

Brazil Macro: Services

Lucas Maynard*
lucas.maynard.da.silva@santander.com.br
 (+55 11) 3553 7495

Activity Continued to Improve in August

- Data on the services sector released today by IBGE has confirmed market expectations of another gain in August. Relative to August 2019, the headline index posted a variation of **-10.0%**, a slightly better result than the market consensus projection (-10.2% YoY). After seasonal adjustments, the registered gain was **2.9% MoM s.a.**
- This is the third gain in a row after May's bottom and April's sharp drop. This positive result implies that **45.3%** of the losses registered during the crisis have already been recovered. In comparison with February's reading, the headline is still **9.8%** below the pre-crisis level. Based on this information set, we are updating our projection for IBC-BR to **+2.1% MoM s.a.** (from 1.9%), 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		
	Jun-20	Jul-20	Aug-20	Jun-20	Jul-20	Aug-20	Jun-20	Jul-20	Aug-20
Total	5.2	2.6	2.9	-12.3	-11.9	-10.0	-15.6	-7.7	2.6
Services to families	14.4	-10.6	33.0	-57.5	-54.9	-43.8	-52.0	-34.3	1.5
Accommodation and Food Services	17.3	-13.3	37.9	-60.1	-57.3	-45.3	-54.2	-36.4	2.2
Other Services Provided to Families	3.6	3.1	9.8	-42.4	-41.8	-35.3	-40.3	-25.7	-3.0
Information and communication services	3.9	2.2	-1.3	-3.0	-2.6	-4.0	-4.9	-2.0	2.0
Technology Services	3.8	1.3	-1.4	0.7	0.8	-1.1	-1.6	-0.4	2.1
Telecommunication	0.7	0.3	0.2	-4.2	-3.7	-2.9	-1.9	-1.2	0.3
Information Technology services	3.8	5.3	-3.4	9.7	9.0	2.2	-2.3	0.2	3.2
Audiovisual Services	6.6	6.4	2.9	-30.6	-25.9	-24.2	-28.8	-17.8	-1.3
Professional and Administrative services	1.8	2.5	1.0	-15.9	-14.6	-14.1	-14.7	-9.6	-1.6
Professional Services	0.7	10.2	0.0	-10.0	-4.8	-1.6	-8.7	-5.6	1.0
Administrative Services	2.4	0.4	1.0	-18.0	-17.9	-18.4	-15.8	-9.6	-1.9
Transportation Services	7.1	2.1	3.9	-11.3	-11.3	-8.6	-18.5	-6.9	5.7
Ground Transportation	3.6	5.9	4.4	-17.3	-15.5	-12.5	-21.8	-8.8	5.2
Water Transportation	-2.6	2.0	-2.7	9.1	6.8	2.5	-1.3	-3.3	-3.4
Air Transport	57.8	17.1	14.6	-59.0	-51.4	-39.6	-72.2	-47.4	12.5
Storage and Mail	5.0	0.4	2.4	7.5	2.8	4.1	-4.0	0.9	5.2
Other Services	7.3	2.7	1.5	4.2	4.1	7.2	-7.3	-3.1	4.7

Sources: IBGE and Santander.

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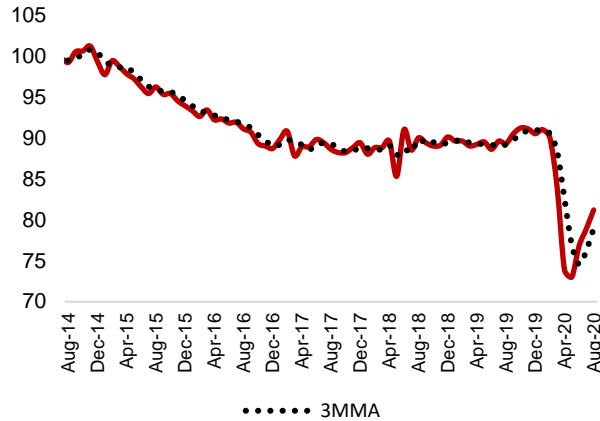
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Continuing the Services Sector Recovery

