

WEAK KICK-OFF TO 4Q22 FOR SERVICES

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- **Services output inched down 0.6% MoM-sa (+9.5% YoY) in October, below market consensus of -0.2% MoM-sa (+10.5% YoY) and close to our estimate of -1.0% MoM-sa (+9.6% YoY).** In the unadjusted series, September's figure was revised to +9.4% YoY (from +9.7% in the previous release). October's result broke a healthy string of five consecutive gains and marked a weak kick-off to 4Q22, implying a tepid carryover of 0.1% QoQ-sa to the quarter. After reaching an all-time high reading last month, October's retreat still places services output 10.5% above the pre-pandemic benchmark (February 2020).
- **Zooming in on the details, a widespread drop.** Services to families weakened 1.5% MoM-sa at the margin (our proprietary index IGet pointed to a 1.4% MoM-sa retreat), the first drop after seven gains in a row. Transportation services tumbled 1.8% MoM-sa, likely reflecting the continued weakening seen in goods-related activities (especially in manufacturing). Professional services (a mobility-related activity) also contributed negatively by retreating 0.8% MoM-sa. Conversely, information services expanded 0.7% MoM-sa, the fourth gain in a row, but with a 2.5% MoM-sa retreat seen in telecommunication (after the subsector benefited substantially from tax cuts in 3Q22). Lastly, other services (a highly volatile subsector that includes activities such as brokerage, financial services, etc.) expanded 2.6% MoM-sa, partially rebounding from the previous drop. All in all, the diffusion index reached 25% (vs. 58% in September).
- **November's available data point to a weak performance.** Indeed, FGV's economic confidence data index tumbled to 93.7 points (from 99.1), below the neutral mark of 100 points, as services PMI shrank to 51.6 points (from 54) but remained slightly above the neutral mark of 50 points. Moreover, our proprietary IGet Services index inched down 0.4% MoM-sa. The services sector played a major role in cushioning the first impacts of a contractionary monetary policy that began to be felt in 3Q22 (hitting mainly goods-related activities), owing mainly to sectors benefiting from tax cuts and mobility-related activities (in the wake of the economy's reopening consolidation) and to non-cyclical services.
- **We are maintaining our October IBC-Br estimate at +0.5% MoM-sa (but we expect a significant revision in the historical series, as usual after 3Q GDP releases).** We are maintaining our 4Q22 GDP growth tracking at +0% QoQ-sa. We forecast GDP growth of +3.0% in 2022 and +0.8% in 2023.

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

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Figure 1 – Services Sector Details

Services Breakdown											
	Weights	% MoM			% YoY			% QoQ			Feb-20 %
		Aug-22	Sep-22	Oct-22	Aug-22	Sep-22	Oct-22	Jun-22	Sep-22	Oct-22	Oct-22
Total Services	100%	1.2	0.5	-0.6	8.7	9.4	9.5	1.4	3.1	2.6	10.5
Families	8%	0.9	0.8	-1.5	21.8	18.0	10.7	6.3	2.3	1.4	-6.0
Accommodation and Food	7%	1.4	0.0	-1.9	22.7	17.3	9.8	5.8	2.5	1.6	-7.9
Other Services to Families	1%	-3.9	4.3	-1.0	16.9	22.1	16.5	4.1	2.9	1.0	-5.0
Information	31%	0.9	1.8	0.7	3.1	6.0	8.3	0.0	2.5	3.0	17.8
Technology	26%	2.2	1.5	0.8	3.7	6.8	10.0	2.7	2.9	3.9	18.6
Telecommunication	19%	1.8	1.7	-2.5	-6.7	-3.6	-4.9	-0.6	0.1	0.8	-9.5
Information Technology	7%	1.4	2.5	6.8	17.3	19.9	28.7	5.0	6.2	8.4	73.7
Audiovisual	5%	-2.5	1.1	-3.4	-2.3	-0.8	-4.3	0.4	-0.8	-2.9	-9.6
Professional	23%	0.2	0.7	-0.8	7.6	7.7	8.3	2.2	0.2	0.0	5.8
Professional	7%	1.5	2.9	-3.7	9.1	9.9	8.3	2.5	1.9	1.4	21.4
Administrative	16%	-0.4	-0.3	0.3	7.0	6.8	8.3	2.1	-0.1	-0.5	-0.2
Transportation	31%	0.9	-0.3	-1.8	15.3	15.0	12.0	1.2	3.9	2.0	19.0
Ground Transportation	18%	1.0	-0.7	-1.0	24.5	22.0	18.2	5.6	4.0	1.8	20.8
Water Transportation	2%	0.8	-3.2	-0.6	16.4	12.2	9.0	3.7	5.8	1.5	29.7
Air Transport	3%	0.3	2.4	-10.1	8.7	21.8	8.8	-5.0	-4.1	-0.5	-8.0
Storage and Mail	9%	0.7	1.3	-1.2	3.2	3.8	3.7	-4.1	5.0	4.1	17.0
Other Services	7%	6.9	-3.1	2.6	-2.3	-2.2	6.5	-0.1	0.3	2.6	3.5
Touristic Activities	-	1.1	0.6	-2.8	22.7	22.7	16.1	7.1	1.4	0.9	-2.5

