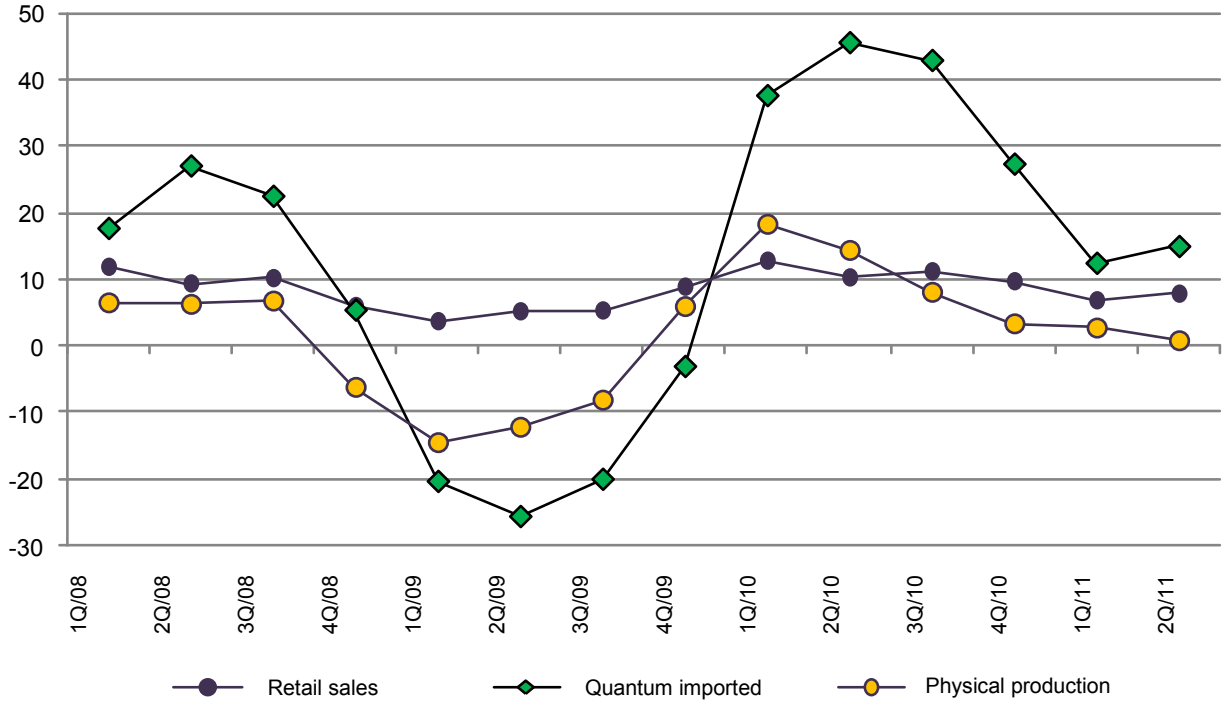
The factor that stands out the most, however, is the behavior of imports. As was mentioned in the first section of this bulletin, imports continue at a higher level presenting significant growth rates even with the general slowdown of the economy, particularly industrial production. In the second quarter of 2011, growth in import value (33.3%) was affected by the increase both in prices (16.1%) and quantities imported (14.9%). Regarding imports, the marginal increment in the second quarter (19.1%) was driven by the quantum imported (11.3%), with less weight on import prices (7.1%) (Table 1). Following on from this, it is worth investigating the effective contribution of the increase in imports on the deceleration of growth rates and consequently on the displacement of domestic industrial production in recent times.

In this context, it is worth highlighting the intensification of international competition since the crisis at the end of 2008. This accompanied the stagnated demand for industrial products on the part of developed countries and the increase in the supply of Asian products, primarily Chinese, produced at relatively low costs. Moreover, the group of emerging countries, including Brazil, managed to recover domestic demand more robuslty and have, therefore, faced growing competitive pressure. Measures were adopted by the core countries in order to deal with the financial crisis. These measures included the maintenance of reduced interest rates and high liquidity, favoring the capital inflows and the strengthening of the Brazilian currency contributing to an even greater increase in competition of imported products. Therefore, with cheap imports due to increased competition from Asian products and the appreciated exchange rate, an important part of the increase in internal demand associated with the recovery of economic growth has stimulated the consumption of imported products.

The first sign of this process comes from the comparison of the evolution of retail sales, the quantum imported and Brazilian industry physical production (Graph 1). From the second quarter of 2009 up to the first quarter of 2010, retail sales, imports and industrial production, presented recovery signs. At that time, imports grew at higher rates, in part due to the fact that they showed the largest contraction at the height of the crisis.

