

# AutoData

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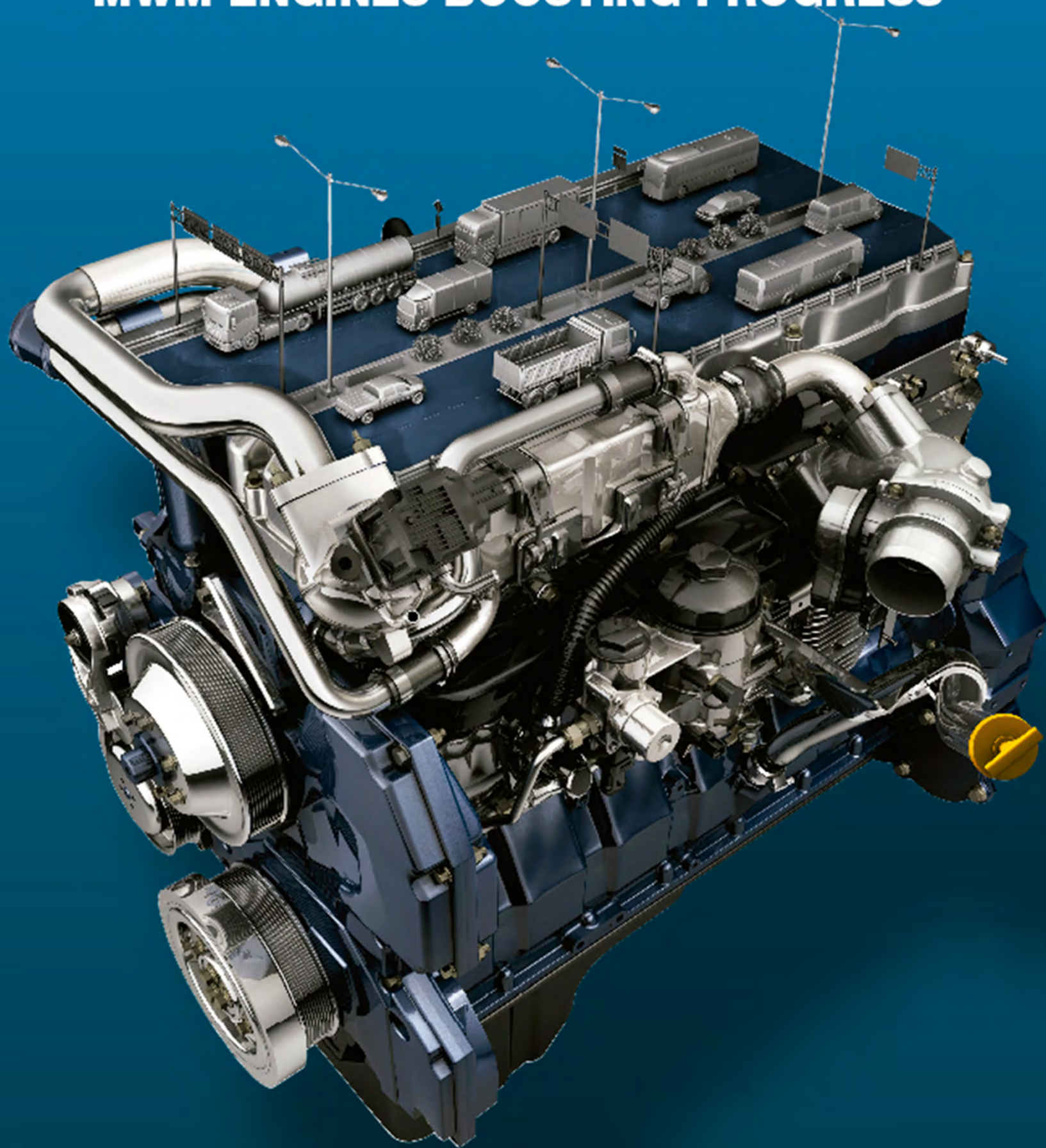
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# Productivity, GDP's contribution to the industry

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The Brazilian Central Bank released on Thursday, 30, the quarterly inflation report that shows the relationship between NUCI, the industrial capacity utilization index, and investment in the capital goods manufacturing industry. The conclusion for the first three months of the year was that the high idle capacity suggests limitations for the resumption of investments in new equipment in the medium term and the opening of new jobs. The automotive sector currently registers a 54% idle capacity. At truck plants alone, this ratio reaches 80%.