Sources: IBGE, Santander.

Services' real revenue marked a weak kick-off to 4Q22. The headline index shrank 0.6% MoM-sa (+9.5% YoY) in October, considerably below market consensus of -0.2% MoM-sa (+10.5% YoY) and close to our estimate of -1.0% MoM-sa (+9.6% YoY). Moreover, we highlight a significant revision (in the unadjusted series) in September's figure to +9.4% YoY (from +9.7% YoY previously). October's result broke a solid string of five consecutive gains, in the wake of the mobility recovery (as the economy's reopening consolidated) and the tax cuts in the period (mainly in 3Q22). We calculate a tepid 0.1% QoQ-sa carryover to the quarter, and after reaching an all-time high reading last month, services output remains 10.5% above the pre-pandemic benchmark.

Zooming in on the details, a widespread drop. Services to families weakened 1.5% MoM-sa at the margin (our proprietary IGet¹ index pointed to a 1.4% MoM-sa retreat), the first drop after seven gains in a row and with the index remaining 6.0% below the pre-pandemic threshold. Transportation services tumbled 1.8% MoM-sa, likely reflecting the continued weakening seen in goods-related activities (especially in manufacturing) but remaining far above the pre-pandemic mark (up 19%). Professional services, which also benefited recently from the continuing recovery in mobility, contributed negatively by retreating 0.8% MoM-sa, but remained 5.8% above the pre-pandemic benchmark. Conversely, information services expanded 0.7% MoM-sa, the fourth gain in a row, owing mainly to information technology (+6.8% MoM-sa) but with a 2.5% MoM-sa retreat seen in telecommunication (after the subsector benefited substantially from tax cuts in 3Q22). The segment remains far above the pre-pandemic benchmark (up 17.8%). Lastly, other services (a highly volatile subsector that includes activities such as brokerage, financial services, etc.) expanded 2.6% MoM-sa, partially rebounding from the previous drop. All in all, the diffusion index reached 25% (vs. 58% in September), with only 3 of 12 services activities expanding at the margin.

November's available data point to a weak performance. Indeed, FGV's economic confidence data index tumbled to 93.7 points (from 99.1), below the neutral mark of 100 points, as services PMI shrank to 51.6 points (from 54) but remained slightly above the neutral mark of 50 points. Moreover, our proprietary IGet Services index inched down 0.4% MoM-sa, with our preliminary tracking for services rendered to families in November standing at -0.3% MoM-sa (+8.0% YoY). The services sector played a major role in cushioning the first impacts of a contractionary monetary policy that began to be felt in 3Q22 (hitting mainly goods-related activities), owing mainly to sectors benefiting from tax cuts and mobility-related activities recovery (as the economy's reopening consolidated) and to non-cyclical services. We do not expect these elements to be repeated in 4Q22. We are maintaining our October IBC-Br estimate at +0.5% MoM-sa (but we expect a significant revision in the historical

