

**DATA ANALYSIS – ECONOMIC ACTIVITY**
**Solid Quarterly Growth Expected Ahead**

Lucas Maynard\*  
 lucas.maynard.da.silva@santander.com.br  
 +5511 3553 7495

- Today IBGE released data on the services sector that was above market's expectations in November: after seasonal adjustments, the monthly gain was 2.6% MoM-sa, and relative to November 2019, the headline posted a decline of -4.8% (consensus of -6.4%).
- This is sixth consecutive gain after April's sharp drop and the bottom in May but still not enough for a full recovery from the losses wrought by the crisis: the headline index still down by 3.2% since February (pre-crisis mark). Among the subsectors, Services to Families and Transport Services, considerably hurt by the reduction in social interactions, are now 25.5% and 5.1%, respectively, below February's reading, moving gradually toward full recovery.
- In terms of outlook, with today's result, we calculate a carryover for 4Q20 of 6.1%, reinforcing the likelihood of solid sequential growth for economic activity in the remaining quarter of the year, in the wake of the economy's reopening. On Monday (January 18), the Brazil Central Bank (BCB) will release the IBC-Br for November, and based on the information set available as of this writing, we are projecting monthly growth of 0.6% (-1.0% YoY), which implies a tracking of 4Q20 GDP at 2.5% QoQ-sa (-2.0% YoY).

**Figure 1. Services Sector Breakdown**

	% MoM			% YoY			% QoQ		
	Sep-20	Oct-20	Nov-20	Sep-20	Oct-20	Nov-20	Sep-20	Oct-20	Nov-20
<b>Total Services</b>	<b>2.2</b>	<b>1.8</b>	<b>2.6</b>	<b>-6.9</b>	<b>-7.4</b>	<b>-4.8</b>	<b>9.0</b>	<b>8.9</b>	<b>7.3</b>
<b>Services to Families</b>	<b>10.0</b>	<b>5.0</b>	<b>8.2</b>	<b>-36.4</b>	<b>-29.9</b>	<b>-26.2</b>	<b>30.3</b>	<b>41.8</b>	<b>36.1</b>
Accommodation and Food Services	10.3	6.8	9.1	-38.4	-30.3	-26.0	33.3	46.6	40.4
Other Services Provided to Families	11.1	-3.1	1.5	-25.1	-27.4	-27.5	18.7	19.5	16.6
<b>Information and Communication</b>	<b>2.1</b>	<b>2.0</b>	<b>0.5</b>	<b>-0.8</b>	<b>-0.1</b>	<b>1.1</b>	<b>3.8</b>	<b>3.7</b>	<b>3.6</b>
Technology	1.5	1.7	-0.3	1.4	3.4	2.8	2.7	2.5	2.1
Telecommunication	0.2	-0.2	-0.5	-2.9	-2.8	-3.2	0.6	0.7	0.2
Information Technology	3.5	5.3	-0.2	8.9	14.6	13.2	6.1	5.7	6.6
Audiovisual	5.8	0.2	5.6	-16.9	-21.6	-9.5	16.8	15.8	13.2
<b>Professional and Administrative</b>	<b>-0.3</b>	<b>1.0</b>	<b>2.5</b>	<b>-13.4</b>	<b>-13.4</b>	<b>-10.7</b>	<b>3.2</b>	<b>3.8</b>	<b>2.8</b>
Professional	-1.2	2.2	2.5	-7.0	-6.5	-3.0	7.8	7.3	4.8
Administrative	1.6	0.3	1.5	-15.6	-16.0	-13.7	3.2	3.4	3.1
<b>Transportation</b>	<b>1.6</b>	<b>2.0</b>	<b>2.4</b>	<b>-6.0</b>	<b>-8.1</b>	<b>-3.7</b>	<b>12.1</b>	<b>9.8</b>	<b>7.3</b>
Ground Transportation	2.8	1.9	4.2	-8.0	-10.6	-4.9	15.6	12.7	10.7
Water Transportation	3.2	0.8	-3.8	10.9	9.0	1.4	-1.1	0.6	1.6
Air Transport	21.4	0.9	6.8	-35.4	-37.7	-31.9	95.8	65.7	43.8
Storage and Mail	-1.8	1.9	1.6	2.5	0.4	5.2	5.8	4.0	1.9
<b>Other Services</b>	<b>5.7</b>	<b>-3.9</b>	<b>0.5</b>	<b>13.3</b>	<b>8.6</b>	<b>7.4</b>	<b>10.0</b>	<b>8.3</b>	<b>4.9</b>