From the second quarter of 2010 onwards, however, industrial production began to show a tendency towards a much greater reduction in growth rate than retail sales. On the other hand, while imports also tended to decline, they continued to rise well above the other variables. In the second quarter of 2011, imports began to grow again (14.9%), whereas retail sales growth stabilized at a relatively high level (7.8%) and industrial production continued to slowdown (0.7%), thus highlighting the displacement of domestic production by imports in the second quarter of 2011.

Graph 1 - Brazil: Growth Rate Evolution of Retail Sales, Quantum Imported and Physical Production (1Q/2008 to 2Q/2011) (%)



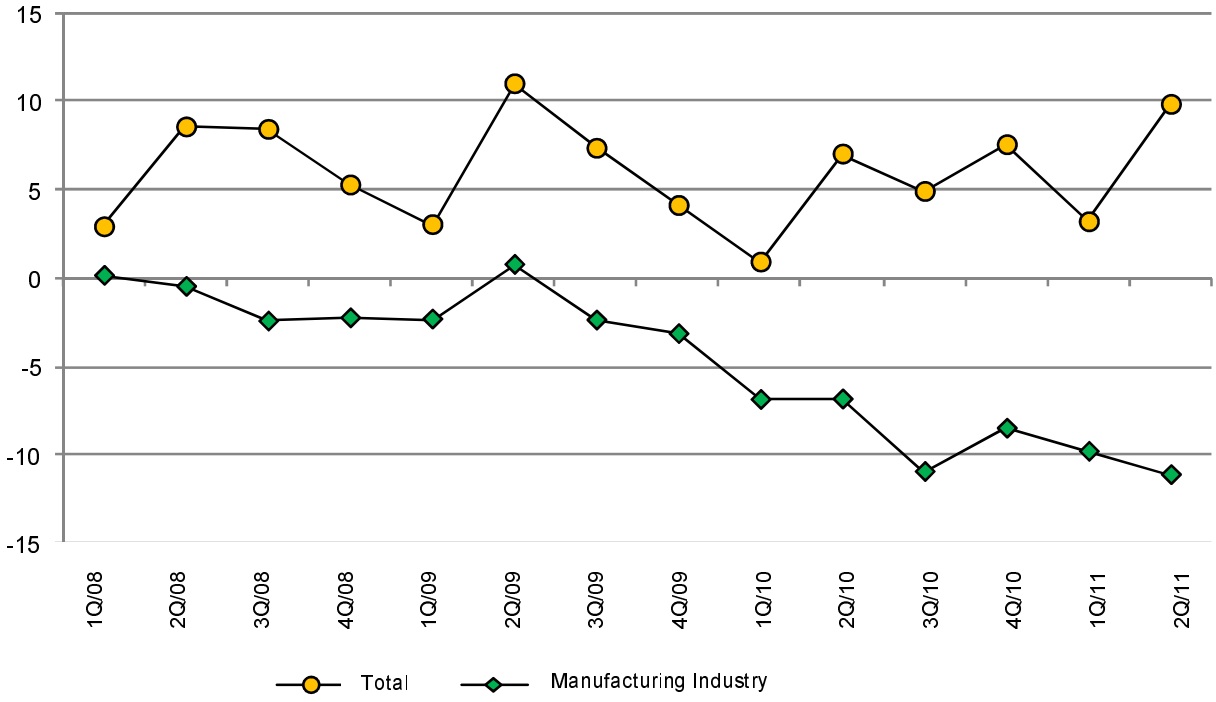
Source: NEIT/IE /Unicamp based on PIM-PF/IBGE, PMC/IBGE and FUNCEX data.

From the second quarter of 2010 onwards, however, industrial production began to show a tendency towards a much greater reduction in growth rate than retail sales. On the other hand, while imports also tended to decline, they continued to rise well above the other variables. In the second quarter of 2011, imports began to grow again (14.9%), whereas retail sales growth stabilized at a relatively high level (7.8%) and industrial production continued to slowdown (0.7%), thus highlighting the displacement of domestic production by imports in the second quarter of 2011.

