

Services: Sequential Increase at the Start of 2021, but Still the Laggard

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- **Data on the services sector released today confirmed the expectations of a slight increase at the start of 2021.** The headline index pointed to an increase of 0.6% MoM-sa (-4.8% YoY) in January, slightly above the consensus of -4.9% YoY. This result underlines that the services sector is still the laggard in the economic recovery: in comparison to the pre-crisis level (February 2020), the headline is down by 3.0%.
- **Among the subsectors, the segments related to firms are the highlights,** with January's increase stemming mainly from Professional (3.4%) and Transport (3.1%) services. Services to Families, more related to social interaction, contributed negatively (-1.5%) for the second month in a row, and its recovery is likely to take place only after the vaccination campaign advances further, in our view.
- **In terms of outlook for the services sector, today's result implies a carryover of 1.4% for 1Q21, but we still expect a deterioration of economic activity,** given the setback in the reopening process and the sequential decrease in mobility. Our current estimate for 1Q21 GDP is -0.4% QoQ-sa.

Figure 1. Services Sector Breakdown

	% MoM			% YoY			% QoQ		
	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21
Total Services	2.4	0.0	0.6	-5.0	-3.1	-4.8	7.2	5.9	4.5
Families	8.5	-4.0	-1.5	-26.0	-25.4	-27.6	35.7	26.8	11.8
Accommodation and Food	10.0	-4.4	-0.9	-25.8	-25.6	-27.5	39.2	30.1	13.8
Other Services to Families	1.1	-0.8	0.5	-27.6	-23.5	-28.0	22.2	10.7	4.0
Information	0.7	0.5	-0.7	1.3	1.8	1.7	3.3	3.2	2.4
Technology	0.0	0.6	0.6	3.1	3.3	5.0	2.4	2.5	2.2
Telecommunication	-0.3	0.0	1.6	-3.2	-2.3	0.2	0.4	-0.1	0.2
Information Technology	0.5	2.2	-1.3	14.0	11.0	13.4	6.8	7.7	6.3
Audiovisual	7.2	1.0	-9.3	-9.5	-7.7	-21.3	12.0	9.6	6.1
Professional	2.3	0.1	3.4	-10.5	-7.6	-6.8	3.2	3.4	4.4
Professional	2.7	-1.8	3.0	-2.3	-2.4	3.0	5.2	3.3	3.8
Administrative	1.7	1.6	1.7	-13.6	-9.9	-9.9	3.5	3.7	4.3
Transportation	1.9	-0.2	3.1	-4.8	-2.0	-4.0	7.7	6.0	4.9
Ground Transportation	2.2	-2.6	3.9	-7.5	-3.5	-6.7	9.8	5.5	3.7
Water Transportation	-1.4	1.6	3.1	4.8	10.5	7.9	2.6	2.2	2.4
Air Transport	5.9	2.5	11.1	-31.9	-34.6	-23.5	41.5	23.1	18.4
Storage and Mail	1.6	0.6	0.6	5.5	6.6	3.6	1.8	2.7	2.9
Other Services	0.6	5.0	-9.2	7.2	9.6	-2.2	5.6	2.6	0.2

Sources: IBGE, Santander.

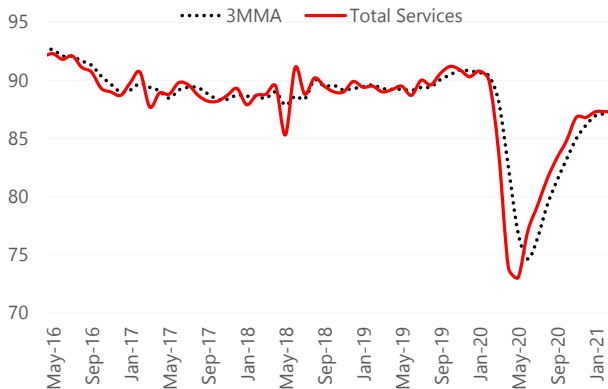
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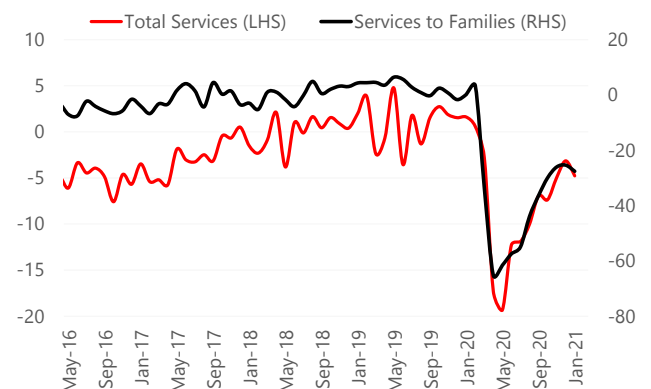
Services increased on a sequential basis, but still remain below the pre-crisis level. The headline index pointed to an increase of 0.6% MoM-sa (-4.8% YoY), in line with market consensus (-4.9% YoY). January’s result underlines that the services sector is still the laggard in the economic recovery: overall service provision stands 3.0% below the pre-crisis mark (February 2020), while industry and retail sales have already reached full recovery readings. The particular effect of this pandemic, with its severe impact on mobility and social interaction, caused the services sector to fall into a deeper hole, from which recovery will likely be slow and gradual, in our view.

