

A Positive Figure for Services in August

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- **The Services sector extended its positive trend in August.** The headline index rose 0.5% MoM-sa (+16.6% YoY), slightly above the market consensus (0.4%, according to Agência Estado) and in line with our estimate (+0.5%). August's result was the fifth gain in a row, with the index not only widening the gap over the pre-pandemic mark (up by 4.6% since February 2020) but also reaching its highest reading since 2015. Regarding 3Q21, this result implies a 3.3% carryover for the quarter.
- **Services to Families were (again) in the spotlight, marking the second healthy figure in 3Q21.** The segment expanded 4.1% MoM-sa (42.3% YoY), the fifth gain in a row but still showing wide idleness compared to the pre-pandemic mark (down 17.4 % since February 2020). This gap leaves room for positive contributions from the services sector to overall activity in the coming months. The Transports segment was also a highlight, climbing 1.1%, stemming mainly from a steep increase in Air Transports (up 7.4%).
- **Based on the data available up to now (with the additional and disappointing releases of farm output and health services data), we are lowering our tracking for August IBC-Br to -0.1% MoM-sa from +0.2%.** Our 3Q21 GDP tracking was updated to +0.3% QoQ-sa (from +0.5%), which imparts downside risks to our current 2021 GDP estimate (+5.1%).

Figure 1. Services Sector Breakdown

	Weights	% MoM			% YoY			% QoQ		
		Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21
Total Services	100%	1.8	1.1	0.5	21.2	17.8	16.6	2.2	3.1	4.3
Families	8%	9.0	2.0	4.1	73.0	76.0	42.3	4.2	19.4	28.6
Accommodation and Food	7%	9.4	2.4	4.5	82.4	86.0	46.3	4.4	20.4	30.4
Other Services to Families	1%	2.7	0.4	-0.3	34.7	33.4	23.3	6.8	9.3	8.3
Information	31%	2.6	-0.5	1.2	13.9	11.1	13.5	4.7	3.5	3.2
Technology	26%	1.5	0.4	1.2	10.8	10.0	12.8	3.8	2.6	2.5
Telecommunication	19%	-0.3	1.0	0.0	0.7	1.9	1.7	0.1	0.6	0.6
Information Technology	7%	1.5	1.7	2.0	26.6	23.3	31.5	8.4	5.3	4.3
Audiovisual	5%	18.9	-12.2	2.1	46.6	21.4	20.9	15.1	12.8	11.8
Professional/Adm	23%	1.9	0.4	-0.4	16.7	14.4	12.7	1.7	2.6	3.2
Professional	7%	1.9	5.3	-6.8	21.5	23.2	12.5	2.4	4.2	4.0
Administrative	16%	1.4	-0.4	0.4	14.8	11.0	12.7	1.2	2.0	2.6
Transportation	31%	1.6	-0.2	1.1	27.7	20.9	19.6	3.5	4.6	4.7
Ground Transportation	18%	0.9	-0.2	-0.1	29.2	21.5	17.5	2.1	3.0	3.0
Water Transportation	2%	0.3	4.6	-2.3	15.3	21.4	17.9	6.3	3.0	2.3
Air Transport	3%	15.6	-4.9	7.4	161.5	96.0	86.4	6.7	49.1	49.5
Storage and Mail	9%	-3.5	-0.2	1.2	14.4	10.1	12.6	2.1	1.5	-0.2
Other Services	7%	2.4	-0.2	1.5	15.5	11.1	11.7	4.2	3.3	3.3

Sources: IBGE, Santander.

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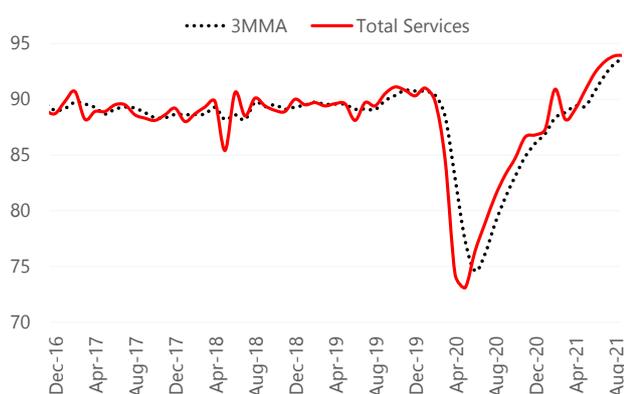
Services sector's real revenue continued to strengthen in August. The headline index rose 0.5% MoM-sa (+16.6% YoY), slightly above the market consensus (0.4% MoM-sa, according to Agência Estado) and in line with our estimate (+0.5%). Despite the softening compared to the last solid figures (+1.4% growth average in the last four months), today's result was the fifth gain in a row, with the index not only widening the gap over the pre-pandemic mark (up by 4.6% since February-2020) but also reaching its highest reading since 2015. August's figure was the second recorded expansion of cyclical services in 3Q21, implying a 3.3% carryover for the quarter and reinforcing our view that the services sector should play a main role in the economic recovery in 2H21.

