

Gabriel Couto*

 gabriel.couto@santander.com.br
 +5511 3553-8487

Signals Still Mixed in Labor Market

- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 14.1% in the three months to November, implying a 2.9 p.p. rise from the year-ago level (11.2%). We calculate that the seasonally adjusted jobless rate moved up to 14.6%, compared to 14.5% in October.
- The results showed gains of 0.4% MoM-sa and 0.6% MoM-sa in the employed population and the labor force, respectively. This reflects improved labor market conditions during 4Q20, with an unbalanced recovery among sectors, as well as higher mobility due to the easing of COVID lockdown restrictions.
- The December 2020 CAGED survey, on the other hand, pointed to net (unadjusted) formal job creation of -67.9k, the highest figure for the month in the entire series. In seasonally adjusted terms, net job creation stood at 385.3k, a slight increase from November (374.0k), but still at historically high levels.
- In the past few months, CAGED data has shown much better results than IBGE's PNAD survey. We believe CAGED results could be underreporting firings in the recent period, as the number of responding establishments is below the historical average.
- Looking ahead, for 1Q21 we expect deterioration in the unemployment rate, with as the labor force continues to recover, combined with a slight fall in employment, following the end of the government's Emergency Aid program and new mobility restrictions as the number of COVID cases resurges.

Figure 1 – PNAD Breakdown

	s.a.			YoY %			Feb %*		
	Sep-20	Oct-20	Nov-20	Sep-20	Oct-20	Nov-20	Sep-20	Oct-20	Nov-20
Unemployment rate %	14.5	14.5	14.6	2.8	2.7	2.9	2.9	2.9	3.1
Participation rate %	55.5	55.9	56.2	-7.0	-6.1	-5.4	-5.7	-5.3	-5.1
Labor force	97203	98109	98723	-9	-8	-6	-8076	-7170	-6555
Employment	83140	83919	84291	-12	-10	-9	-9979	-9199	-8828
Unemployment	14063	14190	14432	13	14	18	1902	2030	2272
Formalization Rate %	58.8	58.8	58.7	3.0	2.4	2.0	2.0	1.9	1.9
Formal Workers	48904	49311	49453	-7.4	-6.5	-6.1	-4002	-3596	-3453
Informal Workers	34236	34608	34837	-18.1	-15.3	-13.5	-5976	-5604	-5374
Average usual earnings	-	-	-	8.3	5.8	4.0	-	-	-
Average effective earnings	-	-	-	1.3	1.0	-	-	-	-
Usual wage bill	-	-	-	-4.9	-5.3	-5.9	-	-	-
Effective wage bill	-	-	-	-9.3	-8.6	-	-	-	-

* Variation relative to February's reading. For rates, change is in percentage points.

Sources: IBGE, Santander.

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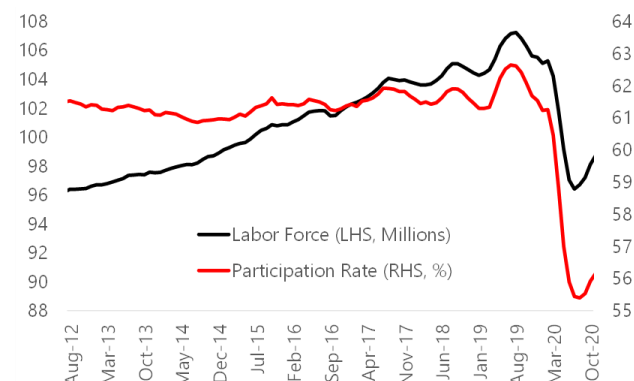
According to IBGE's National Household Survey (PNAD), the unemployment rate reached 14.1% in the three months to November, in line with market consensus and slightly above our forecast (13.9%), a rise of 2.9 p.p. in comparison with the year-ago level. We estimate that the seasonally adjusted unemployment rate rose to 14.6% in November, from 14.5% in October, as shown in Figure 2.A. The 0.6% MoM-sa increase in the labor force more than offset the 0.4% MoM-sa growth in employed population. The labor market participation rate has marginally increased to 55.9%, but remains historically low, as pictured in Figure 2.B.

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



Sources: IBGE, Santander.

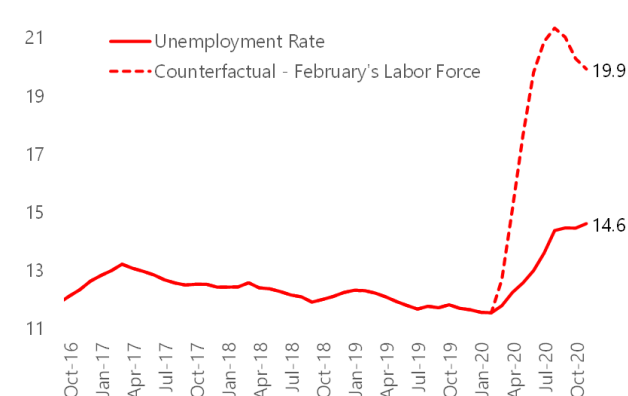
Figure 2.B. Participation Rate and Labor Force (s.a.)



