

## Executive summary

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The Brazilian economic activity continues to recover at a more accelerated pace than worldwide, as evinced by the Gross Domestic Product (GDP) growth observed in the last quarter of 2009 in relation to the previous quarter, the third consecutive increase on this basis of comparison, as well as by the recent trajectory of key domestic economic indicators. This trend demonstrates a widespread dynamism in all regions of the country, expressed in the performance of each region's Central Bank Index of Regional Economic Activity (IBCRs) and in the acceleration of investment outlays observed more recently<sup>1</sup>.

Northern Brazil's key indicators favorable performance registered at the margin during 2009 intensified in early 2010. It should be highlighted the effect of the buoyant domestic demand on the region's industrial and retail activities, which increased at respective seasonally adjusted rates of 6.8 % and 4.5% in the December-February period in comparison to September-November. Rising inflationary pressures accompanied the dynamic economic activity in this region. Moreover, it should be noted that the IBCR-N grew by 4.3%, on the same basis of comparison, emphasizing that the IBCRs analysis at the margin is always based on seasonally adjusted data.

The economic recovery observed in the Northeastern economy in 2009, in line with the performance of key regional monthly indicators, led to annual GDP growth in the three major states of the region at rates significantly higher than nationwide, reaching 1.7% in Bahia, 3.1% in Ceará and 3.8% in Pernambuco. These results at the margin are even more significant in view of the respective GDP growth rates of 7.2%, 3.8% and 5.4% that had been registered by the three mentioned states in the fourth quarter of 2009 in comparison to the corresponding period of the previous year. Similarly, indicators for the industry, retail trade, labor and credit markets continue on an upward trend, as demonstrated

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<sup>1/</sup> The recent trajectory of investments, with emphasis on the recovery observed as of the second half of 2009, is discussed in the box: "The path of aggregate investments during the crisis" included in this Bulletin, in portuguese.

by the 2.2% expansion under IBCR-NE in the December-February period in relation to September-November.

The economic activity of the Center-West region, in partly benefiting from the strengthened domestic demand consequent upon increased real wages and credit operations, accelerated in the 3-month period ended in February in comparison to the September-November period of the previous year. Highlights were the respective increases of 5.7% and 9.3% observed in the region's retail sales and in the industrial activity in the Goiás state. It should be emphasized that, notwithstanding the impact of lower prices of major agricultural products on the region's farm income and exports, the IBCR-CO increased by 2.8% in the 3-month period under analysis.

The recovery of economic activity in the Southeast continued in the beginning of the year, driven particularly by the performance of industry – this sector cumulative growth in the 3-month periods ended in February 2010 and November 2009 closed at nearly 8%. The region's dynamic industrial activity is basically explained by the strengthened domestic demand, both at regional and national level, reflected in the persistent growth in consumption, in an environment of better credit and labor markets coupled with growing investments, consistent with the optimism of economic agents. In this scenario, the IBCR-SE grew by 3.2% in the 3-month period ended in February in comparison to the previous 3-month period ended in November, accompanied by rising inflation – pressured not only by the heated economic activity but also by seasonal factors linked to the cost of food and education.

In the South, the favorable trajectory of key economic indicators in the early months of 2010 can be partially associated to increased credit operations – as indicated by the 3.1% increase in the balance of loans above R\$5 thousand contracted in the region in the 3-month period ended in February – and higher income for most categories of workers. This scenario not only signals that the effects of the recession that followed the global turmoil has been overcome but also prospects the maintenance of a robust performance throughout the year for this region, an outlook reinforced by the 3.5 % increase in the IBCR-S registered in the December-February period in comparison to the previous 3-month period.