

SERVICES CAPPED 1Q22 WITH WIDESPREAD GROWTH

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- **Services output rebounded in March (+1.8% MoM-sa), above market expectations (+0.8% MoM-sa) and in line with our estimate (+1.2% MoM-sa).** Compared to the same month in 2021, services output jumped 11.4% YoY, topping market expectations (+8.5% YoY) and our call (+10.4% YoY). March's print placed the headline index 7.3% above the pre-pandemic benchmark (February 2020) and marked 1.8% QoQ-sa growth (+0.8% in 4Q21), a healthy streak of seven consecutive gains.
- **Zooming in on the details, positive composition with widespread growth.** Information services rebounded 1.6% MoM-sa after three declines in a row, while services provided to families inched up 2.5% MoM-sa, recovering after the two previous declines. Transportation also posted a positive print, climbing 2.7% MoM-sa and marking the fifth gain in a row. Moreover, professional services inched up 1.6% MoM-sa, marking a healthy streak of five consecutive gains, while other services edged up 1.6% MoM-sa after two drops in a row.
- **Among services activities, the diffusion index rose to 75% (vs. 50% in February), with 9 of 12 activities inching up at the margin.** The biggest positive contributions came from air transport (+0.42 p.p.), ground transportation (+0.39 p.p.), and professional services (+0.30 p.p.), while administrative services (-0.18 p.p.) and water transportation (-0.14 p.p.) contributed the least. Regarding post-COVID dynamics, only 5 of 12 activities remain below their pre-pandemic marks, notably food and accommodation (down 13.3%), which leaves room for a further contribution from services to overall activity as the economy's reopening consolidates. Moreover, the touristic activities index (composed of several segments of services related to tourist activities) climbed 4.5% MoM-sa in March but remains 6.5% below the pre-COVID benchmark.
- **March's data capped the batch of services data for 1Q22, reinforcing our view that cyclical services continued to contribute positively to overall activity in the quarter.** We expect idled segments (like services to families) to gradually move away from idleness throughout 2Q22 as the economy's reopening consolidates, contributing to continued GDP growth. Our tracking of IBC-Br for March was updated to +0.8% MoM-sa (from +0.7%), while we maintain our 1Q22 GDP growth tracking at +0.6% QoQ-sa. We forecast GDP growth of 0.7% in 2022 (with significant upside risks) and a 0.3% contraction of real activity in 2023.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE "IMPORTANT DISCLOSURES" SECTION OF THIS REPORT.

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Figure 1 – Services Sector Breakdown

	Weights	% MoM			% YoY			% QoQ			Feb-20 %
		Jan-22	Feb-22	Mar-22	Jan-22	Feb-22	Mar-22	Sep-21	Dec-21	Mar-22	Mar-22
Total Services	100%	-1.9	0.4	1.8	9.3	7.4	11.5	2.9	0.8	1.8	7.3
Families	8%	-1.0	0.1	2.5	19.5	17.3	62.2	17.2	8.3	1.3	-12.0
Accommodation and Food	7%	-1.4	0.6	1.5	19.8	17.8	66.4	18.7	8.1	1.0	-13.3
Other Services to Families	1%	-0.1	2.0	8.4	17.2	14.0	43.2	5.8	4.9	6.8	-0.4
Information	31%	-3.6	-1.1	1.6	5.0	2.4	3.9	1.3	1.3	-2.6	10.4
Technology	26%	-3.9	-2.2	2.9	4.5	2.0	3.4	1.5	1.4	-3.0	10.7
Telecommunication	19%	-1.3	-2.6	-0.5	-5.1	-7.4	-8.0	-0.2	-3.2	-3.5	-9.4
Information Technology	7%	-0.2	0.1	2.6	19.3	16.2	19.2	3.1	5.5	0.4	45.1
Audiovisual	5%	-4.0	-1.7	6.2	10.0	6.3	9.1	1.2	1.5	-1.4	-2.3
Professional	23%	0.2	1.8	1.6	7.5	7.2	9.1	1.6	-1.1	5.1	5.2
Professional	7%	1.9	-2.0	4.3	10.5	4.6	10.0	3.9	-4.1	4.1	19.8
Administrative	16%	0.4	3.5	-1.2	6.3	8.3	8.7	1.4	0.4	4.6	-2.2
Transportation	31%	1.6	2.5	2.7	15.1	14.1	17.3	2.3	1.8	6.9	17.9
Ground Transportation	18%	2.4	2.7	2.2	15.3	15.3	17.5	1.6	2.7	7.3	13.4
Water Transportation	2%	-0.6	0.0	-8.1	19.3	17.9	3.0	2.7	2.5	-0.9	13.2
Air Transport	3%	7.2	-3.2	15.6	49.8	45.7	119.1	13.1	3.0	24.0	14.3
Storage and Mail	9%	1.2	1.8	1.8	5.9	5.7	6.1	0.5	-0.2	2.4	18.0
Other Services	7%	-0.3	-1.0	1.6	1.3	-3.9	-4.2	0.5	-7.3	0.9	1.2
Touristic Activities	-	-0.1	-0.8	4.5	29.2	28.7	75.6	17.7	6.8	5.4	-6.5

