



## Services Output Jumps, Offsetting Previous Drops

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- **The services sector surprised to the upside by jumping +2.4% MoM-sa in November (+10.0% YoY), topping market consensus of +0.1% MoM-sa (+6.7% YoY) and our estimate of +0.2% MoM-sa (+7.0% YoY).** This performance fully offsets the previous declines (-0.6% and -1.6% in September and October, respectively) and places the index 4.5% above the pre-pandemic mark (February 2020).
- **Zooming in on the details, growth was widespread, with Information services (+5.4% MoM-sa) fully giving back the previous drops and with Transportation printing a healthy figure (+1.8% MoM-sa).** Services to Families continued to strengthen (+2.8% MoM-sa), marking the eighth gain in a row. This segment still shows wide idleness compared to the pre-pandemic mark (down 11.8%), which leaves room for positive contributions from the services sector to overall activity in 4Q21 and 2022. Professional and Administrative services decreased slightly (-0.3% MoM-sa), marking the fourth decline in a row.
- **Among services activities, the biggest positive contribution came from Information technology (+0.78 p.p.).** Telecommunication (+0.26 p.p.), Air Transport (+0.21 p.p.), and Food services (+0.19 p.p.) also printed healthy figures, and only Professional services contributed negatively (-0.13 p.p.), with the diffusion index reaching 92% (vs. 33% in October). Seven of 12 services activities remain below the pre-pandemic mark.
- **In quarterly terms, November's headline result implies a -0.3% QoQ-sa carryover to 4Q21.** However, for the Services to Families segment, we calculate a 6.4% carryover. In our view, this segment is the best metric to capture the rebound of the services sector currently, on the heels of the increase in mobility. Indeed, although Services to Families accounts for nearly 10% of the IBGE's monthly survey, it highly correlates with segments that account for nearly 30% of GDP (e.g., Other Services and Public Services) and that still show wide idleness relative to the pre-pandemic mark. We expect these segments to contribute to sequential increases for the services sector in 4Q21 and 1H22.
- **We updated our tracking for November IBC-Br to +0.6% MoM-sa (from +0.2% MoM-sa), which would break a string of three retreats.** Moreover, we updated our 4Q21 GDP tracking from to +0.1% QoQ-sa from flattening (0% QoQ-sa), but with upside risks from a farm output rebound (after plummeting in 3Q21). This result is consistent with +4.5% GDP growth in 2021 and implies a -0.1% carryover to 2022.

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Figure 1. Services Sector Breakdown

