

Lucas Maynard*

 lucas.maynard.da.silva@santander.com.br
 +5511 3553 8487

Services Retreated at the End of 3Q21

- The services sector disappointed in September.** The headline index retreated 0.6% MoM-sa (11.4% YoY), well below the market consensus (+0.5%) and breaking a string of five consecutive gains since the pandemic's resurgence seen earlier this year. This result still places the index 3.7% above the pre-pandemic mark (February 2020). In quarterly terms, the index expanded 3.0% in 3Q21, highlighting an acceleration over 2Q21 (+2.1%).
- Services to families were (again) in the spotlight (up 1.3% MoM-sa), ending 3Q21 with a solid 17.2% QoQ-sa expansion and accelerating over 2Q21 (+4.2%).** This segment still shows wide idleness compared to the pre-pandemic mark (down 16.2% since February 2020), which leaves room for positive contributions from the services sector to overall activity in 4Q21 and in 2022. All the remaining subsectors posted weak monthly figures, with the Transports segment as a lowlight (down 1.9% MoM-sa). This result stems mainly from the surprisingly retreat seen in Air Transports (-9.0% MoM-sa).
- We are maintaining our tracking for September IBC-Br at 0% (with little downside risk), which implies a 0.15% growth in 3Q21.** Additionally, we are maintaining our tracking of 3Q21 GDP at +0.2% QoQ-sa, reflecting mainly our expectations of good growth contribution coming from segments that still show wide idleness compared to the pre-crisis period (e.g., services to families, transports, health and education services).

Figure 1. Services Sector Breakdown

	Weights	% MoM			% YoY			% QoQ			% Feb-20
		Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	
Total Services	100%	1.1	0.4	-0.6	17.8	16.5	11.4	3.1	4.3	3.0	3.7
Families	8%	1.7	4.3	1.3	76.0	42.3	32.3	19.4	28.6	17.2	-16.2
Accommodation and Food	7%	2.2	4.5	1.7	86.0	46.3	37.2	20.5	30.5	18.6	-16.2
Other Services to Families	1%	0.9	-0.3	0.0	33.4	23.5	9.2	10.4	9.5	5.2	-15.3
Information	31%	-0.4	1.2	-0.9	11.1	13.6	10.0	3.5	3.2	1.6	9.9
Technology	26%	0.4	1.3	-1.2	10.0	12.9	9.4	2.6	2.5	1.6	11.0
Telecommunication	19%	0.9	0.0	-1.4	1.9	1.7	-0.3	0.5	0.4	0.2	-2.1
Information Technology	7%	1.7	2.1	-0.5	23.3	31.6	25.0	5.3	4.4	3.7	32.3
Audiovisual	5%	-12.0	2.1	0.8	21.4	20.9	15.7	12.8	11.9	0.6	0.1
Professional	23%	0.1	-0.4	-1.1	14.4	12.9	9.5	2.4	2.9	1.3	-1.6
Professional	7%	5.6	-5.8	1.7	23.2	12.5	16.0	5.9	5.1	3.9	17.2
Administrative	16%	-0.6	0.1	-1.6	11.0	12.9	7.1	1.9	2.3	0.7	-4.4
Transportation	31%	-0.4	0.6	-1.9	20.9	19.3	13.7	4.4	4.3	1.8	5.5
Ground Transportation	18%	-0.1	-0.6	-1.0	21.5	16.8	10.8	2.8	2.7	0.9	0.0
Water Transportation	2%	4.8	-2.8	-1.7	21.4	17.6	11.7	2.8	2.1	1.1	10.9
Air Transport	3%	-5.7	6.9	-9.0	96.0	86.4	39.6	48.0	47.7	21.1	-17.6
Storage and Mail	9%	-0.2	1.4	0.6	10.1	12.8	13.6	1.6	0.0	0.2	14.8
Other Services	7%	-0.3	1.4	-4.7	11.1	11.6	-1.5	3.0	3.0	0.9	3.3

Sources: IBGE, Santander.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

U.S. investors' inquiries should be directed to Santander Investment at (212) 350-0707.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and is not registered/qualified as a research analyst under FINRA rules.