Sources: IBGE, Santander.

Services sector topped market expectations and capped 1Q22 with solid growth. Services output rebounded in March (+1.8% MoM-sa), above market expectations (+0.8% MoM-sa) and in line with our estimate (+1.2% MoM-sa). Compared to the same month in 2021, services output jumped 11.4% YoY, topping market expectations (+8.5% YoY) and our call (+10.4% YoY). Regarding post-COVID dynamics, March's print placed the headline index 7.3% above the pre-pandemic benchmark (February 2020) and marked 1.8% QoQ-sa growth (+0.8% in 4Q21), a healthy streak of seven consecutive gains.

The details point to a positive composition. Information services rebounded 1.6% MoM-sa after three declines in a row, reaching a level 10.4% above the pre-pandemic mark. Services provided to families inched up 2.5% MoM-sa, recovering from the previous two weak figures (due to the Omicron variant outbreak in the period). This segment remains 12% below the pre-pandemic mark, which leaves room for further contributions from the segment to overall activity. Transportation also showed a positive print, climbing 2.7% MoM-sa, the fifth gain in a row and surpassing February 2020's level by 18%. Moreover, professional services inched up 1.6% MoM-sa, marking a healthy streak of five consecutive gains, finally closing the gap with pre-pandemic levels; at the same time, other services edged up 1.6% MoM-sa after two drops in a row.

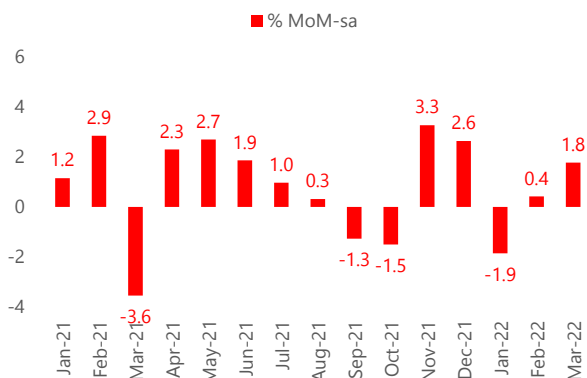
Among services activities, widespread growth. The diffusion index rose to 75% (vs. 50% in February), with 9 of 12 activities inching up at the margin. The biggest positive contributions came from air transport (+0.42 p.p.), ground transportation (+0.39 p.p.), and professional services (+0.30 p.p.), while administrative services (-0.18 p.p.) and water transportation (-0.14 p.p.) contributed the least. Regarding post-COVID dynamics, only 5 of 12 activities remain below their pre-pandemic marks, notably food and accommodation (down 13.3%), which leaves room for a further contribution from services to overall activity as the economy's reopening consolidates. Moreover, the touristic activities index (composed of several segments of services related to tourist activities) climbed 4.5% MoM-sa in March but remains 6.5% below the pre-COVID benchmark.

