

HIGHEST READING FOR SERVICES SINCE 2015

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- **Services output inched up 0.7% MoM-sa in June, between our estimate (+1.0% MoM-sa) and market consensus (+0.4% MoM-sa).** Compared to the same month in 2021, services output rose 6.3% YoY, also between our expectation (+6.8% YoY) and market consensus (+6.0% YoY). June's figure marked the second gain in a row and placed the index 7.5% above the pre-pandemic benchmark (February 2020). Moreover, the headline index reached its highest reading since March 2015.
- **Zooming in on the details, a healthy breakdown.** Services to families continued to strengthen (+0.6% MoM-sa), marking a streak of four consecutive gains, as transportation (+0.6% MoM-sa) and professional and administrative services (+0.7% MoM-sa). Conversely, information services (-0.2% MoM-sa) stayed virtually flat.
- **The diffusion index decelerated and reached 67% (vs. 83% in May), with eight out of twelve activities expanding at the margin.** Ground transportation (+2.4%) and professional services (+2.2%) were the highlights, at the same time information technology (-4.0%) and air transportation (-9.9%) disappointed. Additionally, the touristic activities index (composed of several segments of services related to touristic activities) shrank 1.8% MoM-sa, breaking a string of three consecutive gains and remaining at levels 2.8% below the pre-pandemic benchmark.
- **June's result marked a 1.1% QoQ-sa gain in 2Q22 (+1.6% in 1Q22), suggesting a sequential contribution from cyclical services to overall activity in the period, on the heels of the economy's reopening process consolidation.** We calculate a 0.6% QoQ-sa statistical carryover led to 3Q22. We believe domestic activity will turn sour in 2H22 once the effects of a tighter monetary policy start to kick in, but the additional recent fiscal stimuli may partially support demand in the period, in our view. Our tracking for 2Q22 GDP growth was maintained at +1.0% QoQ-sa, which implies (slight) upside risks to our 2022 growth forecast of +1.9%. For 2023, we expect a 0.6% GDP contraction.

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 %	
		Apr-22	May-22	Jun-22	Apr-22	May-22	Jun-22	Dec-21	Mar-22	Jun-22	Jun-22	
Total Services	100%	-0.2	0.4	0.7	9.4	9.1	6.3	1.5	1.6	1.1	7.5	
Families	8%	2.8	2.2	0.6	62.0	39.7	28.2	8.4	1.8	6.8	-6.1	
Accommodation and Food	7%	4.6	1.1	-0.8	67.8	42.5	28.9	8.6	1.6	6.4	-8.5	
Other Services to Families	1%	-3.6	-0.3	3.0	34.7	25.0	24.5	5.8	6.5	3.8	-6.9	
Information	31%	0.8	0.9	-0.2	1.6	4.0	0.9	1.7	-2.9	1.9	12.1	
Technology	26%	0.3	1.6	-0.8	1.3	4.1	1.6	1.5	-3.0	2.3	11.9	
Telecommunication	19%	0.4	0.8	0.4	-8.4	-7.4	-6.1	-3.0	-3.5	-0.4	-8.3	
Information Technology	7%	2.5	2.5	-4.0	14.8	20.2	11.3	5.6	0.6	4.8	47.0	
Audiovisual	5%	-3.1	1.4	0.8	4.0	3.3	-4.8	1.3	-1.8	0.9	-4.3	
Professional	23%	-0.5	1.1	0.7	7.8	9.7	8.0	-1.0	5.3	2.4	7.1	
Professional	7%	-2.4	1.3	2.2	4.8	6.7	8.3	-3.9	4.5	2.0	22.7	
Administrative	16%	1.2	1.1	0.1	9.1	10.9	7.9	0.5	4.8	2.4	0.7	
Transportation	31%	-2.6	0.5	0.6	15.6	11.9	9.8	1.7	6.8	0.9	16.9	
Ground Transportation	18%	0.3	2.3	2.4	17.9	19.6	20.8	3.2	7.5	5.4	20.5	
Water Transportation	2%	5.1	3.8	1.4	3.1	12.4	14.6	2.5	0.2	3.7	28.0	
Air Transport	3%	-7.2	-12.4	-9.9	159.4	30.4	-3.2	1.5	25.0	-4.6	-6.2	
Storage and Mail	9%	-6.0	0.0	-2.4	-0.5	-3.0	-4.4	-0.6	2.4	-4.5	9.2	
Other Services	7%	-3.4	3.7	0.8	-9.2	-3.9	-4.7	-7.2	0.9	-0.1	2.0	
Touristic Activities	-	3.3	1.1	-1.8	86.1	43.6	25.9	7.5	5.9	7.0	-2.8	

