

## A NEGATIVE SURPRISE FOR SERVICES IN FEBRUARY

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- **Services output decreased in February (-0.2% MoM-sa), below both market expectations (+0.7% MoM-sa) and our estimate (+0.5% MoM-sa).** Compared to the same month in 2021, services output increased 7.4% YoY, below market expectations (+8.6%) and our call (+8.8% YoY). February's negative print placed the headline index 5.4% above the pre-pandemic benchmark (February 2020) and implies a carryover of +0.4% QoQ-sa to 1Q22.
- **Zooming in on the details, a mixed bag.** Information services were the lowlight, dropping 1.1% MoM-sa and adding to the previous drop (-3.6% in January). Services to Families failed to offset January's drop, rising only 0.1% MoM-sa (from -1.0%). This segment continued to show significant idleness relative to the pre-pandemic mark (down 14.0%). On the upside, Transportation (+1.9% MoM-sa) and Professional Services (+1.3% MoM-sa) strengthened at the margin, while Other Services considerably decreased (-1.0% MoM-sa).
- **Among services activities, the diffusion index rose to 50% (vs. 42% in January).** The biggest positive contributions came from Ground Transportation (+0.43 p.p.), Administrative Services (+0.36 p.p.) and Storage and Mail (+0.14 p.p.). Conversely, the biggest negative contribution came from Telecommunications (-0.54 p.p.), Air Transport (-0.24 p.p.), and Technical and Professional Services (-0.15 p.p.). Moreover, regarding post-Covid dynamics, seven out of twelve services activities remain below the pre-pandemic mark, notably food and accommodation (down 14.4%) and Other Services to Families (down 10.0%). The touristic activities index (composed of several segments of services related to tourist activities) dropped 1.0% MoM-sa in February, remaining still 10.9% below the pre-covid benchmark.
- **Regarding 1Q22, despite February's drop, the carryover calculated for the period still suggests cyclical services' continued positive contribution to overall activity in this quarter.** Moreover, we expect some idled segments (not integrally captured in the monthly survey) to gradually move away from idleness throughout the quarter, contributing positively to GDP growth. We are updating our IBC-Br tracking for February to 0.4% MoM-sa (from +0.5%) and maintaining our 1Q22 GDP growth tracking at +0.3% QoQ-sa. We forecast GDP growth of 0.7% in 2022 and a 0.2% contraction of real activity in 2023.

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Figure 1 – Services Sector Breakdown

	Weights	% MoM			% YoY			% QoQ			Feb-20 %
		Dec-21	Jan-22	Feb-22	Dec-21	Jan-22	Feb-22	Nov-21	Dec-21	Feb-22	Feb-22
<b>Total Services</b>	<b>100%</b>	<b>2.3</b>	<b>-1.8</b>	<b>-0.2</b>	<b>11.0</b>	<b>9.3</b>	<b>7.4</b>	<b>-1.1</b>	<b>0.1</b>	<b>2.2</b>	<b>5.4</b>
<b>Families</b>	<b>8%</b>	<b>1.1</b>	<b>-1.0</b>	<b>0.1</b>	<b>21.6</b>	<b>19.5</b>	<b>17.3</b>	<b>10.2</b>	<b>8.3</b>	<b>2.5</b>	<b>-14.0</b>
Accommodation and Food	7%	1.2	-1.4	0.7	21.7	19.8	18.0	10.7	8.3	2.8	-14.4
Other Services to Families	1%	2.7	-0.6	0.3	21.2	17.2	13.7	3.0	4.6	4.1	-10.0
<b>Information</b>	<b>31%</b>	<b>-0.2</b>	<b>-3.6</b>	<b>-1.1</b>	<b>10.1</b>	<b>5.0</b>	<b>2.4</b>	<b>0.3</b>	<b>1.3</b>	<b>-0.7</b>	<b>8.7</b>
Technology	26%	-0.5	-4.0	-2.2	10.3	4.5	2.0	0.6	1.4	-0.9	7.4
Telecommunication	19%	-0.7	-1.3	-2.9	-2.3	-5.1	-7.4	-2.7	-3.1	-2.8	-9.1
Information Technology	7%	-3.9	-0.3	0.1	25.8	19.3	16.2	5.1	5.5	1.0	41.4
Audiovisual	5%	2.0	-4.8	-1.3	8.8	10.0	6.3	-1.0	1.4	-0.9	-8.3
<b>Professional</b>	<b>23%</b>	<b>3.8</b>	<b>0.2</b>	<b>1.3</b>	<b>8.5</b>	<b>7.5</b>	<b>7.2</b>	<b>-2.2</b>	<b>-1.1</b>	<b>4.5</b>	<b>3.2</b>
Professional	7%	2.5	1.8	-2.2	11.3	10.5	4.6	-3.3	-4.2	2.1	14.6
Administrative	16%	3.0	0.5	2.3	7.2	6.3	8.3	-1.4	0.4	5.0	-1.3
<b>Transportation</b>	<b>31%</b>	<b>2.8</b>	<b>0.9</b>	<b>1.9</b>	<b>15.7</b>	<b>15.1</b>	<b>14.0</b>	<b>-0.2</b>	<b>1.7</b>	<b>5.6</b>	<b>14.2</b>
Ground Transportation	18%	2.1	2.2	2.4	17.1	15.3	15.3	0.5	2.5	6.1	10.7
Water Transportation	2%	3.5	-0.4	-0.1	21.0	19.3	17.4	1.6	2.7	4.5	23.1
Air Transport	3%	11.8	8.9	-9.1	56.8	49.8	45.2	-7.9	1.5	21.7	-3.4
Storage and Mail	9%	-1.5	1.1	1.6	5.3	5.9	5.6	0.7	-0.3	0.1	15.8
<b>Other Services</b>	<b>7%</b>	<b>1.0</b>	<b>-0.3</b>	<b>-1.0</b>	<b>-4.6</b>	<b>1.3</b>	<b>-3.9</b>	<b>-7.7</b>	<b>-7.3</b>	<b>-0.1</b>	<b>-0.4</b>
Touristic Activities	-	4.7	-0.4	-1.0	31.6	29.2	28.7	5.3	6.5	7.0	-10.9

