

SERVICES TOPPED EXPECTATIONS (AGAIN) IN AUGUST

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- **Services output surprised to the upside, expanding 0.7% MoM-sa (+8.0% YoY), topping our estimate of -0.7% MoM-sa (+6.3% YoY) and market consensus of +0.2% MoM-sa (+6.8% YoY).** August's figure marked a healthy streak of four consecutive gains, and the index surpassed the pre-pandemic benchmark (February 2020) by 10.1%.
- **Zooming in on the details, new positive surprises. Information services continued to expand, with 0.6% MoM-sa growth, while services to families topped our expectations and jumped 1.0% MoM-sa, for an encouraging streak of six consecutive gains.** Professional services stayed flat (0% MoM-sa), while other services (a high volatile subsector) gave back the previous tumble, climbing 6.7% MoM-sa. Transportation dropped 0.2% MoM-sa, breaking a streak of three consecutive gains, owing mainly to a decline in ground transportation, in contrast with the positive prints seen in the remaining transport activities. All in all, growth was widespread, with the diffusion index reaching 67% (vs. 67% in July).
- **After a positive kickoff to the quarter, August's figure implies a strong 2.5% QoQ-sa carryover to 3Q22.** The surveys for September still point to growth: FGV's economic confidence index jumped to 101.7 points (from 100.7 points), above the neutral mark of 100 points, and IGet Services expanded 1.4% MoM-sa, while Services PMI declined to 51.9 points (from 53.9 points), still above the neutral threshold of 50. Our preliminary tracking for September points to virtual stability, -0.1% MoM-sa (+7.5% YoY). These figures suggest a sequential contribution from cyclical services to overall activity in the period, on the heels of consolidation of the economy's reopening.
- **We updated our August IBC-Br tracking to -1.1% MoM-sa (from -1.3% MoM-sa), and we updated our 3Q22 GDP growth tracking at to +0.7% QoQ-sa (from +0.6% QoQ-sa previously).** We forecast 2.8% GDP growth this year and 0.7% GDP growth 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 %	
		Jun-22	Jul-22	Aug-22	Jun-22	Jul-22	Aug-22	Mar-22	Jun-22	Aug-22	Aug-22	
Total Services	100%	0.9	1.3	0.7	6.4	6.3	8.0	1.7	1.4	2.3	10.1	
Families	8%	0.4	0.6	1.0	28.1	22.6	22.0	1.7	6.5	3.6	-4.8	
Accommodation and Food	7%	-0.8	1.9	1.8	28.8	22.2	23.0	1.6	6.4	3.3	-5.1	
Other Services to Families	1%	3.0	2.2	-4.4	24.6	24.5	16.3	6.6	4.0	1.6	-8.7	
Information	31%	-0.5	1.1	0.6	0.9	2.1	2.9	-2.5	0.0	1.4	14.1	
Technology	26%	-0.7	0.7	2.0	1.5	2.1	3.6	-3.0	2.4	1.5	15.0	
Telecommunication	19%	0.2	-1.8	1.5	-6.3	-9.1	-6.8	-3.5	-0.6	0.1	-8.9	
Information Technology	7%	-5.2	6.8	0.8	11.3	17.1	17.1	0.8	4.6	2.0	56.7	
Audiovisual	5%	0.4	0.1	-2.4	-4.6	2.7	-2.3	-1.8	0.5	-0.7	-7.1	
Professional	23%	0.8	-1.1	0.0	8.3	4.1	7.3	5.1	2.2	0.6	5.7	
Professional	7%	3.1	-2.6	1.0	9.8	-2.2	8.5	4.7	2.3	1.6	21.6	
Administrative	16%	0.0	-0.1	-0.5	7.7	6.8	6.8	4.6	2.2	0.8	-0.2	
Transportation	31%	0.9	2.4	-0.2	10.1	12.9	13.6	7.0	1.1	2.0	20.0	
Ground Transportation	18%	2.5	0.9	-0.7	20.6	18.8	21.1	7.6	5.5	4.6	21.0	
Water Transportation	2%	1.6	3.8	1.0	14.6	14.2	16.4	0.7	4.0	9.0	35.4	
Air Transport	3%	-9.1	6.5	0.3	-3.3	15.4	8.7	25.1	-4.4	-15.8	0.8	
Storage and Mail	9%	-2.3	5.5	0.7	-3.4	2.7	3.1	2.8	-4.2	-0.5	16.8	
Other Services	7%	0.8	-5.0	6.7	-4.6	-12.1	-2.4	1.1	0.0	0.6	3.4	
Touristic Activities	-	-1.6	1.5	1.2	25.8	26.5	22.8	5.9	7.1	1.5	0.1	