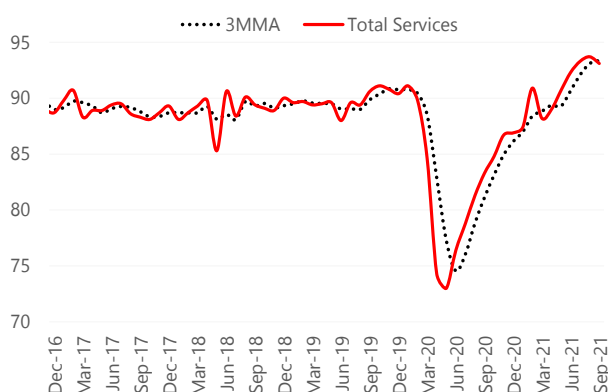


Services sector's real revenue surprised to the downside in September and marked the first decrease since March. The headline index retreated 0.6% MoM-sa (+11.4% YoY), well below the market consensus (+0.5%) and breaking a string of five consecutive gains since the pandemic's resurgence seen earlier this year. Despite the sequential retreat, this result still places the index 3.7% above the pre-pandemic mark (February 2020) and marked a solid quarterly growth, up 3.0% QoQ-sa and accelerating over 2Q21 (+2.1%). In our view, the third quarter's figure highlights a solid contribution to come from cyclical services to overall activity this period. Although we see September's figure implying a slight negative carryover to 4Q21 (-0.3% QoQ-sa), we maintain our view of positive contributions in the remaining quarter of 2021, stemming mainly from those sectors that still show wide idleness regarding the pre-pandemic period.

Transport segment disappointed amid a widespread drop. Ground transport's weak figure (-1.0% MoM-sa) came in line with the weakening seen in industrial activities but air transport disappointed by retreating 9.0% MoM-sa, even with the increase in urban mobility and flight numbers seen recently. This segment stands now almost 18% below the pre-pandemic mark and September's result may reflect costs increases (e.g., fuels prices), contributing to a 1.9% MoM-sa drop in the transport segment. Conversely, services to families continued the rebound with an 1.3% MoM-sa expansion, the sixth gain in a row and marking a steep 17% QoQ-sa growth in 3Q21, a clear acceleration over 2Q21 result (up 4.2%). Throughout this pandemic period, services to families has been highly correlating with important segments of GDP services (other services and public services, that accounts for more than 30% of total GDP) and the solid quarterly figure seen for services to families make us expect solid growth contributions to come from these segments to overall activity. Moreover, services to families still shows significant idleness, recording a 16% gap relative to the pre-crisis mark, which leaves room for sequential positive contributions to GDP growth in the coming quarters from the services sector, overcoming the goods-related sector (industry and retail) activity drag. Based on IGet Services (our proprietary indicator), our tracking for services to families in September stands at +1.1% MoM-sa (+23.5%).

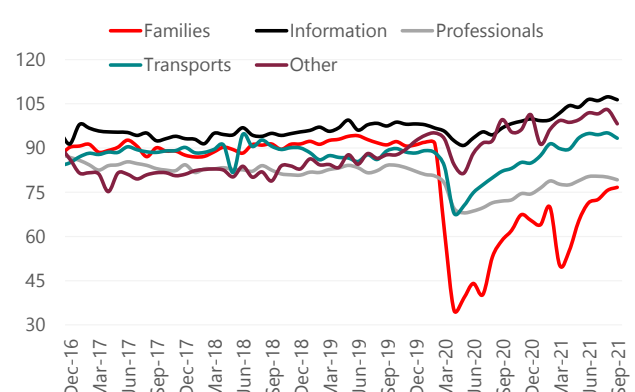
The Brazil Central Bank's (BCB) broad activity index (IBC-Br) comes out next week (November 16), capping the batch of key activity releases for 3Q21. Based on the data available up to now (with the additional releases of farm output and health services/DATASUS data), we are maintaining our tracking for September IBC-Br at 0% (with little downside risks), which implies a 0.15% QoQ-sa growth in 3Q21. Additionally, we are maintaining our tracking of 3Q21 GDP at +0.2% QoQ-sa, reflecting mainly our expectations of good growth contribution coming from segments that still show wide idleness compared to the pre-crisis period (e.g., services to families, transports, health and education services). **For details on Santander's activity outlook, please refer to our last chartbooks¹.**

