



SERVICES OUTPUT SURPRISED TO THE UPSIDE IN DECEMBER

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- **Services output jumped 1.4% MoM-sa (+10.5% YoY) in December, topping market expectations of +0.6% MoM-sa (+9.0% YoY) but close to our estimate of +1.2% MoM-sa (+10% YoY).** This performance marked the second gain in a row and placed the index 6.6% above the pre-pandemic mark (February 2020).
- **Zooming in on the details, mobility-related segments drove the climb.** Transportation was in the spotlight (+1.8% MoM-sa), mainly owing to expansion in ground transportation (+2.6% MoM-sa) and air transportation (+10.6% MoM-sa). Professional services continued to strengthen (+2.6% MoM-sa), while services to families marked the ninth gain in a row (+0.9% MoM-sa) but below the estimate pointed to by our proprietary index IGet (+2.2% MoM-sa). This segment remains 11.2% below the pre-pandemic mark. Other services contributed positively (+1.4% MoM-sa), while information services was the only subsector to print a retreat (-0.2% MoM-sa).
- **Among services activities, the biggest positive contributions came from ground transportation (+0.47 p.p.), air transport (+0.29 p.p.), and administrative and professional services (+0.22 p.p. and 0.14 p.p., respectively).** Food and accommodation contributed only 0.05 p.p., highlighting the weaker than expected print. Conversely, the biggest negative contribution came from storage and mail (-0.29 p.p.) and telecommunication (-0.13 p.p.). The diffusion index decelerated to 83% (vs .92% in November) but remains high. Moreover, only 5 of 12 services activities remain below the pre-pandemic mark, notably food and accommodation (down 11.6%), administrative services (down 2.9%), and air transport (down 3.3%).
- **In annual terms, the headline index ended 2021 with 10.9% full year growth, after tumbling 7.8% in 2020.** Among the sectors, a clear heterogeneity: on the one hand, information services expanded 9.4% (-1.6% in 2020) and transportation climbed 15.1% (-11.5% in 2020), fully offsetting the previous drop; on the other hand, professional services expanded 7.3% (-11.4% in 2020), while services to families climbed 10.9% (-35.6% in 2020), not fully recovering the pandemic's losses.
- **In quarterly terms, December's result implies a 0.4% QoQ-sa increase in 4Q21, the sixth consecutive expansion.** For the services to families segment, we calculate a 6.6% QoQ-sa expansion. In our view, this segment is currently the best metric to capture the rebound of the services sector, on the heels of the increase in mobility. December's results imply solid carryovers of 1.8% QoQ-sa and 1.5% QoQ-sa for the headline index and services to families, respectively.
- **We are maintaining our tracking for December IBC-Br at +0.1% MoM-sa, which implies a 0.3% QoQ-sa retreat for the index.** However, we are maintaining our 4Q21 GDP tracking at +0.3% QoQ-sa. Our thesis for 4Q21 GDP growth rests mainly on continued recovery of the services sector and on a farm rebound (after plummeting in 3Q21). This result is consistent with 4.5% GDP growth in 2021 and implies a 0.1% carryover to 2022.

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

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Figure 1. Services Sector Breakdown

