

Executive summary

In the early five months of this year, Brazil's economy has expanded at a moderate pace. Thus, the recovery of the domestic economic activity has taken place only gradually. In fact, when compared to the equivalent 2011 period, growth reached 0.85%, according to IBC-BR data. This performance expresses a lower industrial activity, particularly in the Southeast Region, a disappointing crop failure, and the effects of uncertainties in the international outlook. Nevertheless, a positive labor market situation, income growth, a moderate expansion of credit as well as consumer confidence tend to promote demand expansion. A vigorous domestic demand together with policy moves recently adopted point to an increasing pace of activity in this second half-year.

In recent months, major indicators show a more moderate economic activity in the North region. In fact, a downturn in industrial output and a slower pace of expansion in retail sales were consistent with the 0.2% drop in the seasonally adjusted IBCR-N in the March-May quarter, in relation to the previous one, when it was stable, on the same comparison basis. The region's industrial output fell 3.1% in this quarter, in contrast with the 2.5% growth in retail sales in the same period.

In early 2012 and in line with the cooling off in retail sales and in the labor market, the Northeast economy recorded a moderate pace of growth, but continues to perform above the national average. Thus, the seasonally adjusted IBCR-NE moved up 0.6% in the March-May quarter, when compared to the previous quarter, when it had expanded 1.7% in the same comparison basis. It should also be noted the 0.6% growth recorded in the industrial output, after falling during three consecutive quarters, with a special mention to the 5.2% expansion in apparel and accessories.

The Central-West region recorded a moderate economic activity in the March-May quarter as demonstrated by a slowdown in retail sales and a falloff in industrial output.

In spite of that, the positive momentum created by the labor market and by the grain crop, among other factors, provided the region with a growth rate above the country's average. In this scenario, the seasonally adjusted IBCR-CO quarterly variation closed at 1% in May, in relation to the period ended in February, when it had jumped 2%. The increase in the farm income, a buoyant labor market, coupled with economic policy measures announced by the government to spur growth should be expressed in the retail sale indicators as early as next quarter.

The economic activity in the Southeast region maintained a moderate pace of expansion in the March-May quarter, as an outcome of continued growth in retail trade and negative result of the industrial sector. The seasonally adjusted IBCR-SE moved up 0.6% in that quarter, when compared to the previous quarter, when it had expanded 0.7%, on the same comparison basis. A twelve-month analysis shows expansion of 2.5% in May, against 3.4% in February, thus ensuring a more moderate pace of activity. It should be highlighted the 1.6% increase in retail sales in the March-May quarter. This performance was benefited by an ongoing expansion of overall wages and household loans.

In recent months, the trajectory of the economic activity in the South confirmed the negative performance of industrial output and grain crop failure, coupled with a less vigorous retail trade. In this context, the seasonally adjusted IBCR-S dropped 1.2% in the March-May quarter, in comparison to the previous quarter, when it had expanded 1.3% in the same comparison basis. In spite of the negative performance at the margin and considering twelve-month intervals the indicator rose 4.4% in May, against 4.2% in February 2012. Prospects regarding growth in the South Region activity for this and coming quarters consider the effects of the economic policy actions recently carried out.