

**Brazil Macro: Services**

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## A Breath of Fresh Air at the Start of 4Q20

- Data on the services sector released today by IBGE was in line with market's expectations of another sequential gain in October. Relative to October 2019, the headline posted a variation of -7.4% vs. consensus of -7.7%. After seasonal adjustments, the monthly gain was 1.7% MoM s.a. (over a higher basis, since there was an upward revision for September).
- This is the fifth 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 below the pre-crisis level. These figures underline that despite the recent improvement, the services sector is still the laggard in the economic recovery. In quarterly terms, assuming no growth in the remaining months of the year, the services sector would reach a 4.1% QoQ s.a. gain in 4Q20.
- On Monday (December 14), BCB will release the IBC Br for October, and based on the information set available as of this writing, we are updating our projection to 1.3% MoM s.a. (from 0.5%).

### Services Sector Recovery Continues, Albeit Slowly

Figure 1. Services Sector Breakdown

	% MoM			% YoY			% QoQ		
	Aug-20	Sep-20	Oct-20	Aug-20	Sep-20	Oct-20	Aug-20	Sep-20	Oct-20
<b>Total</b>	2.9	2.1	1.7	-10.0	-6.9	-7.4	2.9	8.8	8.7
<b>Services to Families</b>	35.8	8.2	5.5	-43.9	-36.4	-30.2	2.2	28.9	40.8
Accommodation and Food Services	40.7	7.9	7.8	-45.4	-38.4	-30.7	2.9	32.0	45.8
Other Services Provided to Families	7.4	10.1	-2.8	-35.3	-25.1	-27.3	-1.1	17.9	18.2
<b>Information and Communication Services</b>	-0.9	1.8	2.8	-4.0	-0.8	0.0	2.1	3.7	3.8
Technology Services	-1.2	1.2	2.3	-1.1	1.4	3.4	2.3	2.6	2.5
Telecommunication	0.2	0.3	-0.2	-2.9	-2.9	-2.8	0.2	0.7	0.8
Information technology services	-3.5	2.9	6.4	2.2	8.9	14.7	3.5	5.7	5.4
Audiovisual Services	3.2	5.8	-1.1	-24.3	-16.9	-21.4	-1.0	13.4	13.4
<b>Professional and Administrative Services</b>	1.4	-0.7	1.1	-14.2	-13.4	-13.5	-1.3	3.1	3.7
Professional Services	0.9	-2.2	2.0	-1.5	-7.0	-6.9	0.6	7.1	6.2
Administrative Services	0.8	1.0	0.7	-18.5	-15.6	-16.0	-1.6	2.8	3.0
<b>Transportation Services</b>	3.9	1.0	2.0	-8.4	-6.0	-8.1	5.9	11.8	9.3
Ground Transportation	4.4	2.3	1.7	-12.5	-8.0	-10.7	5.3	15.1	12.1
Water Transportation	-1.7	2.9	1.1	2.5	10.9	9.0	-3.2	-0.9	0.8
Air Transport	15.2	20.5	0.2	-39.5	-35.4	-37.4	12.7	96.0	65.8
Storage and Mail	2.2	-2.8	2.3	4.1	2.5	0.3	5.5	5.4	3.3
<b>Other services</b>	0.9	5.1	-3.2	7.1	13.3	8.8	5.5	10.0	8.3

Sources: IBGE and Santander.

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

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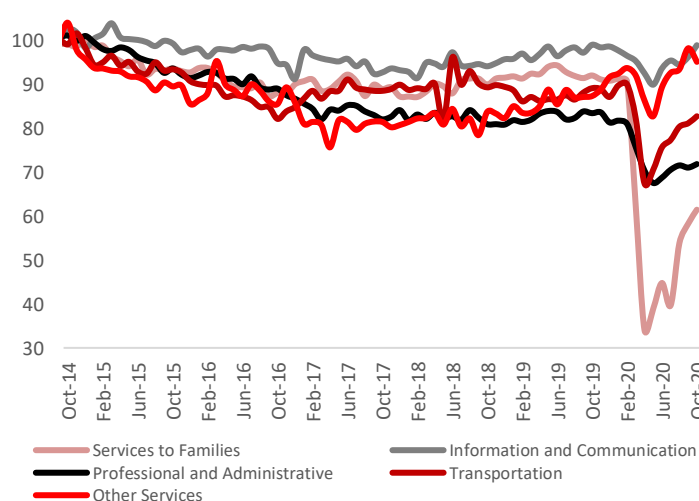
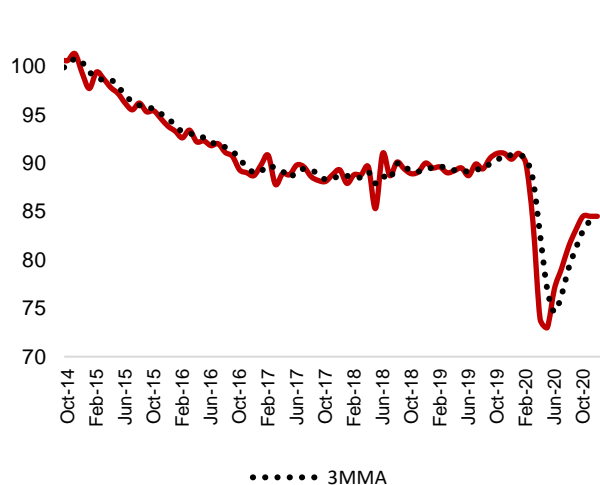


Data on the services sector released today by IBGE has confirmed market expectations of another gain in October. Relative to October 2019, the headline index posted a variation of -7.4%, a slightly better result than the market consensus projection (-7.7% YoY). After seasonal adjustments, the registered gain was 1.7% MoM s.a.—the fifth gain in a row after May’s bottom and April’s sharp drop, and over a higher basis, since there was an upward revision number for September. This positive result implies that 66.0% of the losses registered during the crisis have already been recovered, although, in comparison with February’s reading, the headline is still 6.1% below the pre-crisis level. With today’s result, assuming no growth in the remaining months of the year, the services sector would reach quarterly growth of 4.1% QoQ s.a., still not enough to offset the 15.5% decline in 2Q20.