Still according to the Central Bank, the capacity utilization index is at its lowest level.

According to Carlos Viana de Carvalho, Director of the CB's economic policy, "the current structure within the factories would be enough for a possible increase in demand for industrial goods."



According to him, this also means that in the medium term the contribution of industry to the GDP's growth should not occur through investments, but through increased productivity instead.

Zeina Latif, Chief Economist of XP Investimentos, noted that the low demand and high idle capacity generate opportunities for industry to better prepare itself for the economic resumption, paving the way for increased competitiveness:

"This is the moment to review management and to position the company better for when the market starts to grow again."

According to the economist, the most productive companies have a larger capacity of reaction and this reflects on the whole economy.

"When a company structures its management, it has the potential to produce more with fewer resources and, as a result, it can offer products at more affordable prices. This helps to move the domestic market."

These companies also become more competitive in foreign markets. According to her, it is important to start this exercise now and avoid difficulties at the time demand heats up again.

However, she cautions that homework must also be done by other players in the value chain: "A competitive industry is not built only by internal management. There are several external issues that lower competition, such as the Brazil Cost and tax complexities, factors that prevent advancement."

She said that this is the moment to press government for a discussion agenda that addresses this issue and contribute to solutions to these bottlenecks.

In general terms, the quarterly inflation report shows a revised GDP growth projection of 0.5%, while the projected inflation rate for the year is 4.1%, close to the 4.5% target for 2018. According to the Central Bank, there is a "de-inflation process underway that is more widespread and increased confidence on its continuity."

# Confidence and installed capacity increase in March

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**T**he ICI, Industry Confidence Ratio, published quarterly by the Getúlio Vargas Foundation, FGV, advanced 2.9 points in March 2017, 90.7 points year to date. This is the highest level since May of 2014, when the year-to-date ratio was 92.2. With the result, the average for first quarter closed at 89.2 points, 3.5 points above the previous quarter.

The rise in industrial confidence occurred in 17 of 19 segments surveyed and, according to FGV, spread to all categories of the survey. Progress was made in both the expectations of entrepreneurs as well as the index that measures the current situation. The index of expectations, called IE in the study, advanced 3.8 points, reaching 93.1 points, the highest level since April 2014, when it closed at 96.9 points, and the current situation ratio, ISA, rose 2.1 points to 88.5 points, the highest level since January 2015, when registered 89.1 points.

According to Aloísio Campelo Júnior, superintendent of public statistics at FGV, the indicators are a thermometer of the activity in the industry and they show a growth projection.

“The higher ICI ration in March consolidates the recovery trend and reaches a level that is close to the one registered at the beginning of the current recession. The result seems to portray a sector in transition in the economic cycle: there is favorable news, such as the significant spreading throughout the sectors and the improvement of expectations, but the dissatisfaction with the current business situation remains persistent.”

He also calls the attention to variations in expectations because of the risks that are intrinsic to the economy: “The economic scenario is conducive to a gradual increase in industrial confidence over the next few months, but conditioned to the risks inherent to the still high degree of uncertainty.”

The biggest contribution to the increase in the expectation index relates to the forecasts concerning the evolution of production. After dropping 2 points in February, the production index increased 4.6 points in March, reaching 93.3 points. In this period, there were more companies expecting an increase in production within the next three months, up from 27.6% to 30.9% of the total, and relative stability in the portion that predicts lower production, which went from 19.3% to 19.0% of the total.

