

A PARTIAL REBOUND FOR SERVICES IN MAY

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- **Services output increased 0.9% MoM-sa (+4.7% YoY) in May, above both market consensus of +0.4% MoM-sa (+3.9% YoY) and our estimate of +0.0% MoM-sa (+3.2% YoY).** The result has partially offset April's decrease (-1.5% MoM-sa). There was a slight upward revision in the April result, which now points to 2.8% YoY (from 2.7%). May's result leaves a +0.2% QoQ-sa carryover for 2Q23 (-0.7% QoQ-sa in 1Q23).
- **Zooming in on the details, mostly positive signals across activities.** Services to families posted another positive contribution to the result, by increasing 1.1% MoM-sa (+2.8% YoY), the second expansion in a row. Information services increased 0.2% MoM-sa, after a 1.1% MoM-sa tumble in April. Professional services decreased 1.0% MoM-sa, as other services (a highly volatile subsector that includes activities such as brokerage, financial services, etc.) had a 0.6% MoM-sa increase, after a 1.0% MoM-sa drop in April. Transportation increased 2.2% MoM-sa, a partial recovery from April's 4.4% MoM-sa decrease, and was the main positive contribution to the result, stemming from increases in most of its segments. All in all, the diffusion index reached 75% (from 25% in April), with nine out of twelve activities posting growth at the margin.
- **June available data provide mixed signals.** According to FGV, services confidence increased 4.0% MoM-sa in June (to 96.6, below the 100 points neutral mark), while services PMI reached 53.3 points (from 54.1 in May, above the 50 points neutral mark). Our proprietary IGet index increased 0.1% MoM-sa in June. 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.
- **We are revising our IBC-Br tracking for May to -0.4% MoM-sa (from -0.7% MoM-sa), considering the stronger result for services.** We revised our 2Q23 GDP growth tracking to +0.1% QoQ-sa (from +0.0% QoQ-sa). We continue to see signs of deceleration for broad activity ahead, as more cyclical segments indicate a continued 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.

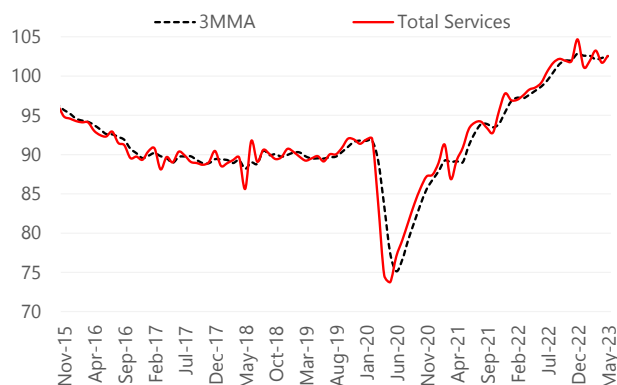


Figure 1 – Services Sector Details

	Services Breakdown								
	% MoM			% YoY			% QoQ		
	Mar-23	Apr-23	May-23	Mar-23	Apr-23	May-23	Dec-22	Mar-23	May-23
Total Services	1.3	-1.5	0.9	6.5	2.8	4.7	1.3	-0.7	-0.1
Families	-0.9	1.0	1.1	3.3	2.8	2.8	-0.3	0.1	-0.8
Accommodation and Food	-2.5	2.5	0.2	3.4	3.4	2.7	-0.9	0.8	-1.1
Other Services to Families	3.7	-1.5	0.4	2.8	-0.8	3.3	1.1	-2.1	-0.5
Information	1.3	-1.1	0.2	6.6	3.9	4.0	1.6	-0.3	1.5
Technology	1.5	-1.2	0.6	6.5	4.4	3.6	1.5	-0.3	1.6
Audiovisual	4.1	-4.5	4.6	7.5	0.9	7.5	1.9	1.2	2.8
Professional	3.5	-0.5	-1.0	6.0	4.5	3.4	1.6	0.3	1.2
Professional	0.9	6.6	-8.5	4.6	12.4	1.9	0.0	1.5	1.8
Administrative	2.1	-2.4	2.0	6.8	0.9	4.7	1.8	1.0	0.4
Transportation	4.3	-4.3	2.2	8.6	2.0	7.1	-0.5	0.8	2.5
Ground Transportation	4.0	-3.4	1.8	13.8	6.8	9.2	-0.1	2.4	2.8
Water Transportation	1.5	-3.1	9.8	17.1	8.5	15.8	-0.1	2.6	3.1
Air Transport	3.3	-2.3	10.1	-7.7	-16.9	14.2	-4.0	5.2	7.1
Storage and Mail	6.5	-6.7	-0.8	2.0	-2.2	-1.2	0.4	-3.8	1.6
Other Services	-0.8	-1.0	0.6	0.4	-0.8	0.3	4.8	-3.8	-3.9
Sewage	-	-	-	8.5	2.1	6.1	-	-	-
Financial	-	-	-	-4.7	-8.3	-7.7	-	-	-
Rents	-	-	-	15.7	12.8	12.0	-	-	-
Other	-	-	-	13.8	6.8	-2.8	-	-	-
Touristic Activities	-0.3	0.7	4.0	6.2	1.4	8.6	-0.3	2.5	0.9

