

**POSITIVE 2Q EXPECTED FOR SERVICES**

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- **Services output inched up 0.2% MoM-sa in April (+9.4% YoY), in line with our expectation (+0.2% MoM-sa) and below market consensus (+0.5% MoM-sa).** However, compared to the same month in 2021, services output jumped 9.4% YoY, below our expectation (+10.4% YoY) and market consensus (+10.5% YoY), but with the previous YoY print being revised to +11.6% YoY (from +11.4% YoY). April's print placed the headline index 7.3% above the pre-pandemic benchmark (February 2020) and marked the second gain in a row, following January and February's weak figures, due to the Omicron variant outbreak.
- **Zooming in on the details, we see a mixed bag: Services provided to families continued to strengthen (1.9% MoM-sa), marking the second gain in a row after January's tumble, while information services expanded (+0.7% MoM-sa) for the second month in a row.** Conversely, professional services (-0.6% MoM-sa) and transportation (-1.7% MoM-sa) shrank at the margin, breaking the positive strings of five consecutive gains. Other services also weakened at the margin (-1.6% MoM-sa), giving back the previous gain.
- **Moreover, the diffusion index decelerated to 42% (vs. 75% in March), with only five out of twelve activities posting growth at the margin.** Accommodation and food (+1.9% MoM-sa), information and technology (+2.3% MoM-sa) and ground transportation (+0.5% MoM-sa) stood out, professional services (-2.2% MoM-sa), storage and mail (-5.9% MoM-sa) and air transports (-2.4% MoM-sa) were the lowlights. Regarding post-Covid dynamics, only six of twelve activities remain below their pre-pandemic marks, notably food and accommodation (down 9.5%), which leaves room for a further contribution from services to overall activity as the economy's reopening consolidates (the outbreak of the Omicron variant delayed this process). Moreover, the touristic activities index (composed of several segments of services related to touristic activities) continued to strengthen (+2.5%), making the second gain in a row though still 3.3% below the pre-Covid benchmark.
- **April's data marked a virtual flat start to the quarter, but led to a carryover of 1.1% QoQ-sa to 2Q22, suggesting that cyclical services should contribute positively to overall activity in the period.** We expect idleness in some segments (like services to families) to gradually subside throughout 2Q22 as the economy's reopening consolidates, contributing to continued GDP growth. We maintain our 2Q21 GDP growth tracking at +0.4% QoQ-sa (YoY, we see a slight upward change to +2.2 YoY% from +2.1%), which implies upside risks to our current GDP growth forecast of 1.2% in 2022. For 2023, we forecast a 0.6% contraction in real activity.

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

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Figure 1 – Services Sector Breakdown

Services Breakdown												
	Weights	% MoM			% YoY			% QoQ			Feb-20 %	
		Feb-22	Mar-22	Apr-22	Feb-22	Mar-22	Apr-22	Sep-21	Dec-21	Apr-22	Apr-22	
Total Services	100%	-0.1	1.5	0.2	7.4	11.6	9.4	3.4	1.0	0.7	7.3	
Families	8%	-0.4	3.2	1.9	17.3	62.8	60.7	17.8	8.6	2.3	-9.7	
Accommodation and Food	7%	0.5	1.7	3.8	17.8	67.0	67.1	20.4	8.7	2.6	-9.5	
Other Services to Families	1%	1.8	9.7	-5.0	14.0	43.9	31.2	7.4	5.6	7.0	-10.8	
Information	31%	-1.2	1.8	0.7	2.4	3.9	1.6	1.4	1.3	-2.3	11.4	
Technology	26%	-2.3	3.0	0.2	2.0	3.3	1.3	1.6	1.5	-3.1	10.9	
Telecommunication	19%	-2.5	-0.7	0.0	-7.4	-8.2	-8.4	-0.3	-3.2	-4.2	-9.6	
Information Technology	7%	0.2	2.7	2.3	16.2	19.3	14.6	3.5	5.7	1.3	48.8	
Audiovisual	5%	-1.3	5.3	-3.1	6.3	9.1	4.5	1.0	1.2	-1.1	-6.1	
Professional	23%	1.8	1.9	-0.6	7.2	9.8	7.7	1.5	-1.1	4.5	5.0	
Professional	7%	-2.3	5.3	-2.2	4.6	13.2	4.9	3.9	-4.0	2.6	18.3	
Administrative	16%	2.6	-0.5	1.1	8.3	8.3	8.9	1.5	0.5	4.0	-0.5	
Transportation	31%	2.5	3.1	-1.7	14.1	17.4	15.5	2.2	1.7	6.0	16.3	
Ground Transportation	18%	2.8	2.1	0.5	15.3	17.2	17.6	1.8	2.8	6.8	14.1	
Water Transportation	2%	0.1	-6.1	3.6	17.9	4.9	2.4	2.9	2.6	-2.2	20.0	
Air Transport	3%	-4.9	22.9	-2.4	45.7	119.1	159.3	14.7	3.4	18.3	18.4	
Storage and Mail	9%	1.5	2.8	-5.9	5.7	6.4	-0.4	0.4	-0.4	1.7	12.0	
Other Services	7%	-1.0	1.4	-1.6	-3.9	-4.4	-7.7	0.5	-7.5	-0.5	-0.7	
Touristic Activities	-	-1.1	5.3	2.5	28.7	75.9	85.7	19.3	7.3	4.8	-3.3	

