

Stage Set for Labor Market Deterioration in 1H21

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

- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 13.9% in the three months to December, in line with our estimate and slightly below market consensus (14.0%), implying a 2.9 p.p rise from the year-ago level (11.0%). We calculate that the seasonally adjusted jobless rate moved up to 14.8%, compared to 14.6% in November—a new all-time high for the series.
- The results showed seasonally adjusted gains of 0.1% and 0.3% in employed population, and the labor force, respectively. The labor market participation rate stood at 56.5% (sa), a slight increase compared to the November result (56.2%). However, the participation rate remains 4.8 p.p. below the pre-crisis mark.
- The 2020 average unemployment rate stood at 13.2%, above the 2019 result (11.9%). This reflects the impacts of the pandemic, which were not entirely reflected in 2020 data, due to low labor market participation throughout the year.
- All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate figure stood at 14.6% (sa) in December, compared to 14.8% in November. This result followed +0.1% and -0.1% MoM sa variations in employed population and the labor force, respectively. This shows that, at the margin, the unemployment rate has fallen slightly, although the trend remains upward.
- The effective real wage bill posted a 10.0% YoY drop in November (data lagged one month relative to other PNAD series), even worse than October's 8.6% YoY drop. As income remained depressed, goods consumption in 2H20 was sustained mainly by government emergency cash transfers, in our view.
- Looking ahead, we expect the unemployment rate to rise significantly throughout 1H21, as the labor force returns to pre-pandemic levels and employment recovers more slowly, following the halt to emergency aid and new mobility restrictions.

The IBGE National Household Survey (PNAD) showed that the unemployment rate reached 13.9% in the three months to December, in line with our forecast and slightly below market consensus (14.0%), a rise of 2.9 p.p. in comparison with the year-ago level. We estimate that the seasonally adjusted unemployment rate rose to 14.8% in December, from 14.6% in November, as shown in Figures 1 and 2.A. The 0.3% MoM-sa increase in the labor force more than offset the 0.1% MoM-sa growth in employed population. Both employed population and the labor force remain in historically low levels, 8.8% and 6.4% below the February (pre-pandemic) levels, respectively.



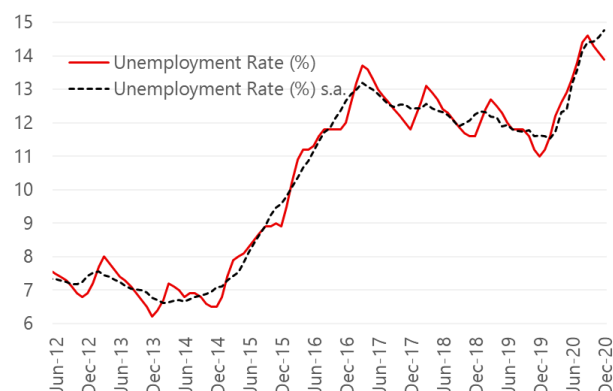
Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20	Oct-20	Nov-20	Dec-20
Unemployment rate (%)	14.4	14.6	14.8	2.7	2.9	2.9	2.9	3.0	3.2
Participation rate (%)	55.9	56.2	56.5	-6.1	-5.4	-5.1	-5.3	-5.1	-4.8
Labor force (millions)	98.1	98.7	99.0	-7.6	-6.3	-5.7	-7.3	-6.7	-6.4
Employment	83.9	84.3	84.4	-10.4	-9.4	-8.9	-9.3	-8.9	-8.8
Unemployment	14.1	14.4	14.6	13.7	18.2	19.7	2.0	2.2	2.5
Formalization Rate (%)	58.7	58.8	59.1	2.4	2.0	1.4	2.0	2.0	2.3
Formal Workers (millions)	49.3	49.5	49.8	-6.5	-6.1	-6.5	-3.6	-3.4	-3.1
Informal Workers (millions)	34.6	34.8	34.5	-15.3	-13.5	-11.9	-5.7	-5.5	-5.7
Average usual earnings	-	-	-	5.7	4.0	2.7	-	-	-
Average effective earnings	-	-	-	1.0	-1.0	-	-	-	-
Usual wage bill	-	-	-	-5.3	-5.9	-6.5	-	-	-
Effective wage bill	-	-	-	-8.6	-10.0	-	-	-	-

