

MIXED SERVICES OUTPUT FIGURES

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- **Services output was virtually stable in January (-0.1% MoM-sa), below market expectations (+0.3% MoM-sa) and our estimate (+0.6% MoM-sa), but with an upward revision in December.** The seasonally adjusted series was revised to +1.7% MoM-sa (from +1.4%), while the unadjusted series was revised to +11% YoY (from +10.4%). Compared to the same month in 2021, services output increased 9.4% YoY, between market expectations (+9.3%) and our call (+10% YoY). This slight decline came after two solid figures (+2.9% and +1.7% in November and December, respectively) and placed the headline index 7.0% above the pre-pandemic benchmark (February 2020).
- **Zooming in on the details, we see mixed figures among the components.** Information services retreated 4.7% MoM-sa but remain far above the pre-crisis level (up 7.3%). Services to families broke a streak of nine consecutive gains, decreasing 1.4% MoM-sa and likely reflecting the Omicron variant outbreak in the month, although our proprietary index (IGet) already pointed to a full recovery in February. This segment continued to show strong idleness relative to the pre-pandemic mark (down 13.2%). In addition, other services (which include brokerage, pension and other financial services) decreased 1.1% MoM-sa. On the bright side, transportation showed resilience, expanding 1.4% MoM-sa — the third gain in a row and mainly attributable to ground transportation (+2.1%) despite the weakening industrial output in the month. Moreover, professional services rose 0.6% MoM-sa, marking a streak of three gains in a row and surpassing the pre-pandemic mark (up 1.4%) for the first time since July 2021.
- **Among services activities, the diffusion index decelerated to 50% (vs. 83% in December).** The biggest positive contributions came from ground transportation (+0.37 p.p.), storage and mail (+0.30 p.p.), and administrative services (+0.16 p.p.). Conversely, the biggest negative contribution came from information & technology (-0.65 p.p.) and telecommunications (-0.20 p.p.). Moreover, six out of twelve services activities remain below the pre-pandemic mark, notably food and accommodation (down 13.6%) and administrative services (down 1.4%), while air transport finally surpassed this mark (up 4.7%). The touristic activities index (composed of several segments of services related to tourist activities) jumped 1.1% MoM-sa in January, marking a streak of nine consecutive gains despite the Omicron variant outbreak in the month. The index remains 9.7% below the pre-pandemic mark.
- **Regarding 1Q22, we calculate a statistical carryover of 2.0% QoQ-sa (+0.4% QoQ-sa in 4Q21), which suggests a continued positive contribution of cyclical services to overall activity this quarter.** Moreover, we expect the idled segments to gradually move away from idleness throughout the quarter, contributing positively to GDP growth. We are updating our IBC-Br tracking for January to 0% MoM-sa (from +0.2%) and our 1Q22 GDP growth tracking to +0.4% QoQ-sa (from +0.5%). We forecast GDP growth of 0.7% in 2022 and a 0.2% 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 %
		Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Nov-21	Dec-21	Jan-22	Jan-22
Total Services	100%	2.9	1.7	-0.1	10.2	11.0	9.4	0.0	0.7	2.7	7.0
Families	8%	2.4	0.7	-1.4	20.7	21.6	19.4	7.4	6.3	4.2	-13.2
Accommodation and Food	7%	2.6	0.5	-1.5	20.7	21.7	19.6	7.8	6.3	4.1	-13.6
Other Services to Families	1%	1.0	2.9	-0.8	20.4	21.2	17.7	1.5	3.3	3.8	-12.2
Information	31%	4.7	-0.3	-4.7	11.2	10.1	4.9	0.2	1.2	1.4	7.3
Technology	26%	5.5	-0.6	-4.5	11.7	10.3	4.3	0.6	1.4	1.9	9.4
Telecommunication	19%	0.9	-0.6	-1.1	-1.4	-2.3	-5.5	-2.5	-2.9	-1.9	-5.6
Information Technology	7%	10.3	1.9	-8.9	31.2	25.8	19.4	5.2	7.5	7.6	35.9
Audiovisual	5%	2.1	0.4	-3.5	7.7	8.8	10.8	-4.1	0.0	-0.3	-7.8
Professional	23%	1.3	3.3	0.6	5.2	8.5	7.8	-2.1	-1.3	1.8	1.4
Professional	7%	-1.6	4.7	1.3	3.2	11.3	10.5	-3.0	-4.0	0.0	17.2
Administrative	16%	2.0	1.6	1.0	6.0	7.2	6.7	-1.8	-0.6	1.8	-1.4
Transportation	31%	2.5	2.6	1.4	13.7	15.7	15.2	-0.6	1.4	4.0	13.1
Ground Transportation	18%	1.1	3.0	2.1	12.7	17.1	15.2	0.2	2.4	4.5	8.7
Water Transportation	2%	1.8	3.1	1.0	18.2	21.0	18.5	1.9	3.4	5.6	22.5
Air Transport	3%	8.0	8.3	0.7	36.7	56.8	49.8	-10.8	-3.8	5.4	4.7
Storage and Mail	9%	1.5	-3.0	3.4	9.4	5.3	6.5	0.8	-0.6	-0.2	15.2
Other Services	7%	4.3	1.4	-1.1	-3.0	-4.6	3.1	-7.9	-6.9	-2.1	-0.6
Touristic Activities	-	7.3	3.3	1.1	26.1	31.5	29.2	6.8	8.2	10.3	-9.7