Sources: IBGE, Santander.

The services output marked a new positive print in June. The headline index inched up 0.7% MoM-sa in June, between our estimate (+1.0% MoM-sa) and market consensus (+0.4% MoM-sa), and in interannual terms, services output rose 6.3% YoY, also between our expectation (+6.8% YoY) and market consensus (+6.0% YoY). June's figure marked the second gain in a row and placed the index not only 7.5% above the pre-pandemic benchmark (February 2020) but at the highest reading since March 2015.

Zooming in on the details, a healthy breakdown and widespread growth. Services to families continued to strengthen (+0.6% MoM-sa), marking a healthy streak of four consecutive gains, while in the YoY metric, the index decelerated to +28.2% YoY, slightly above the 25.4% YoY pointed by our proprietary indicator (IGet). Moreover, professional and administrative services (+0.7% MoM-sa), and transportation (+0.6% MoM-sa) contributed positively, as other services (+0.8% MoM-sa), a high volatile component. The only weak figure stemmed from information services (-0.2% MoM-sa), posting a virtually flat print after three consecutive gains. In comparison with the pre-pandemic benchmark, only services to families remains below the benchmark (down by 6.1%), at the same time information services (up by 12.1%), transportation services (up by 16.9%) and professional services (up by 7.1%) have far surpassed this mark.

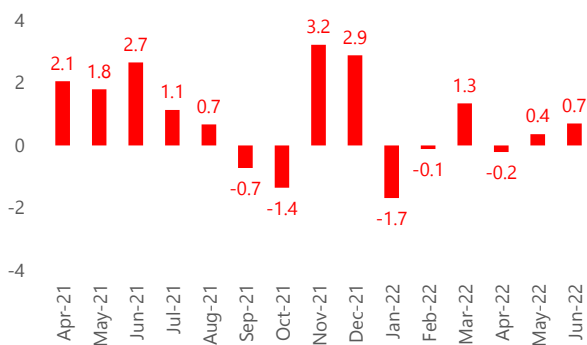
The diffusion index decelerated and reached 67% (vs. 83% in May), with eight out of twelve activities expanding at the margin. Ground transportation (+2.4%) and professional services (+2.2%) were the highlights, at the same time information technology (-4.0%) and air transportation (-9.9%) disappointed. Additionally, the touristic activities index (composed of several segments of services related to touristic activities) shrank 1.8% MoM-sa, breaking a string of three consecutive gains and remaining at levels 2.8% below the pre-pandemic benchmark.

June's result marked a 1.1% QoQ-sa gain in 2Q22 (+1.6% in 1Q22), suggesting a sequential contribution from cyclical services to overall activity in the period, on the heels of the economy's reopening process consolidation. We calculate a 0.6% QoQ-sa statistical carryover led to 3Q22. We believe domestic activity will turn sour in 2H22 once the effects of a tighter monetary policy start to kick in, but the additional recent fiscal stimuli may partially support demand in the period, in our view. Our tracking for 2Q22 GDP growth was maintained at +1.0% QoQ-sa, which implies (slight) upside risks to our 2022 growth forecast of +1.9%. For 2023, we expect a 0.6% GDP contraction. **For details on Santander's economic activity outlook, please refer to our last reports¹.**

