

Executive summary

Recent data on the economic activity are more favorable than expected, despite a sharper-than-anticipated intensity of the pandemic. Overall, several 2021Q1 figures have surprised positively, signaling resilience of the economic recovery to the worsening of Covid-19 and the reduction of the government measures to fight economic impacts of the pandemic.

Regionally, the analysis highlights the importance of the agro-industry and mining sectors for sustaining growth. In the short term, the economic recovery at a national level should be sustained by the maintenance of monetary stimuli –even with the process of partial normalization–, the resumption of government stimuli, and the reduction of the pandemic impacts resulting from the rollout of the vaccination process. Nonetheless, uncertainty about the pace of growth is still above the usual but should gradually return to normality.

Economic activity in the North region showed the greatest recovery from the effects of the pandemic throughout 2020. However, the severity of the Covid-19 second wave and the reduction in government stimuli strongly impacted its economy at the beginning of 2021, with significant contractions in retail sales, manufacturing output (due to the performance in the state of Amazonas), and services to households. In this context, the IBCR-N decreased 0.9% in the first quarter of the year. North was the only region to show contraction, reflecting a different pandemic stage and how intensely its sanitary situation worsened. Besides domestic conditioning factors, such as the return of emergency aid, which has a relevant weight in the region's economy, the resumption of local economic activity continues to be favored by high prices of mineral commodities.

In the Northeast, the positive performance of agriculture and construction contributed to the continued growth of activity. The end of the emergency aid and the worsening of the pandemic had a negative impact on trade, services

to households, and manufacturing output. The latter segment presented different behaviors in the three most representative states of the region. Growth in Pernambuco and contraction in Ceará and, particularly, Bahia. For the coming months, agriculture tends to maintain a positive contribution, and the slowdown of the pandemic may affect, more specifically, services to households. In the short term, the resumption of emergency aid for people in vulnerable situations and the 13th salary's advance for INSS retirees and pensioners favor local demand.

The Central-West economy, which had shown itself more resilient to the pandemic in the first half of 2020, ended the year in a slowdown. 2021Q1 activity growth was favored by the beginning of the soybean harvest, despite the worsening of the pandemic. In turn, the increase in Covid-19 cases delayed the recovery of services to households, which remained depressed and registered a significant drop in March.

The prospect of a new record soybean harvest, combined with good market conditions for trade, should increase agricultural income, sustain investments in the sector for the next cycle, and positively impact other segments.

The economic indicators of the Southeast region suggest continued recovery in 2021Q1, although at a slower pace. This trend mainly reflects the growing difficulties some segments have experienced in procuring inputs, the end of the emergency aid, and the worsening of the pandemic prospect. The best performing economic sectors were agriculture, manufacturing, and transportation. The latter, reflecting mining and agricultural production. Conversely, trade and services to households decreased. Despite the higher-than-usual uncertainty regarding short-term prospects for the economy, a possible normalization of production chains in manufacturing should occur throughout the year, contributing positively to the regional economy.

The main economic indicators of the South region show that the effects of the pandemic on the regional economy were less intense than expected. The IBCR-S, despite an anticipated slowdown, showed the most significant expansion in 2021Q1 among the regions. Economic activity directly benefited from the growth in agribusiness triggered by increased grain production. It also indirectly benefited from the higher agricultural income that favors investments, especially in machinery and

equipment. Despite higher-than-usual uncertainty, the regional economic recovery should continue due to the positive performance of agribusiness and the expected normalization of production chains in the manufacturing sector.