

SERVICES GROWTH DECELERATES IN JUNE

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- **Services output increased 0.2% MoM-sa (+4.1% YoY) in June, below both market consensus of 0.5% MoM-sa (4.2% YoY) and our estimate of 0.7% MoM-sa (4.6% YoY).** This number represents a deceleration from May's increase (1.4% MoM-sa). It also implies a 0.5% QoQ-sa result for 2Q23 and leaves a 0.6% QoQ-sa carryover for 3Q23.
- **Zooming in on the details, mixed signals across activities.** Services to families posted another positive contribution to the result, increasing 1.9% MoM-sa (+5.8% YoY), the third expansion in a row. Information services increased 0.5% MoM-sa. **Professional services increased 0.8% MoM-sa following two negative prints and was the main positive contributor to the result. On the negative side, we highlight transportation, which fell 0.3% MoM-sa, a reversal from May's 2.2% MoM-sa increase.** Other services (a highly volatile subsector that includes activities such as brokerage, financial services, etc.) decreased 0.4% MoM-sa. All in all, the diffusion index reached 41% (from 75% in May), with 5 of 12 activities posting growth at the margin.
- **July available data provide mixed signals.** According to FGV, services confidence increased 1.4% MoM-sa in July (to 98.0, below the 100 points neutral mark), while services PMI reached 50.2 points (from 53.3 in June, slightly above the 50 points neutral mark). Our proprietary IGet index fell 14.7% MoM-sa in July, though we acknowledge the possibility of noise in July's data owing to the school recess. 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 expect financial conditions to have a greater impact on services provided to firms in the coming months.
- **Our IBC-Br tracking for June is currently at 0.5% MoM-sa.** Our 2Q23 GDP growth tracking is currently at 0.0% QoQ-sa. We continue to see signs of deceleration for broad activity ahead, as more cyclical segments indicate an ongoing slowing trend owing to highly restrictive financial conditions. In addition, we expect the positive impact of the record summer crops to be limited to 1Q23 and the beginning of 2Q23.