	Weights	% MoM			% YoY			% QoQ			Feb-20 %	12-month %
		Oct-21	Nov-21	Dec-21	Oct-21	Nov-21	Dec-21	Jun-21	Sep-21	Dec-21		
Total Services	100%	-1.6	2.7	1.4	7.4	10.2	10.5	2.2	3.0	0.4	6.6	10.9
Families	8%	1.8	2.7	0.9	24.6	20.7	21.6	4.0	17.6	6.6	-11.2	18.2
Accommodation and Food	7%	1.5	2.6	0.7	26.3	20.7	21.6	4.3	18.8	6.5	-11.6	20.1
Other Services to Families	1%	1.3	1.3	2.7	14.8	20.4	21.0	6.0	5.6	3.2	-10.3	8.2
Information	31%	-2.2	4.7	-0.2	6.4	11.2	9.9	4.7	2.0	0.8	12.8	9.4
Technology	26%	-1.8	5.4	-0.9	5.8	11.7	10.0	3.8	1.9	1.2	14.5	9.4
Telecommunication	19%	-2.3	0.9	-0.7	-2.8	-1.4	-2.4	-0.2	0.1	-2.9	-4.5	-0.2
Information Technology	7%	-0.9	10.6	1.3	19.3	31.2	25.3	8.7	4.3	7.5	48.9	24.8
Audiovisual	5%	-1.9	1.4	1.9	10.8	7.7	9.2	14.9	0.6	0.9	1.3	10.1
Professional	23%	-2.8	1.3	2.6	4.8	5.2	7.6	1.7	1.4	-1.6	-0.2	7.3
Professional	7%	-4.6	-0.9	2.0	5.8	3.2	8.6	3.2	3.3	-4.8	12.7	12.1
Administrative	16%	-1.6	1.9	1.4	4.3	6.0	7.1	1.1	0.7	-0.9	-2.9	5.4
Transportation	31%	-0.1	2.1	1.8	9.9	13.7	14.9	3.6	1.9	1.0	9.8	15.1
Ground Transportation	18%	1.2	1.1	2.6	8.3	12.7	16.9	2.3	1.4	2.2	5.8	14.7
Water Transportation	2%	1.7	1.7	2.0	14.8	18.2	19.1	5.9	1.9	2.8	19.4	14.6
Air Transport	3%	-5.9	11.7	10.6	26.6	36.7	52.0	6.3	22.3	1.0	-3.3	37.0
Storage and Mail	9%	-1.3	1.5	-3.3	8.3	9.4	4.5	2.0	0.2	-0.8	10.6	11.9
Other Services	7%	-6.6	4.2	1.4	-6.1	-3.0	-4.4	4.2	0.8	-6.9	0.5	5.0

Sources: IBGE, Santander.

Services sector's real revenue topped market consensus in December and was close to our call. The headline index jumped 1.4% MoM-sa (+10.5% YoY) in December, well above market consensus of +0.6% MoM-sa (+9.0% YoY) and close to our estimate of +1.2% MoM-sa (+10.0% YoY). This performance marked the second gain in a row and placed the index 6.6% above the pre-pandemic mark (February 2020).

Zooming in on the details, mobility-related segments drove the climb. Transportation was in the spotlight (+1.8% MoM-sa), mainly owing to the strong growth in ground transportation (+2.6% MoM-sa) — amid the sharp climb seen for industrial output in the period — but also helped by a 10.6% increase in air transport. Professional services continued to strengthen (+2.6% MoM-sa), virtually returning to pre-pandemic readings, while services to families marked the ninth gain in a row (+0.9% MoM-sa) but was below the estimate pointed to by our proprietary index IGet¹ (+2.2% MoM-sa). Moreover, this segment remains 11.2% below the pre-pandemic mark. Other services contributed positively (+1.4% MoM-sa), while information services was the only subsector to print a retreat (-0.2% MoM-sa). That said, we should monitor the impact of the Omicron variant outbreak, mainly in those segments related to mobility. IGet already points to some impact in January, with a higher than expected decrease in real revenue of services to families.

In annual terms, the headline index ended 2021 with 10.9% full year growth, after tumbling 7.8% in 2020. Among the sectors, a clear heterogeneity: on the one hand, information services expanded 9.4% (-1.6% in 2020) and transportation climbed 15.1% (-11.5% in 2020), fully offsetting the previous drop; on the other hand, professional services expanded 7.3% (-11.4% in 2020), while services to families climbed 10.9% (-35.6% in 2020), not fully recovering the pandemic's losses.

