

Brazil Macro: Services

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A Breath of Fresh Air for the Services Sector

- Data on the services sector released today by IBGE has confirmed market expectations of another gain in September. Relative to September 2019, the headline index posted a variation of -7.2%, a slightly better result than the market consensus projection (-7.8% YoY). After seasonal adjustments, the registered gain was 1.8% MoM s.a.
- This is the fourth gain in a row after April's sharp drop and the bottom in May, but it still is not enough for a full recovery from the losses registered in the crisis, with the headline index still far below the pre-crisis level. In quarterly terms, the services sector ended 3Q20 registering a quarterly increase of 8.6%, not enough to offset the 15.5% decline in the previous quarter. These figures underline that despite the recent improvement, the services sector is still the laggard in the economic recovery.
- Based on the information set available up to now, we are updating our projection for IBC-BR (September) to +0.7% MoM s.a. (from 0.6%), and our tracking for 3Q20 GDP is running at +9.1% QoQ s.a. (-3.1% YoY).

Figure 1. Services Sector Breakdown

	% MoM			% YoY			% QoQ		
	Jul-20	Aug-20	Sep-20	Jul-20	Aug-20	Sep-20	Jul-20	Aug-20	Sep-20
Total	2.7	2.9	1.8	-11.9	-10.0	-7.2	-7.6	2.8	8.6
Services to Families	-11.2	35.1	9.0	-55.0	-43.9	-36.4	-34.2	1.8	28.7
Accommodation and Food Services	-12.5	39.5	9.1	-57.2	-45.4	-38.4	-36.6	2.1	31.2
Other Services Provided to Families	4.0	7.2	10.9	-42.6	-35.3	-25.2	-24.2	-1.6	17.9
Information and Communication Services	1.9	-1.0	2.0	-2.4	-4.0	-0.9	-2.0	2.0	3.6
Technology Services	1.2	-1.3	1.4	1.0	-1.1	1.4	-0.3	2.2	2.5
Telecommunication	0.3	0.2	0.3	-3.7	-2.9	-2.9	-1.2	0.3	0.7
Information Technology Services	6.1	-4.0	3.2	9.4	2.2	8.8	0.5	3.5	5.9
Audiovisual Services	6.2	3.4	5.6	-26.1	-24.3	-17.7	-17.4	-0.9	13.6
Professional and Administrative Services	2.5	1.4	-0.6	-14.7	-14.2	-13.7	-8.9	-1.3	3.1
Professional Services	9.1	0.9	-1.9	-5.4	-1.5	-7.7	-5.9	0.5	7.1
Administrative Services	0.7	0.7	1.1	-17.9	-18.5	-15.7	-9.4	-1.7	2.8
Transportation Services	2.2	3.9	1.1	-11.5	-8.4	-6.3	-6.9	5.8	11.7
Ground Transportation	6.3	4.4	2.3	-15.8	-12.5	-8.1	-8.7	5.3	15.1
Water Transportation	1.3	-1.7	3.1	6.3	2.5	10.9	-3.4	-3.4	-1.1
Air Transport	20.6	15.8	19.2	-51.4	-39.5	-35.4	-46.3	13.3	97.2
Storage and Mail	0.9	2.6	-2.9	2.5	4.1	1.4	0.9	5.4	5.5
Other Services	3.7	1.0	4.8	4.6	7.1	13.3	-2.6	5.7	10.1

Sources: IBGE and Santander.

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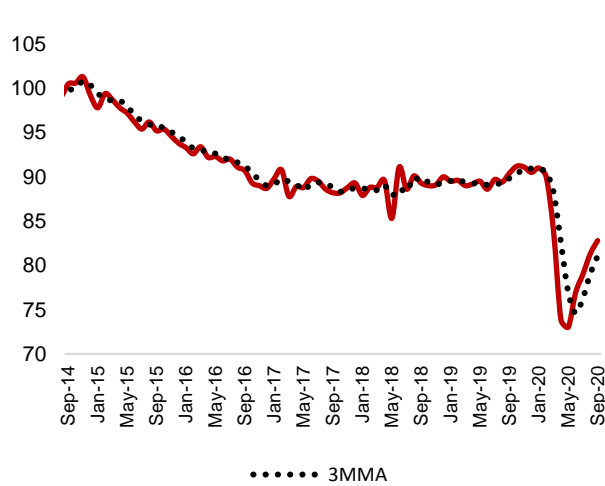
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Services Sector Recovery Continues, Albeit Slowly

