



## Mismatch between Formal and Informal Labor Markets

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- According to the March CAGED survey, net (unadjusted) formal job creation stood at +184.1k, (versus consensus of +150k, Santander estimate of +226k), better than the month's historical average of +52k and below the all-time record for the month (+266k in 2010).
- It was the first time since September 2020 that a CAGED result is not an all-time high for the month. After our seasonal adjustment, net formal job creation decreased to +263k, from +331k in February. In our view, CAGED decelerated at the margin, but still posted strong numbers.
- On the other hand, IBGE's February PNAD household survey indicated a 14.4% unemployment rate, below both our estimate (14.8%) and market consensus (14.6%), and 2.8 p.p. above the year-ago rate (11.6%).
- We calculate that the seasonally adjusted jobless rate moved down to 14.3%, compared to 14.5% in January, the first sequential drop since February 2020. The decrease in the seasonally-adjusted unemployment rate stemmed from stability in the employed population, while the labor force dropped 0.3% MoM sa. As the fall in the unemployment rate at the margin was only due to a drop in the labor force, PNAD continues to indicate a difficult situation for the labor market, in our view.
- Since mid-2020, CAGED data has shown much better results than IBGE's PNAD survey. We believe CAGED may have underreported layoffs in the recent period, especially throughout 2H20. However, the February and March CAGED releases show that the indicator may be normalizing, pointing to a more legitimate recovery in the formal job market in the last couple of months.
- In our view, the labor market indicates two distinct behaviors in formal and informal sectors. While the formal job market shows signs of improvement, as suggested by CAGED, the informal sector, which accounts for over 40% of all jobs in normal times, still suffers from the pandemic and social distancing measures, as shown by PNAD. We believe that the current overall situation in the job market is still precarious, and a broad and consistent recovery depends on the vaccination process rollout and a wider economic reopening.

According to the IBGE National Household Survey (PNAD), the unemployment rate reached 14.4% in the three months to January, below both our forecast (14.8%) and market consensus (14.6%), a rise of 2.8 p.p. in comparison with the year-ago rate. We estimate that the seasonally adjusted unemployment rate dropped to 14.3% in February, from 14.5% in January, as shown in Figures 1 and 2.A. The decrease in the seasonally-adjusted unemployment rate stemmed from stability in the employed population, while the labor force dropped 0.3% MoM sa, which points to a still-fragile labor market. Figure 2.B shows the recent deceleration in both the employed and unemployed populations.



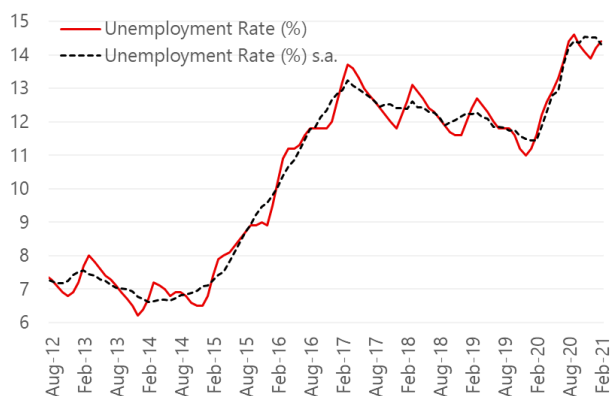
Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
<b>Unemployment rate (%)</b>	<b>14.5</b>	<b>14.5</b>	<b>14.3</b>	<b>2.9</b>	<b>3.0</b>	<b>2.8</b>	<b>3.1</b>	<b>3.1</b>	<b>2.9</b>
<b>Participation rate (%)</b>	<b>56.2</b>	<b>56.1</b>	<b>55.9</b>	<b>-5.1</b>	<b>-4.9</b>	<b>-4.9</b>	<b>-4.8</b>	<b>-4.9</b>	<b>-5.1</b>
<b>Labor force (millions)</b>	<b>99.1</b>	<b>99.0</b>	<b>98.7</b>	<b>-5.7</b>	<b>-5.4</b>	<b>-5.4</b>	<b>-5.6</b>	<b>-5.7</b>	<b>-6.0</b>
Employment	84.7	84.6	84.6	-8.9	-8.6	-8.3	-8.0	-8.1	-8.1
Unemployment	14.4	14.4	14.1	19.7	19.8	16.9	2.4	2.4	2.2
<b>Formalization Rate (%)</b>	<b>58.4</b>	<b>58.3</b>	<b>58.3</b>	<b>1.4</b>	<b>1.1</b>	<b>1.2</b>	<b>1.5</b>	<b>1.3</b>	<b>1.3</b>
Formal Workers (millions)	49.5	49.3	49.3	-6.5	-6.9	-6.5	-3.3	-3.5	-3.5
Informal Workers (millions)	35.2	35.3	35.3	-11.9	-10.9	-10.8	-4.7	-4.6	-4.6
<b>Average usual earnings</b>	-	-	-	<b>2.8</b>	<b>2.2</b>	<b>1.3</b>	-	-	-
<b>Average effective earnings</b>	-	-	-	<b>-2.4</b>	<b>-3.0</b>	-	-	-	-
<b>Usual wage bill</b>	-	-	-	<b>-6.5</b>	<b>-6.9</b>	<b>-7.4</b>	-	-	-
<b>Effective wage bill</b>	-	-	-	<b>-11.1</b>	<b>-11.3</b>	-	-	-	-