	Weights	% MoM			% YoY			% QoQ			%	
		Sep-21	Oct-21	Nov-21	Sep-21	Oct-21	Nov-21	Jun-21	Sep-21	Nov-21	Feb-20	Carry*
<b>Total Services</b>	<b>100%</b>	<b>-0.6</b>	<b>-1.6</b>	<b>2.4</b>	<b>11.5</b>	<b>7.4</b>	<b>10.0</b>	<b>2.2</b>	<b>2.8</b>	<b>-0.3</b>	<b>4.5</b>	<b>-0.3</b>
<b>Families</b>	<b>8%</b>	<b>1.6</b>	<b>1.9</b>	<b>2.8</b>	<b>32.9</b>	<b>24.6</b>	<b>21.0</b>	<b>4.3</b>	<b>17.3</b>	<b>7.3</b>	<b>-11.8</b>	<b>6.4</b>
Accommodation and Food	7%	1.9	1.8	2.8	37.7	26.3	21.1	4.4	18.8	8.1	-11.9	6.6
Other Services to Families	1%	0.0	1.6	0.4	9.2	14.8	20.3	6.2	3.7	1.2	-14.4	1.9
<b>Information</b>	<b>31%</b>	<b>-0.8</b>	<b>-2.1</b>	<b>5.4</b>	<b>10.1</b>	<b>6.4</b>	<b>11.4</b>	<b>4.8</b>	<b>1.7</b>	<b>0.3</b>	<b>13.7</b>	<b>1.3</b>
Technology	26%	-1.1	-1.8	5.6	9.5	5.8	11.8	3.8	1.8	0.7	15.6	1.7
Telecommunication	19%	-1.5	-2.4	1.4	-0.3	-2.8	-1.2	0.0	0.1	-2.2	-3.3	-2.4
Information Technology	7%	-0.1	-0.4	10.7	25.4	19.3	31.3	8.5	4.3	5.5	47.4	7.5
Audiovisual	5%	0.7	-2.0	1.4	15.5	10.8	7.8	15.0	0.3	-3.4	-1.1	0.0
<b>Professional</b>	<b>23%</b>	<b>-1.0</b>	<b>-1.9</b>	<b>-0.3</b>	<b>10.1</b>	<b>4.8</b>	<b>4.7</b>	<b>1.4</b>	<b>0.9</b>	<b>-2.7</b>	<b>-4.2</b>	<b>-2.9</b>
Professional	7%	2.8	-4.6	-1.9	17.5	5.8	2.4	3.1	3.3	-3.7	9.1	-6.2
Administrative	16%	-1.7	-1.6	1.1	7.1	4.3	5.7	1.0	0.6	-2.5	-5.1	-2.0
<b>Transportation</b>	<b>31%</b>	<b>-1.8</b>	<b>-0.1</b>	<b>1.8</b>	<b>13.8</b>	<b>9.9</b>	<b>13.3</b>	<b>3.2</b>	<b>2.0</b>	<b>-0.9</b>	<b>7.2</b>	<b>0.1</b>
Ground Transportation	18%	-0.7	1.1	0.7	10.8	8.3	12.5	2.0	1.2	-0.2	2.3	0.9
Water Transportation	2%	0.0	1.7	1.6	13.6	14.8	18.2	5.9	1.9	1.5	16.7	1.9
Air Transport	3%	-9.0	-5.1	7.6	39.6	26.6	32.7	6.2	20.6	-7.8	-16.5	-4.4
Storage and Mail	9%	0.1	-1.2	1.6	13.3	8.3	9.3	2.0	0.4	0.8	14.8	0.5
<b>Other Services</b>	<b>7%</b>	<b>-6.7</b>	<b>-6.3</b>	<b>2.9</b>	<b>-1.6</b>	<b>-6.1</b>	<b>-4.4</b>	<b>4.1</b>	<b>0.5</b>	<b>-8.5</b>	<b>-2.5</b>	<b>-8.1</b>

\*Carryover to 4Q21. Sources: IBGE, Santander.

**Services sector's real revenue topped expectations in November, offsetting the previous drops.** The headline index jumped 2.4% MoM-sa (+10.0% YoY), well above market consensus of +0.1% MoM-sa (+6.7% YoY) and our estimate of +0.2% MoM-sa (+7.0% YoY). This result fully offsets the previous declines (-0.6% and -1.6% in September and October) and places the index 4.5% above the pre-pandemic mark (February-2020).

**Details indicate widespread growth, with mobility-related sectors continuing to strengthen.** Information services were the highlight (+5.4% MoM-sa), fully giving back the previous drops and reaching levels 13.7% above the pre-crisis mark. Transportation also printed a healthy figure (+1.8% MoM-sa), stemming mainly from Ground (+0.7%) and Air transportation (+7.6%). The latter still remains 16.5% below its pre-pandemic mark, leaving room for further positive prints. Services to Families continued to strengthen (+2.8% MoM-sa), marking the eighth gain in a row but still showing wide idleness compared to the pre-pandemic mark (down 11.8%), which leaves room for positive contributions from the services sector to overall activity in 4Q21 and 2022. Professional and Administrative services slightly decreased (-0.3% MoM-sa), marking the fourth decline in a row, reaching readings 4.2% below its pre-crisis mark.