Another important sign regards the balance of trade of industrial products[3]. The Brazilian balance of trade presented a surplus in the period analyzed, despite the superiority of the growth rates in imports in relation to those in exports. Specifically analyzing foreign trade of the manufacturing industry, the result is increasingly negative, principally from the third quarter of 2009 onwards (Graph 2). Even though the surplus grew in the second quarter of 2011, the deficit of industrialized products increased, showing that the Brazilian surplus comes largely from commodity exports. During the crisis the trade deficit of the manufacturing industry fell and a slight surplus was even noted in the second quarter of 2009, which did not occur at the time of deceleration in the first half of 2011. Competition from imported products can be concealed by the amount of the Brazilian trade surplus, yet is clearly evident when the manufacturing balance of trade is analyzed separately.

[3] The definition of manufacturing product follows the CNAE (National Classification of Economic Activities) 2.0 classification, with the conversion based on trade data, with NCM to eight digits.

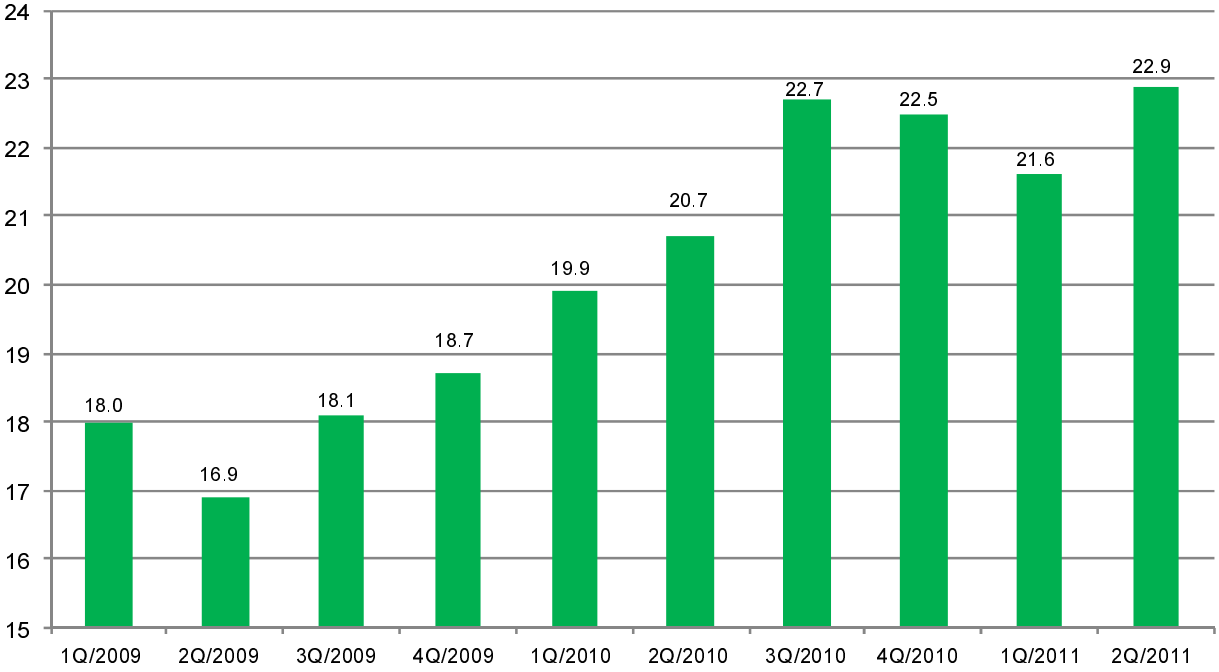
Graph 2 - Brazilian Trade Balance – Total and Manufacturing Industry (1Q/2008 to 2Q/2011) (US$ billions)



Source: NEIT/IE/Unicamp based on SECEX data.

Likewise, when analyzing the evolution of the import coefficients – the relationship between imports and internal consumption – released by the Federation of Industries for the State of São Paulo (*FIESP, Federação das Indústrias do Estado de São Paulo*), the increase since the 2009 crisis, from less than 17% in the second quarter of 2009 to almost 23% in the second quarter of 2011, the highest level in the period analyzed, can be clearly seen (Graph 3).

Graph 3 - Evolution of the Import Coefficient of Brazilian Industry (1Q/2009 to 2Q/2011)



Source: NEIT/IE/Unicamp based on FIESP (2011) data.

A more detailed analysis of Brazilian industrial imports by category of use and sector could contribute to better understanding their movements in the period analyzed. On breaking down imports of industrial goods according to category of use, it was clear that the volume of imports grew by more than physical production across all categories of use since the begining of 2010 (Table 2). It is also worth pointing out that increased growth rates in imports prior to the emergence of the financial crisis, in the first three quarters 2008, were also verified. This was, however, accompanied by solid growth in physical production, differing from the behavior in the first quarters of 2011.

