

A New Retreat for Services

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- **The services sector disappointed in October (-1.2% MoM-sa), coming below the market consensus and our estimate (both at +0.1% MoM-sa), and marking a weak start of 4Q.** This result was the second decline in a row but still places the headline index 2.1% above the pre-pandemic mark (February 2020). In quarterly terms, October's figure implies a -1.5% carryover to 4Q21.
- **Despite the weak figures seen in Information (-1.6% MoM-sa) and Other Services (-6.7% MoM-sa), Services to Families continued to strengthen (+2.7% MoM-sa, 1.6% in September), marking the seventh gain in a row.** Services to Families still show wide idleness compared to the pre-pandemic mark (down 13.6% MoM-sa), which leaves room for positive contributions from the services sector to overall activity in 4Q21 and 2022. Moreover, the Transport segment posted a slight retreat (-0.3% MoM-sa), despite the positive figure seen in Ground Transport (+1.0% MoM-sa), stemming mainly from the plummet seen in Air Transport (-5.3% MoM-sa).
- **In terms of monthly contributions, Other Services (-0.47 p.p MoM-sa) and Information Services (-0.49 p.p MoM-sa) were the lowlights.** Professional services (-0.41 p.p MoM-sa) and Transport (-0.1 p.p MoM-sa) dragged down services activity, while Services to Families strengthening contributed positively (+0.2 p.p MoM-sa).
- **Since the headline index remains considerably above the pre-pandemic trend, some downward correction is expected ahead.** However, the services to families is the best meter to capture the mechanical rebound of the services sector currently, on the heels of the increase in mobility. Indeed, although it accounts for nearly 10% of the IBGE's monthly survey, it highly correlates with segments that account for nearly 30% of GDP (e.g., Other Services and Public Services) and still show wide idleness regarding the pre-pandemic mark. We expect these segments to contribute to sequential increases of the services sector in 4Q21 and 1H22.
- **We updated our tracking for October IBC-Br to -0.35% MoM-sa (from -0.2% MoM-sa), which would mark the third decline in a row for the broad activity index.** Moreover, this result likely suggests a flat GDP (0% QoQ-sa) in 4Q21, but with some upsides risks due to a farm output rebound.

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Figure 1. Services Sector Breakdown

	Weights	% MoM			% YoY			% QoQ			% Feb-20
		Aug-21	Sep-21	Oct-21	Aug-21	Sep-21	Oct-21	Aug-21	Sep-21	Oct-21	
Total Services	100%	0.5	-0.7	-1.2	16.5	11.5	7.5	4.2	2.8	0.8	2.1
Families	8%	4.3	1.6	2.7	42.3	32.9	26.4	28.7	17.4	10.7	-13.6
Accommodation and Food	7%	4.6	1.9	2.5	46.3	37.7	28.4	30.7	18.9	11.7	-13.6
Other Services to Families	1%	-0.3	0.1	1.0	23.5	9.2	14.7	9.6	5.2	1.4	-14.1
Information	31%	1.2	-0.9	-1.6	13.6	10.1	6.5	3.1	1.6	0.6	7.9
Technology	26%	1.5	-1.3	-1.2	12.9	9.5	5.8	2.5	1.7	1.0	9.6
Telecommunication	19%	0.2	-1.7	-2.2	1.7	-0.3	-2.8	0.3	0.0	-1.3	-4.6
Information Technology	7%	2.1	-0.2	-0.2	31.6	25.4	19.3	4.4	3.8	3.6	32.5
Audiovisual	5%	1.9	0.7	-1.7	20.9	15.5	11.7	11.4	0.0	-1.5	-2.4
Professional	23%	-0.5	-1.0	-1.8	12.9	10.1	4.8	2.6	1.0	-1.2	-3.7
Professional	7%	-6.1	2.7	-4.1	12.5	17.5	5.8	4.8	3.7	-2.1	12.6
Administrative	16%	0.0	-1.7	-1.3	12.9	7.1	4.3	2.0	0.3	-1.7	-6.1
Transportation	31%	0.6	-1.8	-0.3	19.3	13.8	9.9	4.3	1.8	-0.5	4.7
Ground Transportation	18%	-0.7	-0.7	1.0	16.8	10.8	8.3	2.8	1.1	-0.6	1.2
Water Transportation	2%	-2.6	0.0	1.4	17.6	13.6	14.6	2.2	1.8	1.0	14.6
Air Transport	3%	6.4	-9.0	-5.3	86.4	39.6	26.6	46.3	20.2	-1.3	-22.9
Storage and Mail	9%	1.4	0.4	-1.4	12.8	13.3	8.3	0.0	0.2	-0.1	12.5
Other Services	7%	2.4	-6.4	-6.7	11.6	-1.6	-6.1	3.0	0.7	-3.7	-5.1

Sources: IBGE, Santander.