¹ Santander Brazil Special Report: "Nowcasting Brazilian GDP with LASSO" – June 14, 2022 – Available on: <https://bit.ly/Std-special-051622>

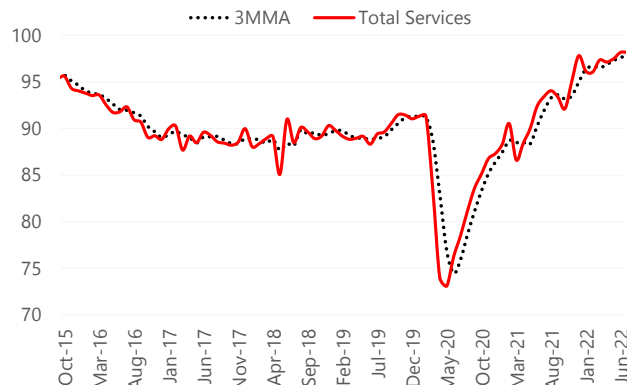


Figure 2.A – Total Services (sa, % MoM)



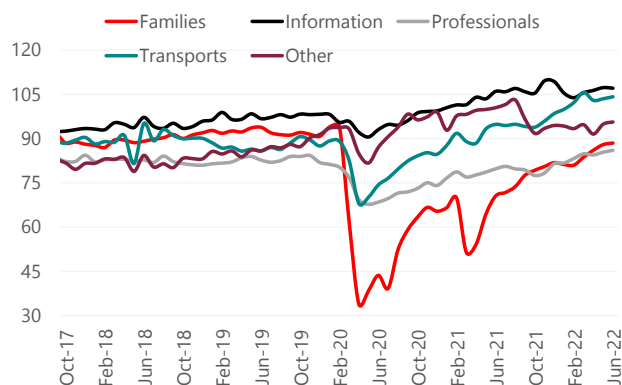
Sources: IBGE, Santander.

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



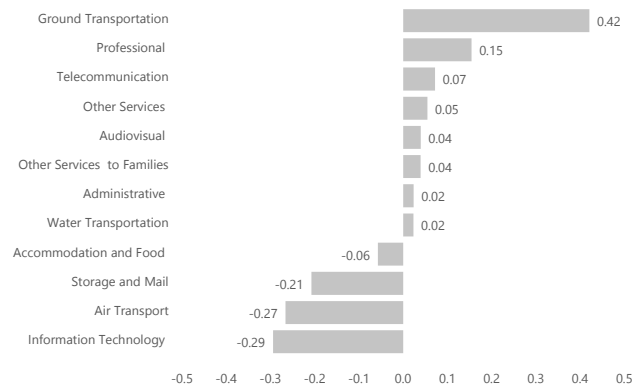
Sources: IBGE, Santander.

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.

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

Santander Brazil Special Report: “Resilience Factors for GDP Growth: What Has Changed Since January” – June 30, 2022 – Available on: <https://bit.ly/Std-special-GDP-062922>

Santander Brazil Economic Activity: “Chartbook: Further improvements in 2022, as 2023 remains challenging” – July 20, 2022 – Available on: <https://bit.ly/Std-chart-econact-jul22>