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



Sources: IBGE, Santander.

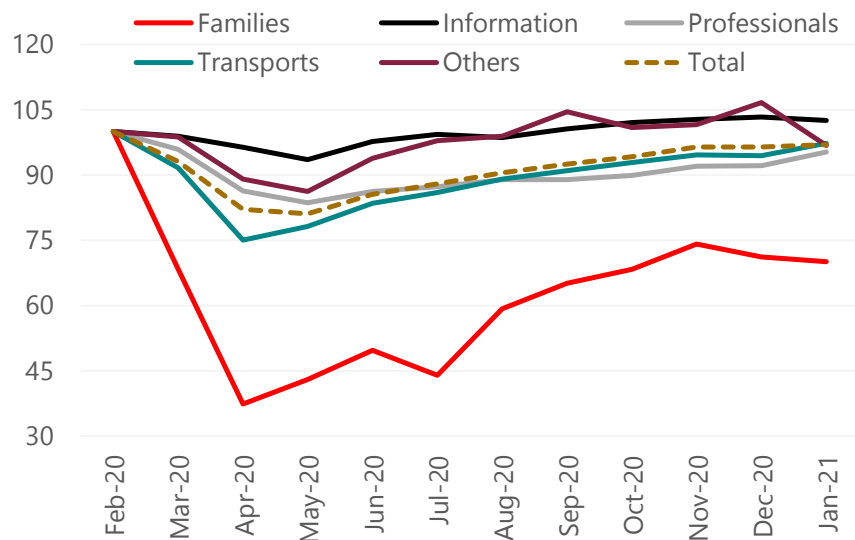
Figure 2.B – Total Services x Services to Families (YoY %)



Sources: IBGE, Santander.

Among the subsectors, the segments related to firms are the highlights, with January’s increase stemming mainly from Professional (3.4%) and Transport (3.1%) services. Services to Families, more related to social interaction, contributed negatively (-1.5%) for the second month in a row, accumulating an almost 6% contraction since December-2020 and its recovery is likely to take place only after the vaccination campaign advances further, in our view. **These figures highlight a heterogeneous pattern in services recovery, with services provided to firms supporting overall services provision, while the segments related to families are still suffering from households’ lower disposable income and from the tightening of mobility restrictions at the start of 1Q21.** The diffusion index (i.e., the percentage of sectors with monthly increases) was up, reaching 66.6% (58.3% in the previous month). In terms of the evolution of the recovery, however, four of the five sectors still show readings below those seen in the pre-pandemic period.

Figure 3 – Services Breakdown (sa, Feb-20 =100)



Sources: IBGE, Santander.



Figure 4 – Recovery Breakdown

Jan-21	MoM %	YoY %	Feb-20 % *
Total Services	0.6	-4.8	-3.0
Families	-1.5	-27.6	-29.9
Accommodation and Food	-0.9	-27.5	-30.4
Other Services to Families	0.5	-28.0	-25.7
Information	-0.7	1.7	2.6
Technology	0.6	5.0	5.1
Telecommunication	1.6	0.2	-0.1
Information Technology	-1.3	13.4	13.8
Audiovisual	-9.3	-21.3	-17.0
Professional	3.4	-6.8	-4.7
Professional	3.0	3.0	6.8
Administrative	1.7	-9.9	-7.9
Transportation	3.1	-4.0	-2.7
Ground Transportation	3.9	-6.7	-5.7
Water Transportation	3.1	7.9	1.2
Air Transport	11.1	-23.5	-27.4
Storage and Mail	0.6	3.6	6.4
Other Services	-9.2	-2.2	-3.2

Sources: IBGE, Santander.

*Variation relative to February 2020.