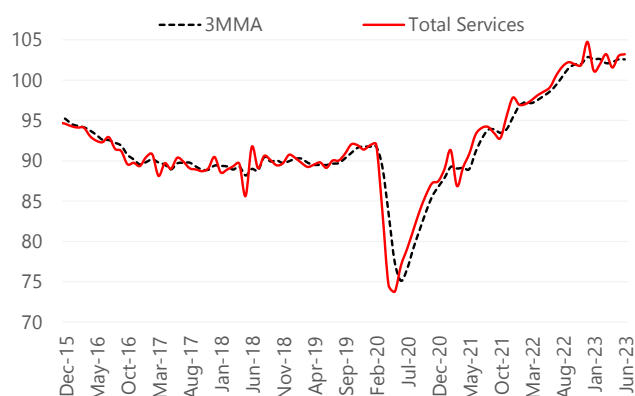


Figure 1 – Services Sector Details

| | Services Breakdown | | | | | | | | |
|----------------------------|--------------------|-------------|-------------|-------------|------------|-------------|-------------|-------------|-------------|
| | % MoM | | | % YoY | | | % QoQ | | |
| | Apr-23 | May-23 | Jun-23 | Apr-23 | May-23 | Jun-23 | Dec-22 | Mar-23 | Jun-23 |
| Total Services | -1.6 | 1.4 | 0.2 | 2.8 | 5.0 | 4.1 | 1.3 | -0.7 | 0.5 |
| Families | 1.1 | 1.0 | 1.9 | 2.8 | 2.4 | 5.8 | -0.3 | 0.2 | 1.4 |
| Accommodation and Food | 2.6 | 0.0 | 1.5 | 3.4 | 2.3 | 5.9 | -0.9 | 0.9 | 1.1 |
| Other Services to Families | -1.1 | 0.5 | 4.4 | -0.8 | 3.0 | 5.6 | 1.0 | -2.8 | 1.0 |
| Information | -1.0 | 0.8 | 0.5 | 4.0 | 4.9 | 5.6 | 1.7 | -0.3 | 1.0 |
| Technology | -1.2 | 1.4 | 0.6 | 4.4 | 4.7 | 6.2 | 1.5 | -0.3 | 1.1 |
| Audiovisual | -4.6 | 4.4 | -3.3 | 0.9 | 7.4 | 1.3 | 1.8 | 1.1 | 0.3 |
| Professional | -0.5 | -0.7 | 0.8 | 4.5 | 3.8 | 3.5 | 1.6 | 0.3 | 1.3 |
| Professional | 6.6 | -8.6 | 3.3 | 12.4 | 1.6 | 2.8 | -0.1 | 1.6 | 1.9 |
| Administrative | -2.2 | 2.6 | -0.5 | 0.9 | 5.6 | 3.8 | 1.8 | 1.0 | 0.5 |
| Transportation | -4.3 | 2.2 | -0.3 | 2.0 | 7.2 | 4.7 | -0.5 | 0.8 | 0.8 |
| Ground Transportation | -3.4 | 1.9 | 0.7 | 6.8 | 9.4 | 6.9 | -0.1 | 2.4 | 1.2 |
| Water Transportation | -2.8 | 10.0 | -7.5 | 8.5 | 15.7 | 4.2 | -0.1 | 2.3 | 1.7 |
| Air Transport | -2.1 | 10.2 | -4.1 | -16.9 | 14.2 | 13.5 | -4.1 | 4.7 | 7.1 |
| Storage and Mail | -6.8 | -0.7 | -2.3 | -2.2 | -1.0 | -2.9 | 0.3 | -3.9 | -2.4 |
| Other Services | -1.0 | 0.8 | -0.4 | -0.7 | 0.7 | -1.4 | 4.7 | -3.7 | -0.8 |
| Sewage | - | - | - | 2.2 | 6.1 | 2.3 | - | - | - |
| Financial | - | - | - | -8.3 | -7.5 | -5.7 | - | - | - |
| Rents | - | - | - | 12.8 | 12.0 | 15.0 | - | - | - |
| Other | - | - | - | 6.8 | 0.4 | 6.6 | - | - | - |
| Touristic Activities | 0.6 | 3.7 | -0.4 | 1.4 | 8.4 | 9.7 | -0.3 | 2.5 | 2.4 |

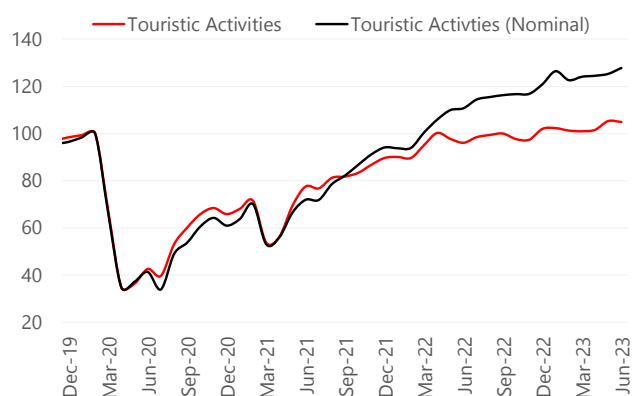
Sources: IBGE, Santander.

Figure 2 – Total Services (sa, average 2022= 100)



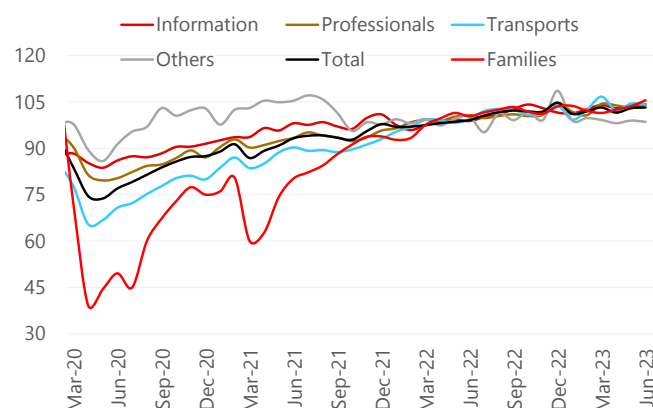
Sources: IBGE, Santander.