Sources: IBGE, Santander.

**Services sector's real revenue marked a positive February print.** Services output dropped in February (-0.2% MoM-sa), below both market expectations (+0.7% MoM-sa) and our estimate (+0.5% MoM-sa). Compared to the same month in 2021, services output increased 7.4% YoY, below market expectations (+8.6%) and our call (+8.8% YoY). Following January's tepid figure — mainly due to the Omicron-variant outbreak — the index showed another decrease, reaching levels 5.4% above the pre-pandemic mark and implying a carryover of +0.4% QoQ-sa to 1Q22.

**The details point to a mixed bag with respect to the components.** Information services were the lowlight, dropping 1.1% MoM-sa (after January's 3.6% drop) and reaching levels 8.7% above the pre-crisis level. Despite 1Q22's weak performance, this distancing reflects a segment that strongly benefited from the increasing digitalization of economic activities in the pandemic environment. Services to Families rose 0.1% MoM-sa, insufficient to offset January's weak print due to the Omicron-variant outbreak. This segment continued to show significant idleness relative to the pre-pandemic mark (down 14.0%), but our proprietary index (IGet) already points to a continued recovery in March. In addition, Professional (+1.3% MoM-sa) and Transportation (+1.9% MoM-sa) strengthened at the margin, while Other Services decreased (-1.0% MoM-sa).

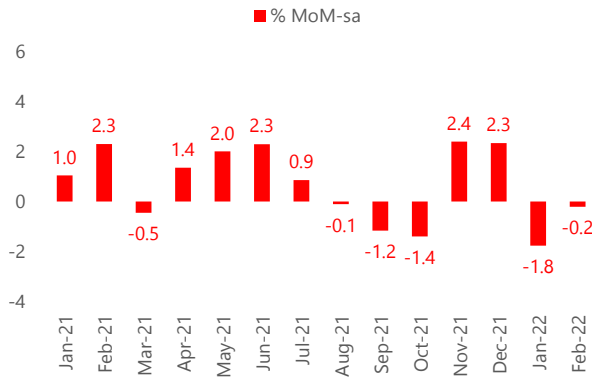
**Some mixed results among services activities as well.** The diffusion index rose to 50% (vs. 42% in January). The biggest positive contributions came from Ground Transportation (+0.43 p.p.), Administrative Services (+0.36 p.p.), and Storage and Mail (+0.14 p.p.). Conversely, the biggest negative contribution came from Telecommunications (-0.54 p.p.), Air Transport (-0.24 p.p.) and Technical and Professional Services (-0.15 p.p.). Moreover, regarding post-Covid dynamics, seven out of twelve services activities remain below the pre-pandemic mark, notably food and accommodation (down 14.4%) and Other Services to Families (down 10.0%). The touristic activities index (composed of several segments of services related to tourist activities) dropped 1.0% MoM-sa in February, remaining still 10.9% below the pre-covid benchmark.