In terms of the outlook for the services sector, today's result implies a carryover of 1.4% for 1Q21, but we still expect a deterioration in economic activity for this period. The setback in the reopening process, the sequential decrease in mobility, and the materialization of the fiscal cliff will hit the tertiary sector hard, in our view, contributing to a fall in GDP. A surprisingly positive number for services provided to firms may partially mitigate the expected drop for the services sector, which stems mainly from a contraction in the families-related segments. In our opinion, the deceleration already seen in industry also reinforces this negative view, amid a widespread shortage of inputs used in manufacturing. In fact, auto production decreased in February, and regarding the outlook for March, we note that some factories are already implementing mandatory vacations for their employees. All in all, we believe that our current estimate for 1Q21 GDP (-0.4% QoQ-sa) is still reasonable. **For more details regarding our economic activity scenario, see link below¹.**

¹ Santander Brazil Economic Activity - "Economic Activity Chartbook - Lingering impacts to slow the recovery" – February 23, 2021- Available on: <http://bit.ly/Sant-econact-chart-fev21>



Figure 5 – “Heatmap” Showing Services Volume by Sector

By Sector (% MoM sa)												
	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Total Services	-0.88	-6.89	-11.81	-1.22	5.48	2.86	2.90	2.21	1.80	2.36	0.00	0.58
Families	-0.76	-31.57	-45.34	15.00	15.60	-11.50	34.75	9.83	4.90	8.53	-4.01	-1.55
Information	-1.13	-1.04	-2.62	-2.91	4.43	1.70	-0.73	2.00	1.44	0.71	0.50	-0.70
Professional	-0.25	-4.09	-9.96	-3.16	3.12	1.29	1.85	0.00	1.12	2.34	0.13	3.36
Transportation	0.67	-8.34	-18.08	4.15	6.83	2.93	3.62	2.12	2.08	1.92	-0.24	3.06
Other Services	0.64	-1.27	-9.75	-3.21	8.83	4.28	1.08	5.67	-3.44	0.63	5.00	-9.23

Sources: IBGE, Santander.

Figure 6 – “Heatmap” Showing Services Volume by Subsector

By Subsector (% MoM sa)												
	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Families	-0.76	-31.57	-45.34	15.00	15.60	-11.50	34.75	9.83	4.90	8.53	-4.01	-1.55
Accommodation and Food	-0.32	-34.38	-48.11	19.30	17.77	-13.96	39.27	10.53	5.44	10.00	-4.40	-0.92
Other Services to Families	-1.18	-20.95	-31.93	3.98	3.62	3.70	8.12	16.12	-2.37	1.13	-0.80	0.48
Information	-1.13	-1.04	-2.62	-2.91	4.43	1.70	-0.73	2.00	1.44	0.71	0.50	-0.70
Technology	0.00	-0.20	-0.70	-2.41	3.70	1.49	-1.07	1.48	1.65	0.00	0.57	0.57
Telecommunications	0.23	-1.92	0.12	-0.92	0.58	0.46	0.11	0.46	-0.23	-0.34	0.00	1.61
Information	-0.89	2.03	-2.14	-3.24	4.28	5.90	-3.45	3.36	5.44	0.54	2.20	-1.30
Audiovisual and News	-5.12	-6.71	-22.57	-4.74	7.07	5.89	3.20	5.39	-0.31	7.15	1.02	-9.34
Professional	-0.25	-4.09	-9.96	-3.16	3.12	1.29	1.85	0.00	1.12	2.34	0.13	3.36
Technical and Professional	-2.18	2.53	-5.22	-6.27	0.82	9.39	0.89	-0.88	2.37	2.75	-1.83	3.01
Administrative	-1.16	-7.51	-10.15	-1.27	2.72	0.84	0.97	1.64	0.54	1.74	1.58	1.68
Transportation	0.67	-8.34	-18.08	4.15	6.83	2.93	3.62	2.12	2.08	1.92	-0.24	3.06
Ground Transportation	1.25	-10.71	-20.41	6.93	3.73	6.25	4.26	2.96	1.51	2.16	-2.64	3.93
Water Transportation	6.52	-1.72	-0.21	-1.68	-2.36	1.39	-1.30	2.63	1.28	-1.41	1.64	3.09
Air Transport	4.04	-27.18	-73.78	21.47	55.81	20.60	15.35	19.31	0.36	5.91	2.54	11.06
Storage and Mail	-0.61	-0.41	-6.00	2.53	4.40	1.13	1.93	-1.70	1.93	1.59	0.59	0.58
Other Services	0.64	-1.27	-9.75	-3.21	8.83	4.28	1.08	5.67	-3.44	0.63	5.00	-9.23

Sources: IBGE, Santander.



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