

## Strong Growth in February

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- **The services sector surprised positively in February, surpassing the pre-crisis mark.** The headline index posted a sequential increase of 3.7% MoM-sa (-2.0% YoY) this month, considerably above the consensus of -3.5% YoY. The index is now above the pre-crisis mark (+0.9%).
- **Among subsectors, February's expansion was quite widespread, with real revenue expanding in all segments.** Services provided to firms continued to improve, with Professional (3.3%) and Transport (4.4%) services making sequential gains. Services to Families also posted strong growth (up 8.8%), following two consecutive monthly declines, though the outlook for March is negative. We anticipate that a more consistent recovery in this segment is likely to take place only after the vaccination campaign makes further progress.
- **Looking ahead, this result implies a carryover of 3.6% for 1Q21.** In our view, given this figure, a quarterly contraction in 1Q21 is unlikely, even with strong anticipated deterioration in March, which is likely to be more concentrated in those segments more impacted by the increased social distancing spurred by the pandemic.
- **We forecast nearly stable 1Q21 GDP (+0.2% QoQ-sa).** The pandemic's steep upsurge in March led to tighter social-distancing measures nationwide, causing a tertiary sectors to take a severe hit. Even considering this scenario, we expect nearly stable 1Q21 GDP, but with sequential deterioration in 2Q21 (-0.6% QoQ-sa).

Figure 1. Services Sector Breakdown

	% MoM			% YoY			% QoQ		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
<b>Total Services</b>	<b>0.3</b>	<b>0.1</b>	<b>3.7</b>	<b>-3.1</b>	<b>-5.0</b>	<b>-2.0</b>	<b>6.1</b>	<b>4.5</b>	<b>3.8</b>
<b>Families</b>	<b>-3.6</b>	<b>-2.6</b>	<b>8.8</b>	<b>-25.4</b>	<b>-28.0</b>	<b>-28.1</b>	<b>27.2</b>	<b>11.4</b>	<b>4.3</b>
Accommodation and Food	-3.9	-3.0	8.6	-25.6	-28.0	-28.8	31.1	13.2	4.6
Other Services to Families	-0.5	1.3	4.0	-23.5	-27.9	-24.0	8.6	3.7	2.1
<b>Information</b>	<b>0.6</b>	<b>-0.9</b>	<b>0.1</b>	<b>1.8</b>	<b>1.5</b>	<b>2.7</b>	<b>3.2</b>	<b>2.3</b>	<b>0.9</b>
Technology	0.6	0.5	-0.1	3.3	4.9	4.9	2.5	2.1	1.4
Telecommunication	0.0	2.0	-1.8	-2.3	0.2	-2.1	-0.3	0.2	0.3
Information Technology	2.3	-1.4	1.7	11.0	13.2	17.8	7.7	6.3	4.0
Audiovisual	0.9	-9.9	3.0	-7.7	-21.7	-14.5	9.9	6.0	-0.4
<b>Professional</b>	<b>0.4</b>	<b>2.3</b>	<b>3.3</b>	<b>-7.6</b>	<b>-7.8</b>	<b>-2.2</b>	<b>3.6</b>	<b>4.4</b>	<b>5.2</b>
Professional	-1.7	2.6	3.2	-2.4	2.0	8.3	3.6	4.0	3.9
Administrative	1.7	1.3	4.7	-9.9	-10.9	-5.7	4.0	4.4	5.6
<b>Transportation</b>	<b>-0.9</b>	<b>4.1</b>	<b>4.4</b>	<b>-2.0</b>	<b>-3.8</b>	<b>-0.5</b>	<b>6.1</b>	<b>5.2</b>	<b>5.6</b>
Ground Transportation	-3.4	4.9	5.5	-3.5	-6.7	-2.8	5.4	3.7	3.7
Water Transportation	1.6	3.3	-0.6	10.5	8.3	1.8	2.1	2.5	3.1
Air Transport	2.5	10.9	-2.5	-34.6	-23.5	-30.4	22.9	18.2	13.4
Storage and Mail	0.8	1.0	4.4	6.6	3.9	11.1	3.1	3.4	4.8
<b>Other Services</b>	<b>5.0</b>	<b>-9.7</b>	<b>4.7</b>	<b>9.6</b>	<b>-3.0</b>	<b>1.1</b>	<b>2.6</b>	<b>0.1</b>	<b>-1.0</b>

Sources: IBGE, Santander.