Sources: IBGE, Santander.

Services sector's real revenue stayed virtually flat in January. The headline index slightly decreased 0.1% MoM-sa, coming in below market expectations of +0.3% MoM-sa and our estimate of +0.6% MoM-sa, but with an upward revision in December. The seasonally adjusted series was revised to +1.7% MoM-sa (from +1.4%), while the unadjusted series was revised to +11% YoY (from +10.4%). Compared to the same month in 2021, services output rose 9.4% YoY, between market expectations of +9.3% and our call +10% YoY. This tepid figure came after two solid figures (+2.9% and +1.7% in November and December, respectively) and placed the headline index far above the pre-pandemic benchmark (February 2020), up 7.0%.

The details point to mixed figures among the components. In recent years, information services strongly benefited from the increasing digitalization of economic activities amid the pandemic environment; however, in the latest reading, we saw a retreat of 4.7% MoM-sa, though still far above the pre-crisis level (up 7.3%). Services to families broke a streak of nine consecutive gains, decreasing 1.4% MoM-sa and likely reflecting the Omicron variant outbreak in the month, although our proprietary index (IGET) already pointed to a full-recovery in February¹. This segment continued to show strong idleness relative to the pre-pandemic mark (down 13.2%). In addition, other services (which include brokerage, pension and other financial services) decreased 1.1% MoM-sa. On the bright side, transportation showed resilience, expanding 1.4% MoM-sa and marking the third gain in a row, thanks owing mainly to ground transportation (+2.1%) despite weakening in industrial output² in the month. Moreover, professional services rose 0.6% MoM-sa, highlighting a streak of three gains and surpassing the pre-pandemic mark (up 1.4%) for the first time since July 2021.

Among services activities, the diffusion index decelerated to 50% (vs. 83% in December). The biggest positive contributions came from ground transportation (+0.37 p.p.), storage and mail (+0.30 p.p.), and administrative services (+0.16 p.p.). Conversely, the biggest negative contribution came from information & technology (-0.65 p.p.) and telecommunications (-0.20 p.p.). Moreover, six out of twelve services activities remain below the pre-pandemic mark, notably food and accommodation (down 13.6%), and administrative services (down 1.4%), while air transport finally surpassed this mark (up 4.7%). The touristic activities index (composed of several segments of services related to tourist activities) jumped 1.1% MoM-sa in January, marking a streak of nine gains despite the Omicron variant outbreak in the month. The index remains 9.7% below the pre-pandemic mark.