Among services activities, the biggest positive contributions came from ground transportation (+0.47 p.p.), air transport (+0.29 p.p.), and administrative and professional services (+0.22 p.p. and 0.14 p.p., respectively). Food and accommodation contributed only 0.05 p.p., highlighting a weaker than expected print. Conversely, the biggest negative contribution came from storage and mail (-0.29 p.p.) and telecommunication (-0.13 p.p.). The diffusion index decelerated to 83% (vs. 92% in November) but remains high. Moreover, only 5 of 12 services activities remain below the pre-pandemic mark, notably food and accommodation (down 11.6%), administrative services (down 2.9%), and air transport (down 3.3%), while technology and information services (up 12.8%), professional services (up 12.7%), and ground transportation (up 5.8%) have far surpassed this mark.

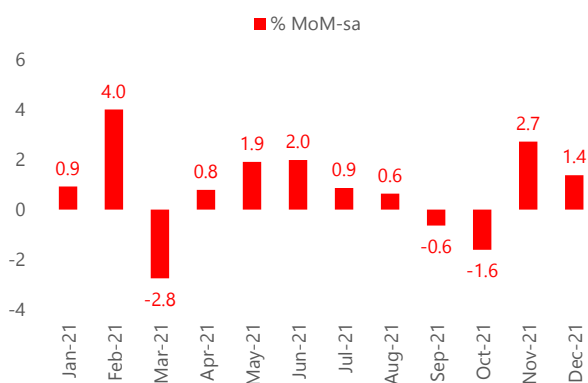
¹ Santander Brazil Economic Activity - "IGET Janeiro: Serviços desaceleram na margem" – February 4, 2022 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-jan22>.



In quarterly terms, December's result implies a 0.4% QoQ-sa increase in 4Q21, the sixth consecutive expansion. For the services to families segment, we calculate a 6.6% QoQ-sa expansion. In our view, this segment is currently the best metric to capture the rebound of the services sector, on the heels of the increase in mobility. December's results imply solid carryovers of 1.8% QoQ-sa and 1.5% QoQ-sa for the headline index and services to families, respectively.

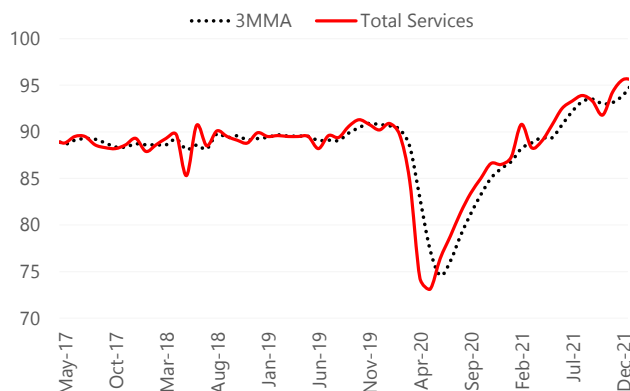
We are maintaining our tracking for December IBC-Br at +0.1% MoM-sa, which implies a 0.3% QoQ-sa retreat for the index. However, we are maintaining our 4Q21 GDP tracking at +0.3% QoQ-sa. Our thesis for 4Q21 GDP growth rests mainly on continued recovery of the services sector and on a farm rebound (after plummeting in 3Q21). This result is consistent with 4.5% GDP growth in 2021 and implies a 0.1% carryover to 2022. **For details on Santander's activity outlook, please refer to our last reports².**

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



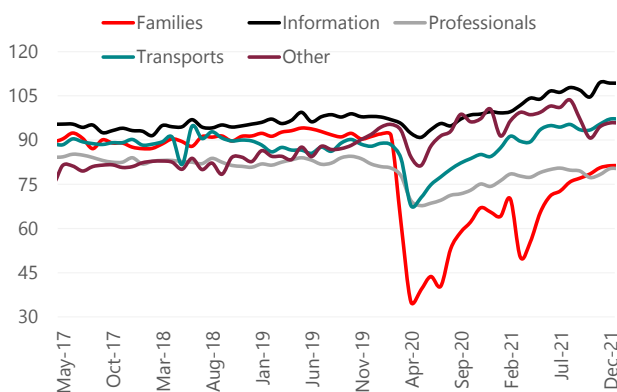
Sources: IBGE, Santander.