\* Variation relative to February 2020 (pre-pandemic) reading. For rates, change is in percentage points.

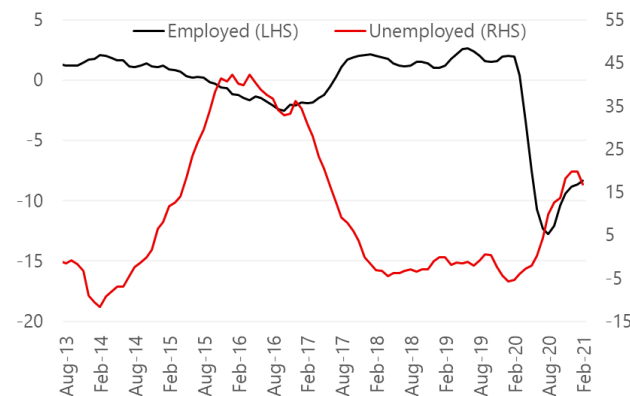
Sources: IBGE, Santander.

Figure 2.A. Unemployment Rate (% of the labor force)



Sources: IBGE, Santander.

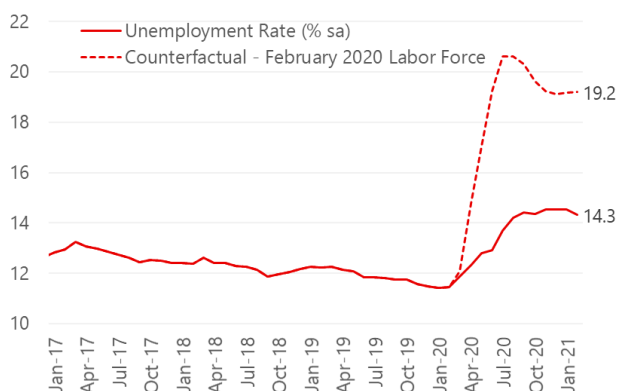
Figure 2.B. Employed and Unemployed (% YoY)



Sources: IBGE, Santander.