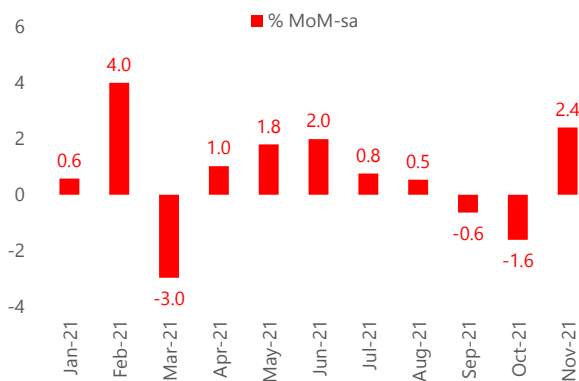
**Among services activities, the biggest positive contribution came from Information technology (+0.78 p.p.).** Telecommunication (+0.26 p.p.), Air Transport (+0.21 p.p.) and Food services (+0.19 p.p.) also posted healthy contributions, while only Professional services contributed negatively (-0.13 p.p.). The diffusion index (which captures the percentage of services activities that show monthly expansion) reached 92% (vs. 33% in October), and in comparison to the pre-pandemic mark, 7 of 12 services activities remain below the levels seen in February 2020.

**In quarterly terms, November's headline result implies a -0.3% QoQ-sa carryover to 4Q21 (+2.2% and +2.8% in 2Q21 and 3Q21, respectively).** However, for the Services to Families segment, the carryover implied is 6.4% (+4.3% and +17.3% in 2Q21 and 3Q21, respectively). In our view, Services to Families is the best metric to capture the mechanical rebound of the services sector currently, on the heels of the increase in mobility. Indeed, although Services to Families accounts for nearly 10% of the IBGE's monthly survey, it highly correlates with segments that account for nearly 30% of GDP (e.g., Other Services and Public Services) and that still show wide idleness relative to the pre-pandemic mark. We expect these segments to contribute to sequential increases for the services sector in 4Q21 and 1H22.



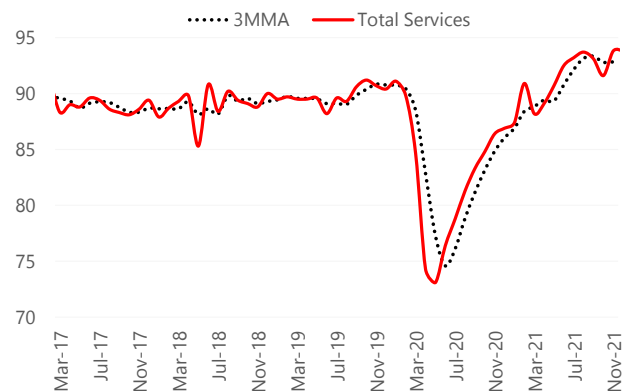
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**Figure 2.A – Total Services (sa, % MoM)**



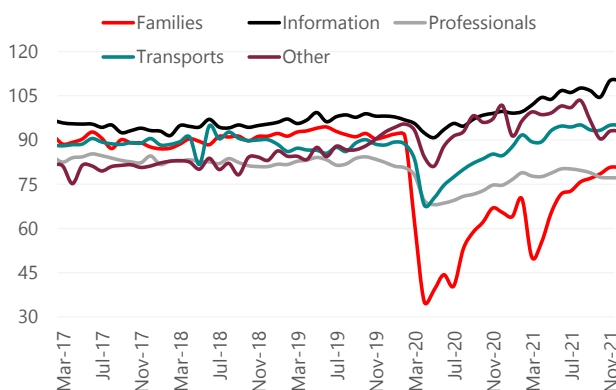
Sources: IBGE, Santander.