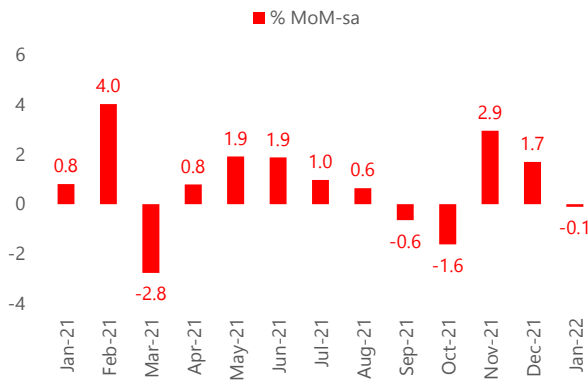
¹ Santander Brazil Economic Activity - "*Serviços mostram recuperação em fevereiro*" – March 8, 2022 – Available (in Portuguese) on: <https://bit.ly/Std-IGETser-fev22>

² Santander Brazil Economic Activity - "*Weaker-Than-Expected Start to 1Q22*" – March 9, 2022 – Available on: <https://bit.ly/Std-econact-030922>



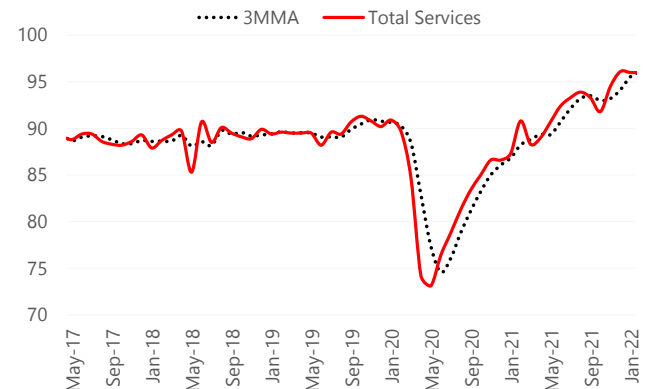
Regarding 1Q22, we calculate a statistical carryover of 2.0% QoQ-sa (+0.4% QoQ-sa in 4Q21), which suggests a continued positive contribution of cyclical services to overall activity this quarter. Indeed, our tracking for services output in February stands at +1.1% MoM-sa (+8.2% YoY). Moreover, along with farm output strengthening, we expect some idled segments (like health and education services, not captured in the monthly survey) to gradually break their idleness throughout the quarter, contributing positively to GDP growth. We are updating our IBC-Br tracking for January to +0% MoM-sa (from +0.2%) and our 1Q22 GDP growth tracking to +0.4% QoQ-sa (from +0.5%), after a 0.5%³ growth print in 4Q21. We forecast GDP growth of 0.7% in 2022 and a 0.2% contraction of real activity in 2023. **For details on Santander’s activity outlook, please refer to our last chartbook⁴.**

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



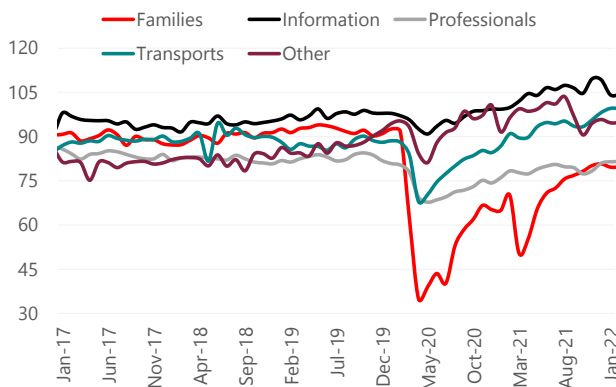
Sources: IBGE, Santander.

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



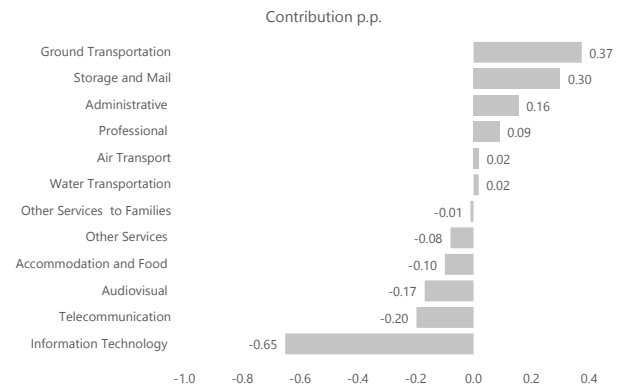
Sources: IBGE, Santander.

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.