Figure 4 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)													
	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	
Total Services	2.08	0.94	0.37	-1.11	-1.50	3.23	2.69	-1.74	0.50	1.98	-0.11	0.86	
Families	9.71	1.45	2.86	5.18	2.21	1.70	1.66	-0.82	-0.30	3.40	2.63	1.92	
Accommodation and Food	8.59	5.00	2.52	4.14	2.66	2.49	1.43	-1.03	0.62	1.72	4.31	1.14	
Other Services to Families	2.84	1.38	1.05	0.90	2.61	2.21	1.78	-0.06	1.74	9.56	-3.72	-0.92	
Information	2.27	-0.09	1.07	-1.03	-0.52	3.95	-0.24	-3.53	-1.44	1.65	0.82	0.89	
Technology	1.55	0.50	1.32	-1.02	-1.74	5.56	-0.43	-3.92	-2.29	3.06	0.33	1.46	
Telecommunications	-0.55	0.71	-0.05	-1.57	-2.14	0.66	-0.80	-1.34	-2.57	-0.86	0.35	0.67	
Information	0.20	1.92	2.66	-0.83	1.71	7.52	-3.80	-0.17	0.22	2.92	2.56	2.45	
Audiovisual and News	9.42	-6.79	1.63	0.62	-1.39	1.76	1.61	-4.24	-1.32	5.38	-3.26	1.49	
Professional	1.77	0.90	-1.04	-0.49	-2.38	1.06	4.07	0.23	1.81	1.87	-0.50	1.00	
Technical and Professional	0.76	6.93	-6.44	2.11	-4.61	1.19	2.45	1.98	-2.21	5.41	-2.40	1.08	
Administrative	2.29	-0.69	0.72	-1.43	-1.07	1.91	3.02	0.42	2.68	-0.59	1.17	0.99	
Transportation	1.62	-0.39	0.46	-0.73	-0.30	2.24	2.66	1.47	2.30	3.35	-2.50	0.95	
Ground Transportation	1.14	1.15	-1.32	-0.10	1.37	1.90	2.33	2.34	2.84	2.19	0.68	2.03	
Water Transportation	-0.13	6.39	-2.58	-0.44	2.10	0.81	3.43	-0.39	0.15	-6.40	4.96	4.82	
Air Transport	15.24	-8.94	6.94	-8.20	-6.45	14.00	12.28	7.15	-4.82	17.83	0.09	-6.38	
Storage and Mail	-2.48	-0.99	2.01	-0.06	-1.36	1.15	-1.63	1.21	1.48	2.92	-5.97	0.18	
Other Services	1.22	0.71	1.56	-6.30	-5.16	1.83	1.03	-0.30	-0.91	1.42	-2.98	3.12	

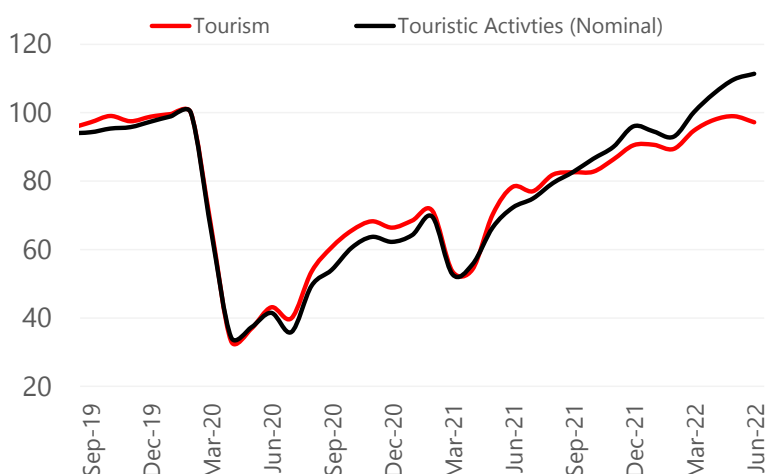
Sources: IBGE, Santander.