March's data capped the batch of services data for 1Q22, reinforcing our view that cyclical services continued to contribute positively to overall activity in the quarter. We expect idled segments (like services to families) to gradually move away from idleness throughout 2Q22 as the economy's reopening consolidates, contributing to continued GDP growth. Our tracking of IBC-Br for March was updated to +0.8% MoM-sa (from +0.7%), while we maintain our 1Q22 GDP growth tracking at +0.6% QoQ-sa. We forecast GDP growth of 0.7% in 2022 (with significant upside risks) and a 0.3% contraction of real activity in 2023.



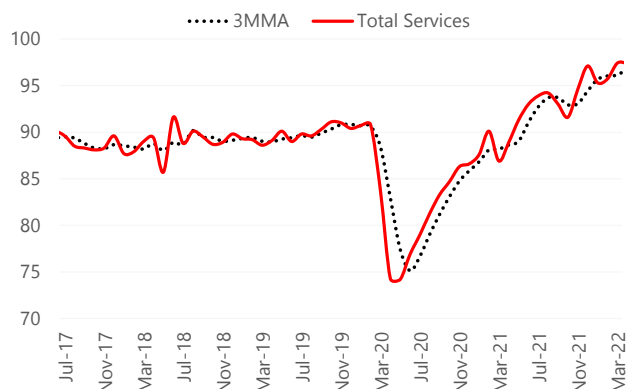
For details on Santander’s activity outlook, please refer to our last chartbook¹.

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



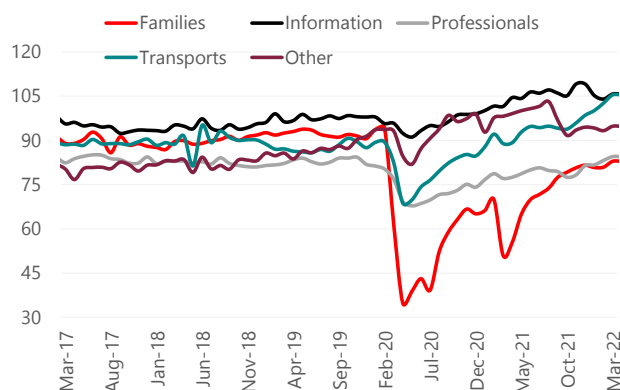
Sources: IBGE, Santander.

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



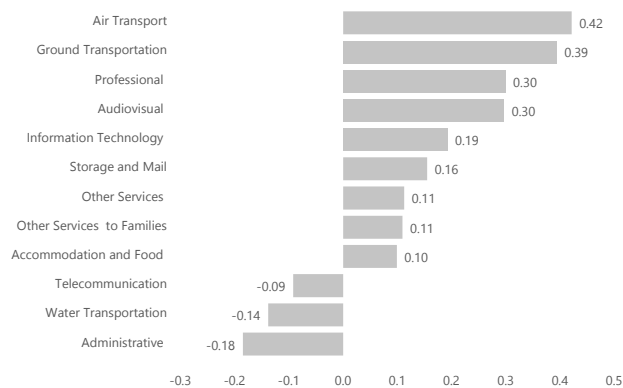
Sources: IBGE, Santander.

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.

¹ Santander Brazil Economic Activity: “Resilience in 2022, but with Concerns Regarding 2023” – April 19, 2022 – Available on: <https://bit.ly/Std-chart-Econact-apr22>