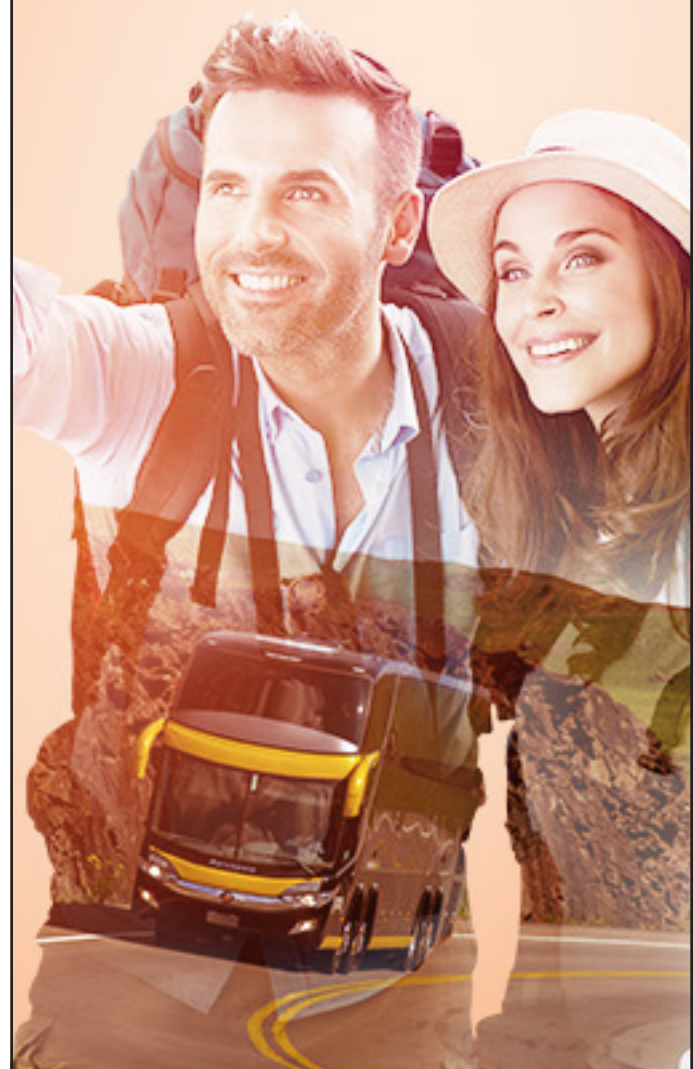
In March, the index that measures the assessment of the level of inventory accounted for the most important contribution to the evolution of ISA in the month. There were more companies that assess the current inventory level as insufficient, which went from 4.9% to 6.1% of the total, while those that consider inventories excessive increased from 12.8% to 12.9%. With the result, industrial stocks are very close to normal, which had already been achieved in September.

The level of capacity utilization, NUCI, increased 0.1 percentage points in March, reaching 74.4%. In the first quarter of 2017, the average ratio also closed at 74.4%, 1 percentage point above the previous quarter.

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# Domestic sales improve and lower idle capacity at the plants

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Sales of machinery and equipment in Brazil during the first two months of 2017, totaled R\$5.792 billion, an increase of 3.7% when compared to the same period in 2016. Exports totaled US\$ 1.053 billion, a drop of 3.6%. Industry's overall revenues for the period fell 10%, reaching R\$ 9 billion. Apparent consumption, domestic sales and exports, dropped 22.4% during the period, R\$13.059 billion. The figures were disclosed on Wednesday, 29, by the Brazilian machinery and equipment industry association, Abimaq.

According to the president of Abimaq, João Marchesan, the agribusiness and consumer goods segments drove the increase in domestic sales. The agribusiness sector accounted for 15% and consumer goods accounted for 10% of the total.

“Revenues from sales of spare parts were also significant during the beginning of the year. Companies chose to do the maintenance of their equipment instead of investing in new machines. In the first two months of the year, the aftermarket market already accounts for 7% of revenues. This behavior should be felt throughout 2017.”

The good performance of sales in Brazil already reflected in the industry's capacity utilization ratio. According to Abimaq, the index increased 1.3 percentage points, reaching 67.8%. Last year, manufacturers used, on average, 66.5% of their production capacity.