Figure 5 – “Heatmap” Showing Contribution by Activities

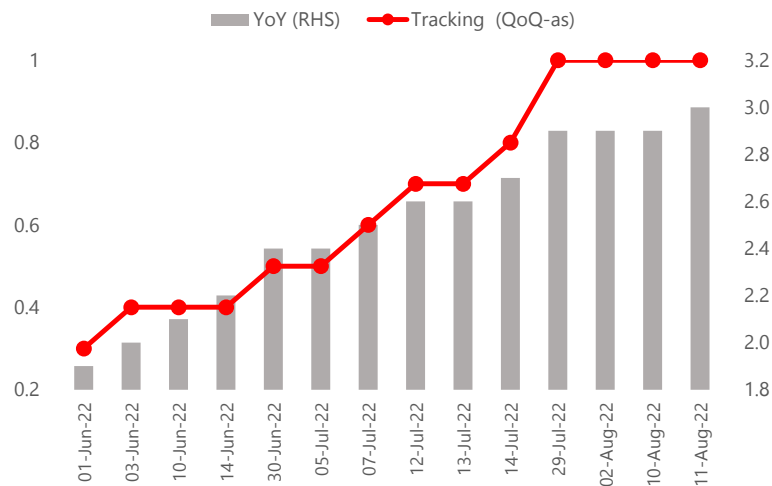
By Subsector (contribution, sa p.p)													
	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	
Total Services	1.13	0.67	-0.72	-1.36	3.22	2.89	-1.69	-0.12	1.34	-0.21	0.36	0.70	
Accommodation and Food	0.32	0.16	0.28	0.19	0.17	0.09	-0.07	0.04	0.11	0.31	0.08	-0.06	
Other Services to Families	0.02	0.01	0.01	0.03	0.03	0.02	0.00	0.02	0.13	-0.05	0.00	0.04	
Telecommunications	0.14	0.01	-0.31	-0.39	0.12	-0.14	-0.25	-0.47	-0.15	0.07	0.15	0.07	
Information	0.06	0.20	-0.04	0.09	0.57	-0.28	-0.02	0.01	0.21	0.18	0.18	-0.29	
Audiovisual and News	-0.33	0.08	0.03	-0.06	0.08	0.08	-0.20	-0.07	0.25	-0.15	0.07	0.04	
Technical and Professional	0.52	-0.45	0.15	-0.32	0.08	0.18	0.14	-0.15	0.39	-0.17	0.09	0.15	
Administrative	-0.08	0.11	-0.23	-0.17	0.30	0.48	0.07	0.45	-0.11	0.19	0.17	0.02	
Ground Transportation	0.29	-0.15	-0.04	0.23	0.40	0.44	0.37	0.56	0.44	0.06	0.41	0.42	
Water Transportation	0.12	-0.04	-0.01	0.04	0.01	0.06	0.00	0.00	-0.11	0.09	0.07	0.02	
Air Transport	-0.29	0.19	-0.24	-0.19	0.37	0.34	0.19	-0.23	0.85	-0.19	-0.34	-0.27	
Storage and Mail	-0.11	0.18	-0.01	-0.12	0.10	-0.14	0.10	0.13	0.25	-0.53	0.00	-0.21	
Other Services	0.07	0.11	-0.44	-0.35	0.13	0.07	-0.02	-0.06	0.10	-0.24	0.26	0.05	

Sources: IBGE, Santander.

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



Sources: IBGE, Santander


Figure 7 – 1Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)


Sources: IBGE, Santander

Figure 8 – Santander GDP Growth Nowcasting

2Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
01-Jun-22	Labor Market	Apr-22	0.3	1.9	0.2	1.8
03-Jun-22	Industry	Apr-22	0.4	2.0	0.2	1.8
10-Jun-22	Retail Sales	Apr-22	0.4	2.1	0.2	1.8
14-Jun-22	Services	Apr-22	0.4	2.2	0.2	1.8
30-Jun-22	Labor Market	May-22	0.5	2.4	0.2	1.8
05-Jul-22	Industry	May-22	0.5	2.4	0.2	1.8
07-Jul-22	IBC-Br	Apr-22	0.6	2.5	0.2	1.8
12-Jul-22	Services	May-22	0.7	2.6	0.2	1.8
13-Jul-22	Retail Sales	May-22	0.7	2.6	0.2	1.8
14-Jul-22	IBC-Br	May-22	0.8	2.7	0.7	2.6
29-Jul-22	Labor Market	Jun-22	1.0	2.9	0.7	2.6
02-Aug-22	Industry	Jun-22	1.0	2.9	0.7	2.6
10-Aug-22	Retail Sales	Jun-22	1.0	2.9	0.7	2.6
11-Aug-22	Services	Jun-22	1.0	3.0	0.7	2.6

Sources: IBGE, Santander.



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