

**NEGATIVE SURPRISE FOR SERVICES IN JANUARY**

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- **Services output decreased 3.1% MoM-sa (+6.1% YoY) in January, below market consensus of -1.4% MoM-sa (+7.5% YoY) and our estimate of -1.5% MoM-sa (+7.6% YoY). This result fully offsets the strong increase observed in December (+2.9% MoM-sa).** The statistical carryover calculated to 1Q23 is -1.2% QoQ-sa (+1.3% QoQ-sa in 4Q22). The series underwent a methodological revision in this release, as previously announced by the IBGE, but with no changes in previous YoY variations. The breakdown of other services is now provided, but the series still lacks a seasonal adjustment model due to the insufficient number of observations.
- **Zooming in on the details, mixed signals across activities.** Services to families increased 1.0% MoM-sa (+11.4% YoY), the second strong increase in a row. Information services increased 1.0% MoM-sa, partially offsetting December's decrease (-1.8% MoM-sa). Professional services decreased 1.5% MoM-sa, as other services (a highly volatile subsector that includes activities such as brokerage, financial services, etc.) tumbled 9.9% after jumping 9.4% MoM-sa in December. Transportation decreased 3.7% MoM-sa, stemming mainly from declines in ground and air transport. All in all, the diffusion index reached 46% (vs. 67% in December), with 6 of 13 activities posting growth at the margin.
- **February and March available data provide mixed signals.** According to FGV, services confidence shrank 0.4% MoM-sa in February and increased 2.9% in March (at 91.7, below the 100 points neutral mark), while services PMI reached 51.8 points (from 50.7 in January and 49.8 in February, above the 50 points neutral mark). However, our proprietary index IGet dropped 0.1% MoM-sa and 1.4% MoM-sa in January and February, respectively. 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 believe financial conditions will have a greater impact on services provided to firms in the coming months.
- **Our tracking for January's IBC-Br broad activity index was revised to -0.5% MoM-sa (previously -0.4% MoM-sa).** If our result is on the mark, it would be the fifth decline in the last six months. Our 1Q22 GDP growth tracking is at +0.5% QoQ-sa, as we expect strong growth for farm output. We forecast GDP at +0.8% in 2023, with a significant slowdown in domestic demand and in cyclical supply, stemming mainly from the expected global recession and the tight Brazil Central Bank (BCB) policy, but we expect strong growth for non-cyclical farm output, reflecting an all-time-high forecast for the grain harvest.