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



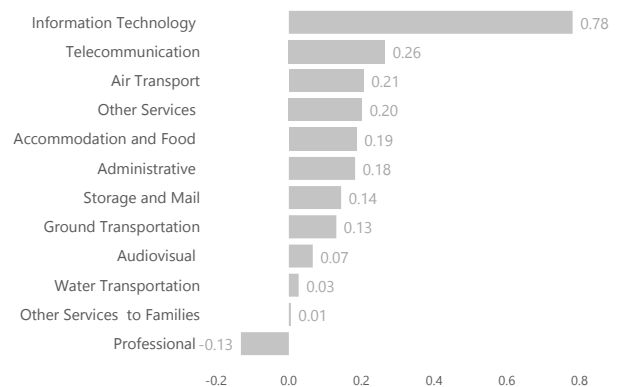
Sources: IBGE, Santander.

**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.

<sup>1</sup> Santander Brazil Economic Activity - “Chartbook – Lowering (Again) Our GDP Estimates” – December 8, 2021 – Available on: <https://bit.ly/Std-chart-econact-dec21>

Santander Brazil Economic Activity - “Chartbook – Household Debt is a Risk for Loan Growth and Delinquencies” – December 2, 2021 – Available on: <https://bit.ly/Std-chart-credit-dec21>



Figure 4 – “Heatmap” Showing Services Volume by Subsector

By Subsector (% MoM sa)												
	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
<b>Families</b>	-2.24	-2.14	9.38	-28.14	9.94	18.26	9.48	1.54	4.26	1.58	1.95	2.80
Accommodation and Food	-2.51	-2.27	9.29	-29.60	11.07	19.02	9.74	2.08	4.76	1.95	1.78	2.75
Other Services to Families	0.50	0.50	4.31	-3.18	1.31	7.46	1.96	0.15	-0.15	0.00	1.63	0.44
<b>Information</b>	0.71	-0.60	0.50	2.21	2.55	-0.57	2.79	-0.56	1.41	-0.84	-2.06	5.36
Technology	0.77	0.66	0.09	1.89	2.59	-0.90	1.64	0.45	1.43	-1.05	-1.78	5.61
Telecommunications	0.00	1.84	-1.69	0.11	0.69	0.00	-0.57	0.92	0.11	-1.47	-2.42	1.42
Information	2.74	-1.04	2.04	4.44	4.62	-0.71	1.60	1.69	2.58	-0.11	-0.45	10.70
Audiovisual and News	1.16	-13.29	5.27	5.79	1.18	1.90	18.94	-12.18	1.92	0.67	-2.01	1.37
<b>Professional</b>	0.00	2.54	3.00	-1.39	-0.26	1.55	1.78	0.00	-0.62	-1.00	-1.90	-0.26
Technical and Professional	-3.84	2.85	3.19	-0.67	0.14	2.97	1.05	5.19	-6.41	2.77	-4.62	-1.88
Administrative	1.59	1.17	4.11	-1.73	-1.38	2.68	1.24	-0.61	0.12	-1.72	-1.63	1.15
<b>Transportation</b>	-0.59	3.54	4.56	-2.51	0.00	4.25	1.61	-0.32	0.74	-1.79	-0.11	1.82
Ground Transportation	-3.17	5.04	5.84	-2.45	-1.13	4.07	0.73	0.00	-0.61	-0.73	1.11	0.73
Water Transportation	1.77	3.34	2.08	1.25	6.90	-3.65	0.19	4.79	-2.53	0.00	1.67	1.58
Air Transport	3.59	13.04	-6.13	-17.88	-21.02	73.62	14.64	-5.66	6.64	-8.98	-5.13	7.63
Storage and Mail	0.78	1.54	5.41	-2.61	0.00	4.71	-3.09	-0.09	1.55	0.09	-1.17	1.63
<b>Other Services</b>	4.74	-10.13	5.58	3.11	-0.90	0.61	2.32	-0.49	2.38	-6.67	-6.32	2.88