Sources: IBGE, Santander.

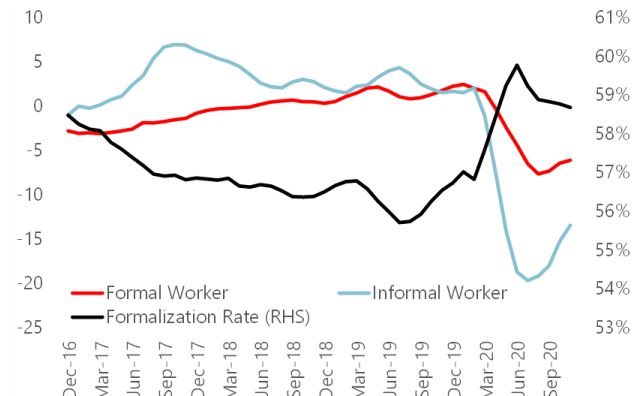
In a counterfactual exercise, if the labor force had remained at the February 2020 level, the unemployment rate would be at 19.9% in November, as shown in Figure 3.A. The labor market formalization rate stood at 58.7%, consolidating a trajectory of a slow reduction in the past few months, but still high due to the stronger impact of the pandemic on informal workers versus formal ones, as illustrated in Figure 3.B. We believe that as a larger share of the population gets immunized and mobility indexes increase throughout 2021, the labor force should return to pre-pandemic levels, and the formalization rate should sharply fall.

Figure 3.A. Counterfactual Exercise



Sources: IBGE, Santander.

Figure 3.B. Employment by Position (YoY%)



Sources: IBGE, Santander.

The PNAD survey continues to show the different magnitudes of the pandemic's impact on sectors. The services sector still shows accumulated job losses above 4 million since the beginning of the pandemic, as more socially integrated activities suffered more from mobility restrictions. Other sectors, such as manufacturing and constructions, still have accumulated job losses, but at a lower level.

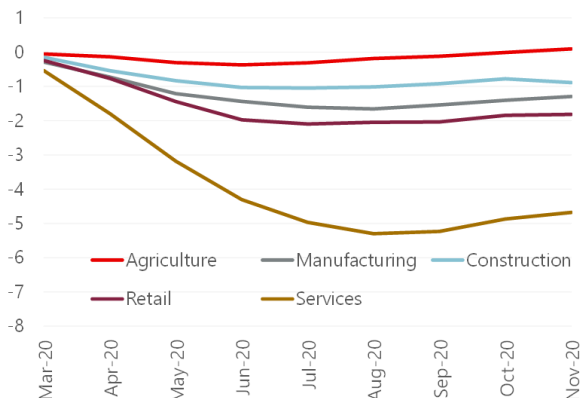
The real wage bill has recovered somewhat, but remains depressed in YoY terms. As discussed in our recent report, [details in the link¹](#), government cash transfers and the Emergency Aid allowed the "expanded" real wage

¹ Santander Brazil Activity and Fiscal Policy – "The Real Wage Bill and the Impact of Emergency Aid" – September 16, 2020- Available on: http://bit.ly/Sant-Real-wage_Sep20



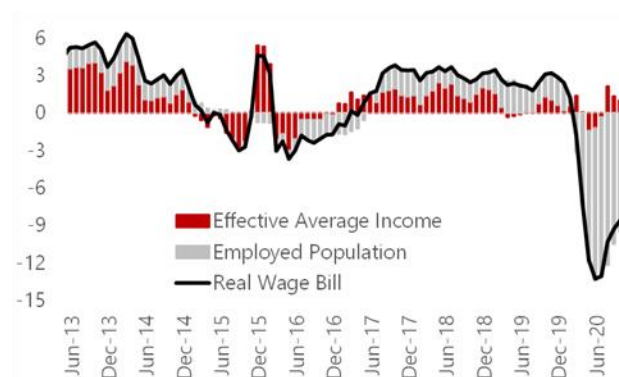
bill to increase in 2020. We expect the “expanded” real wage bill to have sharply dropped in 1Q21, with the halting of the Emergency Aid and a fall in the employment rate.

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



Sources: IBGE, Santander.

Figure 4.B. Real Wage Bill (YoY %)



Sources: IBGE, Santander.

The December 2020 CAGED survey indicated that the net (unadjusted) formal job creation stood at -67.9k, better than both consensus (-135k) and our estimate (-130k). The result was considerably better than the month’s historical average of -370.9k and the December 2019 reading (-307k). In seasonally adjusted terms, formal job creation posted another strong result, at 385.3k (from 374.0k in November), and the three-month average (less volatile) now points to a payroll expansion of 380.0k jobs, marking a positive result for the fifth consecutive month.