Sources: IBGE, Santander.

Services continued to strengthen throughout August. Services output surprised to the upside, expanding 0.7% MoM-sa (+8.0% YoY), topping our estimate of -0.7% MoM-sa (+6.3% YoY) and market consensus of +0.2% MoM-sa (+6.8% YoY). August's figure marked a healthy streak of four consecutive gains, with the index surpassing the pre-pandemic benchmark (February 2020) by 10.1%. Moreover, the index is posting the highest readings since November 2014.

Zooming in on the details, new positive surprises and widespread growth. Information services again posted a positive print (+0.6% MoM-sa), owing mainly to an acceleration in technology services revenue (+2.0% MoM-sa vs. +0.7% MoM-sa in July). Services to families surprised to the upside, jumping 1.0% MoM-sa, owing mainly to a continued strengthening of food and accommodation (+1.8% MoM-sa) and marking an encouraging streak of six consecutive gains. Despite its low weight in the monthly survey, this segment is highly correlated with supply sectors that account for almost 15% of total GDP (Other Services and Public Services), and we calculate a carryover of 2.3% QoQ-sa to 3Q22 (+6.5% QoQ-sa and +1.7% QoQ-sa in 2Q22 and 1Q22, respectively). Professional services stayed flat (0% MoM-sa), marking the second tepid print in a row and implying a carryover of -0.3% QoQ-sa to 3Q22. Transportation broke a streak of three gains in a row, dropping 0.2% MoM-sa, owing mainly to a decline in ground transportation (-0.7% MoM-sa), in line with the weakening in goods output and consumption in the period. However, we continued to see resilience in water transportation (+1.0%), air transportation (+0.3%), and storage and mail (+0.7%) in the month, and August's reading implies a strong 3.1% QoQ-sa carryover to 3Q22. We note that transportation and information services benefited from the increasing digitalization of activities throughout the pandemic period and the increase in e-commerce sales, and clearly show an upward shift in their growth trends in comparison with the pre-pandemic path. Lastly, other services (which includes several activities such as brokerage, financial services, etc.) gave back the previous tumble, climbing 6.7% MoM-sa.

After a positive kickoff to the quarter, August's figure implies a strong 2.5% QoQ-sa carryover to 3Q22. The surveys for September still point to growth: FGV's economic confidence index jumped to 101.7 points (from 100.7 points), above the neutral mark of 100 points, and IGet Services¹ expanded 1.4% MoM-sa (-3.6% MoM-sa in the previous month), while Services PMI declined to 51.9 points (from 53.9 points), still above the neutral threshold of 50. Our preliminary tracking for September points to virtual stability, -0.1% MoM-sa (+7.5% YoY). These figures suggest a sequential contribution from cyclical services to overall activity in the period, on the heels of consolidation of the economy's reopening. We updated our August IBC-Br tracking to -1.1% MoM-sa

¹ Santander Brazil Economic Activity: "IGet: Um 3T22 positivo para os serviços" – October 4, 2022 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-set22>