Service to Families and Air Transports were the highlights, continuing the rebound. The former posted a healthy expansion of 4.1% MoM-sa (+42.3% YoY), the fifth gain in a row and slightly above the 40.7% YoY growth forecasted by our proprietary index (IGet Services)¹. However, the segment still shows significant idleness, recording a 17.4% gap relative to the pre-crisis mark. This gap leaves room for positive contributions to GDP growth in the coming quarters from the services sector. The Transports segment was up by 1.1%, stemming mainly from a steep rebound of Air Transports (up 7.4%), while Ground Transports, highly correlated with industrial production, posted virtual stability (-0.1%). With the exception of Professional services (down 0.4%), the remaining subsectors contributed positively. In comparison to the pre-crisis mark, only the Services to Families subsector continues to show significant idleness, with the remaining subsectors standing close or well above their pre-pandemic readings.

Based on IGet Services, our tracking for Services to Families in September stands at +0.2% MoM-sa (+30% YoY). We expect the Services sector to be the main driver of the recovery, mainly from those that still remain idle. Indeed, some important segments of the tertiary sector (nearly half of services GDP) are still at depressed levels, which leaves room for growth as the public health crisis gradually subsides.

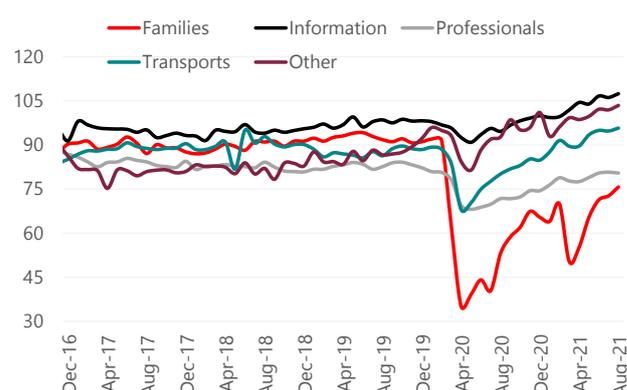
The BCB's broad activity index (IBC-Br) comes out tomorrow (October 15), capping the batch of key activity releases for August. Based on the data available up to now (with the additional releases of farm output and health services/DATASUS data), we are lowering our tracking for August IBC-Br to -0.1% MoM-sa from +0.2%. Our 3Q21 GDP tracking was updated to +0.3% QoQ-sa (from +0.5%), which imparts downside risks to our current 2021 GDP estimate (+5.1%). **For details on Santander's activity outlook, please refer to our last chartbooks².**

Figure 2.A – Total Services (sa, 2014=100)



Sources: IBGE, Santander.

Figure 2.B – Services Breakdown* (sa, 2014=100)



Sources: IBGE, Santander.* The Other Services subsector includes several activities such as brokerage, financial services and pension services.

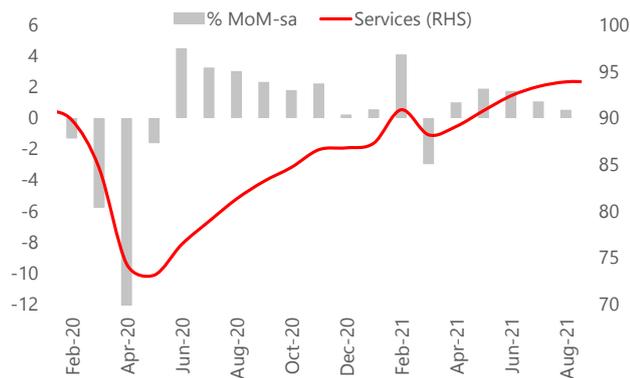
¹ Santander Brazil Economic Activity - "IGet Serviços – Serviços Terminam o Trimestre com Queda" – October 06, 2021 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-set21>

² Santander Brazil Economic Activity - "Chartbook – Downgrading the Estimate for 2022" – September 20, 2021 – Available on: <https://bit.ly/Std-chart-econact-set21>

Santander Brazil Economic Activity - "Chartbook – Eyeing a Higher Consumer Indebtedness" – September 24, 2021 - Available on: <https://bit.ly/Std-chart-credit-set21>

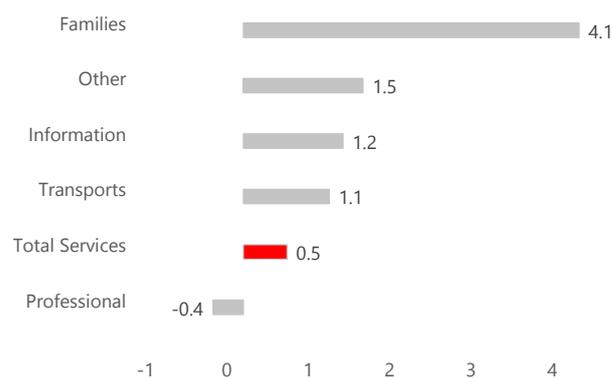


Figure 3.A – Total Services (sa, % MoM)



