

STRONG RESULT FOR SERVICES IN DECEMBER

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- **Services output printed a strong December result of +3.1% MoM-sa (+6.0% YoY), above market consensus of +1.3% MoM-sa (+4.0% YoY) and our estimate of +0.3% MoM-sa (+3.0% YoY).** We calculate a high carryover of 1.9% QoQ-sa to 1Q23 (+1.0% in 4Q22).
- **Zooming in on the details, mostly favorable signals across activities.** Services to families increased 2.4% MoM-sa (+9.2% YoY), after two declines in a row. Information services shrank 2.2% MoM-sa, the second consecutive drop, partially offsetting the strong growth seen in 3Q22 (owing to tax cuts in telecommunication). Professional services increased 3.0% MoM-sa, while other services (a highly volatile subsector that includes activities such as brokerage, financial services, etc.) jumped 10.3% MoM-sa. Transportation increased 2.5% MoM-sa, stemming mainly from rebounds in ground and air transport. All in all, the diffusion index reached 67% (vs. 58% in November), with 8 of 12 activities posting growth at the margin.
- **January's available data point to mixed signals.** According to FGV, services confidence shrank 2.9% MoM-sa (to 89.5 points from 93.7, below the 100 points neutral mark), while services PMI retreated to 50.7 points (from 51.0, still slightly above the 50 points neutral mark). However, our proprietary index IGet rose 5.3% MoM-sa, fully recovering from three declines in a row. Services activities played a major role in cushioning the initial impacts of restrictive financial conditions that began to be felt throughout 3Q22 (hitting mainly goods-related activities), owing mainly to subsectors benefiting from tax cuts and to mobility normalization (in the wake of the economy's reopening consolidation). Looking ahead, we do not expect these elements to be repeated, and we believe financial conditions will have a greater impact on services provided to firms in the coming months.
- **Our IBC-Br tracking for December stands at +0.3% MoM-sa.** If our result is on the mark, it would be the first increase after four declines in a row. We forecast GDP growth in 2023 at +0.8%, with a significant slowdown in domestic demand and in cyclical supply components, stemming mainly from the expected global recession and the tight BCB policy, but we also expect strong growth for non-cyclical farm output, reflecting an all-time high forecast for the grain harvest.

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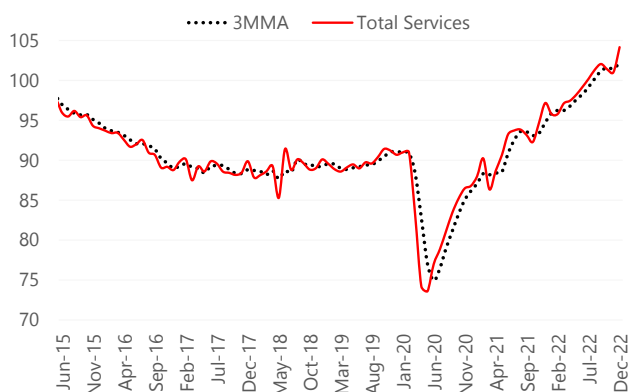


Figure 1 – Services Sector Details

Services Breakdown												
	Weights	% MoM			% YoY			% QoQ			Feb-20 %	
		Oct-22	Nov-22	Dec-22	Oct-22	Nov-22	Dec-22	Jun-22	Sep-22	Dec-22	Dec-22	
Total Services	100%	-0.7	-0.4	3.1	9.7	6.5	6.0	2.1	3.0	1.0	14.4	
Families	8%	-1.2	-0.6	2.4	11.4	7.8	9.2	6.0	2.3	0.1	-4.3	
Accommodation and Food	7%	-1.6	-0.5	2.7	10.5	6.6	8.8	5.8	2.3	-0.7	-5.8	
Other Services to Families	1%	-0.7	0.8	0.8	17.0	15.1	12.0	4.0	3.0	1.6	-3.0	
Information	31%	1.2	-0.8	-2.2	8.4	3.4	0.0	0.0	2.4	1.4	14.6	
Technology	26%	1.4	-1.0	-3.4	10.0	3.3	-0.3	2.5	2.8	1.3	13.9	
Telecommunication	19%	-2.8	-0.7	-0.7	-4.9	-6.4	-6.6	-0.6	0.0	-1.9	-11.2	
Information Technology	7%	7.5	-4.7	-7.9	28.8	14.0	5.7	4.7	5.8	3.4	52.3	
Audiovisual	5%	-3.4	8.1	-0.9	-4.4	4.6	1.7	0.7	0.1	1.7	-1.9	
Professional	23%	-0.3	0.6	3.0	8.3	7.1	7.4	2.3	0.4	1.8	10.6	
Professional	7%	-3.6	0.3	2.6	8.5	7.4	7.9	2.4	2.0	-0.1	25.3	
Administrative	16%	0.6	0.7	2.7	8.2	7.0	7.3	2.2	0.1	1.8	4.0	
Transportation	31%	-1.5	0.7	2.5	12.3	10.6	10.2	1.8	3.9	-0.1	24.6	
Ground Transportation	18%	-1.1	-0.4	3.3	18.5	15.7	15.2	5.8	4.1	-0.4	24.3	
Water Transportation	2%	-0.4	4.1	-2.3	9.2	14.2	6.6	3.7	5.8	-0.2	32.4	
Air Transport	3%	-9.8	3.3	7.6	8.8	3.8	4.4	-5.2	-3.7	-3.8	2.5	
Storage and Mail	9%	-0.8	0.3	0.8	4.2	3.4	4.8	-4.1	5.0	0.9	19.1	
Other Services	7%	3.1	-3.3	10.3	6.4	0.3	10.1	0.1	0.3	4.8	11.5	
Touristic Activities	-	-2.5	0.0	4.1	16.5	11.9	12.6	6.8	1.5	-0.3	1.5	