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



Sources: IBGE, Santander.

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



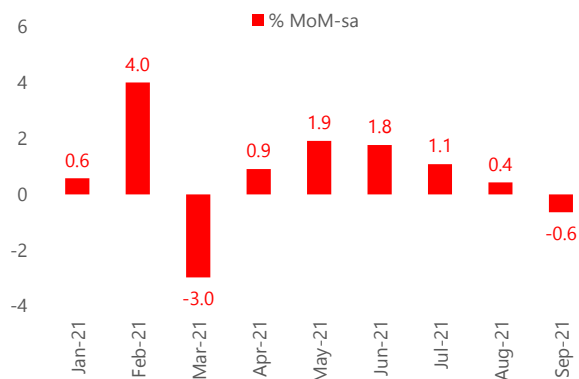
Sources: IBGE, Santander* The Other Services subsector includes several activities such as brokerage, financial services, etc

¹ Santander Brazil Economic Activity - "Chartbook – Downgrading the Estimate for 2022 and 2023" – November 05, 2021 – Available on: <https://bit.ly/Std-chart-econact-nov21>

Santander Brazil Economic Activity - "Chartbook – Household Indebtedness Expected to Slow Lending in 2022" – November 09, 2021 – Available on: <https://bit.ly/Std-chart-credit-nov21>

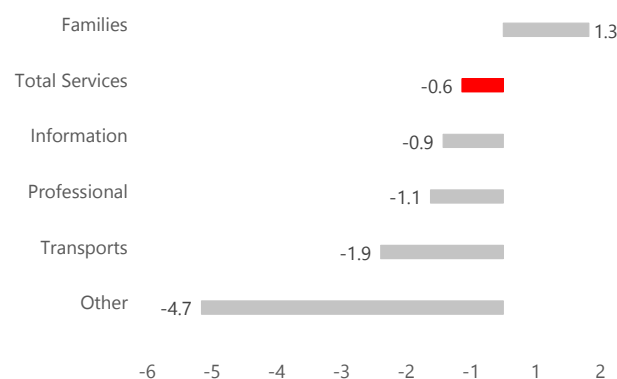


Figure 3.A – Total Services (sa, % MoM)



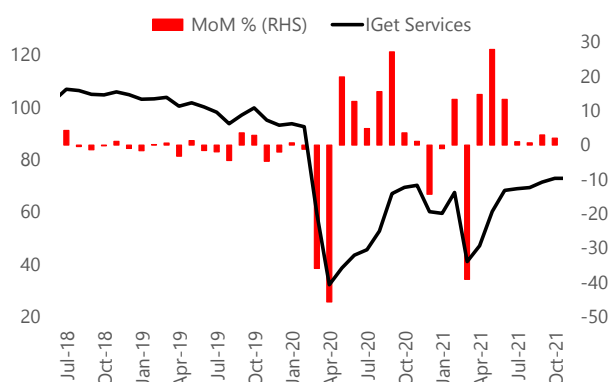
Source: IBGE, Santander.