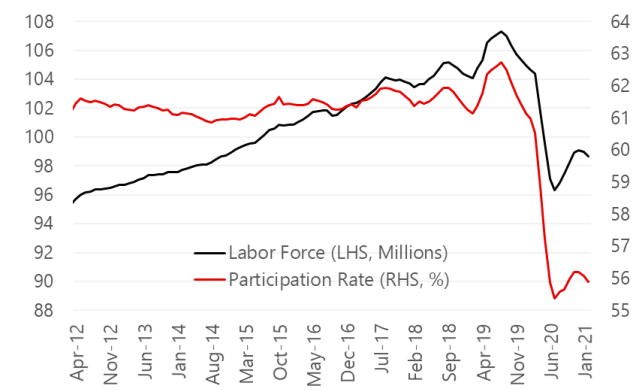
The labor market participation rate, which has recovered throughout 2H20, has once again dropped sequentially. The seasonally adjusted figure stood at 55.9% in February, from 56.0% in January. In a counterfactual exercise, if the labor force had remained at the February 2020 level, the unemployment rate would be at 19.2% in February, as shown in Figure 3.A. It is important to note that these rates (observed and counterfactual) started to converge recently, but the January fall in the labor force halted this movement. Despite the end of the first round of the emergency aid in January, the labor force started to show signs of stagnation at historically depressed levels. As social distancing measures were tightened in March and April, and a new round of emergency aid began, the labor force may take longer to recover than we had expected.

Figure 3.A. Counterfactual Exercise



Sources: IBGE, Santander.

Figure 3.B. Participation Rate and Labor Force (sa)

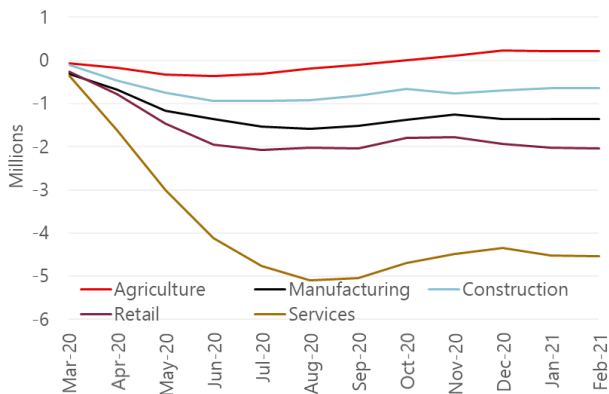


Sources: IBGE, Santander.



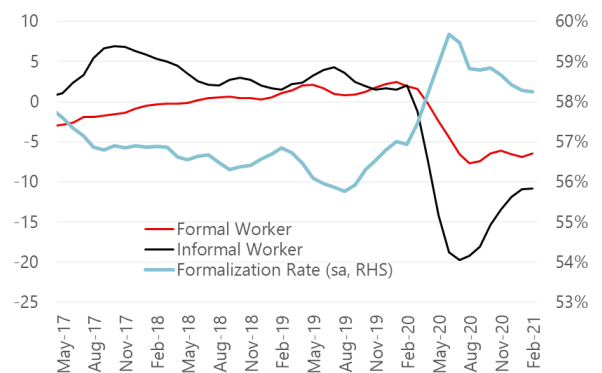
The PNAD survey continues to show that the pandemic has affected individual sectors at varying magnitudes. February data indicated stability of employment for most sectors, as shown in Figure 4.A. In the services sector, accumulated job losses remain above 4 million since the beginning of the pandemic. The labor market formalization rate stood at 58.3% (sa), still high due to the stronger impact of the pandemic on informal workers versus formal ones, as illustrated in Figure 4.B. In our view, February data indicated a slight recovery in the formal sector, as the informal one continued to show no signs of improvement. We expect informal jobs to lead the employment recovery as the economy reopens, especially in the services sector. However, the current labor market conditions remain precarious due to the weakness of the informal sector.

**Figure 4.A. Post-Pandemic Accumulated Job Losses (s.a.)**



Sources: IBGE, Santander.

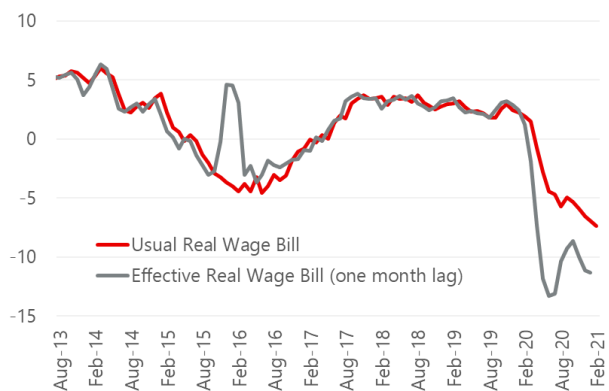
**Figure 4.B. Employment by Position (% YoY)**



Sources: IBGE, Santander.

