



## A POSITIVE KICKOFF TO 3Q22

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- **Services output jumped 1.1% MoM-sa in July (+6.3% YoY), topping our estimate of +0.5% MoM-sa (+5.3% YoY) and market consensus of +0.6% MoM-sa (+5.6% YoY).** July's figure marked the third gain in a row and placed the index 8.9% above the pre-pandemic benchmark (February 2020). Moreover, the headline index reached the highest reading since December 2014.
- **Zooming in on the details, a mixed bag.** Services to families inched up 0.6% MoM-sa, marking the fifth gain in a row but remaining 5.7% below the pre-pandemic benchmark. Information services stood out, climbing 1.1% MoM-sa, while transportation services jumped 2.3% MoM-sa. Conversely, professional services and other services weakened at the margin, shrinking 1.1% MoM-sa and 4.2% MoM-sa, respectively.
- **The diffusion index decelerated for the third month in a row, reaching 58% (vs. 67% in June), with seven out of twelve activities expanding at the margin.** In terms of contribution, we highlight information technology (+0.48 p.p.), storage and mail (+0.48 p.p.), air transport (+0.18 p.p.) and ground transportation (+0.15 p.p.). Conversely, telecommunication (-0.40 p.p.), other services (-0.30 p.p.) and professional services (-0.22 p.p.) contributed the least.
- **July's positive kickoff to 3Q22 led a solid 1.7% carryover to the quarter (+1.3% QoQ-sa in 2Q22).** This figure suggests a sequential contribution from cyclical services to overall activity in the period, on the heels of the economy's reopening process consolidation. We updated our IBC-Br tracking for July to +0.6% MoM-sa (+3.0% YoY) from +0.5% MoM-sa previously. Our 3Q22 GDP growth tracking was updated to +0.4% QoQ-sa (from +0.3% QoQ-sa previously), and we see slight upside risks to our 2022 GDP growth forecast of +2.6%. We continue to believe domestic activity will decelerate in 2H22, as the effects of a tighter monetary policy start to kick in, but we recognize that fiscal stimuli along with a resilient labor market may partially support demand in the period. For 2023, we also see upside risks to our -0.2% GDP forecast.

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

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Figure 1 – Services Sector Details

Services Breakdown												
	Weights	% MoM			% YoY			% QoQ			Feb-20 %	
		May-22	Jun-22	Jul-22	May-22	Jun-22	Jul-22	Mar-22	Jun-22	Jul-22	Jul-22	
<b>Total Services</b>	<b>100%</b>	<b>0.4</b>	<b>0.8</b>	<b>1.1</b>	<b>9.1</b>	<b>6.4</b>	<b>6.3</b>	<b>1.7</b>	<b>1.3</b>	<b>1.7</b>	<b>8.9</b>	
<b>Families</b>	<b>8%</b>	<b>2.2</b>	<b>0.5</b>	<b>0.6</b>	<b>39.7</b>	<b>28.1</b>	<b>22.6</b>	<b>1.7</b>	<b>6.6</b>	<b>5.8</b>	<b>-5.7</b>	
Accommodation and Food	7%	1.3	-0.8	2.0	42.5	28.8	22.3	1.6	6.4	4.9	-6.7	
Other Services to Families	1%	-0.1	3.1	2.2	25.0	24.6	24.1	6.8	4.2	3.4	-4.2	
<b>Information</b>	<b>31%</b>	<b>0.9</b>	<b>-0.2</b>	<b>1.1</b>	<b>4.0</b>	<b>0.9</b>	<b>2.0</b>	<b>-2.9</b>	<b>1.9</b>	<b>2.2</b>	<b>13.3</b>	
Technology	26%	1.5	-0.8	0.6	4.1	1.5	2.1	-3.0	2.3	2.4	12.6	
Telecommunication	19%	0.6	0.6	-2.1	-7.4	-6.3	-9.1	-3.6	-0.6	0.2	-10.4	
Information Technology	7%	2.6	-5.1	6.6	20.2	11.3	17.2	0.7	4.5	3.8	55.1	
Audiovisual	5%	1.3	0.6	-0.9	3.3	-4.6	1.2	-1.8	0.7	0.9	-5.4	
<b>Professional</b>	<b>23%</b>	<b>1.1</b>	<b>0.8</b>	<b>-1.1</b>	<b>9.7</b>	<b>8.3</b>	<b>4.2</b>	<b>5.1</b>	<b>2.3</b>	<b>1.5</b>	<b>5.8</b>	
Professional	7%	1.2	3.6	-3.1	6.7	9.8	-2.0	4.5	2.5	2.7	20.4	
Administrative	16%	1.0	0.0	-0.1	10.9	7.7	6.8	4.7	2.2	1.5	0.4	
<b>Transportation</b>	<b>31%</b>	<b>0.6</b>	<b>0.9</b>	<b>2.3</b>	<b>11.9</b>	<b>10.1</b>	<b>12.8</b>	<b>6.9</b>	<b>1.1</b>	<b>1.4</b>	<b>20.2</b>	
Ground Transportation	18%	2.3	2.4	0.9	19.6	20.6	18.7	7.6	5.5	5.4	21.7	
Water Transportation	2%	4.2	1.6	3.4	12.4	14.6	13.7	0.6	4.0	7.5	33.3	
Air Transport	3%	-12.8	-9.0	6.8	30.4	-3.3	15.4	24.9	-4.3	-13.1	0.8	
Storage and Mail	9%	0.2	-2.2	5.4	-3.0	-3.4	2.7	2.7	-4.3	-2.7	15.8	
<b>Other Services</b>	<b>7%</b>	<b>3.1</b>	<b>1.3</b>	<b>-4.2</b>	<b>-3.9</b>	<b>-4.6</b>	<b>-11.3</b>	<b>0.9</b>	<b>-0.2</b>	<b>0.8</b>	<b>-2.2</b>	
Touristic Activities	-	1.1	-1.7	1.5	43.6	25.8	26.5	5.8	7.1	4.7	-1.1	