Sources: IBGE and Santander

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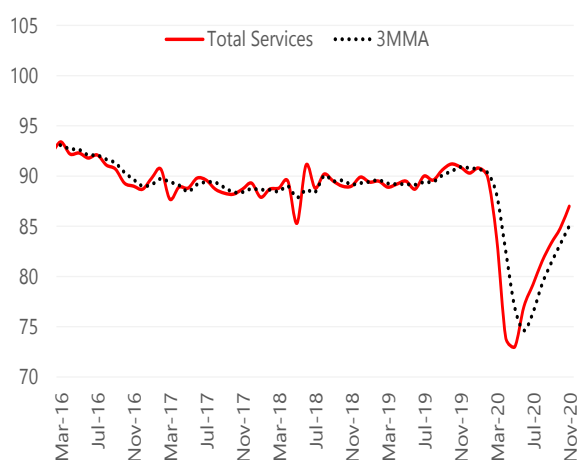
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Service sector data, released today by IBGE, confirmed market expectations of another gain in November: after seasonal adjustments, the registered gain was 2.6% MoM-sa, the sixth consecutive gain after May's bottom and April's sharp drop. Relative to November 2019, the headline index posted a variation of -4.8%, a considerably better result than the market consensus projection (-6.5% YoY). After a favorable start to the sequence of 4Q20 releases, this result supports our expectations of consistent quarterly growth for the services sector, as mobility advances.

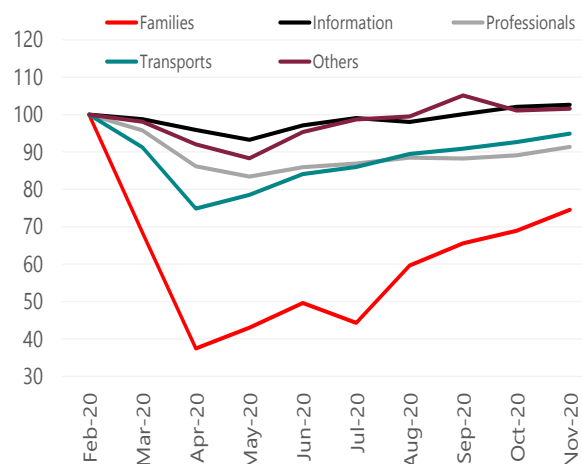
November's result underlines that the services sector is still the laggard in the economic recovery: with this positive figure, 81.9% of the losses registered during the crisis have already been recovered, and in comparison with February's reading, the headline is 3.2% below the pre-crisis level, while retail sales and industrial production have already fully recovered from the crisis's impact. With today's result, assuming no growth in the remaining months of the year (carryover), the services sector would reach quarterly growth of 6.1% QoQ-sa., still not enough to offset the 15.5% decline in 2Q20.

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



Sources: IBGE and Santander.

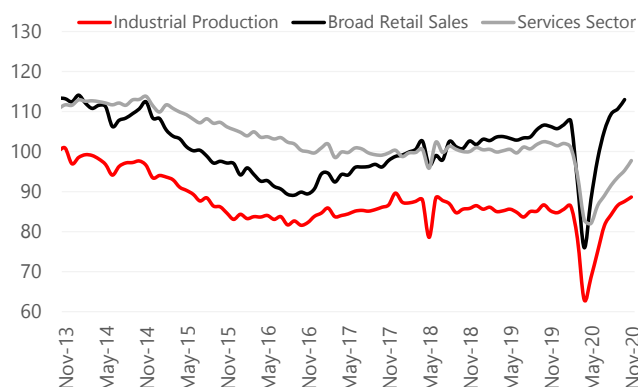
**Figure 2.B – Services Breakdown (sa, Feb-20 =100)**



Sources: IBGE and Santander

Among the categories, all the segments have contributed positively to November's result. We highlight segments such as Families (8.2%), Professional (2.5%) and Transportation (2.4%), which were the segments most affected by social distancing but are now moving gradually toward full recovery, as mobility advances.

