

STRONG 3Q22 FOR SERVICES

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- **Services output surprised to the upside by jumping 0.9% MoM-sa (+9.7% YoY) in September, topping our estimate of +0.3% MoM-sa (+8.0% YoY) and market consensus of +0.3% MoM-sa (+8.1% YoY).** We highlight a significant YoY revision in August's figure to +8.7% YoY (from +8.0% YoY previously). September's figure marked an encouraging streak of five consecutive gains, leading to a strong +3.2% QoQ-sa figure (+1.5% QoQ-sa in 2Q22). Moreover, the index not only surpassed the pre-pandemic benchmark (February 2020) by 11.8% but also reached an all-time high reading in the historical series.
- **Zooming in on the details, information services were in the spotlight.** This segment was the main driver of services' strong performance, jumping 2.0% MoM-sa (+6.0% YoY) and marking the third gain in a row (+2.5% QoQ-sa). We note that we saw significant deflation in August and September, likely reflecting tax cuts for telecommunication services in the period. Services to families expanded 1.0% MoM-sa (+17.6% YoY), marking a healthy streak of seven consecutive gains and ending the quarter with 2.6% QoQ-sa growth. Professional services were virtually flat, inching up 0.2% MoM-sa (+6.9% YoY), a weak print for the third month in a row. Transportation inched down 0.1% MoM-sa (+15.3% YoY) but posted strong 4.1% QoQ-sa growth in the quarter. Other services (a high volatile subsector) shrank 0.3% MoM-sa (+2.6% YoY). All in all, we saw the diffusion index retreating to 58% (vs. 75% in August).
- **October's available data point to mixed signals.** On the one hand, FGV's economic confidence index tumbled to 99.1 points (from 101.7), below the neutral mark of 100 points, while IGet Services dropped 2.6% MoM-sa. Conversely, Services PMI broke a weak string of three consecutive declines, jumping to 54 points (from 51.9 points), above the neutral threshold of 50 points. Looking ahead, we see the services sector as partially cushioned from the impact on activity of restrictive monetary policy and shaky financial conditions, which seem to have already begun to hit the goods-related sectors (industry and retail sales).
- **We are upwardly revising our September IBC-Br to 0.2% MoM-sa (from 0.1% MoM-sa previously).** We are raising our 3Q22 GDP growth tracking to +0.9% QoQ-sa (from 0.8% QoQ-sa), imparting slight upside risks to our current 2022 GDP forecast (+2.8%). For 2023, we forecast GDP growth of +0.7%.



Figure 1 – Services Sector Details

Services Breakdown												
	Weights	% MoM			% YoY			% QoQ			Feb-20 %	
		Jul-22	Aug-22	Sep-22	Jul-22	Aug-22	Sep-22	Mar-22	Jun-22	Sep-22	Sep-22	
Total Services	100%	1.3	1.1	0.9	6.3	8.7	9.7	1.8	1.5	3.2	11.8	
Families	8%	0.6	1.0	1.0	22.6	21.8	17.8	1.8	6.6	2.6	-3.9	
Accommodation and Food	7%	1.8	1.5	0.0	22.2	22.7	17.0	1.8	6.2	2.7	-5.6	
Other Services to Families	1%	2.4	-3.9	4.4	24.5	16.9	22.1	6.5	4.2	3.2	-3.7	
Information	31%	1.2	0.8	2.0	2.1	3.1	6.0	-2.5	0.0	2.5	16.9	
Technology	26%	0.7	2.2	1.7	2.1	3.7	6.8	-2.9	2.5	2.9	17.5	
Telecommunication	19%	-2.0	1.9	1.7	-9.1	-6.7	-3.5	-3.3	-0.5	0.2	-6.9	
Information Technology	7%	7.0	1.1	2.3	17.1	17.3	20.0	0.8	4.7	5.8	61.3	
Audiovisual	5%	0.0	-2.4	1.2	2.7	-2.3	-0.7	-1.8	0.6	-0.4	-5.8	
Professional	23%	-1.0	0.1	0.2	4.1	7.6	6.9	5.0	2.3	0.1	6.2	
Professional	7%	-2.6	1.6	1.4	-2.2	9.1	7.6	4.7	2.6	1.4	24.5	
Administrative	16%	-0.1	-0.4	-0.3	6.8	7.0	6.7	4.6	2.1	-0.1	-0.5	
Transportation	31%	2.5	1.0	-0.1	12.9	15.3	15.3	6.8	1.3	4.1	21.8	
Ground Transportation	18%	1.2	1.1	-0.3	18.8	24.5	22.2	7.7	5.6	4.3	23.3	
Water Transportation	2%	3.7	1.0	-1.3	14.2	16.4	14.8	0.7	3.9	6.4	33.3	
Air Transport	3%	6.2	0.8	2.1	15.4	8.7	21.9	21.6	-2.3	-3.3	3.9	
Storage and Mail	9%	5.6	0.7	1.1	2.7	3.2	3.5	2.8	-4.1	4.9	18.2	
Other Services	7%	-5.1	7.7	-0.3	-12.1	-2.3	2.6	1.0	0.1	1.3	4.2	
Touristic Activities	-	1.5	1.3	0.4	26.5	22.7	22.5	5.9	7.2	1.8	0.7	