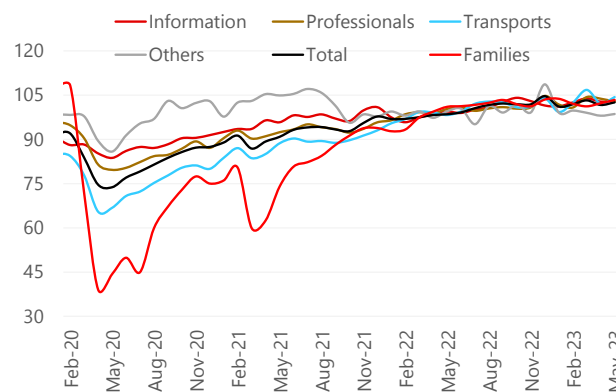
Sources: IBGE, Santander.

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



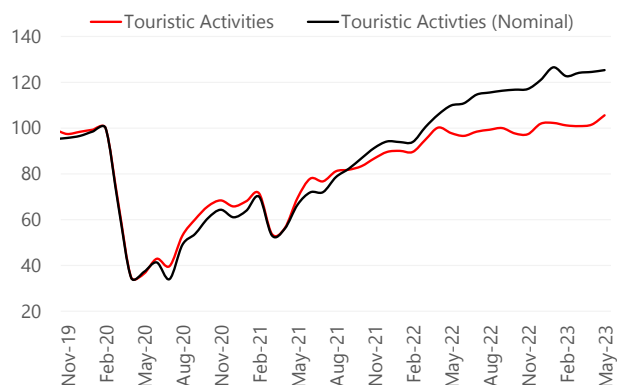
Sources: IBGE, Santander.

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



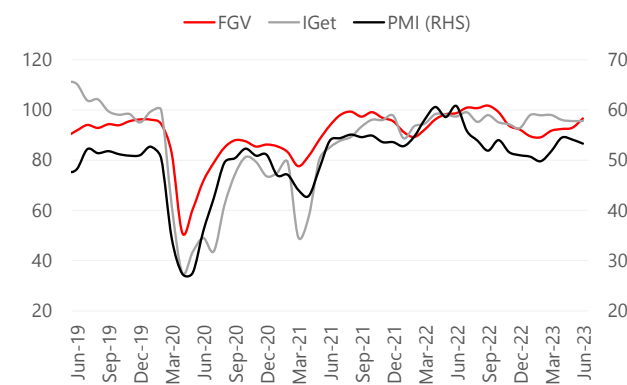
Sources: IBGE, Santander.

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.