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



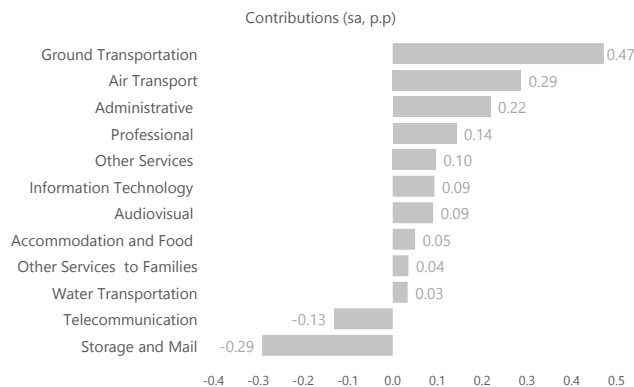
Sources: IBGE, Santander.

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.

² Santander Brazil Economic Activity - "Chartbook – Maintaining the Main Growth Drivers for 2022" – February 1, 2022 – Available on: <https://bit.ly/Std-chart-econact-feb22>

Santander Brazil Economic Activity - "Special Report – Resilience Factors for 2022 GDP Growth" – January 14, 2022 – Available on: <https://bit.ly/Std-special-011422>



Figure 4 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Total Services	0.92	4.01	-2.75	0.79	1.91	1.98	0.86	0.64	-0.64	-1.61	2.72	1.38
Families	-2.29	9.20	-28.14	10.14	18.05	8.56	2.39	4.26	1.72	1.82	2.68	0.87
Accommodation and Food	-2.56	9.44	-29.70	11.07	19.02	9.74	2.08	4.62	2.08	1.53	2.63	0.73
Other Services to Families	1.84	2.96	-5.42	1.85	9.11	2.58	1.04	-0.29	0.29	1.32	1.30	2.71
Information	-0.40	0.40	2.21	2.36	-0.29	2.60	-0.38	1.51	-0.83	-2.15	4.68	-0.18
Technology	0.76	0.09	1.89	2.59	-0.90	1.64	0.45	1.52	-1.05	-1.77	5.42	-0.94
Telecommunications	1.84	-1.58	-0.11	0.69	-0.11	-0.46	0.80	0.23	-1.59	-2.30	0.94	-0.70
Information	0.13	2.17	4.31	4.94	-0.71	1.54	1.87	2.29	0.22	-0.89	10.59	1.27
Audiovisual and News	-13.18	5.45	5.63	1.19	1.90	18.97	-12.08	2.06	0.81	-1.87	1.36	1.88
Professional	2.56	3.02	-0.89	-0.51	2.07	1.27	0.63	-0.87	-0.38	-2.77	1.29	2.55
Technical and Professional	3.15	3.19	-0.67	0.27	2.97	1.05	5.06	-6.30	3.03	-4.60	-0.94	2.03
Administrative	1.17	4.39	-1.61	-1.38	2.68	1.12	-0.49	0.25	-1.60	-1.63	1.91	1.37
Transportation	3.44	4.58	-1.86	-0.22	4.59	1.50	-0.53	0.95	-1.89	-0.11	2.14	1.78
Ground Transportation	4.92	6.13	-2.33	-1.01	3.94	0.86	0.12	-0.48	-0.73	1.23	1.09	2.63
Water Transportation	3.55	2.02	1.32	6.90	-3.71	0.19	4.79	-2.47	0.12	1.73	1.70	1.97
Air Transport	14.36	-5.32	-17.32	-22.26	75.73	14.50	-4.95	7.36	-9.10	-5.85	11.74	10.63
Storage and Mail	1.15	5.40	-2.61	0.00	4.62	-3.00	-0.36	1.55	0.18	-1.26	1.45	-3.32
Other Services	-9.05	5.58	3.01	-0.80	0.81	2.11	-0.39	2.47	-6.27	-6.59	4.19	1.38