Sources: IBGE, Santander.

Services output recorded a new positive surprise at the end of 3Q22. The headline index surprised to the upside by jumping 0.9% MoM-sa (+9.7% YoY) in September, topping our estimate of +0.3% MoM-sa (+8.0% YoY) and market consensus of +0.3% MoM-sa (+8.1% YoY). We highlight a significant YoY revision in August's figure to +8.7% YoY (from 8.0% YoY previously). September's figure marked an encouraging streak of five consecutive gains, leading to a strong +3.2% QoQ-sa figure (+1.5% QoQ-sa in 2Q22) and implying a positive carryover of +1.0% QoQ-sa to 4Q22. Moreover, the index not only surpassed the pre-pandemic benchmark (February 2020) by 11.8% but also reached an all-time high reading in the historical series (since 2011).

Zooming in on the details, information services were in the spotlight. This segment was the main driver of services' strong performance, jumping 2.0% MoM-sa (+6.0% YoY) and marking the third gain in a row (+2.5% QoQ-sa). We note that we saw significant deflation in August and September, likely reflecting tax cuts for telecommunication services in the period. In comparison with the pre-pandemic benchmark, the segment is up 16.9%. Services to families expanded 1.0% MoM-sa, marking a healthy streak of seven consecutive gains, whereas compared with the prior-year period the segment decelerated to +17.8% YoY (from +21.8% YoY previously), in line with the 17.6% YoY growth reported by IGet Services¹. In quarterly terms, this segment ended 3Q22 with 2.6% QoQ-sa growth (+6.6% QoQ-sa in 2Q22); in comparison with the pre-pandemic threshold, the segment is down 3.9%. Despite its low weight in the monthly survey, this segment is highly correlated with supply and mobility-related sectors that account for almost 15% of total GDP (Other Services and Public Services). Professional services were virtually flat, inching up 0.2% MoM-sa (+6.9% YoY), a weak print for the third month in a row. Transportation inched down 0.1% MoM-sa (+15.3% YoY) but posted strong 4.1% QoQ-sa growth in the quarter. Other Services (a high volatile subsector) shrank 0.3% MoM-sa (+2.6% YoY). All in all, we saw the diffusion index retreating to 58% (vs. 75% in August).

October's available data point to mixed signals. On the one hand, FGV's economic confidence index tumbled to 99.1 points (from 101.7), below the neutral mark of 100 points, while IGet Services dropped 2.6% MoM-sa. Conversely, Services PMI broke a weak string of three consecutive declines, jumping to 54 points (from 51.9 points), above the neutral threshold of 50 points. Our preliminary tracking for services rendered to families in October stands at -1.2% MoM-sa (+10.6% YoY). All in all, we see the services sector as partially cushioned from the impact on activity of restrictive monetary policy and shaky financial conditions, which seem to have begun to hit the goods-related sectors (industry and retail sales). We are upwardly revising our September IBC-Br to 0.2% MoM-sa (from 0.1% MoM-sa previously). We are raising our 3Q22 GDP growth tracking to +0.9% QoQ-sa (from

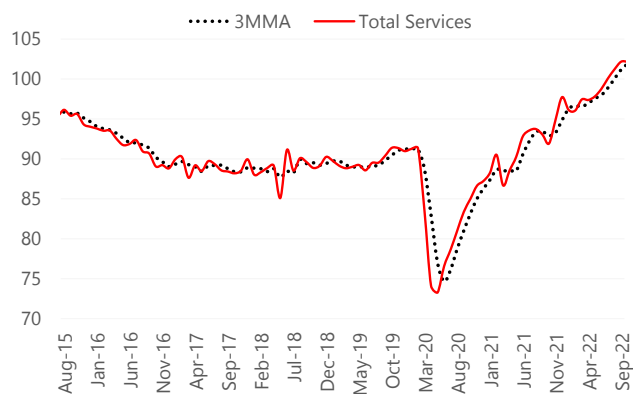
¹ Santander Brazil Economic Activity: "IGet: Serviços enfraquecem em outubro" – November 3, 2022 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-out22>



0.8% QoQ-sa), imparting slight upside risks to our current 2022 GDP forecast (+2.8%). For 2023, we forecast GDP growth of +0.7%. We calculate a stronger carryover for 2023, based on better expectations for 2H22, but we continue to project a slowdown in domestic demand and in cyclical supply components, stemming mainly from the expected global recession and the effects of a tight Central Bank (BCB) policy. Conversely, we now expect strong growth for non-cyclical farm output, reflecting an all-time high forecast for the grain harvest.