Figure 6 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Total Services	0.64	1.45	1.09	0.47	-0.24	-0.04	2.72	-3.37	0.76	1.31	-1.50	0.86
Families	0.21	0.45	0.69	0.93	-1.40	-0.70	2.28	0.24	-1.60	-0.88	1.04	1.11
Accommodation and Food	-1.38	1.91	1.62	-0.09	-1.74	-0.83	2.93	0.40	-0.64	-2.49	2.50	0.18
Other Services to Families	2.25	2.76	-4.59	4.39	-0.70	0.44	0.78	-1.12	-4.19	3.71	-1.45	0.37
Information	-0.46	1.16	0.79	1.81	1.34	-1.09	-1.43	-0.31	1.33	1.34	-1.05	0.20
Technology	-0.77	0.70	2.18	1.49	1.47	-1.10	-2.93	1.23	0.45	1.52	-1.20	0.63
Audiovisual	0.50	0.91	-2.13	1.35	-2.90	7.91	-1.35	-3.01	1.99	4.13	-4.47	4.60
Professional	0.48	-1.12	0.82	0.45	-0.52	0.43	3.86	-2.78	-1.02	3.53	-0.53	-0.95
Professional	2.19	-2.59	1.75	3.07	-3.61	0.34	2.49	-0.05	-0.75	0.93	6.63	-8.51
Administrative	0.29	-0.10	-0.31	-0.21	0.69	0.43	3.29	-1.84	-0.22	2.07	-2.36	2.00
Transportation	1.22	2.63	0.72	-0.29	-1.61	0.27	2.75	-4.46	3.12	4.29	-4.34	2.15
Ground Transportation	2.11	1.59	0.90	-0.88	-0.50	-0.09	2.26	-1.41	1.52	4.01	-3.40	1.81
Water Transportation	1.54	4.40	0.43	-2.95	-0.39	4.16	-1.87	2.37	-0.49	1.51	-3.06	9.82
Air Transport	-6.57	6.52	0.73	2.32	-9.96	3.23	7.59	-5.68	6.02	3.27	-2.33	10.09
Storage and Mail	-2.45	5.39	0.38	1.23	-0.83	0.09	0.63	-9.59	5.44	6.52	-6.67	-0.83
Other Services	0.86	-5.23	6.48	-2.18	2.72	-2.60	9.59	-8.82	0.70	-0.75	-0.99	0.58

Sources: IBGE, Santander.

Figure 7 – “Heatmap” Showing Services Contribution by Subsector

By Subsector (contribution, sa p.p)													
	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	
Families	8%	0.02	0.04	0.06	0.08	-0.12	-0.06	0.19	0.02	-0.13	-0.07	0.09	0.09
Accommodation and Food	7%	-0.10	0.13	0.11	-0.01	-0.12	-0.06	0.21	0.03	-0.04	-0.18	0.18	0.01
Other Services to Families	1%	0.03	0.03	-0.06	0.05	-0.01	0.01	0.01	-0.01	-0.05	0.04	-0.02	0.00
Information	23%	-0.11	0.27	0.19	0.42	0.31	-0.26	-0.34	-0.07	0.31	0.32	-0.25	0.05
Technology	21%	-0.16	0.15	0.45	0.31	0.30	-0.23	-0.61	0.26	0.09	0.31	-0.25	0.13
Audiovisual	3%	0.01	0.03	-0.06	0.04	-0.08	0.22	-0.04	-0.08	0.06	0.11	-0.12	0.13
Professional	22%	0.10	-0.24	0.18	0.10	-0.11	0.09	0.84	-0.60	-0.22	0.76	-0.11	-0.21
Professional	8%	0.18	-0.22	0.15	0.26	-0.30	0.03	0.21	0.00	-0.06	0.08	0.56	-0.71
Administrative	13%	0.04	-0.01	-0.04	-0.03	0.09	0.06	0.44	-0.24	-0.03	0.28	-0.31	0.27
Transportation	36%	0.44	0.96	0.26	-0.10	-0.59	0.10	1.00	-1.62	1.14	1.56	-1.58	0.78
Ground Transportation	21%	0.44	0.33	0.19	-0.18	-0.10	-0.02	0.47	-0.29	0.32	0.83	-0.71	0.38
Water Transportation	2%	0.03	0.08	0.01	-0.06	-0.01	0.08	-0.04	0.04	-0.01	0.03	-0.06	0.18
Air Transport	3%	-0.21	0.21	0.02	0.07	-0.32	0.10	0.24	-0.18	0.19	0.10	-0.07	0.32
Storage and Mail	11%	-0.26	0.57	0.04	0.13	-0.09	0.01	0.07	-1.01	0.57	0.69	-0.70	-0.09
Other Services	10%	0.09	-0.54	0.66	-0.22	0.28	-0.27	0.98	-0.90	0.07	-0.08	-0.10	0.06

Sources: IBGE, Santander.



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