Regarding the stage of recovery, Services to Families, a segment that fell more than 60% in the worst period of the crisis (April-May), is now rebounding, and it has registered its fifth gain in a row; however, in comparison with February's reading, it is still 25.5% below the pre-crisis level. Given that, there is a wide gap to be filled as control over the epidemic improves, and we see this as a tailwind for economic activity in December, since this segment captures services related to social interactions. Transport Services, which fell by 18.0% in April, posted its seventh gain in a row, largely due to ground transport (4.2%), whose result is driven by industrial production, which requires road and rail freight transport, and by air transport (6.8%). Despite this positive result, Transport Services are still down 5.1% since February. The segment of Other Services, which includes Health Insurance, Insurance Brokers, and Pensions, seems to have accommodated and it is running at levels almost 1.6% above pre-crisis reading after a fast recovery, since it is less related to social interactions.

**Figure 3 – Economic Activity (s.a., 2011=100)**

Sources: IBGE and Santander.

With today's data, two of the main indicators of economic activity for November have already been published. After a favorable start of the quarter's sequence of releases, data for industrial production and services sector are leading carryovers of more than 5.0% and, together with our monthly growth expectations for broad retail sales, these figures reinforce the likelihood of solid growth of economic activity in 4Q20.

On Monday (January 18), the BCB will release the IBC Br for November, and based on the information set available as of this writing, we are projecting monthly growth of 0.6% (-1.0% YoY), which implies a tracking of 4Q20 GDP at 2.5% QoQ-sa (-2.0% YoY). In terms of outlook, we are concerned with the increase in contagion of COVID-19, which may decelerate the recent improve in mobility, possibly affecting economic activity more substantially in the first months of 2021.

**Figure 4 – Recovery Breakdown**

Nov-20	Drop %	MoM %	YoY %	Feb-20 % Chg
<b>Total Services</b>	<b>-17.8</b>	<b>2.6</b>	<b>-4.8</b>	<b>-3.2</b>
<b>Services to Families</b>	<b>-62.5</b>	<b>8.2</b>	<b>-26.2</b>	<b>-25.5</b>
Accommodation and Food Services	-65.6	9.1	-26.0	-25.8
Other Services Provided to Families	-46.0	1.5	-27.5	-27.8
<b>Information and Communication</b>	<b>-4.1</b>	<b>0.5</b>	<b>1.1</b>	<b>2.6</b>
Technology	-1.0	-0.3	2.8	3.3
Telecommunication	-2.2	-0.5	-3.2	-2.6
Information Technology	-0.2	-0.2	13.2	11.7
Audiovisual	-28.2	5.6	-9.5	-6.7
<b>Professional and Administrative</b>	<b>-13.8</b>	<b>2.5</b>	<b>-10.7</b>	<b>-8.7</b>
Professional	-2.8	2.5	-3.0	4.9
Administrative	-17.3	1.5	-13.7	-11.8
<b>Transportation</b>	<b>-25.1</b>	<b>2.4</b>	<b>-3.7</b>	<b>-5.1</b>
Ground Transportation	-29.1	4.2	-4.9	-4.4
Water Transportation	-1.0	-3.8	1.4	-5.7
Air Transport	-82.3	6.8	-31.9	-38.5
Storage and Mail	-6.9	1.6	5.2	4.7
<b>Other Services</b>	<b>-8.0</b>	<b>0.5</b>	<b>7.4</b>	<b>1.6</b>

Sources: IBGE and Santander.



Figure 5 – “Heatmap” Showing Services Volume by Sector

By Sector (% MoM sa)											
	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
<b>Total Services</b>	0.55	-0.99	-6.79	-11.81	-1.22	5.48	2.86	2.90	2.21	1.80	2.59
Services to families	0.55	-0.22	-31.53	-45.25	14.71	15.38	-10.67	34.58	9.98	5.04	8.16
Information and Communication	-0.91	-1.23	-1.24	-2.94	-2.70	4.11	2.03	-1.04	2.11	1.96	0.51
Professional and Administrative	-0.49	-0.25	-4.20	-10.06	-3.16	2.96	1.15	1.85	-0.28	0.98	2.50
Transportation	2.87	0.45	-8.78	-17.90	4.90	7.07	2.25	4.01	1.61	1.96	2.40
Other Services	0.98	1.51	-1.92	-6.19	-4.05	7.96	3.58	0.76	5.67	-3.85	0.53