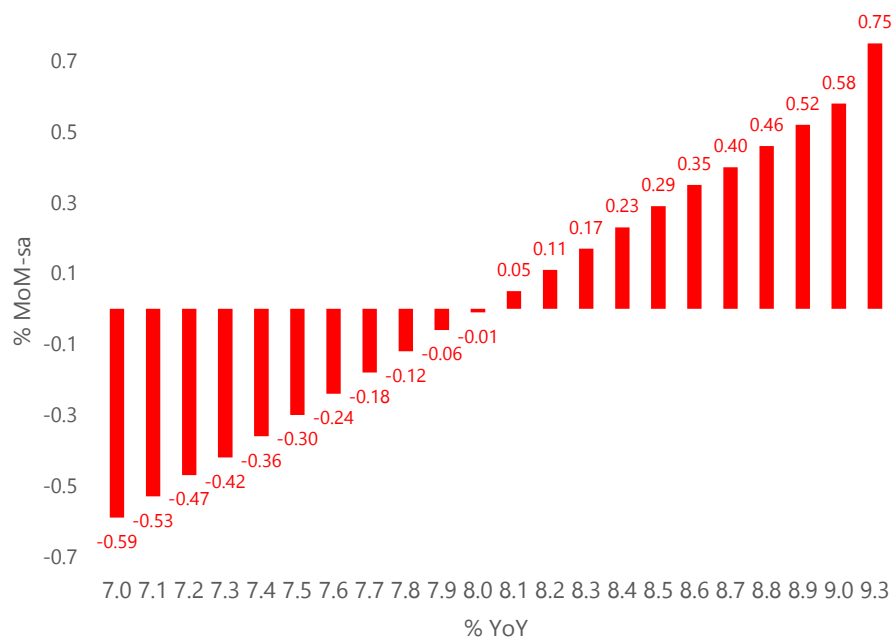
Sources: IBGE, Santander.

Figure 5 – “Heatmap” Showing Services Contribution by Subsector

By Subsector (contribution, sa p.p)												
	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21
<b>Total Services</b>	<b>0.58</b>	<b>0.58</b>	<b>4.00</b>	<b>-2.97</b>	<b>1.02</b>	<b>1.80</b>	<b>1.98</b>	<b>0.76</b>	<b>0.54</b>	<b>-0.64</b>	<b>-1.61</b>	<b>2.40</b>
Accommodation and Food	-0.17	-0.15	0.63	-2.01	0.75	1.29	0.66	0.14	0.32	0.13	0.12	0.19
Other Services to Families	0.01	0.01	0.06	-0.04	0.02	0.10	0.03	0.00	0.00	0.00	0.02	0.01
Telecommunications	0.00	0.34	-0.32	0.02	0.13	0.00	-0.11	0.17	0.02	-0.28	-0.45	0.26
Information	0.20	-0.08	0.15	0.32	0.34	-0.05	0.12	0.12	0.19	-0.01	-0.03	0.78
Audiovisual and News	0.06	-0.64	0.25	0.28	0.06	0.09	0.91	-0.58	0.09	0.03	-0.10	0.07
Technical and Professional	-0.27	0.20	0.22	-0.05	0.01	0.21	0.07	0.36	-0.45	0.19	-0.32	-0.13
Administrative	0.25	0.19	0.65	-0.27	-0.22	0.43	0.20	-0.10	0.02	-0.27	-0.26	0.18
Ground Transportation	-0.57	0.90	1.04	-0.44	-0.20	0.73	0.13	0.00	-0.11	-0.13	0.20	0.13
Water Transportation	0.03	0.06	0.04	0.02	0.12	-0.06	0.00	0.08	-0.04	0.00	0.03	0.03
Air Transport	0.10	0.35	-0.17	-0.48	-0.57	1.99	0.40	-0.15	0.18	-0.24	-0.14	0.21
Storage and Mail	0.07	0.14	0.48	-0.23	0.00	0.41	-0.27	-0.01	0.14	0.01	-0.10	0.14
Other Services	0.33	-0.71	0.39	0.22	-0.06	0.04	0.16	-0.03	0.17	-0.47	-0.44	0.20

Sources: IBGE, Santander.

Figure 6 – Deseasonalization Grid for December 2021



Sources: IBGE, Santander



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