

**SERVICES STAYED FLAT IN NOVEMBER**

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- **Services output stayed flat 0% MoM-sa (+6.3% YoY) in November, slightly below market consensus of +0.3% MoM-sa (+6.3% YoY) and our estimate of +0.2% MoM-sa (+6.3% YoY).** There was a slight upward revision in October's figure (to +9.7% YoY from +9.5% YoY), and we calculate a tepid carryover of 0.3% QoQ-sa to 4Q22 (+3.1% in 3Q22), which highlights a clear deceleration for cyclical services.
- **Zooming in on the details, mixed signals across activities.** Services to families retreated 0.8% MoM-sa (+7.8% YoY), the second decline in a row (after a healthy streak of seven consecutive gains) and below the forecast based on our proprietary index IGet (+0.3% MoM-sa, +9.0% YoY). Information services shrank 0.7% MoM-sa, breaking a string of five consecutive gains and partially offsetting the strong growth seen in 3Q22 (owing to tax cuts in telecommunication). Professional services inched up 0.2% MoM-sa, at the same time that other services (a highly volatile subsector that includes activities such as brokerage, financial services, etc.) shrank 2.2% MoM-sa. Transportation inched up 0.3% MoM-sa, stemming mainly from rebounds in water transportation and air transport, while ground transportation and storage and mail continued to show a weak performance (-0.1% MoM-sa and 0% MoM-sa, respectively), in line with the weakening in manufacturing. All in all, the diffusion index reached 50% (vs. 25% in October), with six of twelve activities posting growth at the margin.
- **December's available data point to a continued tepid performance.** According to FGV, services confidence shrank to 92.2 points (from 93.7, below the 100 points neutral mark), while services PMI retreated to 51.0 points (from 51.6, above the 50 points neutral mark). Our proprietary index IGet tumbled 2.0% MoM-sa, the third decline in a row. Services activities played a major role in cushioning the first 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.
- **Santander's monthly activity indicator (SAI) remains in restrictive territory.** Considering November's available data (tertiary sector and industry), SAI reached -0.11 points and marked the second negative print in a row since January (during the Omicron variant outbreak), reinforcing a negative trend for broad activity. Our recession probability tracker (based on financial conditions) for December-April reached virtually the same readings seen in the worst periods of Brazil's 2014-16 recession, creating continued challenges to cyclical domestic activity this year.
- **Our IBC-Br tracking for November stands at -0.4% MoM-sa.** If our result is on the mark, it would be the fourth decline 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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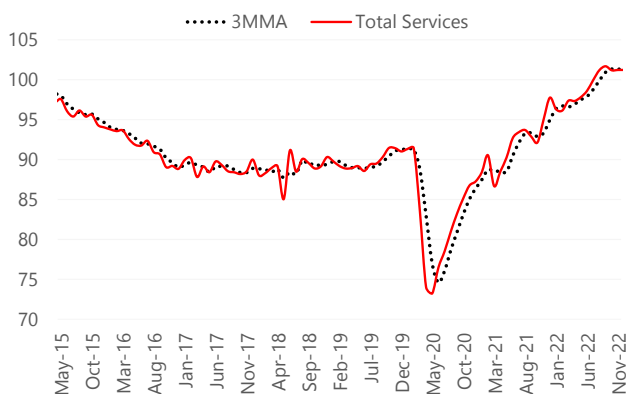