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



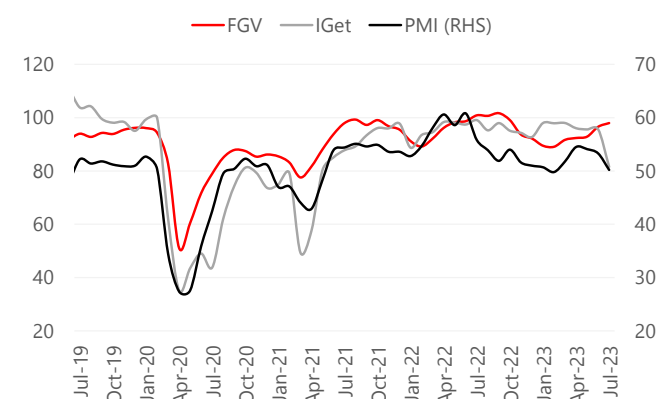
Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

Figure 5 – Services Confidence and IGet (sa)*



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



Figure 6 – “Heatmap” Showing Services Output by Subsector

| | | By Subsector (% MoM sa) | | | | | | | | | | | |
|----------------------------|--|-------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | Jul-22 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 |
| Total Services | | 1.48 | 1.08 | 0.51 | -0.26 | -0.06 | 2.79 | -3.42 | 0.80 | 1.23 | -1.61 | 1.41 | 0.22 |
| Families | | 1.24 | 0.87 | 0.85 | -1.47 | -0.65 | 2.29 | 0.21 | -1.50 | -0.73 | 1.08 | 1.01 | 1.92 |
| Accommodation and Food | | 2.14 | 1.68 | -0.12 | -1.79 | -0.78 | 2.89 | 0.61 | -0.68 | -2.54 | 2.60 | -0.04 | 1.53 |
| Other Services to Families | | 3.93 | -3.94 | 4.19 | -0.60 | 0.59 | -0.40 | 0.24 | -6.32 | 3.90 | -1.07 | 0.48 | 4.36 |
| Information | | 1.25 | 0.80 | 1.83 | 1.43 | -1.14 | -1.39 | -0.29 | 1.34 | 1.35 | -1.00 | 0.81 | 0.46 |
| Technology | | 0.78 | 2.22 | 1.50 | 1.50 | -1.10 | -2.88 | 1.25 | 0.48 | 1.52 | -1.15 | 1.36 | 0.63 |
| Audiovisual | | -0.09 | -2.19 | 1.33 | -3.02 | 7.93 | -1.30 | -3.12 | 1.91 | 4.05 | -4.63 | 4.45 | -3.34 |
| Professional | | -0.98 | 0.71 | 0.52 | -0.55 | 0.36 | 3.90 | -2.75 | -1.13 | 3.66 | -0.49 | -0.71 | 0.81 |
| Professional | | -2.28 | 1.75 | 3.07 | -3.63 | 0.33 | 2.51 | -0.02 | -0.72 | 0.98 | 6.57 | -8.59 | 3.26 |
| Administrative | | 0.01 | -0.31 | -0.22 | 0.69 | 0.42 | 3.31 | -1.83 | -0.17 | 1.98 | -2.20 | 2.55 | -0.53 |
| Transportation | | 2.62 | 0.71 | -0.29 | -1.62 | 0.26 | 2.78 | -4.47 | 3.17 | 4.26 | -4.28 | 2.24 | -0.29 |
| Ground Transportation | | 1.67 | 0.89 | -0.89 | -0.49 | -0.09 | 2.26 | -1.37 | 1.53 | 4.00 | -3.36 | 1.88 | 0.70 |
| Water Transportation | | 2.69 | 0.88 | -2.69 | -0.59 | 4.14 | -1.97 | 2.26 | -0.59 | 1.36 | -2.84 | 9.98 | -7.51 |
| Air Transport | | 3.65 | 0.64 | 2.37 | -9.99 | 3.21 | 7.50 | -5.82 | 5.81 | 3.10 | -2.11 | 10.22 | -4.07 |
| Storage and Mail | | 4.63 | 0.50 | 1.13 | -0.88 | 0.06 | 0.59 | -9.67 | 5.42 | 6.61 | -6.84 | -0.74 | -2.32 |
| Other Services | | -5.10 | 6.45 | -2.20 | 2.68 | -2.61 | 9.58 | -8.82 | 0.76 | -0.61 | -1.04 | 0.84 | -0.39 |

Sources: IBGE, Santander.