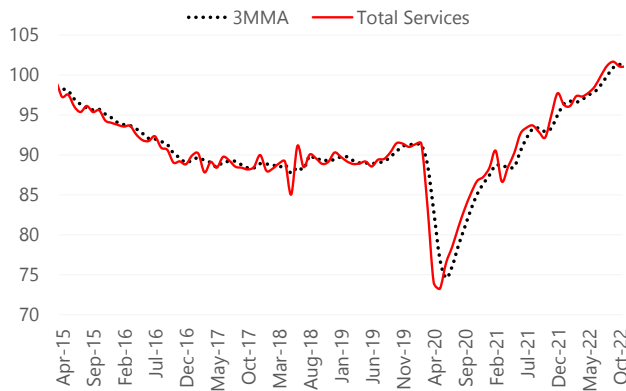
¹ Santander Brazil Economic Activity: "IGet: Serviços enfraquecem em novembro" – December 6, 2022 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-nov22>



series, as usual after 3Q GDP releases). We are maintaining our 4Q22 GDP growth tracking at +0% QoQ-sa. We forecast GDP growth of 3.0% in 2022 and 0.8% in 2023. We project a slowdown in domestic demand and in cyclical supply components, stemming mainly from the expected global recession and the effects of a tight Central Bank (BCB) policy, but we also expect strong growth for non-cyclical farm output, reflecting an all-time-high forecast for the grain harvest.

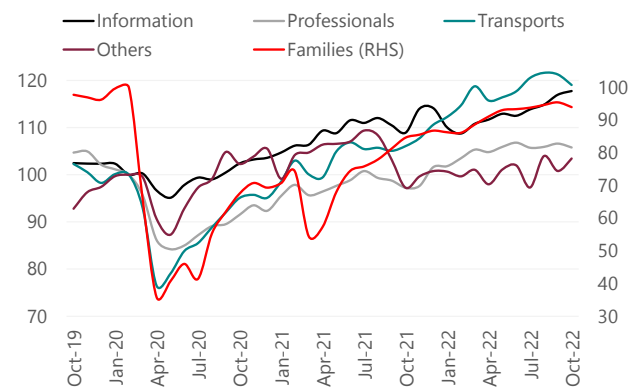
For details on Santander’s economic activity outlook, please refer to our last reports².

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



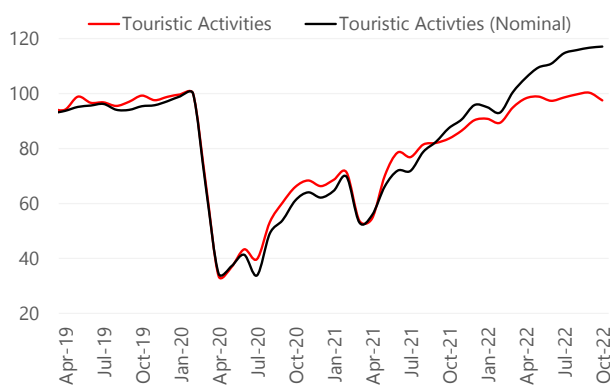
Sources: IBGE, Santander.

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



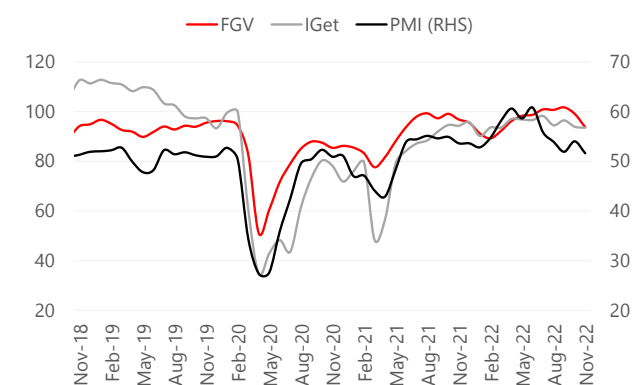
Sources: IBGE, Santander. *The Other Services subsector includes several activities such as brokerage, financial services, etc.

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.

² Santander Brazil Economic Activity: “Financial Conditions Remain Critically Restrictive” – November 30, 2022 – Available on: <https://bit.ly/Std-FCI-nov22>