Sources: IBGE, Santander.

The services sector kicked off 2Q tepidly. The headline index inched up 0.2% MoM-sa in April (+9.4% YoY), in line with our expectation (+0.2% MoM-sa) and below market consensus (+0.5% MoM-sa). However, compared to the same month in 2021, services output jumped 9.4% YoY, below our expectations (+10.4% YoY) and market consensus (+10.5% YoY), but with the previous YoY print being revised to +11.6% YoY (from +11.4% YoY). April's print placed the headline index well above the pre-pandemic benchmark (up 7.3% since February 2020) and marked the second gain in a row, following the weak figures seen in January (-1.6%) and February (-0.1%), due to the outbreak of the Omicron variant.

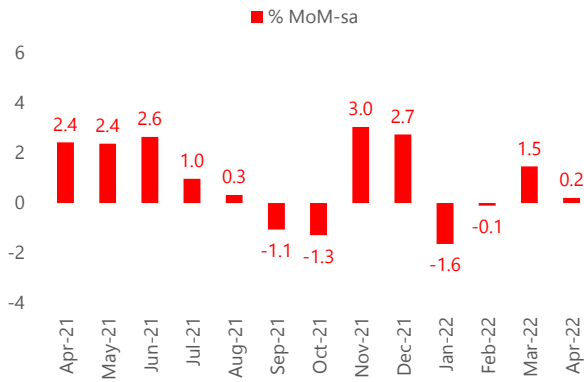
Zooming in on the details, we see a mixed bag. Services provided to families continued to strengthen (1.9% MoM-sa), in the wake of advances in the economy's reopening process and increased mobility, and marked the second solid print after January's tumble. Information services also marked a positive print (+0.7% MoM-sa) for the second month in a row, still rebounding off the three weak prints seen from December 2021 to February 2022. Conversely, professional services (-0.6% MoM-sa) and transportation (-1.7% MoM-sa) broke a string of five consecutive gains, at the same time other services bounced back (-1.6% MoM-sa) the previous gain. In comparison with the pre-pandemic mark, the signals were also mixed: information services, benefited well from the digitalization of several services throughout the pandemic, surpassing the benchmark by 11.4%, as transportation services, also benefited from the increase in the transportation of goods (amid e-commerce improvement), which surpassed the benchmark by 14.1%. In contrast, despite the continued strengthening seen since 2H21, services rendered to families remain 9.7% MoM-sa below the pre-crisis mark.

April's print highlights low diffused growth. Indeed, the diffusion index (i.e., the percentage of services activities that posted gains at the margin) decelerated to 42% (vs. 75% in March), with only five out of twelve activities strengthening at the margin. In our view, accommodation and food (+1.9% MoM-sa), information and technology (+2.3% MoM-sa) and ground transportation (+0.5% MoM-sa) stood out, while professional services (-2.2% MoM-sa), storage and mail (-5.9% MoM-sa) and air transports (-2.4% MoM-sa) were the lowlights. Regarding post-Covid dynamics, only six of twelve activities remain below their pre-pandemic marks, notably food and accommodation (down 9.5%), which leaves room for a further contribution from services to overall activity as the economy's reopening consolidates (the outbreak of the Omicron variant delayed this process). Moreover, the touristic activities index (composed of several segments of services related to touristic activities) continued to strengthen (+2.5%), the second gain in a row but remaining 3.3% below the pre-Covid benchmark. It is worth noting that, despite there still being a gap to be filled in the volume index (real revenue) of touristic activities, the nominal indicator has already surpassed the pre-crisis mark, which suggest stabilization of the volume index at idled levels due to higher inflation.