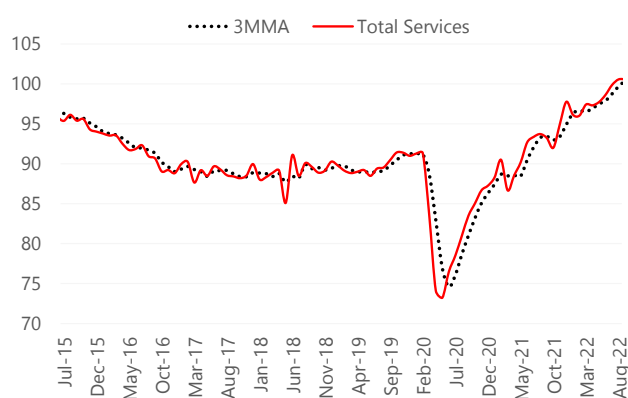


(from -1.3% MoM-sa), and we updated our 3Q22 GDP growth tracking to +0.7% QoQ-sa (from +0.6% QoQ-sa previously).

Regarding our recent scenario updates, once again we raised our GDP forecasts for 2022 and 2023. For 2022, we raised our GDP forecast for the full year to +2.8% (from +2.6%). We expect mixed signals for economic activity throughout 2H22: on the one hand, labor market resilience and fiscal stimuli could partially support demand; on the other hand, we should finally see the effects of a contractionary monetary policy and tight financial conditions. For 2023, we updated our GDP forecast to +0.7% (from -0.2% previously). We calculate a stronger carryover for 2023, on the back of better expectations for 2H22, but we continue to 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. Conversely, we now expect strong growth for non-cyclical farm output, reflecting an all-time high forecast for the grain harvest.

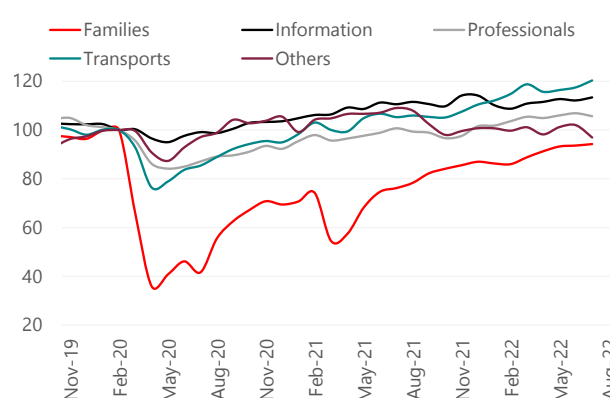
For details on Santander's economic activity outlook, please refer to our last reports².

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



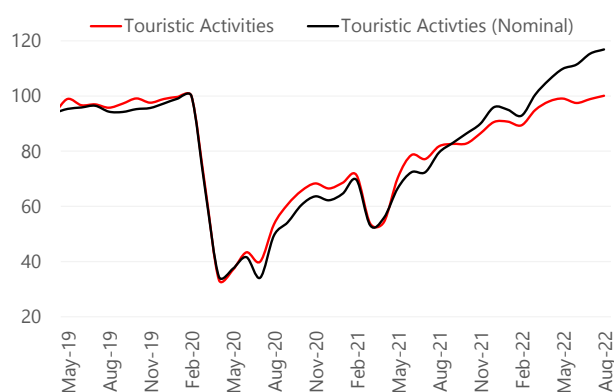
Sources: IBGE, Santander.

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



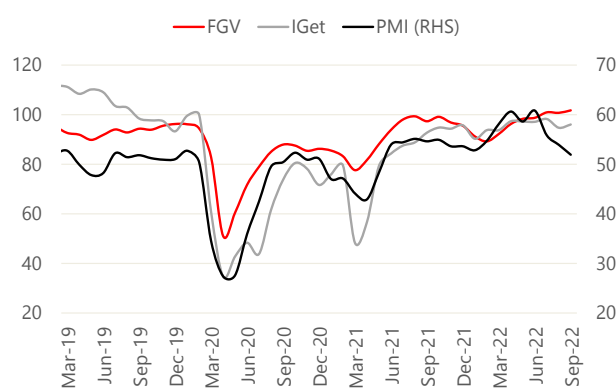
Sources: IBGE, Santander. *The Other Services subsector includes several activities such as brokerage, financial services, etc.