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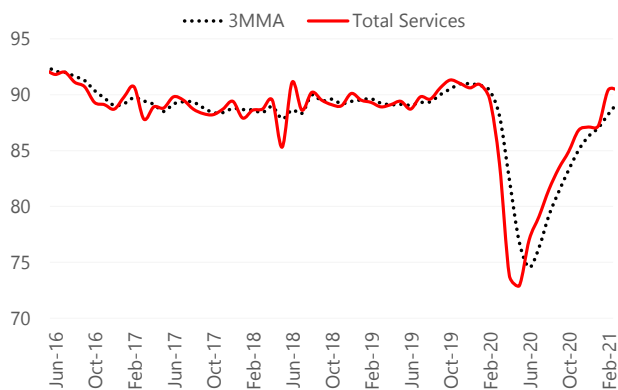
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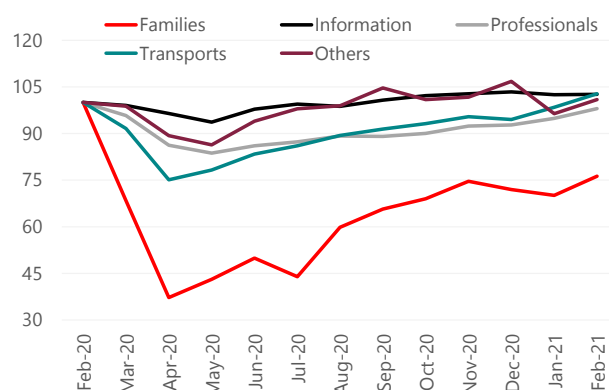
**The services sector showed strong growth in February, surpassing the pre-crisis mark.** The headline index posted a sequential increase of 3.7% MoM-sa (-2.0% YoY), considerably above the consensus of -3.5% YoY. Regarding the pace of the recovery, overall service provisions now stand at 0.9%, above the pre-crisis mark, highlighting that this key sector is the laggard in the economic recovery. The particular effect of this pandemic, with its severe impact on mobility and social interactions, 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 – Services Breakdown (sa, Feb-20 =100)**



Sources: IBGE, Santander.

**February's expansion was quite widespread, with real revenue expanding in all the segments.** Services provided to firms continued to improve, with Professional (+3.3%) and Transport (+4.4%) services making sequential gains — the latter mainly due to ground transports, reflecting the increased flow of heavy vehicles on toll roads this month. Services to Families performed strongly (up 8.8%), fully giving back the accumulated losses of the last two months, though the outlook for March is quite negative. We anticipate that a more consistent recovery of this segment is likely to take place only after the vaccination campaign further progresses. In terms of the recovery's evolution, two of the five sectors that make up the sector are still showing readings below pre-pandemic levels.

**Figure 3 – Recovery Breakdown**

Feb-21	MoM %	Feb-20 % *	Carryover **
<b>Total Services</b>	<b>3.7</b>	<b>0.9</b>	<b>3.6</b>
<b>Families</b>	<b>8.8</b>	<b>-23.7</b>	<b>3.3</b>
Accommodation and Food	8.6	-24.7	2.7
Other Services to Families	4.0	-21.6	4.4
<b>Information</b>	<b>0.1</b>	<b>2.6</b>	<b>-0.2</b>
Technology	-0.1	5.0	0.8
Telecommunication	-1.8	-2.0	0.6
Information Technology	1.7	16.4	1.4
Audiovisual	3.0	-14.4	-5.4
<b>Professional</b>	<b>3.3</b>	<b>-2.0</b>	<b>5.7</b>
Professional	3.2	11.1	4.6
Administrative	4.7	-3.1	6.3
<b>Transportation</b>	<b>4.4</b>	<b>2.8</b>	<b>7.4</b>
Ground Transportation	5.5	0.2	7.1
Water Transportation	-0.6	1.3	3.5
Air Transport	-2.5	-30.9	13.0
Storage and Mail	4.4	13.2	5.1
<b>Other Services</b>	<b>4.7</b>	<b>1.0</b>	<b>-3.6</b>

Sources: IBGE, Santander.

\* Variation relative to February 2020 (seasonally adjusted basis)

\*\* Carryover for 1Q21.