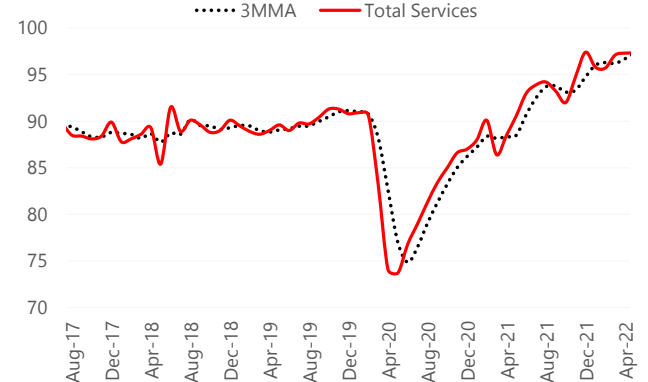
We maintain a positive outlook for 2Q. Despite April data marking a virtual flat start to the quarter, we still calculate a solid carryover to the period (+1.1% QoQ-sa), which suggest that cyclical services should contribute positively to overall activity in the period. We expect idleness in some segments (like services to families) to gradually subside throughout 2Q22 as the economy’s reopening consolidates, contributing to continued GDP growth. We maintain our 2Q22 GDP growth tracking at +0.4% QoQ-sa¹, with a slight upward change YoY (to +2.2% YoY from +2.1% YoY). **For details on Santander’s economic outlook, please refer to our last scenario review².**

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



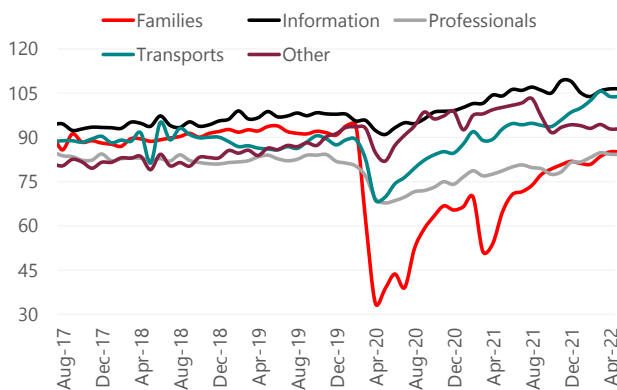
Sources: IBGE, Santander.

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



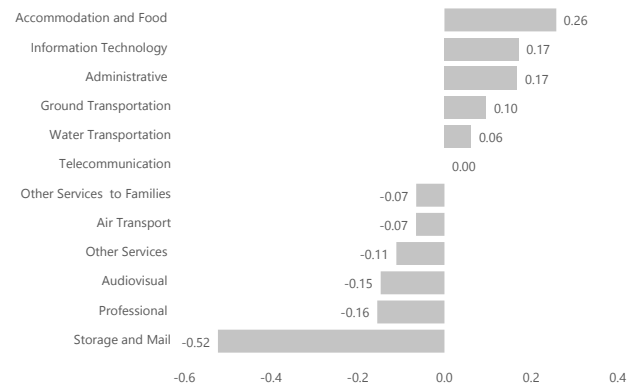
Sources: IBGE, Santander.