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

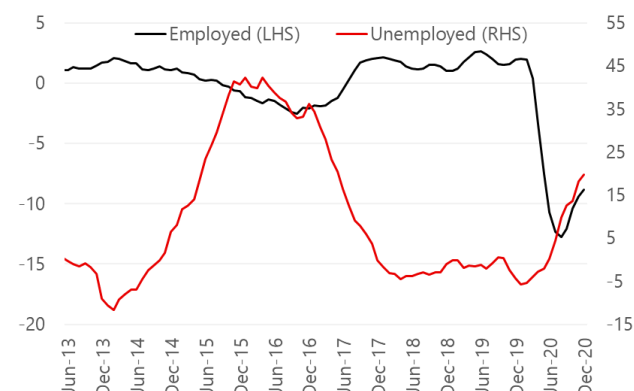
Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

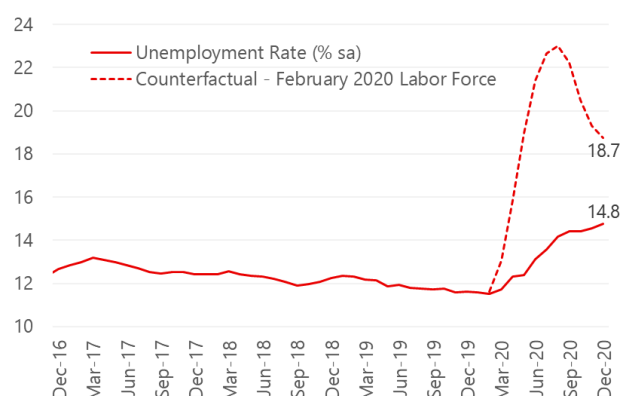
Figure 2.B. Employed and Unemployed (% YoY)



Sources: IBGE, Santander.

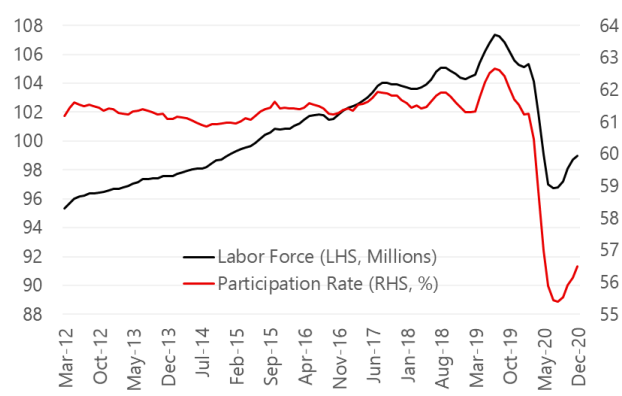
Labor market participation rate remained historically depressed despite some recovery at the margin (56.5% sa in December, from 56.2% sa in November). In a counterfactual exercise, if the labor force had remained at the February 2020 level, the unemployment rate would be at 18.7% in December, as shown in Figure 3.A. We believe that, due to the halt to emergency aid in 1Q21 and the higher levels of mobility compared to 2Q20 and 3Q20, the labor force and participation rate should come closer to pre-pandemic levels.

Figure 3.A. Counterfactual Exercise



Sources: IBGE, Santander.

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

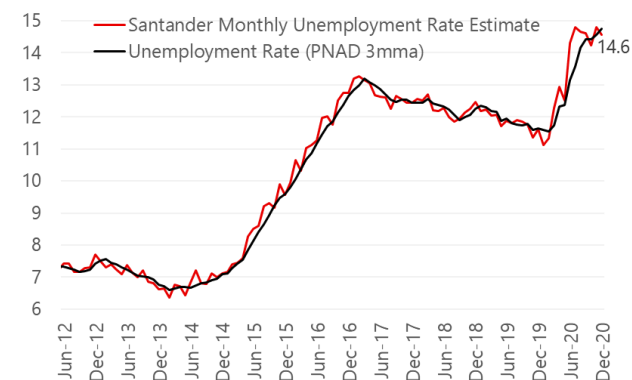


Sources: IBGE, Santander.