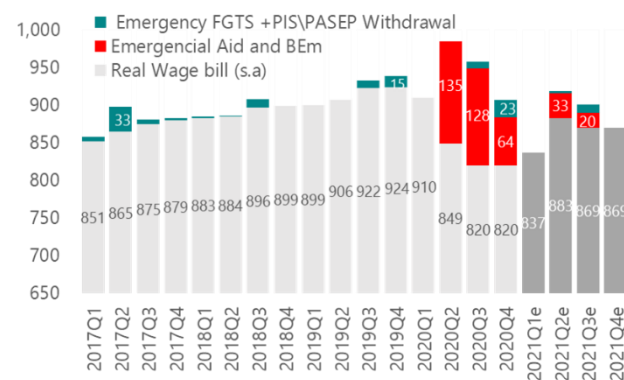
In addition, the effective real wage bill worsened in January (data lagged one month relative to other PNAD series), with a 11.3 YoY drop. There has been a decoupling between the usual and effective real wage bills, as shown in Figure 5.A, as a result of a significant rise in real usual income, derived from a composition effect as job losses were concentrated among employees with lower wages. In our view, these differences should decrease in upcoming quarters. As discussed in our recent report, [details in the link<sup>1</sup>](#), government cash transfers and the emergency aid allowed the “expanded” real wage bill to increase in 2020. In a recent update, we estimated that the “expanded” real wage bill had a 2.2% full-year growth in 2020, slightly below our last projection (+3.1%), reflecting the worse-than-expected performance of the labor market throughout 4Q20. For 2021, our projection is a 6.2% drop in this indicator, following the reduction in government emergency cash transfers (Figure 5.B).

**Figure 5.A. Real Wage Bill (% YoY)**



Sources: IBGE, Santander.

**Figure 5.B. “Expanded” Real Wage Bill (BRL billion)**



Sources: National Treasury, IBGE, Ministry of Economy, Santander.

<sup>1</sup>Santander Brazil Activity and Fiscal Policy – “Labor Market – 2021 Thermometer” – February 4, 2021- Available on: <http://bit.ly/Sant-lbrmkt-040221>



According to the March 2021 CAGED survey, net (unadjusted) formal job creation stood at +184.1k, (versus consensus of +150k and Santander estimate of +226k), better than the month's historical average of +52k and below the all-time record for the month (+266k in 2010). This marks the first time since September 2020 that a CAGED result is not an all-time high for the month. After our seasonal adjustment, net formal job creation decreased to +263k, from +331k in February. It is important to note that, since February, all the main economic sectors in CAGED have fully offset the job losses suffered during the pandemic, as shown in Figure 6.

Figure 6 – CAGED Breakdown

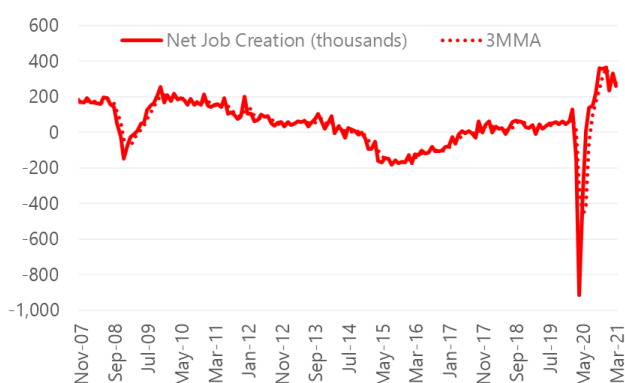
	Headline			Headline (s.a.)			Rec %*		
	Jan-21	Feb-21	Mar-21	Jan-21	Feb-21	Mar-21	Jan-21	Feb-21	Mar-21
<b>Net Creation</b>	<b>260.4</b>	<b>401.6</b>	<b>184.1</b>	<b>235.1</b>	<b>331.5</b>	<b>262.8</b>	<b>131.7</b>	<b>155.4</b>	<b>174.2</b>
<b>Creation</b>	<b>1527.1</b>	<b>1694.6</b>	<b>1608.0</b>	<b>1532.6</b>	<b>1638.9</b>	<b>1529.7</b>	-	-	-
<b>Destruction</b>	<b>1266.7</b>	<b>1293.0</b>	<b>1423.9</b>	<b>1297.4</b>	<b>1307.4</b>	<b>1266.9</b>	-	-	-
Mining	1.5	2.4	1.4	1.7	1.9	1.6	313	391	454
Construction	43.5	43.5	25.0	25.3	34.8	29.3	223	255	281
Manufacturing	87.2	88.2	39.5	45.0	70.3	56.1	143	166	184
Retail	9.8	68.1	18.0	62.5	93.3	55.6	130	157	174
Agriculture	33.0	23.1	3.5	23.1	26.5	20.8	744	941	1096
Services	81.3	166.9	92.3	72.0	103.7	98.2	95	111	126