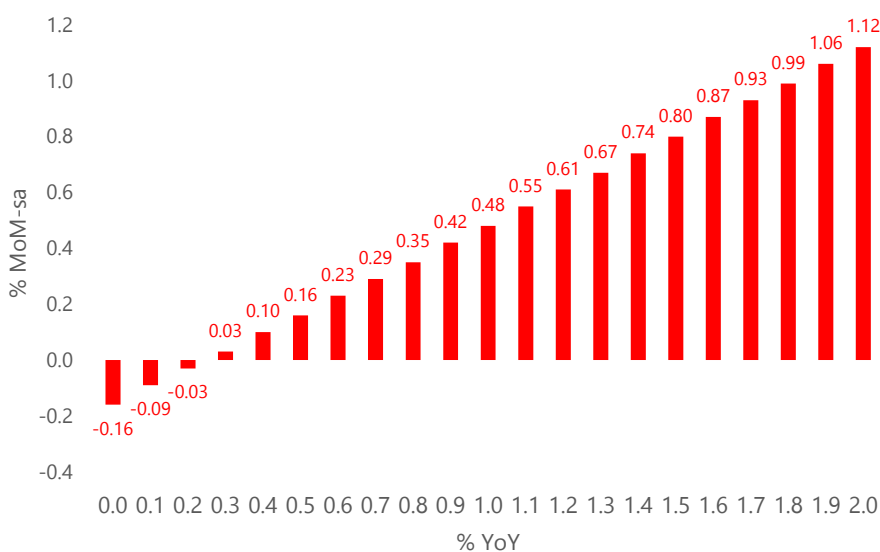
Sources: IBGE, Santander.

Figure 5 – “Heatmap” Showing Contribution by Activities

By Subsector (contribution, sa p.p)												
	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21
Total Services	0.92	4.01	-2.75	0.79	1.91	1.98	0.86	0.64	-0.64	-1.61	2.72	1.38
Accommodation and Food	-0.17	0.64	-2.02	0.75	1.29	0.66	0.14	0.31	0.14	0.10	0.18	0.05
Other Services to Families	0.02	0.04	-0.07	0.02	0.12	0.03	0.01	0.00	0.00	0.02	0.02	0.04
Telecommunications	0.34	-0.30	-0.02	0.13	-0.02	-0.09	0.15	0.04	-0.30	-0.43	0.18	-0.13
Information	0.01	0.16	0.31	0.36	-0.05	0.11	0.14	0.17	0.02	-0.07	0.77	0.09
Audiovisual and News	-0.63	0.26	0.27	0.06	0.09	0.91	-0.58	0.10	0.04	-0.09	0.07	0.09
Technical and Professional	0.22	0.22	-0.05	0.02	0.21	0.07	0.35	-0.44	0.21	-0.32	-0.07	0.14
Administrative	0.19	0.70	-0.26	-0.22	0.43	0.18	-0.08	0.04	-0.25	-0.26	0.30	0.22
Ground Transportation	0.88	1.10	-0.42	-0.18	0.71	0.15	0.02	-0.09	-0.13	0.22	0.20	0.47
Water Transportation	0.06	0.03	0.02	0.12	-0.06	0.00	0.08	-0.04	0.00	0.03	0.32	0.03
Air Transport	0.39	-0.14	-0.47	-0.60	2.04	0.39	-0.13	0.20	-0.25	-0.16	0.03	0.29
Storage and Mail	0.10	0.48	-0.23	0.00	0.41	-0.26	-0.03	0.14	0.02	-0.11	0.13	-0.29
Other Services	-0.63	0.39	0.21	-0.06	0.06	0.15	-0.03	0.17	-0.44	-0.46	0.29	0.10

Sources: IBGE, Santander.

Figure 6 – Deseasonalization Grid (IBC-Br) for December 2021



Sources: IBGE, Santander



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