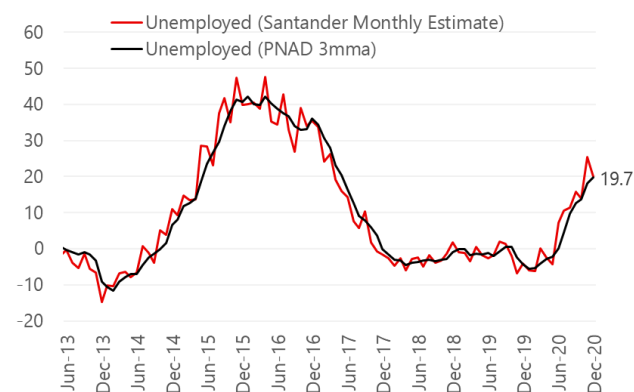
All PNAD data is based on a three-month moving average. We estimate that the monthly unemployment rate figure stood at 14.6% (sa) in December, compared to 14.8% in November. This result followed +0.1% and -0.1% MoM sa variations in employed population and the labor force, respectively. This shows that, at the margin, the unemployment rate has fallen slightly, although the trend remains upward, as shown in Figure 4.A. Nonetheless, we believe that the labor force should resume its recent upward trend in the following months. In our view, employment should perform poorly in 1Q21, due to new mobility restrictions and a drop in economic activity, [details in the link¹](#). Therefore, the total number of unemployed should keep the high YoY growth, as shown in Figure 4.B.

Figure 4.A. Unemployment rate: Santander Monthly Estimate (% sa)



Sources: IBGE, Santander.

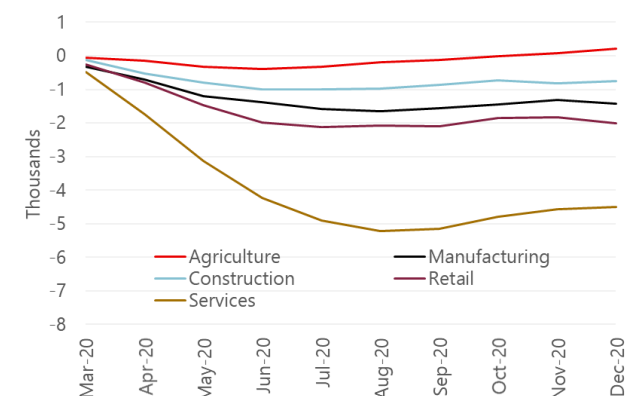
Figure 4.B. Unemployed: Santander Monthly Estimate (% YoY)



Sources: IBGE, Santander.

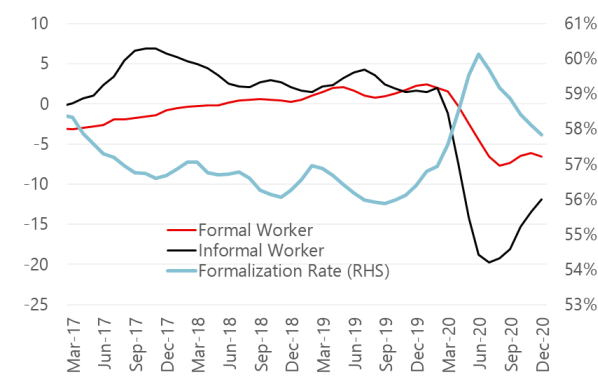
The PNAD survey continues to show the different magnitudes of the pandemic's impact on sectors. December data indicated a deceleration of employment at the margin for some sectors, as shown in Figure 5.A. In the services sector, accumulated job losses remain above 4 million since the beginning of the pandemic, as more socially integrated activities suffered more from mobility restrictions. The labor market formalization rate stood at 57.8%, 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 5.B. In our view, informal jobs will lead the employment recovery as the economy reopens, especially in the services sector.

