Early signs of recovery?

Brazilians are buying fewer imports, but it is too early to identify consistent import substitution in favor of the domestic industry.

Solange Monteiro

ONE OF THE FEW RESPITES Brazilian manufacturing had in the second half of 2015 was the depreciation of the national currency against the dollar, which helped make the exporting sector more competitive and encouraged the fall in imports. According to the Ministry of Industry, Foreign Trade and Services, from January to April 2016 the Brazilian external trade balance was 18.4% lower than in the same period of 2015—a decline of 3.5% in exports but a far larger drop in imports of 32.2%. The share of imports in domestic consumption—defined as the sum of imports and domestic production less exports—was favorable for Brazilian industry. According to an IBRE survey, the share of imports in domestic consumption fell to 24% in March this year, having peaked at 27% in July 2015.

IBRE researcher Claudio Considera warns that it is too early to identify consistent, continuing import substitution that favors domestic production. He points out that the short observation period, persistent recession, and the volatility of the exchange rate prevents accurate analysis. “This is a recent move, and it needs to be assessed in detail by sector. Exchange rate volatility may still generate uncertainty about whether there will be a more decisive change in the production planning of manufacturers,” he says.

Visible signs

IBRE researcher Lia Valls agrees but notes that some sectors are showing “signs of a more visible recovery, such as textiles and clothing and auto parts—the latter due largely to the auto industry’s high investment program,”
she says. A survey for the National Union of Auto Parts Industry found that in the first four months of the year the sector’s trade balance deficit was US$1.42 billion—41% lower than in the same period of 2015. While auto parts exports fell by 16.2%, imports shrunk by 28.4%. In 2015, the trade balance deficit in textiles and clothing was US$4.75 billion. The IBRE survey also suggests that there will be a further reduction of the share of textiles and clothing imports in total domestic consumption.

The share in domestic consumption of imported consumer goods fell to 12% in March this year, down from 15.6% in July 2015. The share of imported intermediate goods fell to 26.1% in March, down from a 30% peak in November 2015. The share of imported capital goods declined to 39.6% in March, having peaked at 43.8% in July 2015.

Considera emphasizes that only further analysis can make clear the extent to which the trend observed so far is a positive turnaround of the manufacturing industry. “Regarding final goods, mostly of low quality, the result is good. Regarding capital goods, however, most modern items are imported, and a reduction of their purchases may indicate less industry investment in items that enhance their productivity,” he says, noting that the same reasoning applies to intermediate goods. “For example, in the pharmaceutical industry, imported inputs may involve national production of more high-tech products. Reducing imports of inputs may not be a good sign,” he explains.

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