Figure 1 – Services Sector Details

Services Breakdown												
	Weights	% MoM			% YoY			% QoQ		Feb-20 %		
		Sep-22	Oct-22	Nov-22	Sep-22	Oct-22	Nov-22	Jun-22	Sep-22	Nov-22	Nov-22	
Total Services	100%	0.5	-0.5	0.0	9.4	9.7	6.3	1.4	3.1	1.4	10.7	
Families	8%	0.9	-1.2	-0.8	18.0	11.4	7.8	6.2	2.2	0.4	-6.7	
Accommodation and Food	7%	-0.1	-1.8	-1.0	17.3	10.5	6.4	6.1	1.6	-0.2	-8.9	
Other Services to Families	1%	4.4	-0.7	1.2	22.1	17.0	15.8	4.0	3.2	2.4	-3.2	
Information	31%	1.9	1.1	-0.7	6.0	8.4	3.1	0.0	2.5	3.4	17.4	
Technology	26%	1.5	0.9	-0.7	6.8	10.0	2.9	2.6	2.9	3.7	17.9	
Telecommunication	19%	1.7	-2.7	-0.7	-3.6	-4.9	-6.4	-0.6	0.0	0.1	-10.4	
Information Technology	7%	2.5	7.3	-4.1	19.9	28.8	13.2	4.8	6.2	9.4	67.0	
Audiovisual	5%	1.3	-3.5	8.0	-0.8	-4.4	4.6	0.7	0.0	0.1	-1.3	
Professional	23%	0.7	-0.9	0.2	7.7	8.3	7.2	2.1	0.2	-0.1	5.8	
Professional	7%	3.5	-4.0	0.1	9.9	8.5	7.4	2.4	1.9	0.8	21.5	
Administrative	16%	-0.2	0.3	0.8	6.8	8.2	7.0	2.1	-0.1	-0.1	0.6	
Transportation	31%	-0.3	-1.7	0.3	15.0	12.3	10.4	1.2	3.9	0.0	19.5	
Ground Transportation	18%	-0.8	-0.9	-0.1	22.0	18.5	15.7	5.5	3.9	-0.3	20.6	
Water Transportation	2%	-3.1	-0.4	3.3	12.2	9.2	13.1	3.8	5.9	-0.5	34.4	
Air Transport	3%	2.5	-10.1	3.4	21.8	8.8	3.9	-5.3	-4.1	-1.1	-5.1	
Storage and Mail	9%	1.3	-0.8	0.0	3.8	4.2	2.9	-4.1	5.0	3.1	17.5	
Other Services	7%	-3.5	2.8	-2.2	-2.2	6.4	0.6	-0.2	0.2	0.5	0.9	
Touristic Activities	-	0.6	-2.6	-0.1	22.7	16.5	11.8	6.9	1.4	0.0	-2.5	

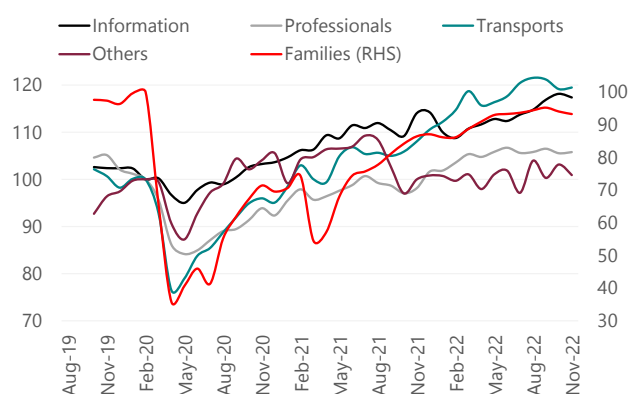
Sources: IBGE, Santander.

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



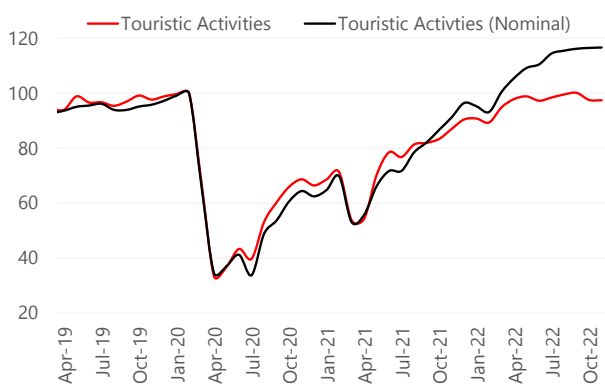
Sources: IBGE, Santander.

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



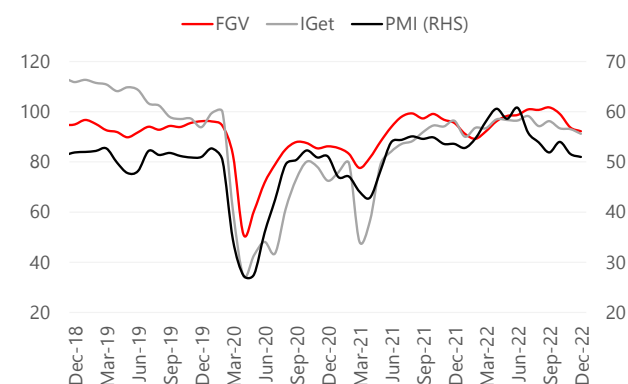
Sources: IBGE, Santander. *The Other Services subsector includes several activities such as brokerage, financial services, etc.