**Regarding 1Q22, the positive carryover calculated for the period suggests a continued positive contribution of cyclical services to overall activity in this quarter.** Moreover, we expect some idled segments (not integrally captured in the monthly survey) to gradually move away from idleness throughout the quarter, contributing positively to GDP growth. We are updating our IBC-Br tracking for February to 0.4% MoM-sa (from +0.5%) and maintaining our 1Q22 GDP growth tracking at +0.3% QoQ-sa, after a 0.5% growth print in 4Q21. We forecast GDP growth of 0.7% in 2022 and a 0.2% contraction of real activity in 2023. **For details on Santander's activity outlook, please refer to our last chartbook<sup>1</sup>.**

<sup>1</sup> Santander Brazil Economic Activity - "Positive Surprises Reinforce Resilience Outlook for 2022" – March 14, 2022 – Available on: <https://bit.ly/Std-chart-econact-mar22>

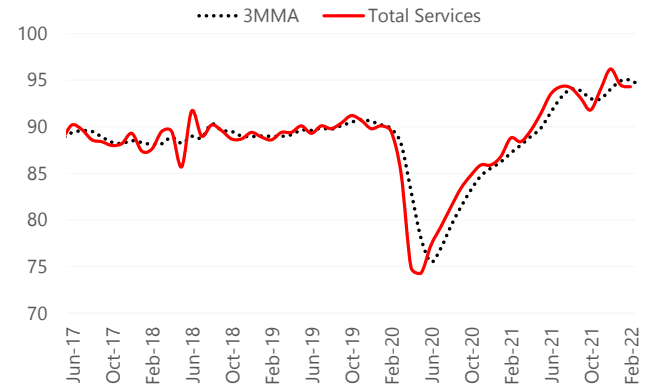


**Figure 2.A – Total Services (sa, % MoM)**



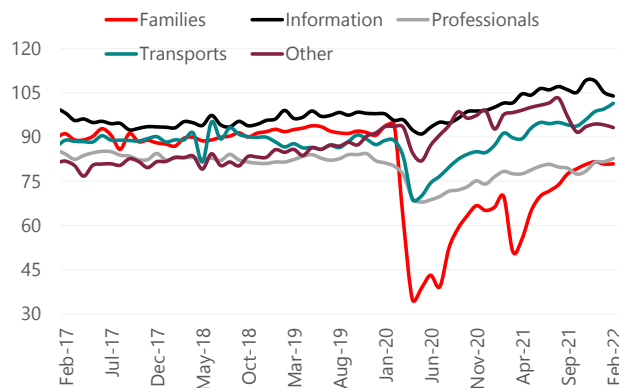
Sources: IBGE, Santander.

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



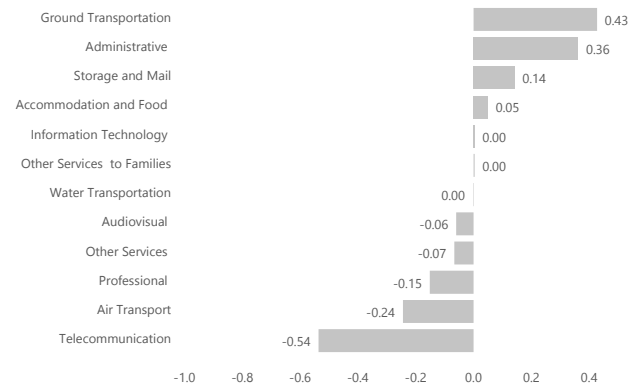
Sources: IBGE, Santander.