Sources: IBGE, Santander.

**Services output surprised to the upside at the start to 3Q22.** The headline index jumped 1.1% MoM-sa in July (+6.3% YoY), beating our estimate of +0.5% MoM-sa (+5.3% YoY) and market consensus of +0.6% MoM-sa (+5.6% YoY). July's figure marked the third gain in a row and placed the index 8.9% above the pre-pandemic benchmark (February 2020). Moreover, the headline index reached the highest reading since December 2014.

**Zooming in on the details, a mixed bag, with low disseminated growth.** Services to families inched up 0.6% MoM-sa, marking the fifth gain in a row but remaining 5.7% below the pre-pandemic benchmark. Information services stood out, climbing 1.1% MoM-sa, while transportation services jumped 2.3% MoM-sa. Conversely, professional services and other services weakened at the margin, shrinking 1.1% MoM-sa and 4.2% MoM-sa, respectively. The diffusion index decelerated for the third month in a row, reaching 58% (vs. 67% in June), with seven out of twelve activities expanding at the margin. In terms of contribution, we highlight information technology (+0.48 p.p.), storage and mail (+0.48 p.p.), air transport (+0.18 p.p.) and ground transportation (+0.15 p.p.). Conversely, telecommunication (-0.40 p.p.), other services (-0.30 p.p.) and professional services (-0.22 p.p.) contributed the least. Additionally, the touristic activities index (composed of several segments of services related to touristic activities) jumped 1.5% MoM-sa. The index (deflated) reached levels only 1.1% below the pre-pandemic benchmark (the nominal index had surpassed it by more than 20%).

**July's positive kickoff to 3Q22 led a solid 1.7% carryover to the quarter (+1.3% QoQ-sa in 2Q22).** This figure suggests a sequential contribution from cyclical services to overall activity in the period, on the heels of the economy's reopening process consolidation. We updated our IBC-Br tracking for July to +0.6% MoM-sa (+3.0% YoY) from +0.5% MoM-sa previously. Our 3Q22 GDP growth tracking was updated to +0.4% QoQ-sa (from +0.3% QoQ-sa previously), and we see slight upside risks to our 2022 GDP growth forecast of +2.6%. For 2023, we also see upside risks to our -0.2% GDP forecast.

**For details on Santander's economic activity outlook, please refer to our last reports<sup>1</sup>.**

<sup>1</sup> Santander Brazil Special Report: "Nowcasting Brazilian GDP with LASSO" – May 16, 2022 – Available on: <https://bit.ly/Std-special-051622>

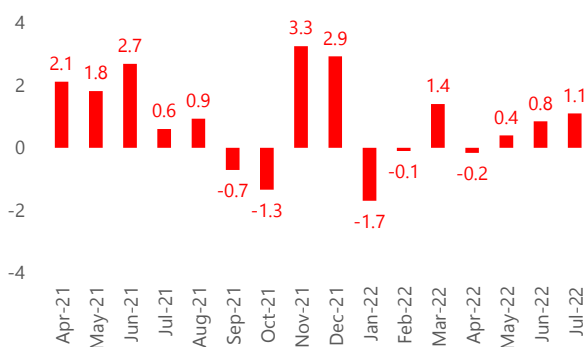
Santander Brazil Special Report: "A Model to Forecast Probability of Recession in Brazil" – June 08, 2022 – Available on: <https://bit.ly/Std-special-060822>