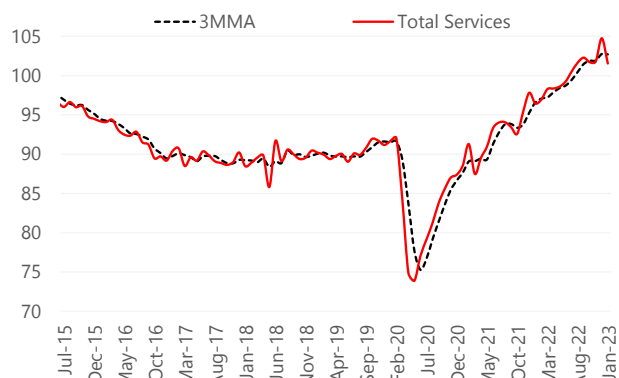


Figure 1 – Services Sector Details

	Services Breakdown								
	% MoM			% YoY			% QoQ		
	Nov-22	Dec-22	Jan-23	Nov-22	Dec-22	Jan-23	Sep-22	Dec-22	Jan-23
<b>Total Services</b>	<b>0.1</b>	<b>2.9</b>	<b>-3.1</b>	<b>6.5</b>	<b>6.0</b>	<b>6.1</b>	<b>2.8</b>	<b>1.3</b>	<b>0.8</b>
<b>Families</b>	<b>-0.5</b>	<b>2.4</b>	<b>1.0</b>	<b>7.8</b>	<b>9.2</b>	<b>11.4</b>	<b>2.3</b>	<b>0.2</b>	<b>1.0</b>
Accommodation and Food	-0.5	2.8	0.7	6.6	8.8	11.0	2.4	-0.5	0.5
Other Services to Families	0.9	0.8	-0.5	15.1	12.0	13.8	2.9	1.7	2.2
<b>Information</b>	<b>-0.7</b>	<b>-1.8</b>	<b>1.0</b>	<b>3.4</b>	<b>0.0</b>	<b>5.9</b>	<b>2.4</b>	<b>1.7</b>	<b>-0.1</b>
Technology	-0.9	-3.2	2.8	3.3	-0.3	6.6	2.8	1.4	-0.7
Audiovisual	8.1	-1.5	-2.4	4.6	1.7	0.6	-0.1	1.7	4.4
<b>Professional</b>	<b>0.5</b>	<b>3.3</b>	<b>-1.5</b>	<b>7.1</b>	<b>7.4</b>	<b>8.3</b>	<b>0.3</b>	<b>1.7</b>	<b>2.2</b>
Professional	0.2	2.7	0.7	7.4	7.9	9.2	2.0	0.0	0.9
Administrative	0.7	2.7	-0.4	7.0	7.3	8.9	0.1	1.8	2.7
<b>Transportation</b>	<b>0.4</b>	<b>2.8</b>	<b>-3.7</b>	<b>10.6</b>	<b>10.2</b>	<b>6.0</b>	<b>3.7</b>	<b>-0.2</b>	<b>-0.1</b>
Ground Transportation	-0.3	2.9	-1.4	15.7	15.2	14.8	3.9	-0.5	0.2
Water Transportation	4.2	-1.7	2.1	14.2	6.6	11.6	5.8	0.0	2.3
Air Transport	3.2	7.4	-5.9	3.8	4.4	-8.7	-3.7	-4.2	-0.4
Storage and Mail	0.3	0.8	-9.0	3.4	4.8	-4.1	5.0	0.9	-2.2
<b>Other Services</b>	<b>-2.6</b>	<b>9.4</b>	<b>-9.9</b>	<b>0.3</b>	<b>10.1</b>	<b>-0.1</b>	<b>0.1</b>	<b>4.9</b>	<b>1.3</b>
Sewage	-	-	-	-	-	<b>0.4</b>	-	-	-
Financial	-	-	-	-	-	<b>-1.6</b>	-	-	-
Rents	-	-	-	-	-	<b>11.4</b>	-	-	-
Other	-	-	-	-	-	<b>24.2</b>	-	-	-
Touristic Activities	-0.3	4.8	0.5	11.9	12.6	12.9	1.7	-0.3	1.5

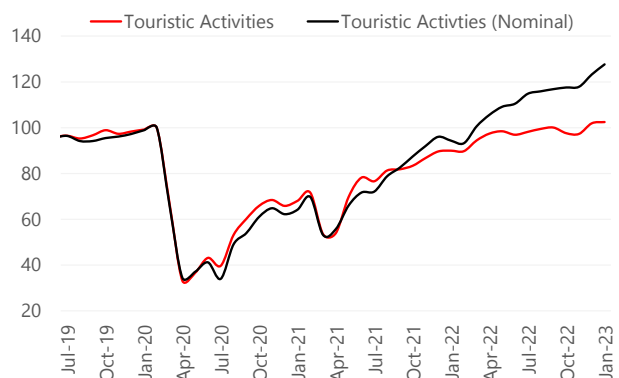
Sources: IBGE, Santander.

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



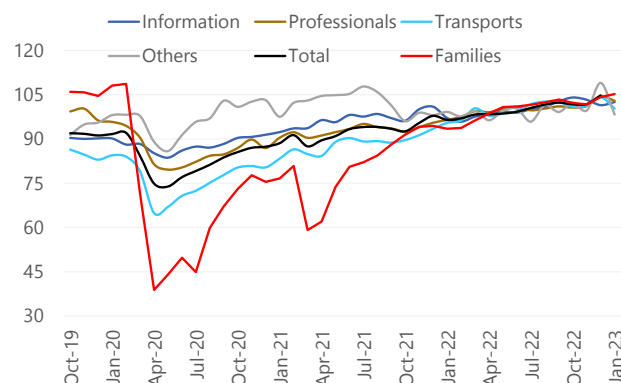
Sources: IBGE, Santander.