Services sector's real revenue surprised to the downside (again) in October, marking a weak start of 4Q.

The headline index retreated 1.2% MoM-sa (+7.5% YoY), well below the market consensus and our estimate (both at +0.1% MoM-sa), and marking a weak start of 4Q21. October's figure was the second decline in a row but still places the headline index above the pre-pandemic mark (February 2020). Moreover, in quarterly terms, this result implies a 1.5% carryover for 4Q21.

Other Services (-6.7% MoM-sa) and Information Services (-1.6% MoM-sa) were the lowlights. Both indexes were running well above the pre-pandemic mark in recent months and are now showing some downward correction. These segments accounts for nearly 40% of the monthly survey but for less than 10% of overall GDP. Professional Services also posted a weak figure (-1.6% MoM-sa), the third decline in a row, while Transport disappointed (-0.3% MoM-sa), even with Ground Transportation rebounding (+1.0% MoM-sa), stemming mainly from the plummeting seen in air transport's real revenue (-5.3% MoM-sa), likely reflecting high costs (e.g., with fuel).

The biggest negative contribution came from Other Services (-0.47 p.p MoM-sa) and Information Services (-0.49 p.p MoM-sa). Moreover, Professional Services (-0.41 p.p MoM-sa) and Transport (-0.1 p.p MoM-sa) also dragged down services activity in the period, with Air Transport (-0.14 p.p MoM-sa) as the major negative contributor of the latter. Conversely, Services to Families contributed positively with +0.22 p.p, highlighting the continued strengthening seen in the segments, even amid inflation eating into household's income.

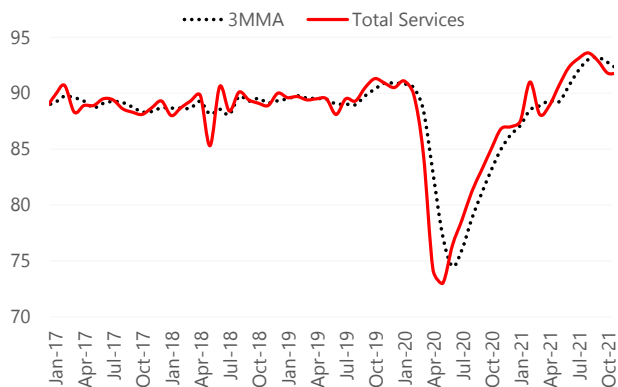
Since the headline index remains considerably above the pre-pandemic trend, some downward correction is expected ahead. However, the services to families are today the best meter to capture the mechanical rebound of the services sector, on the heels of the increase in mobility. Indeed, although it accounts for nearly 10% of the IBGE's monthly survey, it highly correlates with segments that account for nearly 30% of GDP (e.g., Other Services and Public Services) and still show wide idleness regarding the pre-pandemic mark. Moreover, October's figure implies a solid 5.4% carryover for the segment in 4Q21, reinforcing the likelihood of sequential increases of the services sector in 4Q21 (and in 1H22). We updated our tracking for October IBC-Br to -0.35% MoM-sa (from -0.2%), which would mark the third decline in a row for the broad activity index, likely suggesting a flat GDP (0% QoQ-sa) in 4Q21, but with some upside risks due to a farm output rebound. **For details on Santander's activity outlook, please refer to our last chartbooks¹.**

¹ Santander Brazil Economic Activity - "Chartbook – Lowering (Again) Our GDP Estimates" – December 8, 2021 – Available on: <https://bit.ly/Std-chart-econact-dec21>

Santander Brazil Economic Activity - "Chartbook – Household Debt is a Risk for Loan Growth and Delinquencies" – December 2, 2021 – Available on: <https://bit.ly/Std-chart-credit-dec21>

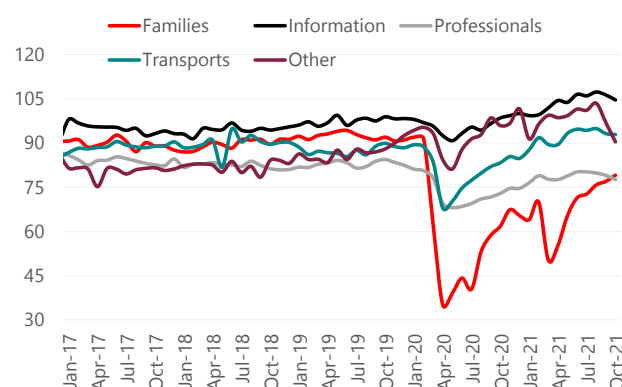


Figure 2.A – Total Services (sa, 2014=100)