\* Percentage of the jobs lost in the crisis already recovered.

Sources: CAGED, Santander.

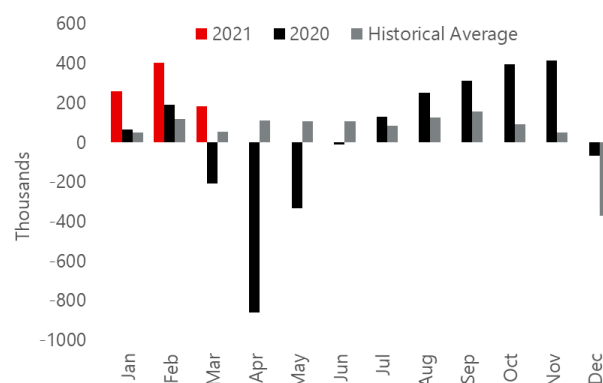
In our view, CAGED decelerated in March, but still posted a strong result. The three-month average now shows a payroll expansion (of 275k jobs) for the eighth month in a row, as pictured in Figure 7.A. Since July 2020, CAGED has been consistently surpassing monthly historical averages, as shown in Figure 7.B. From mid-2020, CAGED data has shown much better results than IBGE's PNAD survey. We believe CAGED may have underreported layoffs in the recent period, especially throughout 2H20. However, the February and March CAGED releases show that the indicator may be normalizing, pointing to a more legitimate recovery in the formal job market at the margin.

Figure 7.A. Net Formal Job Creation (sa)



Sources: CAGED, Santander.

Figure 7.B. Net Formal Job Creation

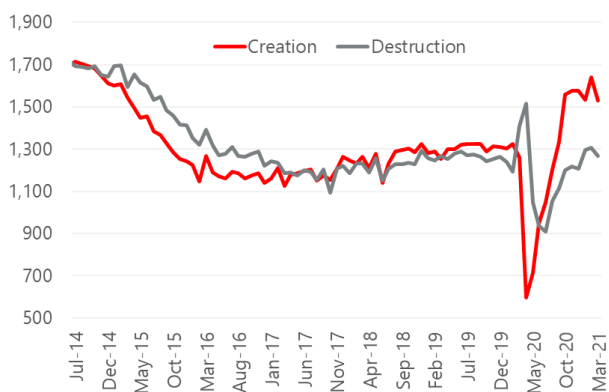


Sources: CAGED, Santander.

The March net result stemmed from a still-high level of job creation, as job destruction remained close to the February level, and consolidated the return to pre-crisis levels, as shown in Figure 8.A. In our view, the fact that layoffs are closer to pre-pandemic levels may indicate that the underreporting problem has diminished. Once again, all the main economic sectors have posted positive figures, as pictured in Figure 8.B. So far, the services, manufacturing and retail sectors have led the 2021 formal job creation according to the CAGED survey.