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 For details regarding our GDP nowcasting methodology, please see: **Santander Brazil Economic Activity - “Special Report: Nowcasting Brazilian GDP with LASSO”** – May 16, 2022 - Available on: <https://bit.ly/Std-special-051622>

² **Scenario Review: “A Bittersweet Scenario”** – June 02, 2022 – Available on: <https://bit.ly/Std-scenreview-jun22>

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



Figure 4 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
Total Services	2.37	2.65	0.97	0.32	-1.06	-1.29	3.04	2.74	-1.64	-0.10	1.46	0.21
Families	20.04	9.12	1.42	2.93	5.16	2.32	1.77	1.49	-0.85	-0.37	3.21	1.92
Accommodation and Food	19.85	7.89	5.02	2.60	4.26	2.68	2.49	1.33	-1.08	0.48	1.69	3.79
Other Services to Families	10.37	2.47	1.50	0.89	0.88	2.62	2.13	1.81	-0.14	1.78	9.66	-5.02
Information	-0.29	2.11	-0.28	1.04	-1.03	-0.85	3.90	-0.09	-3.57	-1.24	1.83	0.66
Technology	-0.90	1.45	0.36	1.34	-1.06	-1.69	5.43	-0.43	-3.88	-2.33	3.03	0.18
Telecommunications	-0.11	-0.57	0.69	0.00	-1.59	-2.31	0.71	-0.82	-1.42	-2.52	-0.74	0.00
Information	1.29	-0.81	1.99	2.81	-0.95	1.80	7.36	-3.82	-0.21	0.16	2.74	2.35
Audiovisual and News	1.73	9.36	-6.49	1.53	0.68	-1.49	1.79	1.62	-4.13	-1.25	5.34	-3.07
Professional	1.42	1.65	0.88	-1.12	-0.50	-2.39	1.03	4.09	0.25	1.84	1.92	-0.59
Technical and Professional	1.73	0.52	6.78	-6.35	1.96	-4.60	1.07	2.52	2.07	-2.28	5.32	-2.22
Administrative	2.58	2.14	-0.74	0.74	-1.48	-1.00	1.77	3.10	0.36	2.64	-0.47	1.06
Transportation	3.91	1.94	-0.42	0.53	-0.74	-0.43	2.35	2.71	1.52	2.50	3.12	-1.70
Ground Transportation	3.56	0.98	0.97	-1.32	-0.24	1.34	1.93	2.25	2.31	2.83	2.09	0.54
Water Transportation	-3.59	-0.13	6.00	-2.26	-0.49	2.02	0.78	3.39	-0.58	0.06	-6.14	3.64
Air Transport	38.81	21.40	-9.28	7.38	-8.44	-5.93	13.73	12.56	7.55	-4.88	22.89	-2.44
Storage and Mail	3.78	-1.69	-1.08	2.10	0.00	-1.34	1.18	-1.52	1.18	1.53	2.83	-5.94
Other Services	0.80	0.70	0.79	1.47	-6.01	-5.46	1.85	0.96	-0.32	-0.96	1.40	-1.59

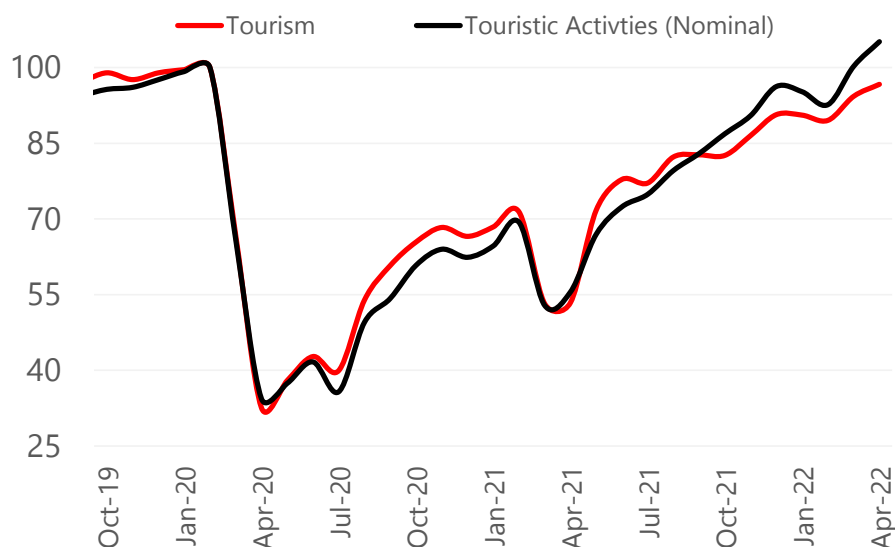
Sources: IBGE, Santander.