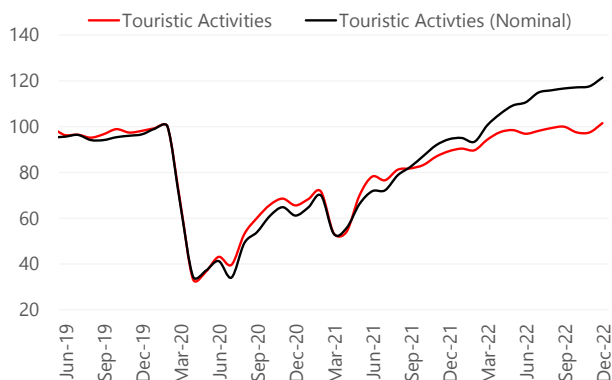
Sources: IBGE, Santander.

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



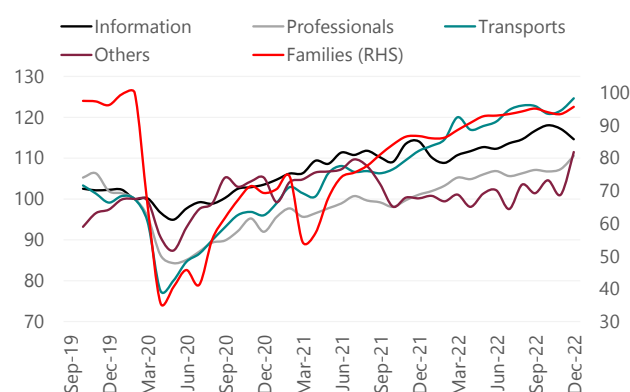
Sources: IBGE, Santander.

Figure 4 – Selected Segments (sa, Feb/20=100)



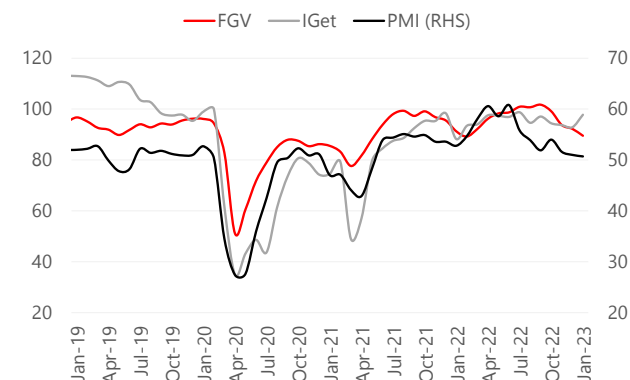
Sources: IBGE, Santander.

Figure 3 – Services Breakdown* (sa, Feb/20=100)



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

Figure 5 – Services Confidence and IGet (sa)*



Sources: IBGE, FGV, Markit, Santander. *Neutral level: 100 points for FGV and 50 points for PMI.



For details on Santander's economic activity outlook, please refer to our most recent reports¹.