Sources IBGE and Santander

Figure 6 – “Heatmap” Showing Services Volume by Subsector

By Subsector (% MoM sa)												
		Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
<b>Services to Families</b>		0.55	-0.22	-31.53	-45.25	14.71	15.38	-10.67	34.58	9.98	5.04	8.16
	Accommodation and Food	0.11	0.00	-33.98	-47.87	17.30	17.69	-12.76	39.43	10.30	6.79	9.06
	Other Services to Families	6.14	-0.12	-22.22	-30.55	4.38	3.98	4.44	7.92	11.09	-3.06	1.50
<b>Information and Communication</b>		-0.91	-1.23	-1.24	-2.94	-2.70	4.11	2.03	-1.04	2.11	1.96	0.51
	Technology	-1.18	-0.20	-0.20	-0.80	-2.51	4.01	1.19	-1.17	1.48	1.66	-0.29
	Telecommunications	-0.23	0.45	-2.36	0.12	-1.03	0.58	0.35	0.23	0.23	-0.23	-0.46
	Information	-2.39	-1.26	1.96	-2.14	-3.02	3.89	5.76	-3.47	3.52	5.31	-0.20
	Audiovisual and News	1.17	-4.23	-7.23	-22.66	-3.17	7.32	7.90	3.66	5.78	0.15	5.61
<b>Professional and Administrative</b>		-0.49	-0.25	-4.20	-10.06	-3.16	2.96	1.15	1.85	-0.28	0.98	2.50
	Technical and Professional	-1.84	-2.74	2.37	-5.07	-6.26	0.65	9.39	1.04	-1.17	2.22	2.46
	Administrative	0.00	-1.38	-7.25	-10.84	-1.13	2.72	0.70	0.83	1.65	0.27	1.48
<b>Transportation Services</b>		2.87	0.45	-8.78	-17.90	4.90	7.07	2.25	4.01	1.61	1.96	2.40
	Ground Transportation	4.43	1.25	-10.59	-20.66	7.12	4.21	5.91	4.41	2.81	1.92	4.16
	Water Transportation	7.49	4.79	-0.76	-0.28	-1.82	-2.49	1.39	-1.80	3.16	0.78	-3.81
	Air Transport	0.21	1.90	-31.57	-74.13	24.56	55.87	19.58	14.36	21.37	0.91	6.83
	Storage and Mail	0.82	-1.02	-1.03	-5.92	2.21	4.75	0.93	2.35	-1.80	1.93	1.60
<b>Other Services</b>		0.98	1.51	-1.92	-6.19	-4.05	7.96	3.58	0.76	5.67	-3.85	0.53

Sources IBGE and Santander



## CONTACTS / IMPORTANT DISCLOSURES

### Brazil Macro Research

Ana Paula Vescovi*	Chief Economist	anavescovi@santander.com.br	5511-3553-8567
Mauricio Oreng*	Head of Macro Research	mauricio.oreng@santander.com.br	5511-3553-5404
Jankiel Santos*	Economist – External Sector	jankiel.santos@santander.com.br	5511-3012-5726
Ítalo Franca*	Economist – Fiscal Policy	italo.franca@santander.com.br	5511-3553-5235
Daniel Karp Vasquez*	Economist – Inflation	daniel.karp@santander.com.br	5511-3553-9828
Tomas Urani*	Economist – Global Economics	tomas.urani@santander.com.br	5511-3553-9520
Lucas Maynard*	Economist – Economic Activity	lucas.maynard.da.silva@santander.com.br	5511-3553-7495
Felipe Kotinda*	Economist – Credit	felipe.kotinda@santander.com.br	5511-3553-8071
Gabriel Couto*	Economist – Special Projects	gabriel.couto@santander.com.br	5511-3553-8487
Gilmar Lima*	Economist – Modeling	gilmar.lima@santander.com.br	5511-3553-6327

### Global 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
Mike Moran	Head of Macro Research, US	mike.moran@santander.us	212-350-3500

### Fixed Income Research

Juan Arranz*	Chief Rates & FX Strategist – Argentina	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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