Figure 4 – Selected Segments (sa, Feb/20=100)



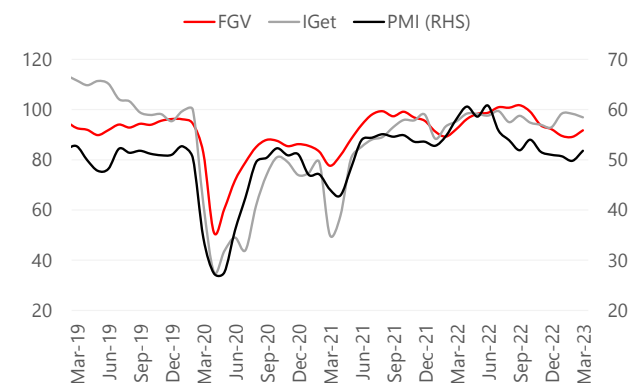
Sources: IBGE, Santander.

Figure 3 – Services Breakdown (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)												
	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23
<b>Total Services</b>	<b>0.51</b>	<b>1.37</b>	<b>0.08</b>	<b>0.25</b>	<b>0.64</b>	<b>1.28</b>	<b>1.13</b>	<b>0.65</b>	<b>-0.57</b>	<b>0.09</b>	<b>2.91</b>	<b>-3.07</b>
<b>Families</b>	<b>0.25</b>	<b>2.74</b>	<b>2.45</b>	<b>2.20</b>	<b>0.20</b>	<b>0.52</b>	<b>0.86</b>	<b>0.95</b>	<b>-1.15</b>	<b>-0.51</b>	<b>2.45</b>	<b>1.00</b>
Accommodation and Food	1.50	1.69	4.19	0.47	-0.98	1.93	1.50	-0.10	-1.56	-0.46	2.81	0.69
Other Services to Families	1.25	9.18	-3.05	-0.37	3.03	2.28	-3.93	4.34	-0.66	0.87	0.82	-0.48
<b>Information</b>	<b>-1.28</b>	<b>1.79</b>	<b>0.86</b>	<b>0.89</b>	<b>-0.38</b>	<b>1.17</b>	<b>0.83</b>	<b>1.82</b>	<b>1.26</b>	<b>-0.74</b>	<b>-1.76</b>	<b>1.05</b>
Technology	-2.34	3.21	0.42	1.57	-0.67	0.71	2.23	1.51	1.39	-0.90	-3.23	2.82
Audiovisual	-1.96	4.95	-3.30	1.25	0.05	0.56	-2.25	1.25	-3.08	8.12	-1.52	-2.39
<b>Professional</b>	<b>1.11</b>	<b>1.97</b>	<b>-0.38</b>	<b>1.07</b>	<b>0.75</b>	<b>-1.15</b>	<b>0.59</b>	<b>0.74</b>	<b>-0.40</b>	<b>0.52</b>	<b>3.29</b>	<b>-1.48</b>
Professional	-1.97	5.83	-2.52	1.29	3.05	-2.44	1.58	3.12	-3.52	0.21	2.74	0.66
Administrative	2.60	-0.62	1.02	1.03	-0.01	-0.04	-0.22	-0.15	0.56	0.73	2.67	-0.35
<b>Transportation</b>	<b>0.88</b>	<b>4.28</b>	<b>-2.51</b>	<b>0.75</b>	<b>0.74</b>	<b>2.46</b>	<b>0.83</b>	<b>-0.15</b>	<b>-1.51</b>	<b>0.39</b>	<b>2.80</b>	<b>-3.68</b>
Ground Transportation	2.75	2.09	0.77	2.26	2.48	1.08	1.01	-0.77	-1.10	-0.26	2.92	-1.44
Water Transportation	0.46	-5.49	4.33	4.08	1.56	3.75	0.99	-2.98	-0.45	4.18	-1.70	2.07
Air Transport	-9.42	31.16	-7.23	-13.14	-9.37	7.10	0.39	2.43	-10.05	3.17	7.44	-5.88
Storage and Mail	1.69	3.08	-5.95	0.24	-2.24	5.35	0.91	1.37	-0.77	0.33	0.80	-8.99
<b>Other Services</b>	<b>-1.61</b>	<b>1.97</b>	<b>-3.18</b>	<b>3.34</b>	<b>0.69</b>	<b>-4.36</b>	<b>5.83</b>	<b>-2.28</b>	<b>3.15</b>	<b>-2.57</b>	<b>9.42</b>	<b>-9.88</b>

Sources: IBGE, Santander.