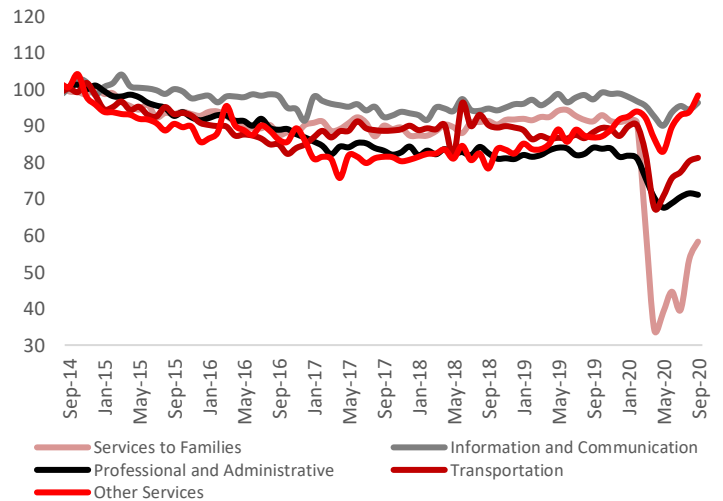
Data on the services sector released today by IBGE has confirmed market expectations of another gain in September. Relative to September 2019, the headline index posted a variation of -7.2% , a slightly better result than the market consensus projection (-7.8% YoY). After seasonal adjustments, the registered gain was 1.8% MoM s.a.—the fourth gain in a row after May’s bottom and April’s sharp drop. This positive result implies that 55.3% of the losses registered during the crisis have already been recovered, although, in comparison with February’s reading, the headline is still 8.0% below the pre-crisis level. With today’s result, the services sector ended 3Q20 registering a quarterly increase of 8.6% , not enough to offset the 15.5% decline in the previous quarter. In terms of the outlook for the remaining months of the year, assuming no growth for the services sector, we calculate a quarterly increase of 2.2% .

Figure 2-A. Total Services (s.a., 2014=100)



Sources: IBGE and Santander.

Figure 2-B. Services Breakdown (s.a., 2014=100)



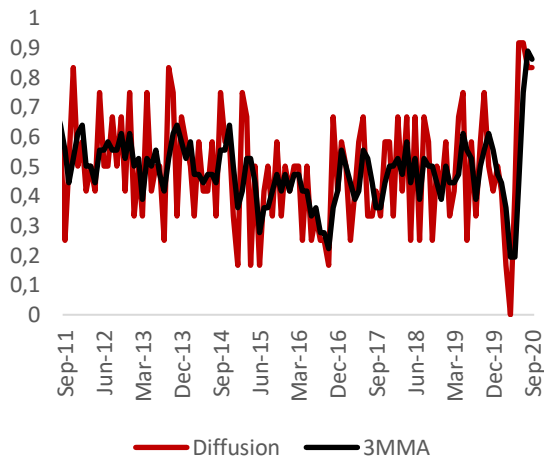
Sources: IBGE and Santander.

Among the categories, September’s positive monthly result was driven to a large extent by segments such as Families (9.0%), Information (1.0%), and Other Services (4.8%). The negative highlight was Professional Services (-0.6%). Regarding the diffusion index, 80% of the sectors posted positive variations. Services to Families, a segment that fell more than 60% in the worst period of the crisis (April-May), registered its second gain in a row; however, in comparison with February’s reading, it is still 36% below the pre-crisis level. Given that, there is a wide gap to be filled as control over the epidemic improves, which is a tailwind for economic activity ahead, in our view, since Services to Families captures services related to social interactions. Transport Services, which fell by 18.0% in April, posted its fifth gain in a row, largely due to Air Transport (19.3%); the segment is now down 10.0% since February. Ground transport, whose result is driven by industrial production, which requires road and rail freight transport, stood at 2.3% , the fifth gain in a row. Other Services, which includes Health Insurance, Insurance Brokers, and Pensions, pointed to a fourth consecutive gain, and after recovering in the previous month all the losses in the crisis, the number is running at levels almost 5% above the pre-crisis reading.