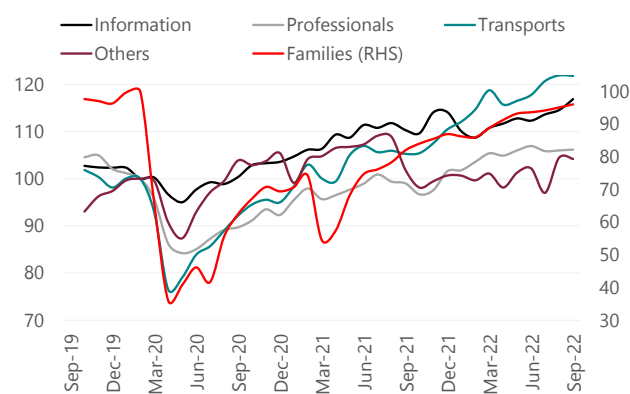
For details on Santander’s economic activity outlook, please refer to our last reports².

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



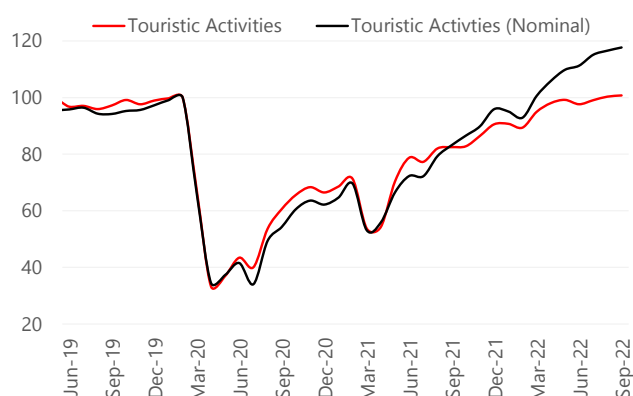
Sources: IBGE, Santander.

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



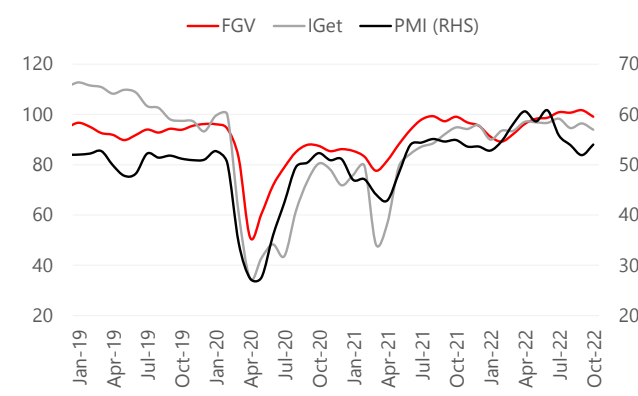
Sources: IBGE, Santander. *The Other Services subsector includes several activities such as brokerage, financial services, etc.

Figure 4 – Selected Segments (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.

² Santander Brazil Economic Activity: “Chartbook: A Better Outlook for 2023” – October 21, 2022 – Available on: <https://bit.ly/Std-chart-econact-oct22>

Santander Brazil Economic Activity: “Financial Conditions Continue to Worsen in October” – October 19, 2022 – Available on: <https://bit.ly/Std-FCI-oct22>