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 Special Report: "A Model to Forecast Probability of Recession in Brazil" – June 08, 2022 – Available on: <https://bit.ly/Std-special-060822>

Santander Brazil Special Report: "Resilience Factors for GDP Growth: What Has Changed Since January" – June 30, 2022 – Available on: <https://bit.ly/Std-special-GDP-062922>

Santander Brazil Special Report: "Tightest Financial Conditions since 2009" – August 11, 2022 – Available on: <https://bit.ly/Std-special-081122>

Santander Brazil Economic Activity: "Financial Conditions Worsen in Mid-September" – September 14, 2022 – Available on: <https://bit.ly/Std-FCI-sep22>



Figure 6 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Total Services	-0,52	-1,32	3,22	2,96	-1,66	-0,12	1,44	-0,10	0,42	0,93	1,25	0,70
Families	5,03	2,25	1,71	1,67	-0,80	-0,33	3,26	2,79	2,16	0,41	0,64	1,04
Accommodation and Food	4,16	2,70	2,49	1,44	-0,87	0,25	1,73	4,61	1,11	-0,85	1,92	1,76
Other Services to Families	0,60	1,04	3,32	1,35	0,01	1,99	9,24	-3,23	-0,35	3,00	2,20	-4,38
Information	-0,80	-0,80	3,99	0,00	-3,46	-1,33	1,93	0,65	1,03	-0,49	1,11	0,64
Technology	-0,72	-1,47	5,47	-0,42	-3,92	-2,23	3,08	0,35	1,47	-0,69	0,67	2,01
Telecommunications	-1,27	-2,16	0,76	-0,78	-1,32	-2,43	-0,87	0,29	0,74	0,21	-1,82	1,49
Information	-0,21	0,99	7,85	-3,67	-0,33	0,28	2,93	2,48	2,64	-5,15	6,78	0,80
Audiovisual and News	0,33	-1,38	1,75	1,61	-4,20	-1,35	5,32	-3,38	1,19	0,40	0,05	-2,36
Professional	-0,43	-2,29	0,96	4,09	0,24	1,76	1,76	-0,49	1,02	0,83	-1,14	0,00
Technical and Professional	2,68	-4,53	0,90	2,72	2,11	-2,17	5,70	-2,55	1,28	3,07	-2,65	1,01
Administrative	-1,58	-1,14	1,85	2,99	0,36	2,78	-0,79	1,11	1,04	-0,02	-0,11	-0,48
Transportation	-0,53	-0,23	2,26	2,72	1,49	2,40	3,45	-2,59	0,64	0,94	2,41	-0,23
Ground Transportation	-0,01	1,25	2,26	2,39	2,15	3,13	2,50	0,36	2,34	2,46	0,93	-0,73
Water Transportation	0,21	1,98	1,04	4,00	-0,66	0,38	-5,55	4,37	4,34	1,64	3,76	0,99
Air Transport	-8,96	-7,69	14,31	12,56	7,17	-8,84	31,76	-6,85	-13,06	-9,07	6,50	0,34
Storage and Mail	0,15	-1,39	1,27	-1,55	1,25	1,71	3,10	-6,03	0,24	-2,34	5,50	0,72
Other Services	-5,16	-4,31	1,60	1,18	-0,04	-0,97	1,42	-2,90	3,08	0,76	-4,98	6,69

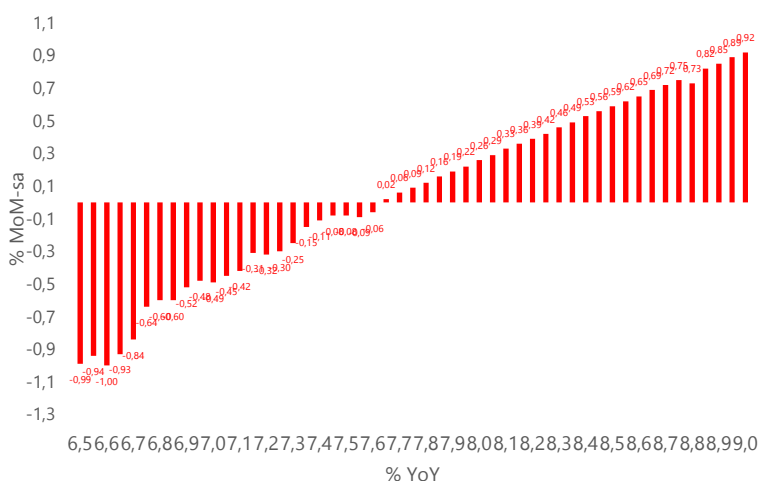
Sources: IBGE, Santander.