**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.

**Figure 4 – “Heatmap” Showing Services Output by Subsector**

	By Subsector (% MoM sa)											
	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
<b>Total Services</b>	-0.45	1.36	2.01	2.30	0.86	-0.11	-1.17	-1.40	2.40	2.34	-1.77	-0.21
<b>Families</b>	-26.79	8.41	17.15	7.70	2.58	2.93	5.01	2.19	1.89	1.12	-0.98	0.12
Accommodation and Food	-30.76	15.01	13.76	7.44	5.34	3.29	4.11	2.42	2.24	1.22	-1.44	0.73
Other Services to Families	-7.75	4.37	4.83	3.07	0.60	0.30	0.59	2.20	1.44	2.69	-0.55	0.28
<b>Information</b>	0.10	2.95	-0.38	2.11	-0.38	1.04	-1.03	-0.85	3.90	-0.18	-3.58	-1.14
Technology	1.88	2.40	-0.90	1.36	0.36	1.34	-1.06	-1.78	5.53	-0.52	-3.97	-2.16
Telecommunications	0.00	0.46	0.11	-0.68	0.57	0.23	-1.70	-2.31	0.71	-0.70	-1.30	-2.87
Information	0.19	7.19	0.41	-0.64	2.05	2.64	-1.01	1.92	7.08	-3.88	-0.27	0.05
Audiovisual and News	2.66	-1.01	2.33	9.38	-6.49	1.53	0.55	-1.36	1.79	2.03	-4.78	-1.26
<b>Professional</b>	-1.02	0.00	1.68	1.65	0.75	-1.12	-0.50	-2.52	1.29	3.83	0.25	1.35
Technical and Professional	-1.48	2.60	1.87	0.52	6.64	-6.59	1.96	-4.74	1.08	2.53	1.82	-2.17
Administrative	-1.13	-1.64	2.44	1.88	-0.62	0.62	-1.48	-1.00	1.77	2.98	0.48	2.28
<b>Transportation</b>	-1.75	-0.33	4.03	2.04	-0.42	0.42	-0.84	-0.43	2.35	2.82	0.91	1.91
Ground Transportation	-1.74	0.38	3.28	0.73	0.97	-1.44	-0.24	1.22	1.81	2.14	2.21	2.39
Water Transportation	3.36	6.76	-3.65	-0.19	6.40	-2.38	-0.55	2.15	0.84	3.51	-0.40	-0.12
Air Transport	-9.16	-11.07	32.16	18.85	-7.93	6.17	-8.72	-6.63	13.35	11.78	8.86	-9.06
Storage and Mail	-0.37	0.09	4.43	-2.39	-0.82	2.19	0.00	-1.34	1.27	-1.52	1.09	1.62
<b>Other Services</b>	0.72	0.81	1.01	0.70	0.79	1.57	-6.10	-5.37	1.96	0.96	-0.32	-0.96

Sources: IBGE, Santander.