Figure 6 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Total Services	3.06	2.85	-1.47	-0.18	1.29	-0.03	0.49	0.79	1.38	1.25	0.49	-0.59
Families	1.06	1.44	-0.56	-0.19	2.93	2.77	2.16	0.31	0.48	0.89	0.84	-1.53
Accommodation and Food	1.35	1.43	-0.69	0.80	1.30	4.20	1.10	-0.92	1.79	1.42	-0.04	-1.92
Other Services to Families	3.04	0.87	0.26	1.80	9.24	-3.04	-0.52	3.15	2.30	-3.94	4.27	-1.02
Information	4.66	0.11	-3.58	-1.18	1.90	0.80	1.11	-0.38	1.21	0.87	1.83	0.67
Technology	6.13	-0.23	-3.97	-2.18	3.14	0.46	1.58	-0.60	0.78	2.24	1.55	0.82
Telecommunications	0.39	-0.89	-1.28	-2.50	-0.51	0.15	0.61	0.18	-1.96	1.75	1.71	-2.46
Information	9.06	-3.98	-0.59	0.71	2.95	2.47	2.95	-5.01	6.99	1.42	2.45	6.75
Audiovisual and News	1.35	1.49	-4.21	-1.47	5.13	-3.29	1.16	0.50	-0.16	-2.52	1.07	-3.38
Professional	0.38	4.10	0.21	1.65	1.77	-0.50	1.06	0.84	-1.01	0.17	0.66	-0.78
Technical and Professional	0.49	2.60	2.19	-2.25	5.51	-2.23	1.39	3.14	-2.55	1.48	2.90	-3.74
Administrative	1.61	2.94	0.35	2.70	-0.75	1.08	1.03	-0.02	-0.10	-0.35	-0.28	0.27
Transportation	1.56	2.67	1.49	2.19	3.54	-2.55	0.60	1.09	2.42	0.88	-0.28	-1.84
Ground Transportation	1.70	2.35	2.45	2.79	2.29	0.78	2.23	2.38	1.20	1.04	-0.72	-0.99
Water Transportation	0.60	3.82	-0.48	0.30	-5.69	4.44	4.03	1.50	3.96	0.80	-3.21	-0.55
Air Transport	7.37	12.01	6.72	-9.45	31.85	-7.09	-13.17	-9.38	6.88	0.27	2.37	-10.07
Storage and Mail	1.19	-1.48	1.24	1.66	3.07	-5.97	0.23	-2.35	5.59	0.70	1.33	-1.16
Other Services	2.47	1.15	-0.11	-1.00	1.40	-3.04	3.21	0.85	-4.59	6.86	-3.05	2.63

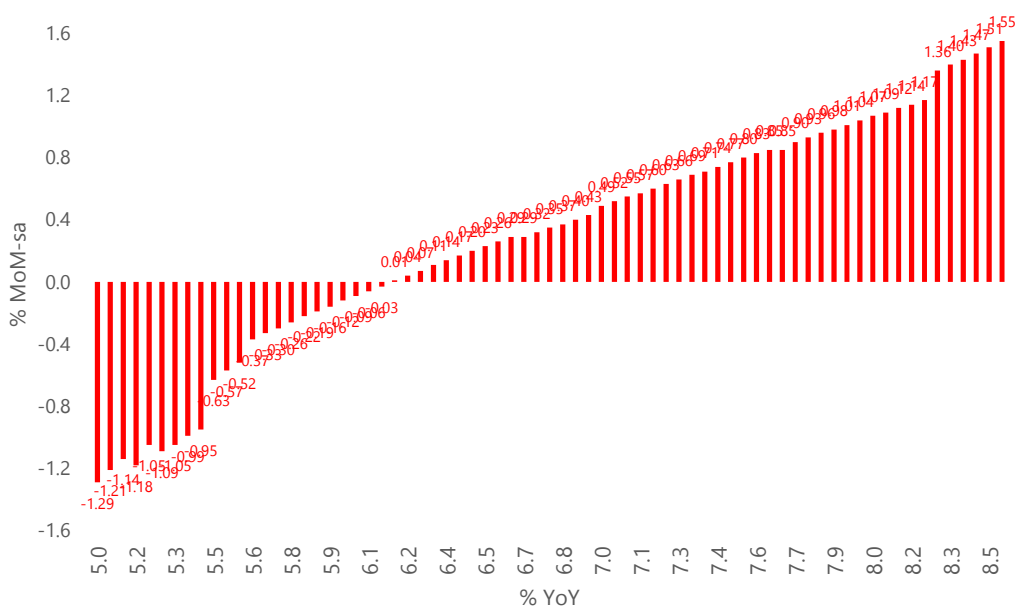
Sources: IBGE, Santander.