Figure 7 – “Heatmap” Showing Contribution by Activities

By Subsector (contribution, sa p.p)												
	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22
Total Services	-0,52	-1,32	3,22	2,96	-1,66	-0,12	1,44	-0,10	0,42	0,93	1,25	0,70
Accommodation and Food	0,28	0,18	0,17	0,10	-0,06	0,02	0,12	0,31	0,08	-0,06	0,13	0,12
Other Services to Families	0,01	0,01	0,04	0,02	0,00	0,03	0,12	-0,04	0,00	0,04	0,03	-0,06
Telecommunications	-0,24	-0,40	0,14	-0,15	-0,25	-0,45	-0,16	0,06	0,14	0,04	-0,34	0,28
Information	-0,02	0,07	0,57	-0,27	-0,02	0,02	0,21	0,18	0,19	-0,38	0,49	0,06
Audiovisual and News	0,02	-0,07	0,08	0,08	-0,20	-0,06	0,26	-0,16	0,06	0,02	0,00	-0,11
Technical and Professional	0,19	-0,32	0,06	0,19	0,15	-0,15	0,40	-0,18	0,09	0,22	-0,19	0,07
Administrative	-0,25	-0,18	0,29	0,48	0,06	0,44	-0,13	0,18	0,16	0,00	-0,02	-0,08
Ground Transportation	0,00	0,22	0,40	0,43	0,38	0,56	0,45	0,06	0,42	0,44	0,17	-0,13
Water Transportation	0,00	0,03	0,02	0,07	-0,01	0,01	-0,09	0,07	0,07	0,03	0,06	0,02
Air Transport	-0,24	-0,21	0,39	0,34	0,19	-0,24	0,86	-0,18	-0,35	-0,24	0,18	0,01
Storage and Mail	0,01	-0,12	0,11	-0,14	0,11	0,15	0,27	-0,53	0,02	-0,21	0,48	0,06
Other Services	-0,36	-0,30	0,11	0,08	0,00	-0,07	0,10	-0,20	0,22	0,05	-0,35	0,47

Sources: IBGE, Santander.

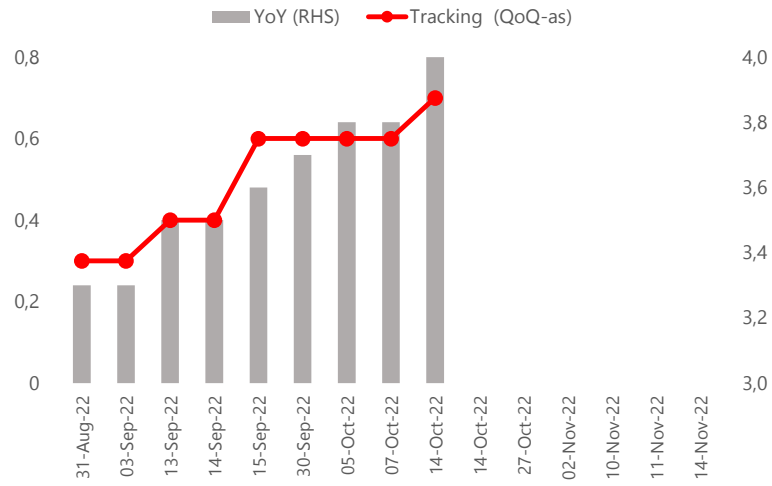
Figure 8 – Grid of Deseasonalisation (YoY% vs. MoM-sa)



Sources: IBGE, Santander



Figure 9 – 3Q22 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>



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