Exchange rate impact - Marchesan said the drop in exports during the first two months was due to the increase in the value of the real against the dollar: “The R\$ 3.10 exchange rate makes exports unviable. It should remain this way during the year, as the government has already signaled that it wants to keep the dollar at this level.”

The good news is that exports to Latin America increased 19.4% during the first two months of the year, reaching US\$ 480 million. The industry leader said that shipments to the region were higher to Mercosul countries, reaching US\$ 189 million, up 19.7%.

Despite the lower exchange rate, imports did not register a positive performance in January or February, closing the first two months at US\$ 2 billion, representing a drop of 14.9% when compared to the same period last year: “With low domestic demand, there is no justification for the purchase of machines and equipment, despite the favorable exchange rate.”

The industry's foreign trade balance registered a deficit of US\$ 959.049 million during the period.



# Vehicle manufacturers increase plastics usage to lower costs

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**T**he search for lower costs and the development of lighter and more fuel efficient vehicles have led vehicle manufacturers to use more plastics, and more resistant thermoplastics, in cars and trucks produced in Brazil. The strategy comes in the midst of an interesting context: the production of vehicles in Brazil fell last year, while plastics consumption increased per unit produced.

Figures from the Brazilian plastics industry association, Abiplast, show that in 2016 the automotive sector was the third largest consumer of thermoplastics in the country, behind only the construction and food industries. The automotive chain accounted for 12% of revenues in the sector, which closed last year at R\$ 55 billion. That is, R\$ 6.6 billion was spent on the purchase of polypropylene and polyethylene resins used in the production of bumpers, panels and fuel tanks. In 2016, the sector accounted for 10%, and the trend is that this volume should increase in 2017, exceeding 12%.

According to José Ricardo Roriz, president of the association, the industry expects a growth of 1.32% in total production of plastics in the country, reaching 6.32 million tons. "In spite of being small, this increase indicates the beginning of an upturn in the market, driven by the automotive industry, our third largest client. New trends and consumer behaviors that require cars that are lighter, less polluting, and with greater automation and sustainability, brings good prospects for partnership with the segment. It is also an opportunity to explore new solutions."

To Braskem, the largest supplier of thermoplastic resins in Brazil, the automotive sector is the tenth biggest market, but it estimates the average of 50 pounds of thermoplastics per unit produced in Brazil should increase to the European level in the short term, reaching 120 pounds. Walmir Soller, director of polypropylene, said Braskem increased its plastic production in Brazil last year to serve the automotive industry.

“In 2016, there was an interesting improvement, driven by, among other factors, the application in the automotive industry, which realized that the material combines technical and operational features that are better than steel. The price of resin was lower than steel because of the drop in oil prices. This has accelerated the use of plastics in vehicles,” he said.

In the segment of thermoplastics, Braskem increased its revenues by 2% between 2015 and 2016. Last year, the company’s revenue with sales of this type of plastic was R\$ 20.307 billion. Production also increased over the period, 3%, from 4.1 million in 2015, to 4.3 million tons in 2016. Domestic consumption of thermoplastics in the country last year totaled 2.811 million tons.

**Utilization** – Vehicle manufacturers already use plastics in their new vehicles as a strategy to lower weight. Toyota, for example, consumed 12 thousand tons of plastics between 2015 and 2016 at its plants in Indaiatuba and Sorocaba, in the state of São Paulo, where the Etios and Corolla models are produced. In 2014, this volume was 9 thousand tons. In the new Corolla, released in early March, there are 35% more plastic parts than the previous version.

Trucks are also increasing the use of plastic, replacing steel. According to Alexandre Dias de Oliveira, manager of engineering, body and finishing at MAN Latin America, the percentage that will guide the company in future product launches will increase from the current 50% used in the Worker and Constellation lines. “We are working on new projects and the presence of plastics increase in the vehicles. Until today, the average plastics composition of the Constellation has been 50% steel and 50% plastic. In the projects we have been working on something around 100% in non-structural areas of the truck.”

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