

A Slight Decline in the Services Sector

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- Today IBGE released data on the services sector that was in line with the market's expectations of a slight decline in December: after seasonal adjustments, the index fell by 0.2% MoM-sa (-3.3% YoY). After a favorable start to the sequence of 4Q20 releases, despite the decrease at the margin, this figure consolidates solid quarterly growth of 5.8% (9.0% in 3Q20).
- December's data was the first negative result after six monthly gains in a row following the bottom in May, underlining that the services sector is the laggard in the economic recovery, with the headline index down by 3.8% since February (pre-crisis mark). Among the subsectors, the segments related to social interactions contributed negatively to this result, and we highlight Services to Families (-3.7%), which is running at a reading 28.2% below February's level and for which we expect a full recovery only after substantial progress is made in the massive vaccination campaign.
- In terms of outlook, we expect a deterioration in 1Q21 economic activity, given the setback in the reopening process with a sequential decrease in mobility. Following December's data, we expect the services sector, which we had expected to be the main driver of the recovery, to be hit, contributing to a likely GDP decline in 1Q21. On Friday (February 12), the BCB will release the IBC-Br for December, and we are projecting monthly growth of 0.3% (updated from 0.6%).

Figure 1. Services Sector Breakdown

	% MoM			% YoY			% QoQ		
	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20
Total Services	1.8	2.4	-0.2	-7.4	-5.0	-3.3	8.9	7.2	5.8
Services to Families	4.9	8.5	-3.6	-29.9	-26.0	-25.4	41.5	36.2	27.2
Accommodation and Food Services	6.5	9.6	-4.1	-30.3	-25.8	-25.8	46.2	40.4	31.2
Other Services Provided to Families	-3.5	1.5	-0.5	-27.4	-27.6	-22.8	20.4	17.3	7.5
Information and Communication	1.4	0.7	0.3	-0.1	1.3	1.5	3.7	3.3	3.1
Technology	1.7	0.0	0.2	3.4	3.1	2.8	2.5	2.3	2.3
Telecommunication	-0.2	-0.6	-0.3	-2.8	-3.2	-2.8	0.7	0.2	-0.5
Information Technology	5.4	0.5	1.9	14.6	14.0	10.7	5.8	6.7	7.5
Audiovisual	0.2	5.4	1.0	-21.6	-9.5	-7.4	16.6	13.8	9.4
Professional and Administrative	1.1	2.2	0.1	-13.4	-10.5	-7.3	3.9	2.8	3.0
Professional	1.9	3.2	-1.4	-6.5	-2.3	-1.2	7.0	4.8	3.1
Administrative	0.7	1.3	1.5	-16.0	-13.6	-10.0	3.5	3.1	3.3
Transportation	1.8	1.6	-0.7	-8.1	-4.8	-2.1	9.7	6.8	5.1
Ground Transportation	1.4	2.3	-3.0	-10.6	-7.5	-3.6	12.4	9.7	5.2
Water Transportation	1.1	-1.5	1.2	9.0	4.8	10.5	0.9	2.2	1.7
Air Transport	0.9	6.8	3.5	-37.7	-31.9	-34.6	66.0	43.8	25.9
Storage and Mail	1.9	1.5	0.4	0.4	5.5	6.3	3.6	1.7	2.6
Other Services	-3.3	0.8	3.0	8.6	7.2	8.6	9.5	6.0	2.3

Sources: IBGE, Santander.

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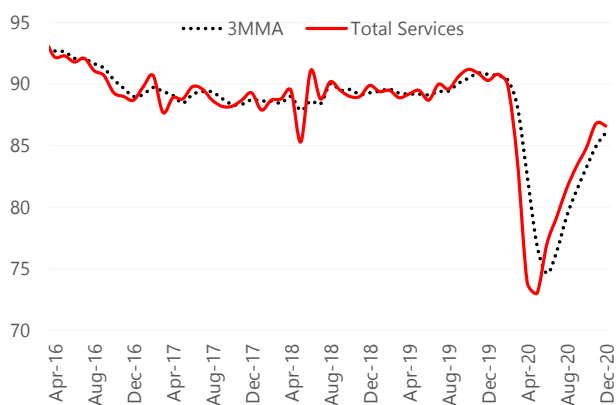
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Services sector data released today confirmed the market's expectation of a softening in the upward trend seen since July: the headline index fell by 0.2% MoM-sa (-3.3% YoY), the first decline after six gains in a row following the bottom in May and April's sharp drop. In quarterly terms, despite this slight decrease at the margin, the services sector registered growth of 5.8%, reinforcing, in our view, the likelihood of solid growth of economic activity in the final quarter of the year, in the wake of the economy's reopening. In annual terms, as the sector was the most hurt by the pandemic's impact, it recorded a steep decline of 7.9% in 2020, stemming mainly from the sharp drop seen in 2Q20.