Table 2 - Brazilian Industry: Evolution of Physical Production and Quantum Imported by Category of Use (variation in relation to the same quarter of the previous year – 1Q/2008 to 2Q/2011)

	Capital goods		Intermediate goods		Durable consumer goods		Non-durable consumer goods	
	Imports	Production	Imports	Production	Imports	Production	Imports	Production
1Q/2008	31.3	17.3	19.5	6.1	62.5	13.7	6.1	1.3
2Q/2008	36.1	19.2	25.1	4.4	60.4	14.1	17.6	1.9
3Q/2008	43.5	19.7	25.2	5.2	59.6	9.0	18.4	3.6
4Q/2008	27.1	2.5	3.2	(9.2)	7.8	(19.4)	4.0	(1.2)
1Q/2009	0.1	(20.2)	(29.5)	(18.1)	(15.0)	(22.6)	6.4	(2.8)
2Q/2009	(12.5)	(25.5)	(34.2)	(13.5)	(13.8)	(16.3)	(4.2)	(3.3)
3Q/2009	(26.1)	(22.1)	(24.8)	(9.0)	(8.8)	(5.6)	(6.7)	(2.7)
4Q/2009	(10.0)	(1.6)	(5.1)	6.7	37.6	25.0	6.2	2.4
1Q/2010	16.5	26.0	45.9	19.7	82.7	28.4	15.9	9.0
2Q/2010	37.1	33,3	54.1	15.2	59.5	14.0	31.0	6.4
3Q/2010	76.3	21.3	39.6	8.7	36.5	2.4	30.9	4.7
4Q/2010	38.0	7.1	26.1	3.9	28.6	1.5	27.5	1.6
1Q/2011	27.1	8.6	10.6	1.9	36.1	5.1	18.7	0.7
2Q/2011	25.1	4.5	11.0	0.5	31.5	(1.0)	17.8	(0.3)

Source: NEIT/IE/Unicamp based on PIM-PF and FUNCEX data.

At the peak of the crisis (2009), the volume of imports of intermediate goods and capital goods (to a lesser extent) presented a significantly larger contraction than that of physical production in the same period. The same could not be said for consumer goods. Regarding durable goods, production fell by more than the quantum of imports in the first three quarters of 2009, while non-durable goods presented very slight reductions in terms of both imports and physical production.

Since the beginning of 2010, imports have grown at a faster rate than physical production across all categories of use (with the exception of capital goods in the first quarter of 2010). At this time, post-crisis economic recovery was more evident and the Brazilian currency was becoming stronger. Durable consumer goods experienced greater changes than capital goods. Both imports (more evidently) and physical production of durable goods decelerated from the second half of 2010 onwards, however the gap remained significant. It is also worth pointing out that imports of non-durable consumer goods enjoyed significantly higher growth in 2010 and 2011 in relation to the period before the emergence of the crisis, while physical production has remained practically stagnant since the last quarter of 2010.

By analyzing imports of industrial goods by sector, the growth in imported amounts was greater than that of physical production for almost all industrial sectors in the first half of 2011 compared to the same period in 2010 (Table 3). The sectors that have suffered the most as a result of competition from imported products are those which are labor intensive, such as textiles, confection, leather and footwear and furniture. In these sectors, the increased growth rate regarding the volume of imports contrasts with the contraction of physical production. It is also possible to see that in sectors related to capital goods, such as electronic equipment, machinery and equipment and computing machinery, the increase in the number of imports was accompanied by low growth or even a decline in production. It is worth pointing out that a number of sectors related to durable consumer goods changed in the same way, in this case however the more expressive expansion of its physical production in the first quarter contributed to the relatively positive result obtained in the first half of 2011.

Table 3 - Brazilian Industry: Evolution of Physical Production and *Quantum* Imported by Industrial Sector (variation accumulated in the 1st half of 2010 and 2011)