³ Santander Brazil Economic Activity - "GDP Consolidates a Stronger than Anticipated 4Q21" – March 4, 2022 – Available on: <https://bit.ly/Std-GDP-4Q21>

⁴ Santander Brazil Economic Activity - "Positive Surprises Reinforce Resilience Outlook for 2022" – March 14, 2022 – Available on: <https://bit.ly/Std-chart-econact-mar22>



Figure 4 – “Heatmap” Showing Services Output by Subsector

By Subsector (% MoM sa)												
	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Total Services	4.01	-2.75	0.79	1.91	1.87	0.97	0.64	-0.64	-1.61	2.94	1.69	-0.10
Families	7.85	-27.96	9.50	18.44	8.09	2.54	4.27	1.59	1.82	2.43	0.75	-1.36
Accommodation and Food	7.76	-29.66	10.84	19.20	9.12	2.37	4.63	1.95	1.40	2.64	0.49	-1.46
Other Services to Families	4.81	-3.96	1.81	6.80	2.58	0.15	-0.15	0.15	1.62	1.02	2.87	-0.84
Information	0.60	2.10	2.55	-0.57	2.50	-0.56	1.32	-0.84	-1.69	4.68	-0.27	-4.67
Technology	0.28	1.79	2.49	-0.99	1.64	0.45	1.34	-1.06	-1.78	5.52	-0.60	-4.49
Telecommunications	-1.69	-0.11	0.57	0.00	-0.57	0.80	0.23	-1.70	-2.31	0.94	-0.58	-1.06
Information	1.83	3.98	4.63	0.00	1.53	0.87	3.17	0.11	-1.17	10.33	1.94	-8.93
Audiovisual and News	3.76	3.93	0.00	1.31	18.65	-12.82	1.53	0.41	-2.31	2.09	0.41	-3.53
Professional	3.02	-0.77	-0.51	2.07	1.27	0.75	-0.99	-0.38	-2.64	1.29	3.32	0.62
Technical and Professional	3.48	-0.81	0.54	2.83	1.18	5.06	-6.05	3.02	-4.34	-1.60	4.74	1.29
Administrative	4.66	-1.61	-1.26	2.68	1.12	-0.61	0.37	-1.48	-1.62	2.03	1.62	0.98
Transportation	4.84	-1.54	0.22	4.01	1.50	-0.42	0.95	-1.78	-0.21	2.46	2.61	1.43
Ground Transportation	6.27	-2.34	-0.76	3.68	0.98	0.12	-0.48	-0.73	1.35	1.09	2.99	2.09
Water Transportation	2.16	1.45	6.90	-3.71	0.25	4.86	-2.47	0.19	1.85	1.75	3.15	1.04
Air Transport	-4.83	-6.83	-13.72	62.75	19.01	-6.30	5.52	-10.81	-5.74	7.98	8.27	0.69
Storage and Mail	5.61	-2.61	0.18	4.34	-2.83	-0.27	1.55	0.27	-1.25	1.45	-2.95	3.41
Other Services	5.24	3.11	-0.80	0.71	2.22	-0.39	2.47	-6.37	-6.60	4.30	1.38	-1.15

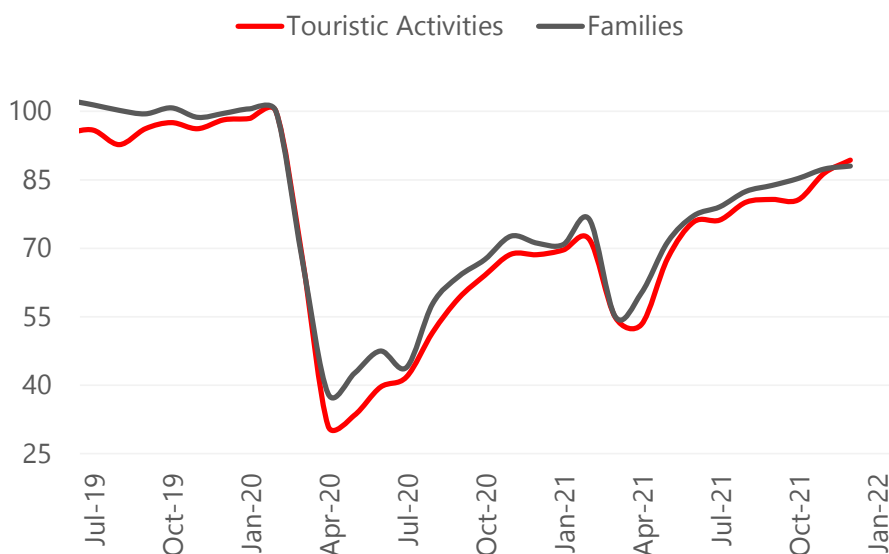
Sources: IBGE, Santander.