Figure 5 – CAGED Breakdown

	Headline			Headline (s.a.)			Rec %**		
	Sep-20	Oct-20	Dec-20	Sep-20	Oct-20	Dec-20	Sep-20	Oct-20	Dec-20
Net Creation	313564	394989	-67906	230564	373962	385325	63.4	90.0	117.0
Creation	1379509	1548628	1239280	1339775	1566369	1580868	-	-	-
Destruction	1065945	1153639	1307186	1109211	1192407	1195543	-	-	-
Mining	966	1204	-548	803	1199	1140	49	78	122
Construction	45249	36296	-43032	37213	36983	36412	68	100	133
Manufacturing	108283	82665	-38229	64634	65431	81533	42	62	83
Retail Sales	69239	115647	62599	51744	90958	63004	25	40	67
Agriculture	7751	-120	-22970	11412	9550	19042	206	272	326
Services	80634	157324	-8310	1645	167398	184852	1	11	36

* Total Jobs Lost in the crisis

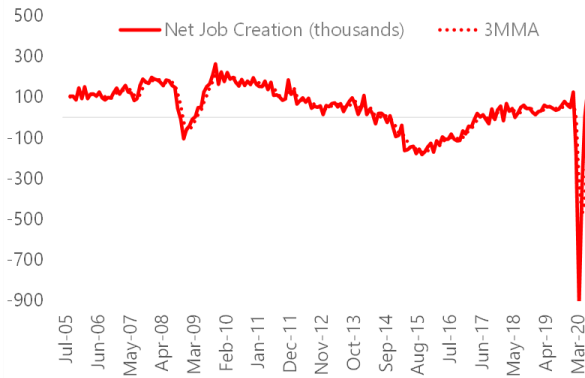
** Percentage of the jobs lost in the crisis already recovered.

Sources: Labor Ministry of Brazil, Santander.

With the December result, formal job creation has fully offset the losses suffered during the pandemic. The seasonally adjusted accumulated net job creation since March 2020 is at +117.0k. The full-year 2020 result stood at 275.0k, below the 560k observed in 2019. We note that, in the past few months, CAGED data has shown much better results than IBGE’s PNAD survey. We believe CAGED results may be underreporting firings in the recent period, as the number of responding establishments is below the historical average. For the sixth consecutive month, all sectors posted positive results in seasonally adjusted terms, led by services.

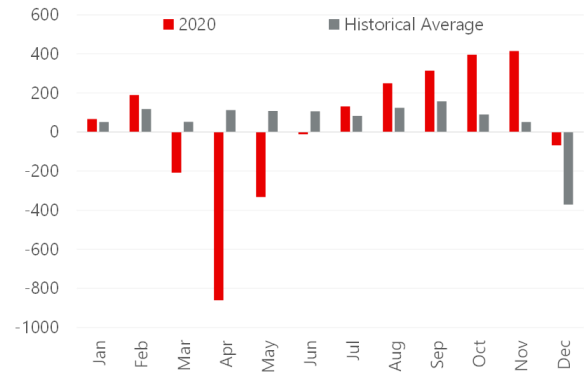


Figure 6.A. CAGED Net Job Creation (s.a.)



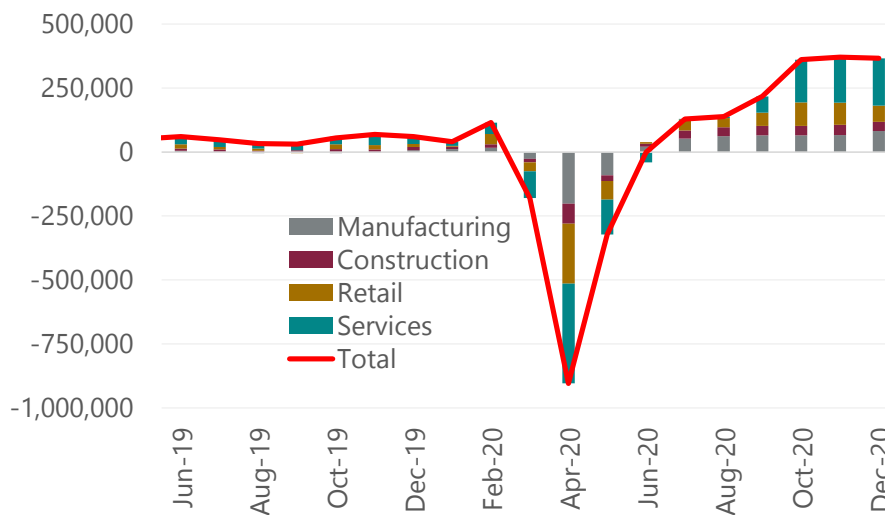
Sources: Labor Ministry of Brazil, Santander.

Figure 6.B. Net Job Creation and Historical Average



Sources: Labor Ministry of Brazil, Santander.

Figure 7 – CAGED Breakdown



Sources: Labor Ministry of Brazil, Santander.

All in all, we still see the current job market situation as fragile. Despite CAGED’s recent better results, we believe the PNAD survey shows a more precise picture of the labor market. The informal sector, which has suffered the most during the pandemic, still shows no clear signs of a more consistent recovery. Looking ahead, we expect further deterioration in the unemployment rate in 1Q21, as the labor force continues to recover, combined with a slight fall in the employment rate, following the end of the government’s Emergency Aid program and new mobility restrictions.



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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