With today’s data, most of the main indicators of economic activity for the month have already been released. Retail Sales have far surpassed the pre-crisis level, and Industrial Production has finally achieved a full recovery from the crisis; on the other hand, the services sector is still 8.0% below the pre-crisis level. These figures underline that the services sector is still the laggard in the economic recovery. Based on this information set, we are updating our projection for IBC-BR to $+0.7\%$ MoM s.a. (from 0.6%), and our tracking for 3Q20 GDP is running at $+9.1\%$ QoQ s.a. (-3.1% YoY). In terms of outlook for the remaining months of the year, on the heels of the reopening of the economy, with expectations of a vaccine possibly early in 2021 and the changing composition of household consumption (shifting from goods toward services), we expect moderate growth in 4Q20, with the services sector being the main driver of economic activity in the period.

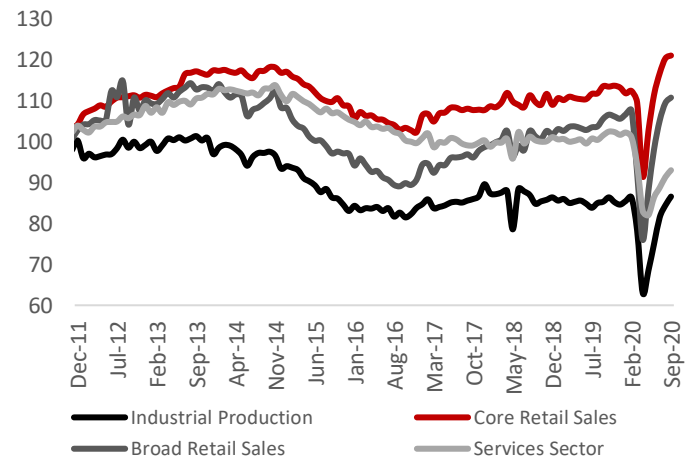


Figure 3-A. Diffusion Index



Sources: IBGE and Santander.

Figure 3-B. Economic Activity (s.a., 2011=100)



Sources: IBGE and Santander.

Figure 4. Recovery Breakdown

	Apr/Feb %	MoM %	YoY %	Rec % *	Feb % **
Total	-17.9	1.8	-7.2	55.3	-8.0
Services to Families	-62.5	9.0	-36.4	42.6	-35.9
Accommodation and Food Services	-65.2	9.1	-38.4	41.6	-38.1
Other Services Provided to Families	-46.5	10.9	-25.2	40.2	-27.8
Information and Communication Services	-4.3	2.0	-0.9	90.5	-0.4
Technology Services	-1.1	1.4	1.4	227.3	1.4
Telecommunication	-2.2	0.3	-2.9	25.0	-1.7
Information Technology Services	-0.3	3.2	8.8	-	5.4
Audiovisual Services	-28.4	5.6	-17.7	44.4	-15.8
Professional and Administrative Services	-13.3	-0.6	-13.7	7.4	-12.3
Professional Services	-3.3	-1.9	-7.7	-	-1.6
Administrative Services	-17.5	1.1	-15.7	18.7	-14.2
Transportation Services	-25.2	1.1	-6.3	60.4	-10.0
Ground Transportation	-28.9	2.3	-8.1	62.6	-10.8
Water Transportation	-1.2	3.1	10.9	-135.3	-2.8
Air Transport	-81.1	19.2	-35.4	51.0	-39.7
Storage and Mail	-6.9	-2.9	1.4	-	0.0
Other services	-8.0	4.8	13.3	158.7	4.7

* Percentage of the drop already recovered.

** Variation relative to February's reading

Sources: IBGE and Santander.



Figure 5. “Heatmap” Showing Retail Sales by Component: MoM s.a.

Services Sector (% MoM seasonally adjusted)													
	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Services to families	-0.44	1.86	-1.72	-0.33	0.44	-0.55	-31.57	-45.18	14.08	14.65	-11.21	35.10	8.97
Information and communication services	-1.22	1.95	-0.40	0.10	-0.91	-1.23	-1.34	-3.04	-2.70	4.00	1.92	-1.05	2.01
Professional and administrative services	2.07	-0.36	0.12	-2.74	0.37	-0.86	-6.66	-7.13	-3.84	1.78	2.47	1.42	-0.56
Transportation services	1.85	1.36	-0.34	-2.13	2.98	0.45	-8.76	-17.98	4.59	7.08	2.25	3.88	1.12
Other services	-0.57	0.35	2.07	3.15	0.87	1.51	-1.92	-6.19	-4.05	8.08	3.68	0.97	4.80
Total	1.12	0.88	-0.11	-0.66	0.55	-1.10	-6.78	-11.92	-1.22	5.34	2.73	2.91	1.85

Sources: IBGE and Santander.



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