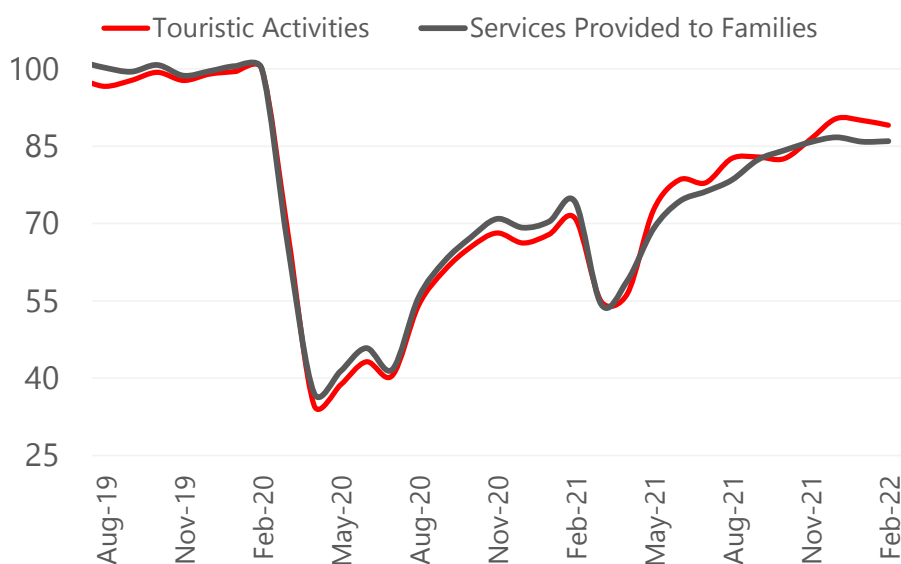


Figure 5 – “Heatmap” Showing Contribution by Activities

By Subsector (contribution, sa p.p)												
	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22
<b>Total Services</b>	-0.45	1.36	2.01	2.30	0.86	-0.11	-1.17	-1.40	2.40	2.34	-1.77	-0.21
Accommodation and Food	-2.09	1.02	0.94	0.51	0.36	0.22	0.28	0.16	0.15	0.08	-0.10	0.05
Other Services to Families	-0.10	0.06	0.06	0.04	0.01	0.00	0.01	0.03	0.02	0.03	-0.01	0.00
Telecommunications	0.00	0.09	0.02	-0.13	0.11	0.04	-0.32	-0.43	0.13	-0.13	-0.24	-0.54
Information	0.01	0.53	0.03	-0.05	0.15	0.19	-0.07	0.14	0.52	-0.28	-0.02	0.00
Audiovisual and News	0.13	-0.05	0.11	0.45	-0.31	0.07	0.03	-0.07	0.09	0.10	-0.23	-0.06
Technical and Professional	-0.10	0.18	0.13	0.04	0.46	-0.46	0.14	-0.33	0.08	0.18	0.13	-0.15
Administrative	-0.18	-0.26	0.39	0.30	-0.10	0.10	-0.23	-0.16	0.28	0.47	0.08	0.36
Ground Transportation	-0.31	0.07	0.59	0.13	0.17	-0.26	-0.04	0.22	0.32	0.38	0.40	0.43
Water Transportation	0.06	0.11	-0.06	0.00	0.11	-0.04	-0.01	0.04	0.01	0.06	-0.01	0.00
Air Transport	-0.25	-0.30	0.87	0.51	-0.21	0.17	-0.24	-0.18	0.36	0.32	0.24	-0.24
Storage and Mail	-0.03	0.01	0.39	-0.21	-0.07	0.19	0.00	-0.12	0.11	-0.13	0.10	0.14
Other Services	0.05	0.06	0.07	0.05	0.06	0.11	-0.43	-0.38	0.14	0.07	-0.02	-0.07

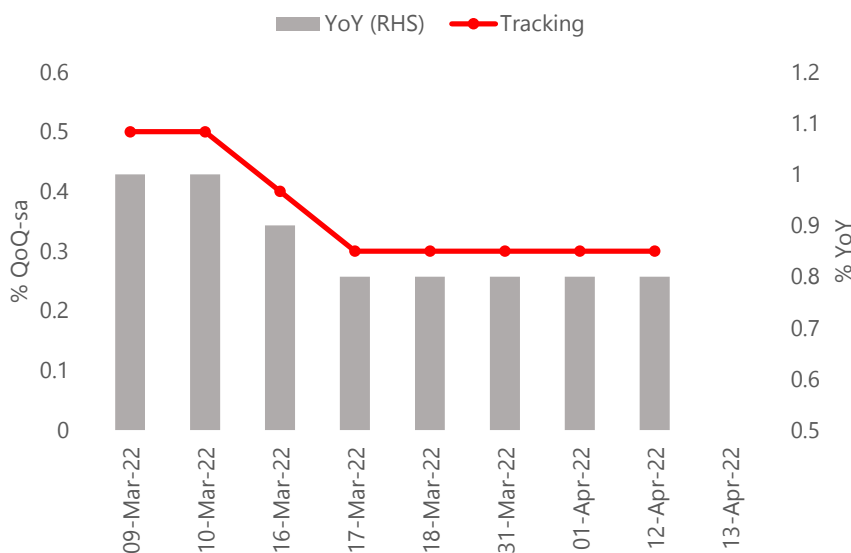
Sources: IBGE, Santander.

Figure 6 – Selected Segments of Services (sa, Feb/20=100)



Sources: IBGE, Santander

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



Sources: IBGE, Santander



Figure 8 – Santander Tracking

1Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
09-Mar-22	Industry	Jan-22	0.5	1.0	0.5	1.0
10-Mar-22	Retail Sales	Jan-22	0.5	1.0	0.5	1.0
16-Mar-22	Services	Jan-22	0.4	0.9	0.5	1.0
17-Mar-22	IBC-Br	Jan-22	0.3	0.8	0.5	1.0
18-Mar-22	PNAD	Jan-22	0.3	0.8	0.5	1.0
31-Mar-22	PNAD	Feb-22	0.3	0.8	0.5	1.0
01-Apr-22	Industry	Feb-22	0.3	0.8	0.5	1.0
12-Apr-22	Services	Feb-22	0.3	0.8	0.5	1.0

Sources: IBGE, Santander.



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