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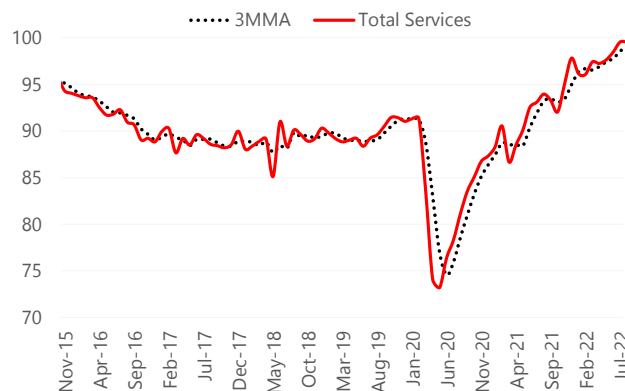


Figure 2.A – Total Services (sa, % MoM)



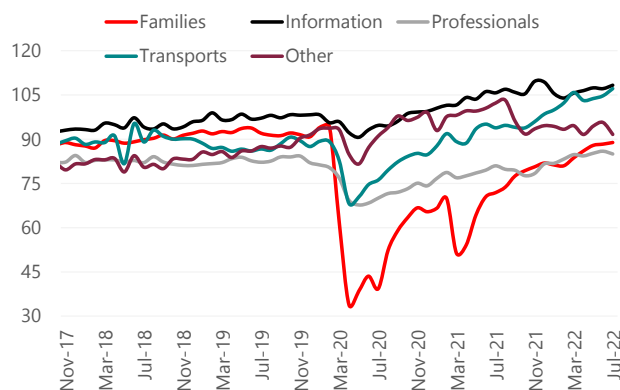
Sources: IBGE, Santander.

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



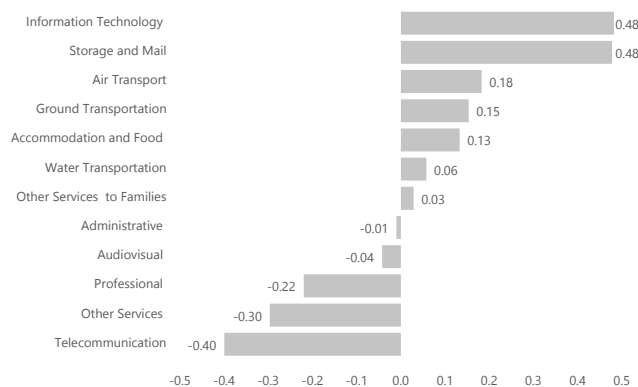
Sources: IBGE, Santander.

Figure 3.A – Services Breakdown\* (sa, 2014=100)



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

Figure 3.B – Services Activities Contributions (sa, p.p.)



Sources: IBGE, Santander.

Figure 4 – “Heatmap” Showing Services Output by Subsector

	By Subsector (% MoM sa)											
	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
<b>Total Services</b>	<b>0.93</b>	<b>-0.71</b>	<b>-1.34</b>	<b>3.25</b>	<b>2.93</b>	<b>-1.70</b>	<b>-0.10</b>	<b>1.40</b>	<b>-0.16</b>	<b>0.39</b>	<b>0.85</b>	<b>1.10</b>
<b>Families</b>	2.62	5.14	2.29	1.66	1.61	-0.80	-0.31	3.28	2.80	2.22	0.48	0.62
Accommodation and Food	2.56	4.22	2.76	2.46	1.32	-0.92	0.42	1.71	4.49	1.25	-0.84	1.96
Other Services to Families	2.31	1.62	2.02	2.61	1.76	0.06	1.91	9.72	-3.52	-0.10	3.08	2.21
<b>Information</b>	1.15	-0.97	-0.50	4.03	-0.23	-3.57	-1.42	1.63	0.77	0.89	-0.25	1.08
Technology	1.39	-1.00	-1.72	5.59	-0.41	-3.95	-2.30	3.07	0.32	1.49	-0.79	0.63
Telecommunications	0.00	-1.76	-2.25	0.79	-0.83	-1.39	-2.57	-0.83	0.25	0.62	0.58	-2.14
Information	3.42	-0.59	1.00	8.00	-3.80	-0.35	0.28	2.90	2.45	2.61	-5.14	6.61
Audiovisual and News	1.49	0.63	-1.36	1.76	1.63	-4.24	-1.34	5.31	-3.28	1.29	0.61	-0.89
<b>Professional</b>	-1.46	-0.42	-2.28	0.93	4.19	0.23	1.76	1.79	-0.49	1.06	0.81	-1.10
Technical and Professional	-6.62	2.25	-4.57	1.13	2.44	2.05	-2.18	5.61	-2.45	1.24	3.64	-3.14
Administrative	0.69	-1.44	-1.09	1.88	3.03	0.42	2.80	-0.76	1.14	1.04	0.00	-0.06
<b>Transportation</b>	0.89	-0.71	-0.21	2.23	2.72	1.47	2.35	3.45	-2.56	0.63	0.90	2.32
Ground Transportation	-0.50	-0.17	1.28	2.24	2.41	2.15	3.12	2.50	0.37	2.32	2.40	0.86
Water Transportation	-1.11	-0.08	1.92	1.03	3.87	-0.61	0.35	-5.71	4.50	4.24	1.57	3.39
Air Transport	6.37	-8.92	-7.49	14.05	12.49	7.12	-8.82	31.65	-6.91	-12.82	-9.04	6.76
Storage and Mail	2.77	-0.21	-1.36	1.22	-1.57	1.16	1.69	3.10	-6.17	0.24	-2.20	5.43
<b>Other Services</b>	0.98	-6.87	-4.54	1.86	1.18	-0.27	-1.03	1.32	-3.16	3.09	1.31	-4.24