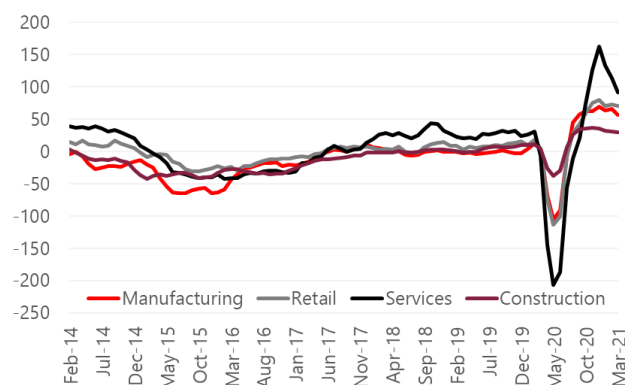


**Figure 8.A. Job Creation and Destruction (sa)**



Sources: CAGED, Santander.

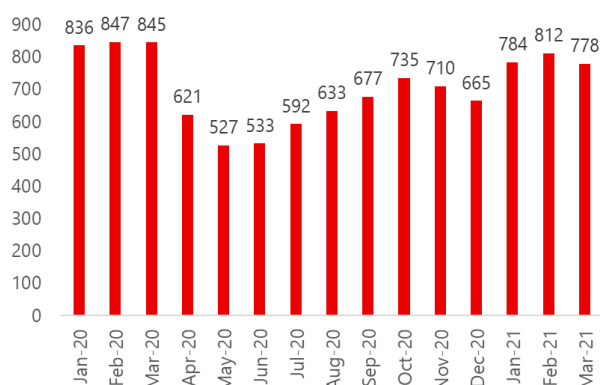
**Figure 8.B. Net Formal Job Creation (3mma, sa)**



Sources: CAGED, Santander.

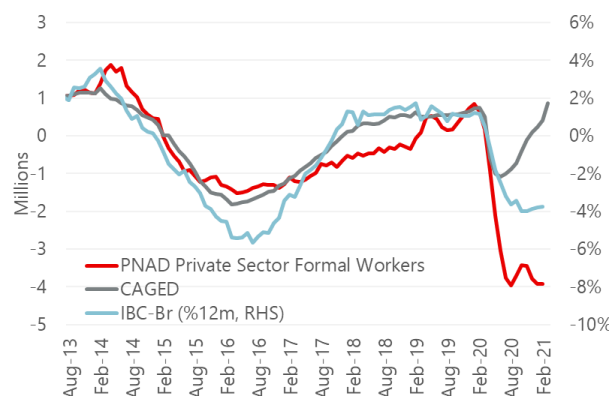
Another aspect that corroborates the reduction of the underreporting issue is the number of responding establishments in CAGED, which is closer to pre-pandemic levels (Figure 9.A). As stated before, the CAGED survey may have underreported layoffs mainly in 2H20, while the more recent numbers seem to be more genuine, in our view. When we observe the 12-month accumulated results of CAGED and PNAD, it is possible to note stark differences in the results. We highlight that this difference cannot be attributed to the coverage of each survey, since the data on formal workers within the PNAD still is considerably different from what CAGED has been reporting (Figure 9.B). As explored in our recent special report, both surveys may have had pandemic related issues, [see link below](#)<sup>2</sup>.

**Figure 9.A. Number of Responding Establishments in CAGED (thousands)**



Sources: CAGED, Santander.

**Figure 9.B. Net Job Creation and IBC-Br (12m)**



Sources: IBGE, CAGED, BCB, Santander.

Finally, despite the improvement in quality of the latest CAGED data, the labor market continues to show considerable slack, in our view. We consider that the true labor market data should be closer to the midpoint between CAGED and PNAD, which would still imply a historically depressed situation. Furthermore, there is a notable difference between formal and informal markets, as the latter still suffers considerable impacts from the pandemic and is not covered by the CAGED survey. Also, as mobility restrictions took place in March and April, employment may suffer further.

In summary, we believe that the current overall situation in the job market is still precarious, and a broad and consistent recovery depends on the vaccination process rollout and a wider economic reopening, which should benefit the informal sector.

<sup>2</sup> Santander Brazil Labor Market - "CAGED vs. PNAD: Which Labor Survey is Right?" – April 12, 2021 - Available on: <http://bit.ly/STD-pnad-caged-apr21>



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