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



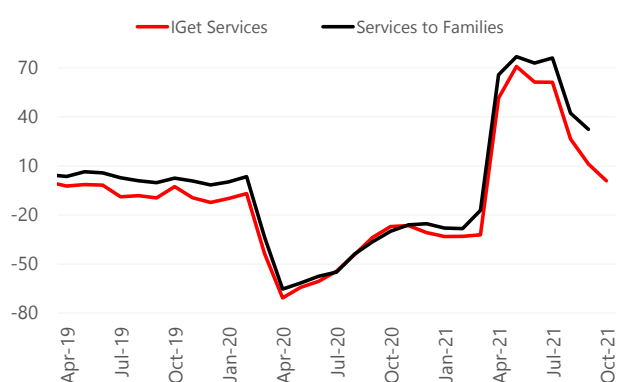
Sources: IBGE, Santander.

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



Source: Santander.

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



Sources: IBGE, Santander.

Figure 5 – “Heatmap” Showing Services Volume by Subsector

	By Subsector (% MoM sa)												
	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21
Families	10.55	5.79	8.53	-2.82	-2.29	9.22	-28.04	9.74	18.48	9.17	1.68	4.27	1.32
Accommodation and Food	10.69	7.41	9.79	-3.36	-2.42	9.46	-29.75	11.29	19.02	9.59	2.22	4.48	1.69
Other Services to Families	10.77	-3.73	2.02	-0.50	1.66	1.96	-4.96	1.52	9.12	2.43	0.89	-0.29	0.00
Information	2.43	1.55	0.81	0.81	-0.60	0.30	2.31	2.45	-0.48	2.50	-0.38	1.23	-0.93
Technology	2.09	1.75	0.10	0.76	0.66	0.09	1.88	2.59	-0.90	1.45	0.45	1.34	-1.23
Telecommunications	0.69	-0.11	-0.46	0.00	1.96	-1.69	0.11	0.69	0.00	-0.46	0.92	0.00	-1.36
Information	4.06	5.74	0.74	2.59	-1.17	2.17	4.30	4.68	-0.76	1.48	1.69	2.07	-0.45
Audiovisual and News	5.84	0.31	5.81	1.01	-13.16	5.27	5.95	1.18	1.90	18.91	-12.05	2.05	0.81
Professional	0.84	0.56	2.90	-0.13	2.69	3.14	-1.40	-0.26	1.81	1.77	0.12	-0.37	-1.12
Technical and Professional	-2.17	1.48	3.80	-1.55	2.86	3.19	-0.54	0.41	3.10	1.18	5.56	-5.75	1.69
Administrative	1.92	0.40	1.61	1.45	1.30	3.98	-1.61	-1.38	2.68	1.36	-0.61	0.12	-1.60
Transportation	2.75	1.22	2.41	-0.24	2.94	4.58	-1.75	-0.22	4.24	1.61	-0.42	0.63	-1.89
Ground Transportation	2.96	1.78	2.15	-3.16	4.90	5.84	-2.33	-1.25	4.07	0.73	-0.12	-0.61	-0.98
Water Transportation	3.57	0.77	-1.26	1.98	3.19	2.08	1.32	6.96	-3.71	0.19	4.79	-2.77	-1.67
Air Transport	22.67	0.18	6.33	2.72	13.58	-6.27	-18.04	-21.06	74.28	15.17	-5.75	6.86	-9.04
Storage and Mail	-1.00	1.82	2.09	0.97	1.45	5.90	-2.34	-0.28	5.07	-3.42	-0.18	1.37	0.63
Other Services	7.68	-4.22	0.84	5.30	-9.87	5.48	3.12	-0.60	0.91	2.31	-0.29	1.38	-4.66

Sources: IBGE, Santander



CONTACTS / IMPORTANT DISCLOSURES

Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Commodities	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Fabiana Moreira*	Economist – Credit	fabiana.de.oliveira@santander.com.br	5511-3553-6120
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

Global Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Mariana Cahen Margulies*	Head, Brazil	mmargulies@santander.com.br	5511-3553-1684

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: Lucas Maynard*.

*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.