Figure 5 – “Heatmap” Showing Contribution by Activities

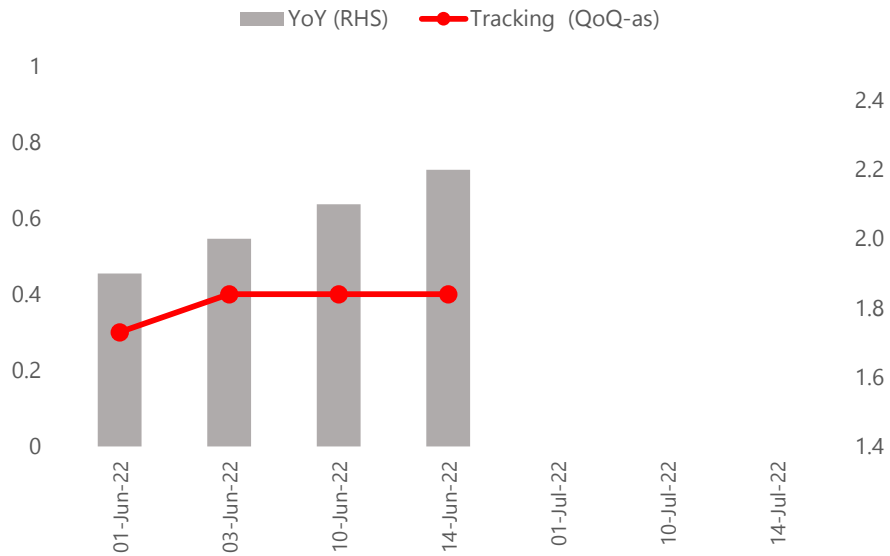
By Subsector (contribution, sa p.p)												
	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22
Total Services	2.37	2.65	0.97	0.32	-1.06	-1.29	3.04	2.74	-1.64	-0.10	1.46	0.21
Accommodation and Food	1.35	0.54	0.34	0.18	0.29	0.18	0.17	0.09	-0.07	0.03	0.11	0.26
Other Services to Families	0.13	0.03	0.02	0.01	0.01	0.03	0.03	0.02	0.00	0.02	0.13	-0.07
Telecommunications	-0.02	-0.11	0.13	0.00	-0.30	-0.43	0.13	-0.15	-0.27	-0.47	-0.14	0.00
Information	0.09	-0.06	0.15	0.21	-0.07	0.13	0.54	-0.28	-0.02	0.01	0.20	0.17
Audiovisual and News	0.08	0.45	-0.31	0.07	0.03	-0.07	0.09	0.08	-0.20	-0.06	0.26	-0.15
Technical and Professional	0.12	0.04	0.47	-0.44	0.14	-0.32	0.08	0.18	0.14	-0.16	0.37	-0.16
Administrative	0.41	0.34	-0.12	0.12	-0.23	-0.16	0.28	0.49	0.06	0.42	-0.07	0.17
Ground Transportation	0.64	0.18	0.17	-0.24	-0.04	0.24	0.35	0.40	0.41	0.51	0.37	0.10
Water Transportation	-0.06	0.00	0.10	-0.04	-0.01	0.03	0.01	0.06	-0.01	0.00	-0.10	0.06
Air Transport	1.05	0.58	-0.25	0.20	-0.23	-0.16	0.37	0.34	0.20	-0.13	0.62	-0.07
Storage and Mail	0.33	-0.15	-0.10	0.18	0.00	-0.12	0.10	-0.13	0.10	0.13	0.25	-0.52
Other Services	0.06	0.05	0.06	0.10	-0.42	-0.38	0.13	0.07	-0.02	-0.07	0.10	-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

2Q22 GDP Growth						
Date	Release	Reference	Tracking (%)		Projection (%)	
			QoQ-sa	YoY	QoQ-sa	YoY
01-Jun-22	Labor Market	Apr-22	0.3	1.9	0.2	1.7
03-Jun-22	Industry	Apr-22	0.4	2.0	0.2	1.7
10-Jun-22	Retail Sales	Apr-22	0.4	2.1	0.2	1.7
14-Jun-22	Services	Apr-22	0.4	2.2	0.2	1.7

Sources: IBGE, Santander.



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