Figure 6 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Total Services	-1.21	3.24	3.00	-1.65	-0.07	1.44	-0.07	0.46	0.97	1.33	1.13	0.94
Families	2.47	1.73	1.69	-0.79	-0.32	3.28	2.81	2.13	0.43	0.61	0.96	1.00
Accommodation and Food	2.39	2.25	1.63	-0.79	0.39	1.41	4.55	1.15	-0.89	1.84	1.54	-0.03
Other Services to Families	1.98	3.58	1.20	0.03	1.94	9.16	-3.13	-0.21	3.12	2.36	-3.89	4.38
Information	-0.61	4.06	0.02	-3.56	-1.21	1.89	0.84	0.97	-0.42	1.18	0.80	2.02
Technology	-1.34	5.70	-0.39	-3.99	-2.23	3.14	0.41	1.53	-0.65	0.74	2.21	1.69
Telecommunications	-2.23	0.91	-0.69	-1.41	-2.45	-0.50	0.14	0.67	0.23	-1.96	1.90	1.74
Information	1.74	7.83	-3.83	-0.18	0.25	2.94	2.57	2.67	-5.11	6.99	1.09	2.29
Audiovisual and News	-1.13	1.78	1.68	-4.28	-1.35	5.31	-3.30	1.25	0.51	0.02	-2.39	1.24
Professional	-2.35	0.94	4.09	0.23	1.73	1.74	-0.45	1.05	0.87	-1.00	0.13	0.16
Technical and Professional	-4.25	0.98	2.73	2.17	-2.17	5.57	-2.24	1.42	3.15	-2.59	1.61	1.35
Administrative	-1.45	1.90	2.98	0.35	2.73	-0.79	1.09	1.02	-0.03	-0.11	-0.36	-0.34
Transportation	0.14	2.02	2.71	1.49	2.30	3.55	-2.56	0.70	1.06	2.52	0.98	-0.09
Ground Transportation	1.27	2.16	2.51	2.24	2.99	2.55	0.49	2.28	2.52	1.16	1.12	-0.33
Water Transportation	1.89	0.98	4.03	-0.62	0.38	-5.57	4.35	4.22	1.58	3.68	1.01	-1.33
Air Transport	-6.71	13.02	12.27	6.91	-8.79	24.32	-2.05	-12.33	-8.33	6.18	0.85	2.12
Storage and Mail	-1.18	1.24	-1.53	1.25	1.71	3.07	-6.00	0.27	-2.31	5.55	0.75	1.11
Other Services	-3.65	1.38	1.22	-0.04	-0.98	1.44	-2.93	3.23	0.87	-5.06	7.68	-0.27

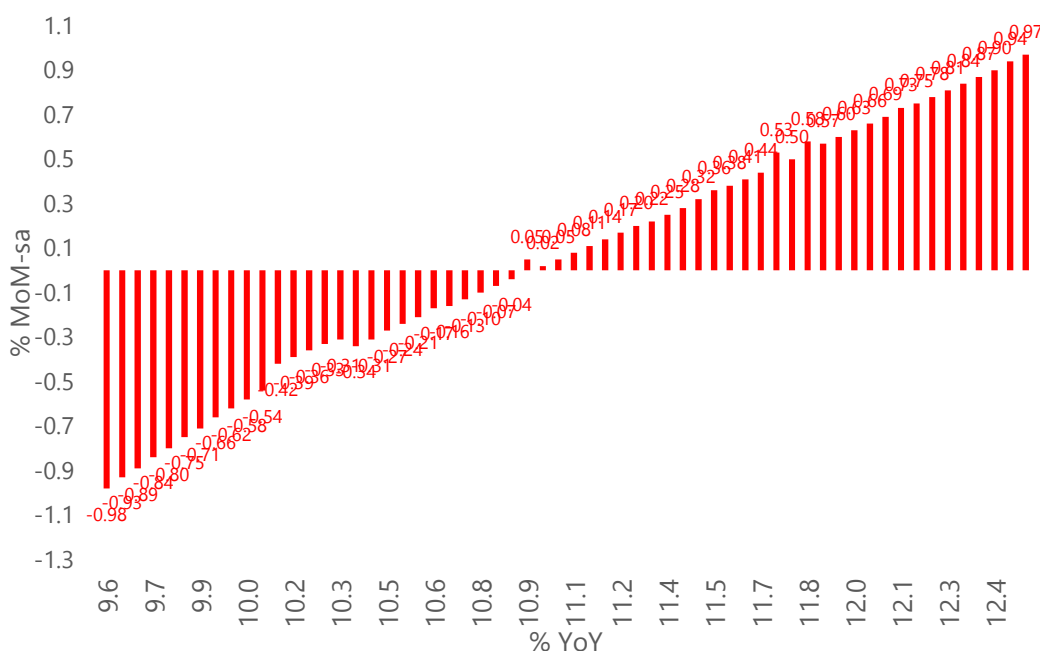
Sources: IBGE, Santander.