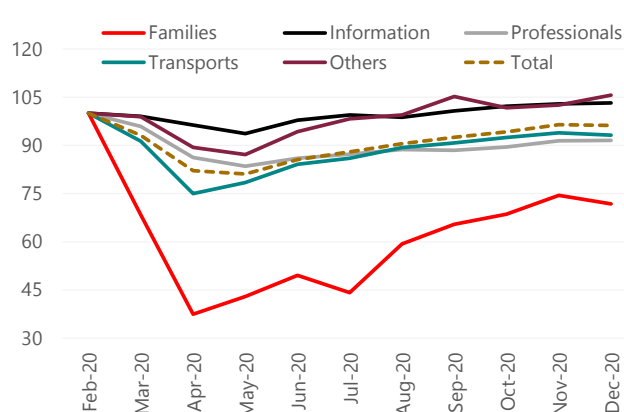
December's result underlines that the services sector is the laggard in the economic recovery seen in 2H20: although almost 80% of the losses registered during the crisis have already been recovered, in comparison to February's reading (pre-crisis mark), the headline index is down by 3.8%, whereas industrial production has already fully recovered from the impact of the crisis.

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



Sources: IBGE, Santander.

Figure 2.B – Services Breakdown (sa, Feb-20 =100)



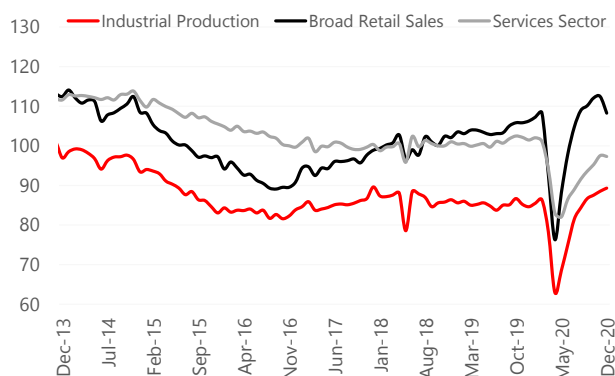
Sources: IBGE, Santander.

Among the subsectors, the segments related to social interactions were the main contributors to December's figure. We highlight Services to Families (-3.6%) and Transport (-0.7%), which were the segments most hurt by social distancing and which were gradually recovering on the heels of an increase in mobility, but, given this slump, are now 28.2% and 6.8% below the readings seen before the crisis. The former's result stems mainly from a drop in Accommodation and Food Services (-4.1%), while the latter's result follows a drop in Ground Transportation (usually driven by industrial production, which requires road and rail freight transport). We expect a full recovery only after substantial progress is made in the massive vaccination campaign.

Services less related to social interaction, such as Information and Other Services (which includes Health Insurance, Insurance Brokers, and Pensions), pointed to sequential gains, ending the quarter with solid growth (3.1% and 2.3%, respectively); these sectors have already recovered all the losses registered during the crisis.

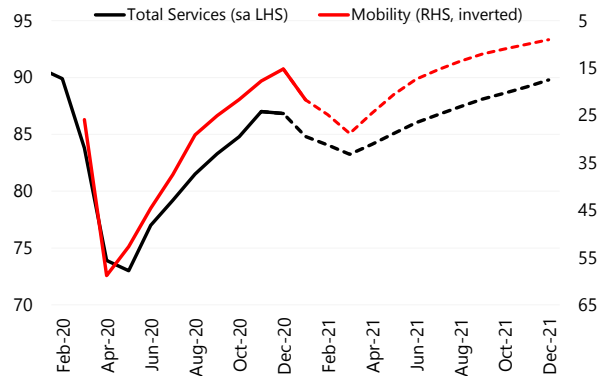


Figure 3.A – Economic Activity (sa, 2011=100)



Sources: IBGE, Santander.

Figure 3.B – Services and Mobility



Sources: Google, IBGE, Santander.

Figure 4 – Recovery Breakdown

	Dec-20	MoM %	YoY %	Feb-20 % Chg	2020%
Total Services		-0.2	-3.3	-3.8	-7.9
Families		-3.6	-25.4	-28.2	-35.6
Accommodation and Food Services		-4.1	-25.8	-28.9	-36.8
Other Services Provided to Families		-0.5	-22.8	-27.6	-29.0
Information		0.3	1.5	3.2	-1.6
Technology		0.2	2.8	4.0	0.7
Telecommunication		-0.3	-2.8	-3.0	-3.5
Information Technology		1.9	10.7	14.9	8.3
Audiovisual		1.0	-7.4	-5.6	-17.7
Professional		0.1	-7.3	-8.4	-11.4
Professional		-1.4	-1.2	3.7	-5.4
Administrative		1.5	-10.0	-10.3	-13.6
Transportation		-0.7	-2.1	-6.8	-7.7
Ground Transportation		-3.0	-3.6	-10.1	-11.5
Water Transportation		1.2	10.5	-2.8	10.4
Air Transport		3.5	-34.6	-36.2	-36.9
Storage and Mail		0.4	6.3	5.3	2.8
Other Services		3.0	8.6	5.6	6.7

Sources: IBGE, Santander.