Figure 4 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Total Services	2.30	2.70	1.86	0.97	0.32	-1.27	-1.51	3.28	2.64	-1.85	0.42	1.78
Families	8.63	17.15	7.70	2.58	2.93	5.01	2.19	1.89	1.12	-0.98	0.12	2.47
Accommodation and Food	14.00	13.51	7.26	5.33	3.01	4.12	2.30	2.24	1.22	-1.45	0.61	1.46
Other Services to Families	10.09	7.04	1.83	2.70	-1.17	1.04	2.34	1.86	2.95	-0.14	2.05	8.43
Information	2.96	-0.29	2.11	-0.38	1.04	-1.03	-0.85	3.81	0.00	-3.57	-1.14	1.63
Technology	2.40	-0.81	1.36	0.36	1.34	-1.06	-1.78	5.53	-0.43	-3.88	-2.24	2.94
Telecommunications	0.34	0.00	-0.57	0.69	0.00	-1.59	-2.31	0.71	-0.82	-1.30	-2.63	-0.49
Information	7.58	0.23	-0.64	2.05	2.58	-0.95	1.80	7.15	-3.77	-0.21	0.05	2.64
Audiovisual and News	-0.29	2.48	10.11	-6.99	1.67	0.68	-1.36	1.93	1.76	-3.98	-1.66	6.19
Professional	0.52	1.55	1.65	0.88	-1.12	-0.50	-2.39	1.03	4.09	0.25	1.84	1.56
Technical and Professional	3.74	2.01	0.52	6.78	-6.47	1.96	-4.74	1.08	2.66	1.94	-2.03	4.28
Administrative	-1.64	2.44	1.63	-0.37	0.50	-1.23	-1.00	1.89	2.48	0.36	3.49	-1.16
Transportation	0.34	4.04	2.05	-0.42	0.53	-0.74	-0.32	2.24	2.71	1.62	2.50	2.73
Ground Transportation	0.77	3.42	0.98	0.85	-1.32	-0.24	1.34	1.81	2.25	2.43	2.71	2.20
Water Transportation	7.41	-4.00	-0.06	6.12	-2.44	-0.55	2.08	0.72	3.34	-0.58	0.00	-8.12
Air Transport	5.82	34.72	20.42	-9.01	6.43	-8.09	-6.31	13.88	12.44	7.23	-3.17	15.61
Storage and Mail	0.56	4.44	-2.39	-0.82	2.19	0.09	-1.34	1.36	-1.52	1.18	1.79	1.76
Other Services	0.92	1.01	0.70	0.79	1.57	-6.20	-5.27	1.96	1.07	-0.32	-0.96	1.61

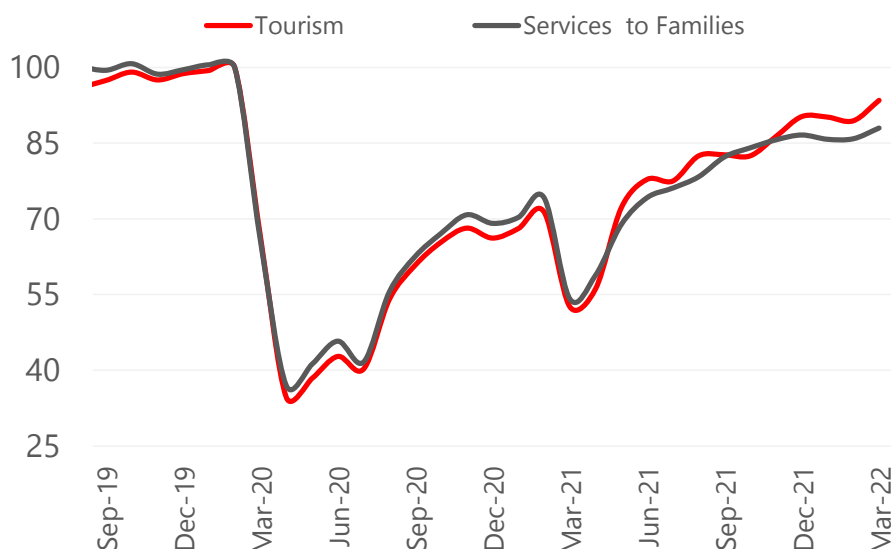
Sources: IBGE, Santander.