	1st Half of 2010		1st Half of 2011	
	Imports	**Production**	**Imports**	**Production**
Food products and beverages	21.4	-	12.1	-
Foods	-	5.5	-	(1.3)
Beverages	-	16.0	-	(4.6)
Tobacco	-	(11.2)	-	7.0
Textile products	61.8	11.1	21.8	(12.6)
Manufacture of wearing apparel and accessories	9.4	11.8	44.6	(0.9)
Leather preparation, leather products and footwear	2.7	16.5	36.0	(7.3)
Manufacture of wood products	4.3	16.9	22.1	0.8
Cellulose, paper and paper products	49.5	6.6	13.1	1.5
Manufacture of coke, refined petroleum and fuels	112.5	1.1	0.2	2.0
Chemical products	45.5	-	13.6	-
Pharmaceuticals	-	9.1	-	6.4
Perfume, soaps, detergents and cleaning preparations	-	4.5	-	(1.9)
Other chemical products	-	18.3	-	(2.4)
Rubber and plastic products	58.2	21.9	16.0	1.4
Non-metallic mineral products	50.4	12.2	56.7	4.8
Basic metal	71.5	31.9	(6.3)	1.1
Metal products	36.6	36.0	38.3	3.0
Machinery and equipment	31.0	41.9	33.4	2.0
Manufacture of office and computing machinery	52.2	29.7	15.8	(0.8)
Machinery, apparatus and electronic equipment	41.4	16.4	24.6	0.5
Electronic and communication equipment	57.7	22.5	10.4	4.8
Medical-hospital equipment	46.3	11.8	(10.5)	20.8
Motor vehicles, trailers and semi-trailers	74.4	32.2	18.8	6.2
Other transport equipment	(2.0)	(6.7)	22.5	12.4
Furnishings and other industries	38.8	-	26.7	-
Furniture	-	18.6	-	0.6
Others	-	20.5	-	8.2

Source: NEIT/IE/Unicamp based on PIM-PF and FUNCEX data.

The movement described here in which the demand resulting from economic growth is aimed at imported products, with the strong exchange rate having a large impact, shows serious risks regarding future expansion of the industry. The loss in dynamism of the industry could result in a vicious cycle in which the growing demand for imported products will mean less impetus to carry out the necessary investments in order to increase capacity and productivity. Furthermore, it could encourage strategies to increase the imported content of production in order to boost productive efficiency, or even, in some cases, abandon industrial activity and regress to trading activities. With this change, the industrial sector will have weakened its capacity to generate links with other activities.

It must however be pointed out just how opportune the timing of introducing the *Brasil Maior* Program was. Likewise, the Program's concern about the protection of the internal market is an important and opportune factor at a time of intransigent and long-running international competition. The exemption of the payroll in labor-intensive sectors, the government's preference to buy national products and services and trade protection measures could more effectively direct domestic demand towards national industrial production. Adding the incentive measures to encourage investment and innovation, there are going to be important impacts on the future performance of the industry and the development of the Brazilian economy in the long-term.

REFERENCES

Federação das Indústrias do Estado de São Paulo (FIESP). **Coeficientes de Exportação e Importação** - Second quarter results of 2011.

Fundação Centro de Estudos para o Comércio Exterior (FUNCEX). **Boletim de Comércio Exterior**.

Instituto Brasileiro de Geografia e Estatística (IBGE). **Contas Nacionais**.

Instituto Brasileiro de Geografia e Estatística (IBGE). **Pesquisa Industrial Mensal – Produção Física** (PIM-PF).

Instituto Brasileiro de Geografia e Estatística (IBGE). **Pesquisa Industrial Anual**.

Instituto Brasileiro de Geografia e Estatística (IBGE). **Pesquisa Mensal do Comércio.**

Instituto de Estudos para o Desenvolvimento Industrial (IEDI). **Carta IEDI**, n. 463. O Déficit de Produtos Industriais no Início de 2011.

Ministério do Desenvolvimento, Indústria e Comércio Exterior (MDIC). Secretaria de Comércio Exterior (SECEX). **Estatísticas de Comércio Exterior**. Various years.

Ministério do Desenvolvimento, Indústria e Comércio Exterior (MDIC). **Brasil Maior**. **Inovar para competir. Competir para crescer**. Plano 2011/2014. Plano de Inovação do Brasil (PIB). Available at: <http://www.brasilmaior.mdic.gov.br>. Acessed on: Sept.,2, 2011.

Ministério do Trabalho e do Emprego (MTE). **Cadastro Geral de Empregados e Desempregados** (CAGED).

Ministério do Trabalho e do Emprego (MTE). **Relatório Anual de Informações Sociais** (RAIS). Various years.

Graphic Design
Marina Proni

Translation / Layout
Vernaculum Comunicações Internacionais

C**over design**
Marcos Barros


ABDI
Agência Brasileira de Desenvolvimento Industrial


GOVERNO FEDERAL
BRASIL
PAÍS RICO É PAÍS SEM POBREZA