Figure 7 – “Heatmap” Showing Contribution by Activities

By Subsector (contribution, sa p.p)												
	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22
Total Services	3.06	2.85	-1.47	-0.18	1.29	-0.03	0.49	0.79	1.38	1.25	0.49	-0.59
Accommodation and Food	0.09	0.10	-0.05	0.05	0.09	0.29	0.07	-0.06	0.12	0.10	0.00	-0.13
Other Services to Families	0.04	0.01	0.00	0.02	0.12	-0.04	-0.01	0.04	0.03	-0.05	0.06	-0.01
Telecommunications	0.07	-0.17	-0.24	-0.47	-0.09	0.03	0.11	0.03	-0.37	0.33	0.32	-0.46
Information	0.66	-0.29	-0.04	0.05	0.22	0.18	0.22	-0.37	0.51	0.10	0.18	0.49
Audiovisual and News	0.06	0.07	-0.20	-0.07	0.25	-0.16	0.06	0.02	-0.01	-0.12	0.05	-0.16
Technical and Professional	0.03	0.18	0.15	-0.16	0.39	-0.16	0.10	0.22	-0.18	0.10	0.20	-0.26
Administrative	0.26	0.47	0.06	0.43	-0.12	0.17	0.16	0.00	-0.02	-0.06	-0.04	0.04
Ground Transportation	0.30	0.42	0.44	0.50	0.41	0.14	0.40	0.43	0.21	0.19	-0.13	-0.18
Water Transportation	0.01	0.07	-0.01	0.01	-0.10	0.08	0.07	0.03	0.07	0.01	-0.05	-0.01
Air Transport	0.20	0.32	0.18	-0.26	0.86	-0.19	-0.36	-0.25	0.19	0.01	0.06	-0.27
Storage and Mail	0.10	-0.13	0.11	0.15	0.27	-0.52	0.02	-0.21	0.49	0.06	0.12	-0.10
Other Services	0.17	0.08	-0.01	-0.07	0.10	-0.21	0.22	0.06	-0.32	0.48	-0.21	0.18

Sources: IBGE, Santander.

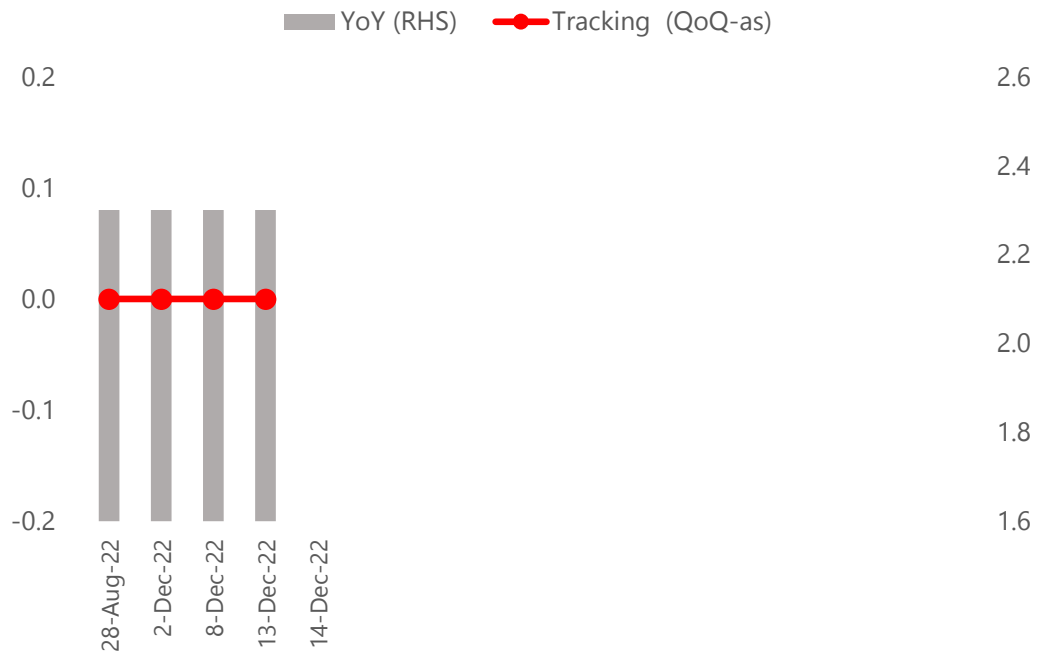
Figure 8 – Grid of Deseasonalization (YoY% vs. MoM-sa)



Sources: IBGE, Santander



Figure 9 – 4Q22 GDP Growth Nowcasting (% , QoQ-sa and YoY-nsa)³



Sources: IBGE, Santander

³ 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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