Figure 7 – “Heatmap” Showing Services Contribution by Subsector

By Subsector (contribution, sa p.p)													
	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	
<b>Families</b>	7%	<b>0.02</b>	<b>0.19</b>	<b>0.17</b>	<b>0.15</b>	<b>0.01</b>	<b>0.04</b>	<b>0.06</b>	<b>0.06</b>	<b>-0.08</b>	<b>-0.03</b>	<b>0.17</b>	<b>0.07</b>
Accommodation and Food	1%	0.02	0.02	0.05	0.01	-0.01	0.03	0.02	0.00	-0.02	-0.01	0.04	0.01
Other Services to Families	5%	0.06	0.44	-0.15	-0.02	0.14	0.11	-0.19	0.21	-0.03	0.04	0.04	-0.02
<b>Information</b>	<b>31%</b>	<b>-0.39</b>	<b>0.55</b>	<b>0.26</b>	<b>0.27</b>	<b>-0.12</b>	<b>0.36</b>	<b>0.26</b>	<b>0.56</b>	<b>0.39</b>	<b>-0.23</b>	<b>-0.54</b>	<b>0.32</b>
Technology	26%	-0.61	0.83	0.11	0.41	-0.17	0.19	0.58	0.39	0.36	-0.23	-0.84	0.73
Audiovisual	5%	-0.09	0.24	-0.16	0.06	0.00	0.03	-0.11	0.06	-0.15	0.39	-0.07	-0.11
<b>Professional</b>	<b>23%</b>	<b>0.25</b>	<b>0.45</b>	<b>-0.09</b>	<b>0.25</b>	<b>0.17</b>	<b>-0.26</b>	<b>0.14</b>	<b>0.17</b>	<b>-0.09</b>	<b>0.12</b>	<b>0.75</b>	<b>-0.34</b>
Professional	7%	-0.14	0.41	-0.18	0.09	0.21	-0.17	0.11	0.22	-0.25	0.01	0.19	-0.05
Administrative	16%	0.41	-0.10	0.16	0.16	0.00	-0.01	-0.04	-0.02	0.09	0.12	0.42	-0.06
<b>Transportation</b>	<b>31%</b>	<b>0.27</b>	<b>1.33</b>	<b>-0.78</b>	<b>0.23</b>	<b>0.23</b>	<b>0.77</b>	<b>0.26</b>	<b>-0.05</b>	<b>-0.47</b>	<b>0.12</b>	<b>0.87</b>	<b>-1.15</b>
Ground Transportation	18%	0.49	0.37	0.14	0.40	0.44	0.19	0.18	-0.14	-0.20	-0.05	0.52	-0.26
Water Transportation	2%	0.01	-0.09	0.07	0.07	0.03	0.06	0.02	-0.05	-0.01	0.07	-0.03	0.04
Air Transport	3%	-0.25	0.84	-0.20	-0.35	-0.25	0.19	0.01	0.07	-0.27	0.09	0.20	-0.16
Storage and Mail	9%	0.15	0.27	-0.52	0.02	-0.20	0.47	0.08	0.12	-0.07	0.03	0.07	-0.79
<b>Other Services</b>	<b>7%</b>	<b>-0.11</b>	<b>0.14</b>	<b>-0.22</b>	<b>0.23</b>	<b>0.05</b>	<b>-0.31</b>	<b>0.41</b>	<b>-0.16</b>	<b>0.22</b>	<b>-0.18</b>	<b>0.66</b>	<b>-0.69</b>

Sources: IBGE, Santander.



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