Figure 5 – “Heatmap” Showing Contribution by Activities

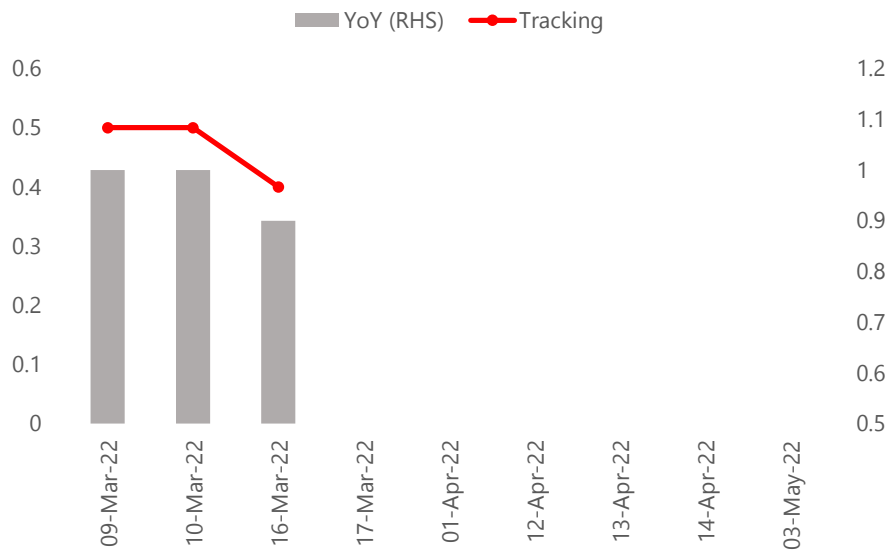
By Subsector (contribution, sa p.p)												
	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22
Total Services	4.01	-2.75	0.79	1.91	1.87	0.97	0.64	-0.64	-1.61	2.94	1.69	-0.10
Accommodation and Food	0.53	-2.02	0.74	1.31	0.62	0.16	0.31	0.13	0.10	0.18	0.03	-0.10
Other Services to Families	0.06	-0.05	0.02	0.09	0.03	0.00	0.00	0.00	0.02	0.01	0.04	-0.01
Telecommunications	-0.32	-0.02	0.11	0.00	-0.11	0.15	0.04	-0.32	-0.43	0.18	-0.11	-0.20
Information	0.13	0.29	0.34	0.00	0.11	0.06	0.23	0.01	-0.09	0.75	0.14	-0.65
Audiovisual and News	0.18	0.19	0.00	0.06	0.90	-0.62	0.07	0.02	-0.11	0.10	0.02	-0.17
Technical and Professional	0.24	-0.06	0.04	0.20	0.08	0.35	-0.42	0.21	-0.30	-0.11	0.33	0.09
Administrative	0.74	-0.26	-0.20	0.43	0.18	-0.10	0.06	-0.23	-0.26	0.32	0.26	0.16
Ground Transportation	1.12	-0.42	-0.14	0.66	0.18	0.02	-0.09	-0.13	0.24	0.19	0.54	0.37
Water Transportation	0.04	0.02	0.12	-0.06	0.00	0.08	-0.04	0.00	0.03	0.03	0.05	0.02
Air Transport	-0.13	-0.18	-0.37	1.69	0.51	-0.17	0.15	-0.29	-0.15	0.22	0.22	0.02
Storage and Mail	0.49	-0.23	0.02	0.38	-0.25	-0.02	0.14	0.02	-0.11	0.13	-0.26	0.30
Other Services	0.37	0.22	-0.06	0.05	0.16	-0.03	0.17	-0.45	-0.46	0.30	0.10	-0.08

Sources: IBGE, Santander.

Figure 6 – Selected Segments of Services (sa, Feb/20=100)



Sources: IBGE, Santander


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


Sources: IBGE, Santander

Figure 8 – Santander Tracking

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

Sources: IBGE, Santander.



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