**Looking ahead, a sharp quarterly contraction of services volume in 1Q21 is unlikely, in our view.** Today's result implies a carryover of 3.6% for 1Q21, and even with a likely sharp deterioration in March, we do not expect a strong contraction in 1Q21. Those segments that rely on social interactions are more likely to be affected by tightening of mobility restrictions; our proprietary IGet-Services index already points in this direction<sup>1</sup>. On the other hand, a hard impact on the services provided to firms is quite uncertain. In our opinion, companies have adapted to the many impacts of the pandemic by digitizing some of their activities. Moreover, the flow of heavy vehicles on toll roads in March was nearly stable (+0.1%), likely reflecting a low impact on ground transports that month.

**We forecast stable 1Q21 GDP (+0.2% QoQ-sa).** The pandemic's upsurge was more intense in March, which led to tighter social distancing measures nationwide, subsequently causing segments of tertiary sectors to take a hard hit. Even considering this scenario, we expect stable 1Q21 GDP, but with sequential deterioration in 2Q21 (-0.6% QoQ-sa). **For details on Santander's economic activity scenario, please refer to our last chartbook<sup>2</sup>.**

Figure 4 – “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	Feb-21
<b>Families</b>	-0.98	-31.57	-45.65	15.73	15.90	-11.95	36.18	9.78	5.04	8.16	-3.55	-2.61	8.82
Accommodation and Food	-0.75	-33.84	-48.20	18.35	17.65	-13.64	40.79	10.28	6.44	9.24	-3.94	-3.03	8.61
Other Services to Families	-2.24	-20.60	-31.41	5.09	4.00	3.24	10.39	11.37	-3.03	2.14	-0.48	1.29	3.99
<b>Information</b>	-1.23	-0.93	-2.62	-2.91	4.43	1.70	-0.73	2.00	1.44	0.61	0.61	-0.90	0.10
Technology	-0.20	-0.10	-0.70	-2.41	3.70	1.49	-1.07	1.48	1.65	0.00	0.57	0.48	-0.09
Telecommunications	0.34	-2.03	0.12	-1.03	0.70	0.35	0.11	0.34	-0.23	-0.46	0.00	1.96	-1.81
Information	-1.64	2.57	-2.14	-3.24	4.36	5.82	-3.38	3.36	5.43	0.54	2.26	-1.37	1.65
Audiovisual and News	-5.61	-6.47	-22.74	-4.57	7.09	6.08	3.37	5.38	-0.15	7.29	0.87	-9.89	3.02
<b>Professional</b>	-0.86	-4.22	-9.99	-2.88	2.82	1.44	2.13	-0.14	1.12	2.62	0.40	2.28	3.27
Technical and Professional	-3.61	2.84	-4.95	-6.13	0.82	9.22	1.04	-0.88	2.37	3.03	-1.68	2.57	3.20
Administrative	-2.30	-7.43	-10.19	-0.71	2.29	0.98	1.11	1.78	0.67	1.74	1.71	1.29	4.71
<b>Transportation</b>	-0.11	-8.36	-18.00	4.15	6.55	3.21	3.89	2.24	1.95	2.39	-0.93	4.13	4.42
Ground Transportation	0.62	-10.86	-20.22	7.12	3.89	6.08	4.41	2.96	1.50	2.43	-3.42	4.90	5.45
Water Transportation	6.01	-1.31	-0.21	-1.62	-2.36	1.54	-1.30	2.63	1.21	-1.33	1.57	3.29	-0.61
Air Transport	6.53	-28.33	-74.19	22.29	56.54	20.60	15.59	18.84	0.36	5.92	2.54	10.91	-2.53
Storage and Mail	-2.14	0.21	-5.82	2.54	4.41	0.93	2.35	-1.60	2.03	1.69	0.78	0.97	4.41
<b>Other Services</b>	0.43	-1.17	-9.65	-3.32	8.83	4.28	0.97	5.78	-3.54	0.73	5.00	-9.72	4.73

Sources: IBGE, Santander.

<sup>1</sup> Santander Brazil Economic Activity - “IGET Serviços – Março 2021: Uma forte queda no encerramento do Trimestre” – April 8, 2021 - Available (in Portuguese) on: <http://bit.ly/Std-Iget-serv-mar21>

<sup>2</sup> Santander Brazil Economic Activity - “Chartbook - Lingering Impacts to Keep Recovery at a Slow Pace” – April 13, 2021- Available on: <http://bit.ly/STD-chartbook-Act-apr21>



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