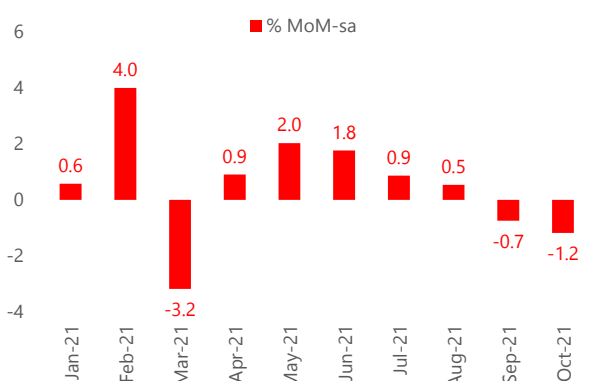
Sources: IBGE, Santander.

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



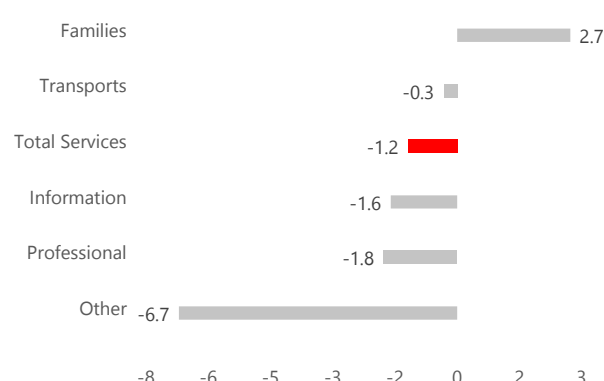
Sources: IBGE, Santander* The Other Services subsector includes several activities such as brokerage, financial services, etc

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



Source: IBGE, Santander.

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



Sources: IBGE, Santander.

Figure 4 – “Heatmap” Showing Services Volume by Subsector

	By Subsector (% MoM sa)											
	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Families	9.06	-2.97	-2.14	9.38	-28.14	9.74	18.48	9.17	1.82	4.26	1.58	2.73
Accommodation and Food	10.50	-3.36	-2.42	9.46	-29.75	11.29	19.02	9.74	2.22	4.61	1.95	2.54
Other Services to Families	2.20	-0.17	1.49	2.12	-4.96	1.68	9.27	2.42	0.74	-0.29	0.15	1.03
Information	0.81	0.70	-0.70	0.30	2.31	2.45	-0.57	2.60	-0.47	1.23	-0.93	-1.60
Technology	0.00	0.67	0.66	0.09	1.88	2.50	-0.90	1.46	0.45	1.52	-1.32	-1.25
Telecommunications	-0.23	0.00	1.72	-1.69	0.11	0.69	0.00	-0.57	0.80	0.23	-1.70	-2.19
Information	0.80	2.53	-1.17	2.17	4.24	4.81	-0.88	1.54	1.75	2.07	-0.22	-0.17
Audiovisual and News	5.78	1.01	-13.25	5.09	5.78	1.18	1.75	18.79	-12.32	1.93	0.68	-1.74
Professional	2.33	0.00	2.55	3.14	-1.52	-0.13	1.55	1.78	0.00	-0.50	-1.00	-1.77
Technical and Professional	3.03	-1.82	3.14	3.05	-0.81	0.54	2.96	1.18	5.30	-6.14	2.75	-4.08
Administrative	1.34	1.45	1.17	3.98	-1.48	-1.51	2.80	1.12	-0.74	0.00	-1.73	-1.26
Transportation	2.52	-0.70	3.42	4.68	-2.51	0.00	4.25	1.50	-0.42	0.64	-1.79	-0.32
Ground Transportation	2.29	-3.16	4.90	5.84	-2.45	-1.13	4.07	0.73	0.00	-0.73	-0.73	0.98
Water Transportation	-1.33	1.84	3.34	2.02	1.32	6.96	-3.71	0.25	4.79	-2.59	0.00	1.42
Air Transport	4.42	2.71	12.71	-5.71	-18.01	-20.83	73.44	14.48	-5.78	6.39	-9.01	-5.28
Storage and Mail	1.78	0.88	1.45	5.89	-2.51	-0.28	4.80	-3.26	-0.18	1.37	0.36	-1.43
Other Services	0.83	5.07	-10.04	5.47	3.11	-0.80	0.71	2.22	-0.39	2.37	-6.38	-6.71

Sources: IBGE, Santander



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