Figure 6 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Total Services	-1.41	-0.01	1.40	0.34	0.77	0.99	1.05	1.13	0.71	-0.65	-0.37	3.12
Families	-0.79	0.24	2.69	2.49	2.21	0.22	0.51	0.86	0.91	-1.18	-0.58	2.37
Accommodation and Food	-0.77	1.18	1.53	4.27	0.60	-0.98	1.85	1.44	-0.10	-1.59	-0.52	2.66
Other Services to Families	0.06	1.46	9.37	-3.06	-0.42	3.04	2.31	-3.91	4.34	-0.67	0.84	0.78
Information	-3.43	-1.22	1.75	0.87	0.90	-0.36	1.20	0.85	1.82	1.16	-0.76	-2.15
Technology	-3.50	-2.48	3.18	0.41	1.56	-0.67	0.72	2.23	1.50	1.37	-1.03	-3.35
Telecommunications	-1.59	-2.65	-0.40	0.08	0.58	0.20	-1.92	1.53	1.71	-2.83	-0.72	-0.65
Information	-1.08	0.84	3.37	1.86	2.94	-4.99	6.73	1.21	2.33	7.46	-4.70	-7.93
Audiovisual and News	-3.69	-1.29	5.07	-3.19	1.34	0.58	0.26	-2.15	1.38	-3.43	8.08	-0.87
Professional	0.87	1.30	1.92	-0.36	1.11	0.76	-1.15	0.64	0.78	-0.35	0.56	3.02
Technical and Professional	2.34	-2.21	5.59	-2.33	1.29	2.91	-2.35	1.62	2.97	-3.57	0.32	2.56
Administrative	0.70	2.52	-0.55	1.04	1.04	0.01	-0.02	-0.21	-0.14	0.57	0.73	2.67
Transportation	1.12	1.39	4.72	-2.54	0.77	0.92	2.40	0.87	-0.09	-1.55	0.66	2.45
Ground Transportation	2.29	2.95	2.26	0.80	2.28	2.54	1.10	1.07	-0.70	-1.13	-0.42	3.35
Water Transportation	-0.86	0.18	-5.65	4.37	4.08	1.50	3.80	0.93	-3.07	-0.38	4.12	-2.26
Air Transport	7.60	-8.79	31.01	-7.12	-13.21	-9.43	7.15	0.41	2.49	-9.84	3.35	7.58
Storage and Mail	1.39	1.71	3.08	-5.94	0.23	-2.26	5.37	0.90	1.37	-0.77	0.34	0.81
Other Services	0.60	-1.33	1.65	-2.96	3.31	0.79	-4.50	6.14	-2.04	3.11	-3.34	10.30

Sources: IBGE, Santander.

Figure 7 – “Heatmap” Showing Services Contribution by Subsector

By Subsector (contribution, sa p.p)												
	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Total Services	-1.41	-0.01	1.40	0.34	0.77	0.99	1.05	1.13	0.71	-0.65	-0.37	3.12
Accommodation and Food	-0.05	0.08	0.10	0.29	0.04	-0.07	0.13	0.10	-0.01	-0.11	-0.04	0.18
Other Services to Families	0.00	0.02	0.12	-0.04	-0.01	0.04	0.03	-0.05	0.06	-0.01	0.01	0.01
Telecommunications	-0.30	-0.50	-0.07	0.02	0.11	0.04	-0.36	0.29	0.32	-0.53	-0.14	-0.12
Information	-0.08	0.06	0.25	0.14	0.21	-0.36	0.49	0.09	0.17	0.54	-0.34	-0.58
Audiovisual and News	-0.18	-0.06	0.24	-0.15	0.06	0.03	0.01	-0.10	0.07	-0.16	0.39	-0.04
Technical and Professional	0.16	-0.15	0.39	-0.16	0.09	0.20	-0.16	0.11	0.21	-0.25	0.02	0.18
Administrative	0.11	0.40	-0.09	0.16	0.16	0.00	0.00	-0.03	-0.02	0.09	0.12	0.42
Ground Transportation	0.41	0.53	0.40	0.14	0.41	0.46	0.20	0.19	-0.13	-0.20	-0.07	0.60
Water Transportation	-0.01	0.00	-0.10	0.07	0.07	0.03	0.06	0.02	-0.05	-0.01	0.07	-0.04
Air Transport	0.21	-0.24	0.84	-0.19	-0.36	-0.25	0.19	0.01	0.07	-0.27	0.09	0.20
Storage and Mail	0.12	0.15	0.27	-0.52	0.02	-0.20	0.47	0.08	0.12	-0.07	0.03	0.07
Other Services	0.04	-0.09	0.12	-0.21	0.23	0.06	-0.31	0.43	-0.14	0.22	-0.23	0.72

Sources: IBGE, Santander.

¹ Santander Brazil Special Report: “Forecasting Probability of Recession in Brazil with Financial Conditions” – January 4, 2023 – Available on: <https://bit.ly/Std-special-010423>

Santander Brazil Economic Activity: “Financial Conditions Remain Restrictive, Despite Relief at the Margin” – January 17, 2023 – Available on: <https://bit.ly/Std-FCL-jan23>

Santander Brazil Economic Activity: “Broad Activity Remains in Negative Territory” – January 19, 2023 – Available on: <https://bit.ly/Std-SAI-nov22>

Santander Brazil Special Report: “A Breakdown of Brazilian Financial Conditions” – January 19, 2023 – Available on: <https://bit.ly/Std-special-011923>



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