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.



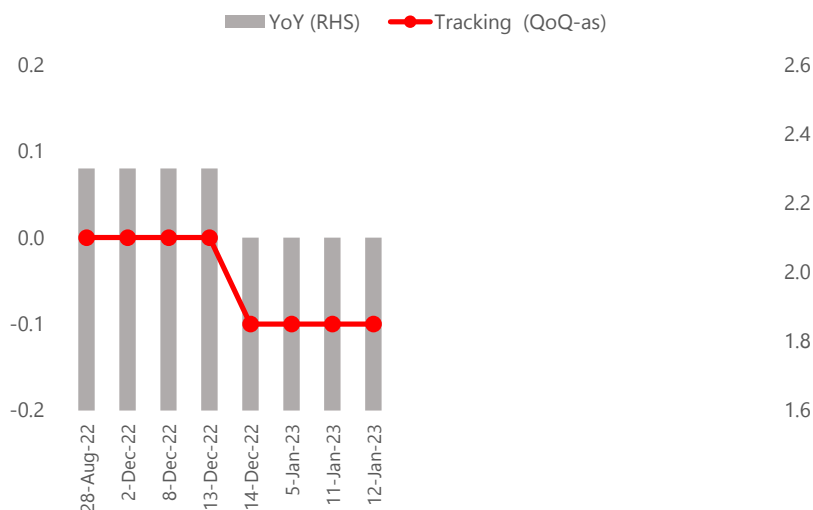
For details on Santander's economic activity outlook, please refer to our last reports¹.

Figure 6 – “Heatmap” Showing Services Output by Subsector

	By Subsector (% MoM sa)											
	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22
Total Services	2.84	-1.48	-0.18	1.29	-0.04	0.49	0.80	1.37	1.24	0.48	-0.50	0.04
Families	0.73	-1.05	0.00	2.96	2.55	2.21	0.34	0.39	0.81	0.85	-1.24	-0.83
Accommodation and Food	1.21	-0.71	-0.20	2.44	5.02	-0.09	-1.36	1.82	1.21	-0.10	-1.77	-1.02
Other Services to Families	1.36	0.44	1.66	9.37	-3.36	-0.14	3.10	2.35	-3.88	4.35	-0.68	1.24
Information	0.16	-3.67	-1.15	1.83	0.82	1.02	-0.37	1.21	0.90	1.86	1.07	-0.65
Technology	-0.13	-4.07	-2.24	3.16	0.44	1.53	-0.58	0.76	2.25	1.55	0.91	-0.68
Telecommunications	-1.00	-1.37	-2.45	-0.53	0.12	0.62	0.20	-1.91	1.61	1.72	-2.73	-0.70
Information	-4.35	-0.55	0.86	2.75	2.45	2.96	-5.14	7.03	1.44	2.46	7.32	-4.07
Audiovisual and News	2.68	-4.06	-1.29	5.04	-3.16	1.35	0.67	0.12	-2.19	1.33	-3.46	7.99
Professional	3.58	0.20	1.64	1.75	-0.55	1.03	0.82	-1.03	0.18	0.66	-0.90	0.23
Technical and Professional	1.78	2.13	-2.24	5.42	-2.19	1.28	3.01	-2.53	1.36	3.46	-4.02	0.11
Administrative	2.76	0.35	2.70	-0.81	1.05	1.01	-0.02	-0.09	-0.33	-0.25	0.27	0.77
Transportation	2.33	1.48	2.19	3.52	-2.55	0.59	1.09	2.40	0.88	-0.29	-1.67	0.28
Ground Transportation	2.03	2.38	2.80	2.26	0.76	2.22	2.34	1.18	1.03	-0.75	-0.89	-0.10
Water Transportation	3.93	-0.29	0.28	-5.68	4.50	4.03	1.52	4.00	0.80	-3.12	-0.39	3.28
Air Transport	10.93	6.65	-9.86	32.14	-7.26	-13.28	-9.60	7.07	0.27	2.47	-10.14	3.36
Storage and Mail	-1.47	1.25	1.68	3.03	-5.93	0.25	-2.32	5.52	0.75	1.35	-0.82	-0.03
Other Services	0.84	-0.10	-1.02	1.38	-3.09	3.18	0.77	-4.60	7.01	-3.51	2.84	-2.18

Sources: IBGE, Santander.