Figure 7 – “Heatmap” Showing Contribution by Activities

By Subsector (contribution, sa p.p)												
	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
Total Services	-1.21	3.24	3.00	-1.65	-0.07	1.44	-0.07	0.46	0.97	1.33	1.13	0.94
Accommodation and Food	0.16	0.15	0.11	-0.05	0.03	0.10	0.31	0.08	-0.06	0.13	0.10	0.00
Other Services to Families	0.03	0.05	0.02	0.00	0.03	0.12	-0.04	0.00	0.04	0.03	-0.05	0.06
Telecommunications	-0.42	0.17	-0.13	-0.26	-0.46	-0.09	0.03	0.13	0.04	-0.37	0.36	0.32
Information	0.13	0.57	-0.28	-0.01	0.02	0.21	0.19	0.20	-0.37	0.51	0.08	0.17
Audiovisual and News	-0.05	0.09	0.08	-0.21	-0.06	0.25	-0.16	0.06	0.02	0.00	-0.11	0.06
Technical and Professional	-0.30	0.07	0.19	0.15	-0.15	0.39	-0.16	0.10	0.22	-0.18	0.11	0.09
Administrative	-0.23	0.30	0.47	0.06	0.43	-0.13	0.17	0.16	0.00	-0.02	-0.06	-0.05
Ground Transportation	0.23	0.39	0.45	0.40	0.53	0.46	0.09	0.41	0.45	0.21	0.20	-0.06
Water Transportation	0.03	0.02	0.07	-0.01	0.01	-0.09	0.07	0.07	0.03	0.06	0.02	-0.02
Air Transport	-0.18	0.35	0.33	0.19	-0.24	0.66	-0.06	-0.33	-0.22	0.17	0.02	0.06
Storage and Mail	-0.10	0.11	-0.14	0.11	0.15	0.27	-0.53	0.02	-0.20	0.49	0.07	0.10
Other Services	-0.26	0.10	0.09	0.00	-0.07	0.10	-0.20	0.23	0.06	-0.35	0.54	-0.02

Sources: IBGE, Santander.

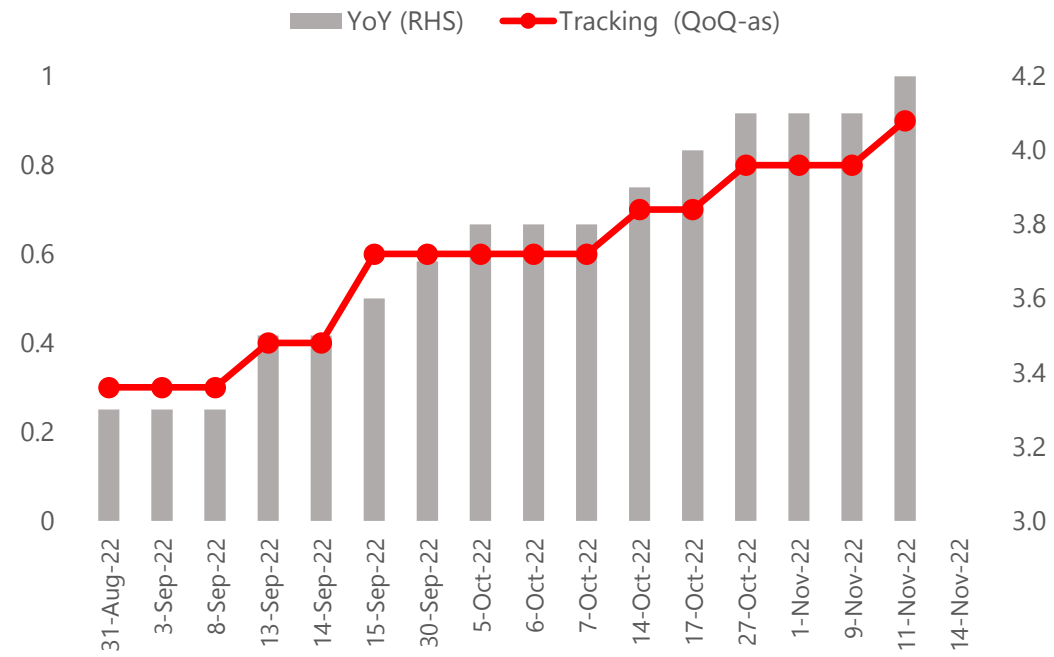
Figure 8 – Grid of Deseasonalisation (YoY% vs. MoM-sa)



Sources: IBGE, Santander



Figure 9 – 3Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)³



Sources: IBGE, Santander

³ Santander Brazil Special Report: “Nowcasting Brazilian GDP with LASSO” – May 16, 2022 – Available on: <https://bit.ly/Std-special-051622>
 Santander Brazil Special Report: “Nowcasting Supply Sectors: Updating GDP Tracking” – October 28, 2022 – Available on: <https://bit.ly/Std-special-102822>



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