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Macroeconomic determinants of the recent performance of the exports of manufactured goods*

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The recent loss of dynamism for the exports of manufactured goods has generated a heated debate in Brazil, not only in regards to the causes of this trend but also to its impacts on the economy in general. For most of the analysts the appreciation of the exchange rate is largely accountable for this performance.

The debate about the appreciation of the exchange rate focused on its causal factors and possible long term effects on the economy. Amongst the causal factors, the differential role of internal and external interest rates and terms of trade gains (relation between the prices of exports and imports) was highlighted in relation to the growth of Brazilian commodity prices. It is suggested that both events would have increased the supply of dollars in the exchange market and may have contributed to the appreciation observed.

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Amongst the medium and long term consequences, the loss of dynamism and even the contraction (in quantum) of the exports of manufactured products has been assessed as the symptom of a 'dutch disease' in the Brazilian economy. Also, the hypothesis that the appreciation of the exchange rate, slowing down the growth of manufactured goods exports (in quantum), has been seen as contributing for the 'primarization' of the country's exporting agenda.

However, the recent analysis of the effects of the appreciation of the actual exchange rate on the exports of manufactured goods is insufficient and unsatisfactory. With the objective of contributing to this debate, we analyze the recent performance of manufactured exports through an econometric assessment of the export supply of these products, taking into account its macroeconomic conditioning factors. It seems particularly relevant to integrate to this analysis the evolution of the main macroeconomic factors which may have influenced the dynamics of manufactured goods exports, discussing the hypotheses related to the characteristics of markets in which the exporters operate and simulating the relevance of each one of these factors for the Brazilian producers' decisions to export in the current decade.

The first conclusion reached by our analysis is that, although there has been significant appreciation of the real effective exchange rate since 2003, there is no stable relation between this evolution and the performance of the quantum of exported manufactured goods. This conclusion suggests that other variables can be as or important or even more important than the exchange rate in determining the recent dynamics of Brazilian exports. The analysis of the behavior of the demand for Brazilian manufactured goods indicates that the difference between growth rates of the domestic absorption and foreign demand has high explanatory power in relation to the evolution of the exports of these products.

Secondly, the study points to the need of deepening the investigation about the constitution and evolution of the profitability of the exports of manufactured goods and about the industrial profitability in general. The exchange rate is not the only component in the profitability of exports. The ability to influence prices in foreign currencies and the evolution of the main production costs should also be incorporated to the analysis.

There seems to be evidence that Brazilian producers of manufactured goods operate in differentiated product markets and were able to retrieve part of the losses due to the exchange rate appreciation, increasing prices in the currencies of the importing countries or of sales revenue.

In terms of profitability it is necessary to take into account the fact that the growth of domestic absorption tends to ease the increase of profit margins in the domestic market. The analysis of aggregate data suggests that the prices in both markets (external and domestic) have increased, but the margins had a bigger increase in the domestic market, making it relatively more profitable. In this context, the manufactured goods producer tends to favor sales in the domestic market in relation to the foreign market.

After formulating and testing different models to simulate the decisions of the manufactured goods exporter, the conclusion reached was that the best specification is the one in which the components of profitability of manufactured good exports appear in separate. On the one hand, the results of the econometric exercises suggest that an appreciation of the real exchange rate discourages the supply of manufactured goods for exporting. On the other hand, the ability to hand over prices to foreign consumers seems to be a much more important variable for the profitability of the exporting activity than the real exchange rate. In fact, the bigger the capacity of

extracting the foreign consumer surplus, the larger the supply disposition (to export) should be, even in less favorable scenarios for the other factors conditioning the choice of the firm – including the real exchange rate.

Also, as expected, the increase in relative growth of global absorption in relation to the Brazilian absorption stimulates the country's exports. In the same way, larger access to imported raw materials and inputs allows for an increase in the quantities traded. In these aspects, this model confirms other available estimates in the Brazilian literature regarding this topic.

The analysis of the several elements that influence the decisions of exporting manufactured goods from Brazil revealed that it is necessary to continue probing deeper into the recent dynamics of the price-cost unit margins in manufactured goods exports and compare it with the evolution of the (per unit) profitability of all the operations of Brazilian industrial companies. It also seems important to invest in more

disaggregated - in terms of economic sectors or geographical destination of the exports - econometric studies on the behavior of Brazilian exports.

The results obtained in this study allow for a new interpretation in regards to the main determining factors of the exporting decisions by companies that produce manufactured goods. In fact, an appreciated exchange rate reduces the profitability of exports in relation to the supply to the domestic market, decreasing the marginal propensity of the industrial firms to export. However, the exercises carried out indicate that the importance of the exchange rate for the firm's decision should not be overstated. Not only other variables not directly connected to profitability seem to be more relevant (as the differential between the global and domestic growth rates or the access to imported raw materials and inputs for production at lower costs), but also the dynamics of prices in foreign currencies seem to be more important than the exchange rate.