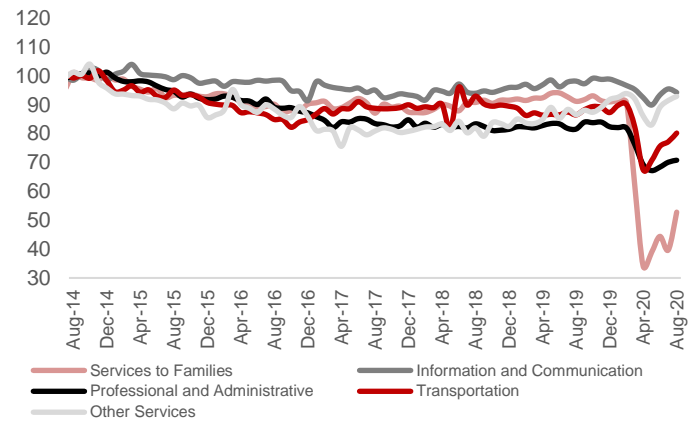
Data on the services sector released today by IBGE has confirmed market expectations of another gain in August. Relative to August 2019, the headline index posted a variation of -10.0%, a slightly better result than the market consensus projection (-10.2% YoY). After seasonal adjustments, the registered gain was 2.9% MoM s.a.—the third gain in a row after May’s bottom and April’s sharp drop. This positive result implies that 45.3% of the losses registered in the crisis have already been recovered, and, in comparison with February’s reading, the headline is still -9.8% below the pre-crisis level. With today’s result and assuming no growth for the services sector in the remaining months of the quarter, we calculate that growth for 3Q20 stands at 7.9% QoQ s.a.

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



Sources: IBGE and Santander.

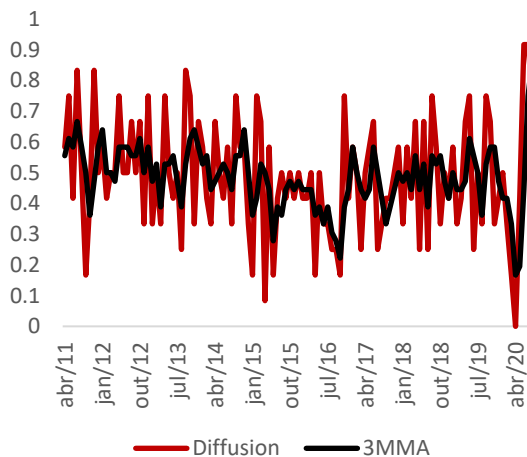
Figure 2-B. Services Breakdown (s.a., 2014=100)



Sources: IBGE and Santander.

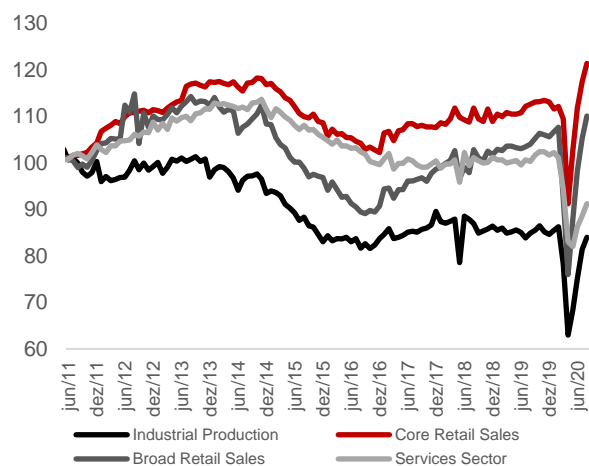
Among the categories, August’s positive monthly result was driven to a large extent by segments such as Families (33.0%), Professional (1.0%), Transportation (3.9%) and Other Services (2.9%). The negative highlight was Information Services (-1.3%). Regarding the diffusion index, 75% of the sectors posted positive variations. Services to Families, that have fallen more than 60% in the worst moment of the crisis, registered its all-time high positive variation, especially due to Accommodation and Food Services (37.9%). In comparison with February’s reading, it is still 42% below pre-crisis level, so there is a wide gap to be filled as control over the epidemic improves, which is a tailwind for economic activity ahead since this rubric captures services related to social interactions. Transport Services, which has fallen by 18.0% in April, posted its fourth gain in a row, especially due to Air Transport (14.6%), and is 11.1% down since February. Other Services, which includes Health Insurance, Insurance Brokers and Pensions, pointed to a third consecutive gain, and has recovered virtually all the losses registered during the crisis.

Figure 3-A. Diffusion Index



Sources: IBGE and Santander.

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



Sources: IBGE and Santander.



With today's data, most of the main indicators of economic activity for the month has already been released. Retail Sales has far surpassed pre-crisis level, and Industrial Production is down only by 2.6% since February; on the other hand, the Services Sector is almost 10% below pre-crisis level. These figures reinforce 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 +2.1% MoM s.a. (from 1.9%), and our tracking for 3Q20 GDP is running at +9.1% QoQ s.a. (-3.1% YoY).