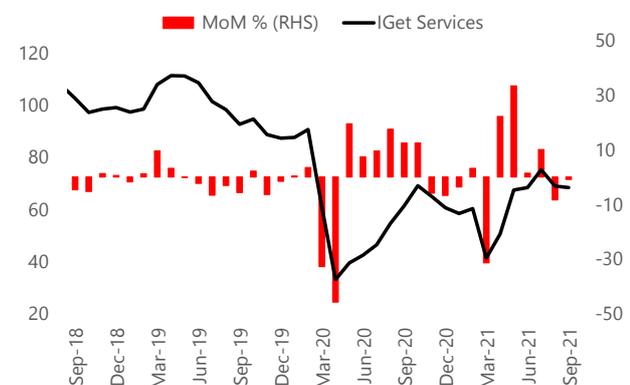
Source: IBGE, Santander.

Figure 3.B – Services Breakdown (sa, % MoM)



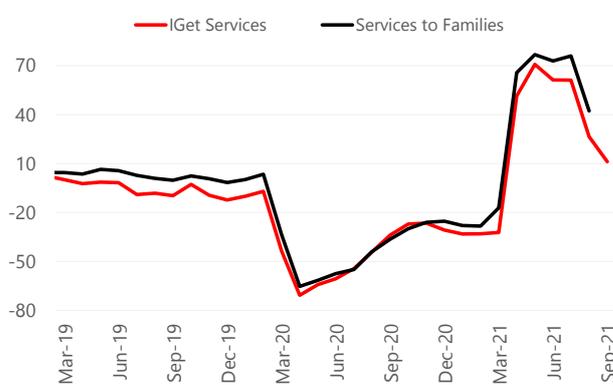
Sources: IBGE, Santander.

Figure 4.A – IGet Services (sa, 2016=100)



Source: Santander.

Figure 4.B – IGet and Services (nsa, %YoY)



Sources: IBGE, Santander.

Figure 5 – “Heatmap” Showing Services Volume by Subsector

By Subsector (% MoM sa)													
	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Families	31.44	10.55	5.62	8.71	-2.97	-2.14	9.22	-28.04	9.74	18.48	9.02	1.96	4.13
Accommodation and Food	35.75	10.88	7.06	9.97	-3.36	-2.42	9.46	-29.75	11.29	19.02	9.44	2.36	4.48
Other Services to Families	8.79	10.59	-5.03	2.22	-0.33	0.84	4.33	-3.03	1.64	7.12	2.72	0.44	-0.29
Information	-1.05	2.22	1.55	0.92	0.81	-0.60	0.30	2.31	2.45	-0.48	2.60	-0.47	1.23
Technology	-1.37	1.79	1.85	0.19	0.67	0.76	0.09	1.88	2.59	-0.81	1.45	0.45	1.25
Telecommunications	0.12	0.46	-0.23	-0.34	0.00	1.96	-1.58	0.11	0.69	0.00	-0.34	1.03	0.00
Information	-4.71	4.21	5.59	0.80	2.53	-1.10	2.17	4.30	4.74	-0.82	1.48	1.69	1.95
Audiovisual and News	3.01	5.84	0.31	5.81	1.16	-13.29	5.27	5.95	1.18	1.90	18.91	-12.17	2.06
Professional	2.72	0.00	0.84	2.90	0.00	2.69	3.14	-1.40	-0.26	1.81	1.90	0.37	-0.37
Technical and Professional	2.41	-0.74	2.67	3.61	-1.81	2.41	3.74	-1.20	0.68	1.07	1.86	5.35	-6.81
Administrative	0.69	1.23	0.68	1.61	1.46	1.30	4.12	-1.61	-1.26	2.67	1.36	-0.37	0.37
Transportation	3.22	2.12	1.47	2.65	-0.47	3.30	4.45	-2.19	0.11	4.24	1.61	-0.21	1.06
Ground Transportation	4.42	2.82	1.78	2.16	-3.03	4.90	5.84	-2.33	-1.25	4.19	0.85	-0.24	-0.12
Water Transportation	0.15	2.47	1.28	-1.19	1.84	3.41	2.22	1.32	7.21	-3.76	0.31	4.58	-2.28
Air Transport	13.43	20.18	1.09	6.14	2.72	12.91	-6.16	-17.81	-21.48	75.06	15.63	-4.90	7.42
Storage and Mail	2.05	-1.00	1.82	2.09	0.97	1.45	5.99	-2.33	-0.37	5.07	-3.51	-0.18	1.19
Other Services	0.87	6.26	-3.45	0.84	5.32	-8.02	3.44	3.23	-0.60	1.12	2.41	-0.20	1.47

Sources: IBGE, Santander



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