Figure 5 – “Heatmap” Showing Contribution by Activities

By Subsector (contribution, sa p.p)												
	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22
Total Services	2.30	2.70	1.86	0.97	0.32	-1.27	-1.51	3.28	2.64	-1.85	0.42	1.78
Accommodation and Food	0.95	0.92	0.49	0.36	0.20	0.28	0.16	0.15	0.08	-0.10	0.04	0.10
Other Services to Families	0.13	0.09	0.02	0.04	-0.02	0.01	0.03	0.02	0.04	0.00	0.03	0.11
Telecommunications	0.06	0.00	-0.11	0.13	0.00	-0.30	-0.43	0.13	-0.15	-0.24	-0.49	-0.09
Information	0.55	0.02	-0.05	0.15	0.19	-0.07	0.13	0.52	-0.28	-0.02	0.00	0.19
Audiovisual and News	-0.01	0.12	0.49	-0.34	0.08	0.03	-0.07	0.09	0.08	-0.19	-0.08	0.30
Technical and Professional	0.26	0.14	0.04	0.47	-0.45	0.14	-0.33	0.08	0.19	0.14	-0.14	0.30
Administrative	-0.26	0.39	0.26	-0.06	0.08	-0.20	-0.16	0.30	0.39	0.06	0.55	-0.18
Ground Transportation	0.14	0.61	0.18	0.15	-0.24	-0.04	0.24	0.32	0.40	0.44	0.49	0.39
Water Transportation	0.13	-0.07	0.00	0.10	-0.04	-0.01	0.04	0.01	0.06	-0.01	0.00	-0.14
Air Transport	0.16	0.94	0.55	-0.24	0.17	-0.22	-0.17	0.37	0.34	0.20	-0.09	0.42
Storage and Mail	0.05	0.39	-0.21	-0.07	0.19	0.01	-0.12	0.12	-0.13	0.10	0.16	0.16
Other Services	0.06	0.07	0.05	0.06	0.11	-0.43	-0.37	0.14	0.07	-0.02	-0.07	0.11

Sources: IBGE, Santander.

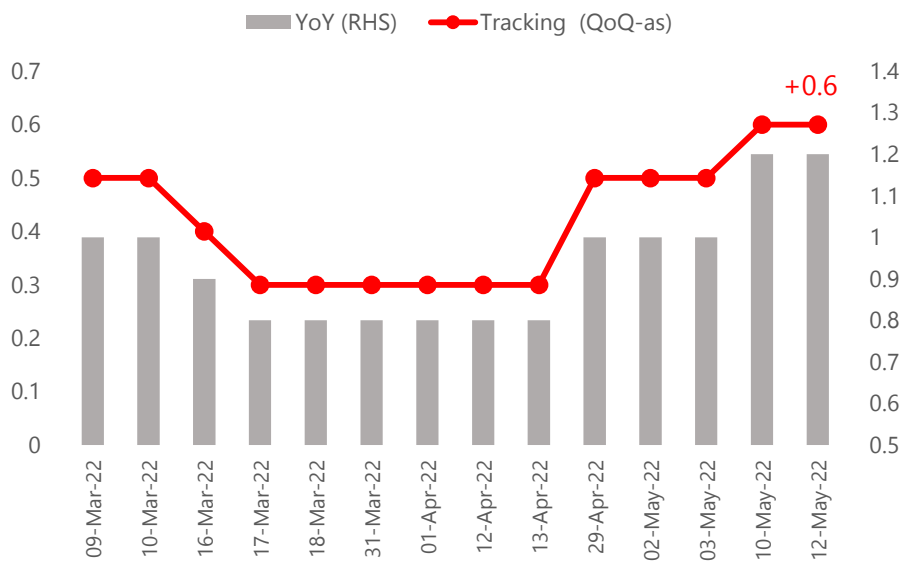
Figure 6 – Selected Segments of Services (sa, February 2020=100)



Sources: IBGE, Santander



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



Sources: IBGE, Santander

Figure 8 – Santander GDP Growth Nowcasting

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
13-Apr-22	Retail Sales	Feb-22	0.3	0.8	0.5	1.0
29-Apr-22	PNAD	Mar-22	0.5	1.0	0.5	1.0
02-May-22	IBC-Br	Feb-22	0.5	1.0	0.5	1.0
03-May-22	Industry	Mar-22	0.5	1.0	0.5	1.0
10-May-22	Retail Sales	Mar-22	0.6	1.2	0.5	1.0
12-May-22	Services	Mar-22	0.6	1.2	0.5	1.0

Sources: IBGE, Santander.



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