Figure 7 – “Heatmap” Showing Services Contribution by Subsector

| | | By Subsector (contribution, sa p.p) | | | | | | | | | | | |
|----------------------------|-----|-------------------------------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | | Jul-22 | Aug-22 | Sep-22 | Oct-22 | Nov-22 | Dec-22 | Jan-23 | Feb-23 | Mar-23 | Apr-23 | May-23 | Jun-23 |
| Families | 8% | 0.10 | 0.07 | 0.07 | -0.12 | -0.05 | 0.19 | 0.02 | -0.12 | -0.06 | 0.09 | 0.08 | 0.16 |
| Accommodation and Food | 7% | 0.15 | 0.12 | -0.01 | -0.13 | -0.05 | 0.20 | 0.04 | -0.05 | -0.18 | 0.18 | 0.00 | 0.11 |
| Other Services to Families | 1% | 0.05 | -0.05 | 0.05 | -0.01 | 0.01 | 0.00 | 0.00 | -0.08 | 0.05 | -0.01 | 0.01 | 0.05 |
| Information | 23% | 0.29 | 0.19 | 0.43 | 0.33 | -0.27 | -0.32 | -0.07 | 0.31 | 0.32 | -0.23 | 0.19 | 0.11 |
| Technology | 21% | 0.16 | 0.46 | 0.31 | 0.31 | -0.23 | -0.60 | 0.26 | 0.10 | 0.31 | -0.24 | 0.28 | 0.13 |
| Audiovisual | 3% | 0.00 | -0.06 | 0.04 | -0.08 | 0.22 | -0.04 | -0.09 | 0.05 | 0.11 | -0.13 | 0.12 | -0.09 |
| Professional | 22% | -0.21 | 0.15 | 0.11 | -0.12 | 0.08 | 0.84 | -0.60 | -0.24 | 0.79 | -0.11 | -0.15 | 0.18 |
| Professional | 8% | -0.19 | 0.15 | 0.26 | -0.30 | 0.03 | 0.21 | 0.00 | -0.06 | 0.08 | 0.55 | -0.72 | 0.27 |
| Administrative | 13% | 0.00 | -0.04 | -0.03 | 0.09 | 0.06 | 0.44 | -0.24 | -0.02 | 0.26 | -0.29 | 0.34 | -0.07 |
| Transportation | 36% | 0.95 | 0.26 | -0.11 | -0.59 | 0.09 | 1.01 | -1.63 | 1.15 | 1.55 | -1.56 | 0.82 | -0.10 |
| Ground Transportation | 21% | 0.35 | 0.19 | -0.18 | -0.10 | -0.02 | 0.47 | -0.29 | 0.32 | 0.83 | -0.70 | 0.39 | 0.14 |
| Water Transportation | 2% | 0.05 | 0.02 | -0.05 | -0.01 | 0.08 | -0.04 | 0.04 | -0.01 | 0.03 | -0.05 | 0.19 | -0.14 |
| Air Transport | 3% | 0.12 | 0.02 | 0.08 | -0.32 | 0.10 | 0.24 | -0.18 | 0.18 | 0.10 | -0.07 | 0.32 | -0.13 |
| Storage and Mail | 11% | 0.49 | 0.05 | 0.12 | -0.09 | 0.01 | 0.06 | -1.02 | 0.57 | 0.70 | -0.72 | -0.08 | -0.25 |
| Other Services | 10% | -0.52 | 0.66 | -0.23 | 0.27 | -0.27 | 0.98 | -0.90 | 0.08 | -0.06 | -0.11 | 0.09 | -0.04 |

Sources: IBGE, Santander.



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