Sources: IBGE, Santander.

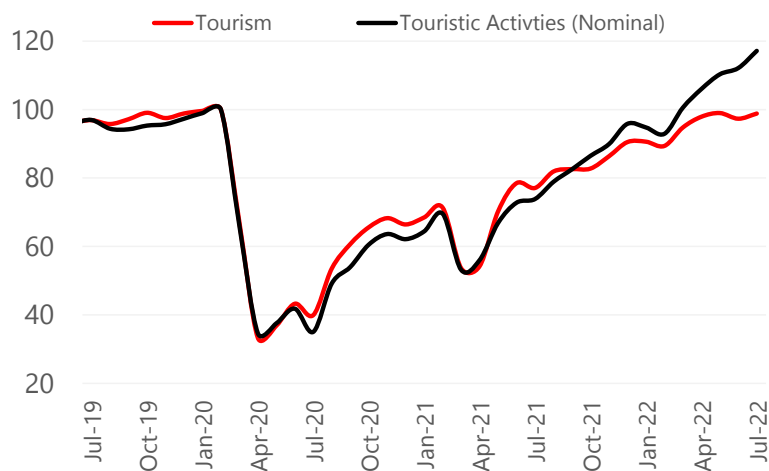


Figure 5 – “Heatmap” Showing Contribution by Activities

By Subsector (contribution, sa p.p)												
	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22
<b>Total Services</b>	<b>0.93</b>	<b>-0.71</b>	<b>-1.34</b>	<b>3.25</b>	<b>2.93</b>	<b>-1.70</b>	<b>-0.10</b>	<b>1.40</b>	<b>-0.16</b>	<b>0.39</b>	<b>0.85</b>	<b>1.10</b>
Accommodation and Food	0.17	0.29	0.19	0.17	0.09	-0.06	0.03	0.12	0.31	0.09	-0.06	0.13
Other Services to Families	0.03	0.02	0.03	0.03	0.02	0.00	0.02	0.13	-0.05	0.00	0.04	0.03
Telecommunications	0.00	-0.33	-0.42	0.15	-0.16	-0.26	-0.48	-0.16	0.05	0.12	0.11	-0.40
Information	0.25	-0.04	0.07	0.58	-0.28	-0.03	0.02	0.21	0.18	0.19	-0.38	0.48
Audiovisual and News	0.07	0.03	-0.07	0.08	0.08	-0.20	-0.06	0.25	-0.16	0.06	0.03	-0.04
Technical and Professional	-0.46	0.16	-0.32	0.08	0.17	0.14	-0.15	0.39	-0.17	0.09	0.25	-0.22
Administrative	0.11	-0.23	-0.17	0.30	0.48	0.07	0.44	-0.12	0.18	0.16	0.00	-0.01
Ground Transportation	-0.09	-0.03	0.23	0.40	0.43	0.39	0.56	0.45	0.07	0.41	0.43	0.15
Water Transportation	-0.02	0.00	0.03	0.02	0.07	-0.01	0.01	-0.10	0.08	0.07	0.03	0.06
Air Transport	0.17	-0.24	-0.20	0.38	0.34	0.19	-0.24	0.85	-0.19	-0.35	-0.24	0.18
Storage and Mail	0.24	-0.02	-0.12	0.11	-0.14	0.10	0.15	0.27	-0.54	0.02	-0.19	0.48
Other Services	0.07	-0.48	-0.32	0.13	0.08	-0.02	-0.07	0.09	-0.22	0.22	0.09	-0.30

Sources: IBGE, Santander.

Figure 6 – Selected Segments of Services (sa, February 2020=100)



Sources: IBGE, Santander



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