Figure 7 – 4Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)



Sources: IBGE, Santander.

¹ Santander Brazil Economic Activity: “Financial Conditions Remain Critically Restrictive” – November 30, 2022 – Available on: <https://bit.ly/Std-FCl-nov22>

Santander Brazil Special Report: “Santander’s Monthly Activity Indicator Entered Restrictive Territory in October” – January 03, 2023 – Available on: <https://bit.ly/Std-special-010323>

Santander Brazil Special Report: “Forecasting Probability of Recession in Brazil with Financial Conditions” – January 04, 2023 – Available on: <https://bit.ly/Std-special-010423>

Santander Brazil Economic Activity: “IGet: Serviços confirmam expectativa de contração em dezembro” – January 04, 2023 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-dez22>

Figure 8 – 4Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)²

4Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
28-Aug-22	Labor Market	Oct-22	0.0	2.3	0.0	2.3
02-Dec-22	Industry	Oct-22	0.0	2.3	0.0	2.3
08-Dec-22	Retail Sales	Oct-22	0.0	2.3	0.0	2.3
13-Dec-22	Services	Oct-22	0.0	2.3	0.0	2.3
14-Dec-22	IBC-Br	Oct-22	-0.1	2.1	0.0	2.3
05-Jan-23	Industry	Nov-22	-0.1	2.1	0.0	2.3
11-Jan-23	Retail Sales	Nov-22	-0.1	2.1	0.0	2.3
12-Jan-23	Services	Nov-22	-0.1	2.1	0.0	2.3

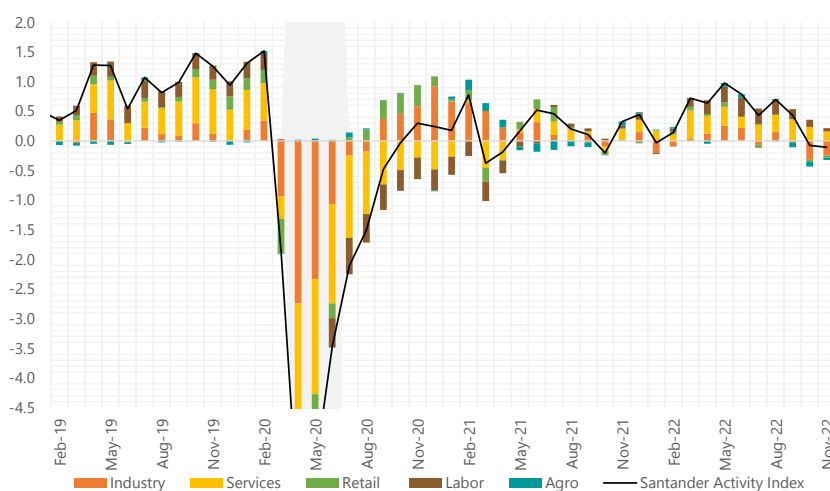
Sources: IBGE, Santander.

Figure 9 – Santander Activity Index Breakdown

Santander Activity Index							
	Weights	Headline			Change		
		Sep-22	Oct-22	Nov-22	Oct-22	Nov-22	
SAI	100%	0.43	-0.07	-0.11	↓	-0.51	-0.03
Industry	20%	-0.02	-0.32	-0.24	↑	-0.30	0.08
Services	28%	0.37	0.24	0.16	↓	-0.13	-0.08
Retail	14%	0.00	-0.03	-0.04	↓	-0.03	-0.01
Labor	25%	0.17	0.12	0.05	↓	-0.05	-0.07
Farm Output	13%	-0.08	-0.08	-0.04	↑	0.00	0.04

Sources: FGV, IBGE, Santander.

Figure 10 – Santander Activity Index (2019 to 2022)



Sources: FGV, IBGE, Santander.

² 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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