

EXECUTIVE SUMMARY

Brazil's economic recovery, confirmed by recent GDP releases as well as by national data on manufacturing, trade and the labor market, reflects geographically widespread but unevenly paced regional upturns in activity.

The North's economy, focused on mining and electronics assembly, is more sensitive to shifts in external demand and on domestic credit conditions, and as a consequence suffered a more severe blow from the global downturn than other regional economies. From May, however, improving external demand as well as a revival of domestic credit led to important gains, at the margin, in trade and manufacturing activity in this region.

Northeast Brazil has been recovering since the second quarter of the year, in line with the national trend, thanks to strong domestic demand, favored by a resilient labor market, better credit conditions and important fiscal transfers from the federal government. The combined effects of a growing real wage bill, larger fiscal transfers and improving household credit led to a 2.2% increase in retail sales in the region, in the three months ending in August, compared with those ended at May.

The importance of agrobusiness in Central-West Brazil has helped shield this region from the worst effects of the global crisis. After contracting less, in the beginning of the year than those for the national economy, sector indicators for the region have shown a faster recovery, as a result of stronger agrobusiness exports and its implications for local manufacturing, trade and labor market conditions. Thus, retail sales grew 2.1% in June-August compared with March-May, whereas manufacturing production in Goiás state rose by 9.3%.

Southeast Brazil (which includes Minas Gerais, Rio de Janeiro and São Paulo states) remains the country's economic heartland. Key regional economic indicators show that the recovery that began in the second quarter has been gaining traction. Faster growth of retail sales and manufacturing production – which increased by 2.8% and 4.8% respectively in the quarter that ended in August, compared to that ending in

May – and a recovery in the labor market have been helped by lower inflation, which boosts purchasing power, and by easier credit conditions.

The behavior of key sector indicators confirms the economic recovery of Southern Brazil, which started in the first half of the year. Manufacturing and trade have been supported by fiscal policy measures, rising real incomes, thanks to lower inflation, and a sharp recovery in household credit, with a 3,4% increase in the three months through August, compared with May. In this environment, consumer and business confidence have returned to pre-crisis levels, helping to underpin the recovery.