Among the categories, October’s positive monthly result was driven to a large extent by segments such as Families (5.5%), Information (2.8%), Professional (1.1%) and Transportation (2.0%). The negative highlight was Other Services (-3.2%). Regarding the diffusion index, 70% of the sectors posted positive variations (80% in the previous month), highlighting that, despite a heterogeneous recovery, this is a notably widespread movement.

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

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



Sources: IBGE and Santander.

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Services to Families, a segment that fell more than 60% in the worst period of the crisis (April-May), registered its third gain in a row; however, in comparison with February’s reading, it is still 32% below the pre-crisis level. Given that, there is a wide gap to be filled as control over the epidemic improves, we see this as 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 sixth gain in a row, largely due to ground transport (2.3%), whose result is driven by industrial production, which requires road and rail freight transport. Despite this positive result, Transport Services are still down 8.1% since February. Other Services, which includes Health Insurance, Insurance Brokers, and Pensions, pointed to the first decline after four consecutive gains, but is still running at levels almost 1.5% 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 are still growing, and Industrial Production, after achieving a full recovery from the crisis in the previous months, started 4Q20 with sequential improvement; on the other hand, the services sector is still 6.0% 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 for 1.3% MoM s.a. (from 0.5%).

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 an important driver of economic activity in the period.



Figure 3-A. Diffusion Index

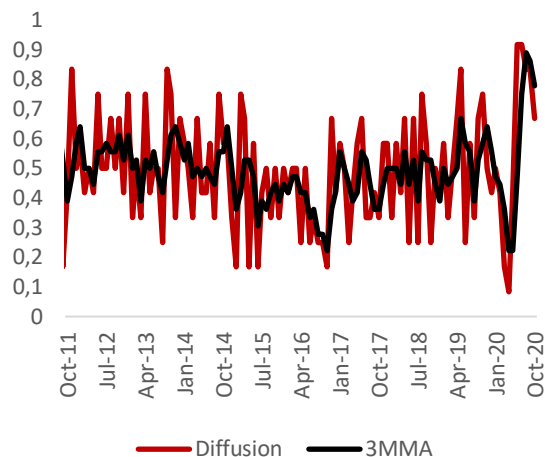
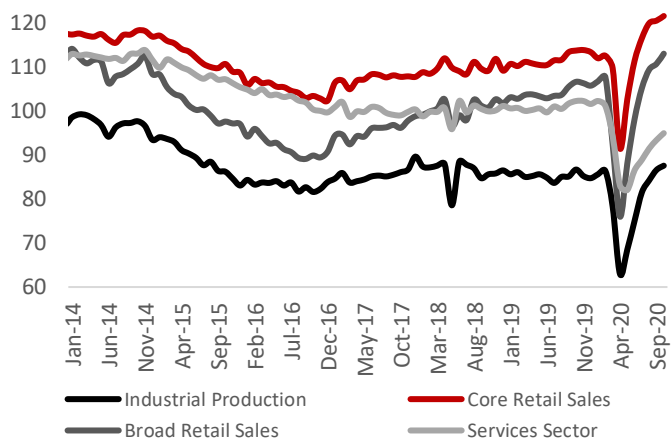


Figure 3-B. Economic Activity (s.a., 2011=100)



Sources: IBGE and Santander.

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Figure 4. Recovery Breakdown

	Drop %	MoM %	YoY %	Rec % *	Feb % **
<b>Total</b>	-17.9	1.7	-7.4	65.8	-6.1
<b>Services to Families</b>	-62.4	5.5	-30.2	48.3	-32.3
Accommodation and Food Services	-65.6	7.8	-30.7	49.4	-33.2
Other Services Provided to Families	-46.3	-2.8	-27.3	35.5	-29.9
<b>Information and Communication services</b>	-4.1	2.8	0.0	-	2.5
Technology Services	-1.0	2.3	3.4	-	3.8
Telecommunication	-2.2	-0.2	-2.8	10.0	-2.0
Information Technology Services	-0.2	6.4	14.7	-	12.1
Audiovisual Services	-28.3	-1.1	-21.4	40.9	-16.7
<b>Professional and Administrative services</b>	-13.2	1.1	-13.5	14.0	-11.3
Professional Services	-3.1	2.0	-6.9	-	0.3
Administrative Services	-17.2	0.7	-16.0	21.8	-13.5
<b>Transportation Services</b>	-25.1	2.0	-8.1	67.7	-8.1
Ground Transportation	-28.9	1.7	-10.7	67.7	-9.3
Water Transportation	-1.3	1.1	9.0	-	-1.7
Air Transport	-81.1	0.2	-37.4	51.0	-39.8
Storage and Mail	-6.8	2.3	0.3	-	2.3
<b>Other services</b>	-7.9	-3.2	8.8	-	1.5

\* 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
<b>Total</b>	<b>1.12</b>	<b>0.88</b>	<b>-0.11</b>	<b>-0.66</b>	<b>0.55</b>	<b>-1.10</b>	<b>-6.78</b>	<b>-11.92</b>	<b>-1.22</b>	<b>5.34</b>	<b>2.73</b>	<b>2.91</b>	<b>1.85</b>

Sources: IBGE and Santander.



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