Figure 4. Recovery Breakdown

	Apr/Feb %	MoM %	YoY %	Rec % *	Feb % **
Total	-17.9	2.9	-10.0	45.3	-9.8
Services to Families	-62.5	33.0	-43.8	32.9	-41.9
Accommodation and Food Services	-65.2	37.9	-45.3	32.6	-43.9
Other Services Provided to Families	-46.6	9.8	-35.3	25.2	-34.8
Information and Communication services	-4.3	-1.3	-4.0	42.9	-2.5
Technology Services	-1.1	-1.4	-1.1	90.9	-0.1
Telecommunication	-2.2	0.2	-2.9	10.0	-2.0
Information Technology Services	-0.3	-3.4	2.2	-	2.0
Audiovisual Services	-28.9	2.9	-24.2	26.4	-21.3
Professional and Administrative services	-15.5	1.0	-14.1	11.8	-13.7
Professional Services	-3.3	0.0	-1.6	-	0.4
Administrative Services	-17.3	1.0	-18.4	12.2	-15.2
Transportation Services	-25.2	3.9	-8.6	55.9	-11.1
Ground Transportation	-28.9	4.4	-12.5	54.9	-13.0
Water Transportation	-1.2	-2.7	2.5	-	-6.1
Air Transport	-82.1	14.6	-39.6	35.6	-52.8
Storage and Mail	-6.7	2.4	4.1	-	2.7
Other Services	-8.3	1.5	7.2	87.2	-1.1

* Percentage of the drop already recovered.

** Variation relative to February's reading

Sources: IBGE and Santander.

Figure 5. "Heatmap" Showing Retail Sales by Component

	Services Sector (% MoM seasonally adjusted)										
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Services to families	1.42	-1.83	-0.44	0.44	-0.55	-31.79	-45.00	13.78	14.43	-10.59	33.00
Information and communication services	1.95	-0.40	0.10	-1.01	-1.23	-1.45	-2.94	-2.81	3.89	2.25	-1.26
Professional and administrative services	-0.24	0.24	-1.90	-0.36	-0.12	-7.07	-9.06	-3.03	1.79	2.49	1.00
Transportation services	1.25	-0.34	-2.02	2.86	0.45	-8.76	-17.98	4.59	7.08	2.12	3.89
Other services	-0.79	1.95	3.03	0.87	1.40	-2.02	-6.41	-3.60	7.35	2.69	1.53
Total	0.77	-0.11	-0.66	0.55	-1.10	-6.78	-11.92	-1.22	5.21	2.73	2.92

Sources: IBGE and Santander.



Figure 6. “Heatmap” Showing Retail Sales by Component: 3-Month Moving Average

	Services Sector (% 3MMA seasonally adjusted)										
	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20
Total	0.59	0.66	0.00	-0.07	-0.40	-2.43	-6.46	-6.86	-3.08	2.24	3.59
Services to families	0.15	0.07	-0.29	-0.62	-0.18	-10.61	-23.45	-27.86	-13.05	4.77	11.39
Information and communication services	0.44	0.20	0.54	-0.44	-0.71	-1.23	-1.86	-2.39	-0.68	1.09	1.58
Professional and administrative services	0.81	0.96	-0.64	-0.68	-0.80	-2.52	-5.33	-6.51	-3.67	0.39	1.75
Transportation services	0.72	0.98	-0.37	0.15	0.41	-1.87	-8.50	-8.17	-3.04	4.54	4.30
Other services	-0.38	0.95	1.40	1.94	1.76	0.07	-2.33	-4.01	-1.11	2.09	3.76

Sources: IBGE and Santander.



CONTACTS / IMPORTANT DISCLOSURES

Macro Research

Maciej Reluga*	Head Macro, Rates & FX Strategy – CEE	maciej.reluga@santander.pl	48-22-534-1888
Juan Cerruti *	Senior Economist – Argentina	jcerruti@santander.com.ar	54 11 4341 1272
Ana Paula Vescovi*	Economist – Brazil	anavescovi@santander.com.br	5511-3553-8567
Juan Pablo Cabrera*	Economist – Chile	jcabrera@santander.cl	562-2320-3778
Guillermo Aboumrad*	Economist – Mexico	gjaboumrad@santander.com.mx	5255-5257-8170
Piotr Bielski*	Economist – Poland	piotr.bielski@santander.pl	48-22-534-1888

Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina& FX	jarranz@santanderrio.com.ar	5411-4341-1065
Mauricio Oreng*	Senior Economist/Strategist – Brazil	mauricio.oreng@santander.com.br	5511-3553-5404
Juan Pablo Cabrera*	Chief Rates & FX Strategist – Chile	jcabrera@santander.cl	562-2320-3778

Equity Research

Miguel Machado*	Head Equity Research Americas	mmachado@santander.com.mx	5255 5269 2228
Alan Alanis*	Head, Mexico	aalanis@santander.com.mx	5552-5269-2103
Andres Soto	Head, Andean	asoto@santander.us	212-407-0976
Claudia Benavente*	Head, Chile	claudia.benavente@santander.cl	562-2336-3361
Walter Chiarvesio*	Head, Argentina	wchiarvesio@santanderrio.com.ar	5411-4341-1564
Daniel Gewehr*	Head, Brazil	dhgewehr@santander.com.br	5511-3012-5787

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