With today's data, three of the main indicators of economic activity for December have already been published, recording significant growth in the final quarter of the year, which reinforces the likelihood of solid economic growth in 4Q20, in our view. Despite that, we believe the sharp drop in retail sales, the deceleration at the margin in industrial production, and the weak result for services, following the gradual elimination of the emergency aid and the resurgence of the pandemic (with resulting setbacks in the reopening process) increase the likelihood of a weak start in 2021, with a likely GDP decline in 1Q21.

On Friday (February 12), the BCB will release the IBC-Br for December, capping the batch of economic indexes releases for 2020, and we are updating our projection to 0.3% MoM-sa from 0.6% MoM-sa. Our tracking of 4Q20 GDP is at 2.7% QoQ-sa (no changes), which is consistent with an annual drop close to our projection of -4.1% for 2020.



Figure 5 – “Heatmap” Showing Services Volume by Sector

By Sector (% MoM sa)												
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Total Services	0.55	-0.88	-6.89	-11.81	-1.22	5.48	2.86	2.90	2.21	1.80	2.36	-0.23
Families	0.22	-0.22	-31.61	-45.25	14.71	15.38	-10.89	34.41	10.20	4.88	8.51	-3.55
Information	-0.61	-1.23	-0.93	-2.73	-2.80	4.43	1.70	-0.73	2.00	1.44	0.71	0.30
Professional	-0.25	-0.37	-4.08	-10.06	-3.16	2.96	1.44	1.70	-0.28	1.12	2.21	0.14
Transportation	2.86	0.22	-8.67	-17.88	4.59	7.22	2.25	3.88	1.62	1.84	1.56	-0.71
Other Services	1.74	0.75	-1.06	-9.67	-2.50	8.17	4.28	1.19	5.77	-3.33	0.84	3.01

Sources: IBGE, Santander.

Figure 6 – “Heatmap” Showing Services Volume by Subsector

By Subsector (% MoM sa)												
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Families	0.22	-0.22	-31.61	-45.25	14.71	15.38	-10.89	34.41	10.20	4.88	8.51	-3.55
Accommodation and Food	-0.22	0.00	-33.95	-47.79	16.93	17.69	-12.98	39.27	10.53	6.46	9.58	-4.08
Other Services to Families	7.12	0.00	-21.00	-31.23	4.59	3.76	3.02	9.77	11.39	-3.51	1.49	-0.49
Information	-0.61	-1.23	-0.93	-2.73	-2.80	4.43	1.70	-0.73	2.00	1.44	0.71	0.30
Technology	-0.98	-0.30	-0.10	-0.80	-2.41	3.80	1.39	-1.17	1.48	1.66	0.00	0.19
Telecommunications	-0.22	0.34	-2.25	0.00	-1.03	0.70	0.23	0.12	0.34	-0.23	-0.57	-0.35
Information	-0.15	-1.19	1.95	-2.06	-3.31	4.36	5.90	-3.45	3.36	5.37	0.47	1.93
Audiovisual and News	2.21	-4.84	-7.23	-22.51	-3.35	5.78	9.65	3.82	5.76	0.15	5.44	1.00
Professional	-0.25	-0.37	-4.08	-10.06	-3.16	2.96	1.44	1.70	-0.28	1.12	2.21	0.14
Technical and Professional	-1.84	-2.60	2.52	-5.35	-6.11	0.65	9.37	0.74	-1.03	1.93	3.20	-1.41
Administrative	0.23	-1.16	-7.37	-10.86	-0.85	2.71	0.83	0.83	1.37	0.67	1.34	1.46
Transportation	2.86	0.22	-8.67	-17.88	4.59	7.22	2.25	3.88	1.62	1.84	1.56	-0.71
Ground Transportation	4.01	1.24	-10.80	-20.50	6.92	3.56	6.09	4.42	2.82	1.37	2.30	-3.04
Water Transportation	7.58	5.81	-1.85	-0.21	-1.75	-2.36	1.46	-1.15	2.26	1.14	-1.48	1.22
Air Transport	0.42	2.01	-31.57	-74.13	23.98	57.08	19.22	14.61	21.32	0.91	6.82	3.53
Storage and Mail	1.24	-0.92	-0.51	-6.00	2.53	4.40	1.03	1.93	-1.70	1.93	1.50	0.39
Other Services	1.74	0.75	-1.06	-9.67	-2.50	8.17	4.28	1.19	5.77	-3.33	0.84	3.01

Sources: IBGE, Santander.



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