Figure 5.A. Post-Pandemic Accumulated Job Losses (s.a.)



Sources: IBGE, Santander.

Figure 5.B. Employment by Position (% YoY)



Sources: IBGE, Santander.

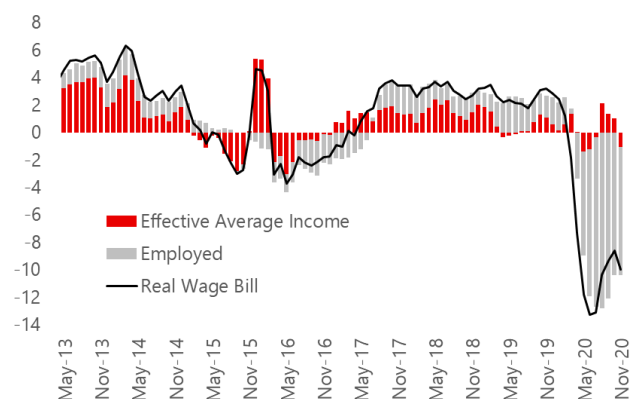
The effective real wage bill has worsened additionally in November (data lagged one month relative to other PNAD series), with a 10.0 YoY drop, as shown in Figure 6.A. As discussed in our recent report, [details in the](#)

¹ Santander Brazil Economic Activity - "Lingering Impacts to Slow the Recovery" – February 23, 2021- Available on: <http://bit.ly/Sant-econact-chart-fev21>



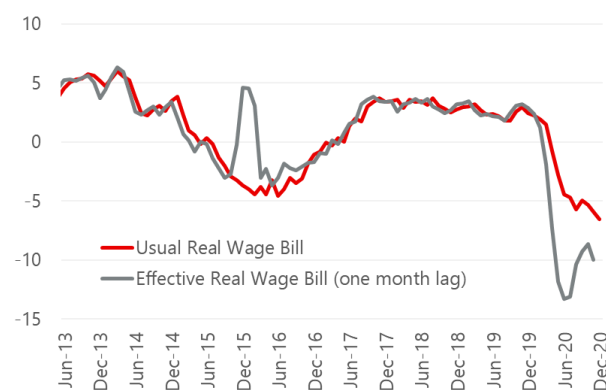
link², government cash transfers and the emergency aid allowed the “expanded” real wage bill to increase in 2020. We expect the “expanded” real wage bill to have sharply dropped in 1Q21, with the halting of the Emergency Aid program and a fall in the employment rate. There has been a decoupling between usual and effective real wage bills, as shown in Figure 6.B. This happened due to a significant rise in real usual income, derived from a composition effect as job losses were concentrated between employees with lower wages. In our view, this difference should reduce in the following quarters.

Figure 6.A. Real Wage Bill (% YoY)



Sources: IBGE, Santander.

Figure 6.B. Real Wage Bill (% YoY)



Sources: IBGE, Santander.

All in all, the December PNAD indicates additional deterioration in labor market. In our view, the current job market fragility tends to be exacerbated in 1Q21. We expect the labor force to continue to recover, which, combined with a slight fall in the employment rate, should lead to a sharp rise in unemployment rate, following the end of the government’s Emergency Aid program and new mobility restrictions in January and February. The scenario of a more precarious job market in the post-pandemic becomes clearer, as the informality rate should rise and wages and the real wage bill should fall.

² More details on: Santander Brazil Activity and Fiscal Policy – “Labor Market – 2021 Thermometer” – February 4, 2021- Available on: <http://bit.ly/Sant-lbrmkt-040221>



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	dhwgewehr@santander.com.br	5511-3012-5787

Electronic

Bloomberg
Reuters

SIEQ <GO>
Pages SISEMA through SISEMZ

This report has been prepared by Santander Investment Securities Inc. ("SIS"; SIS is a subsidiary of Santander Holdings USA, Inc. which is wholly owned by Banco Santander, S.A. "Santander"), on behalf of itself and its affiliates (collectively, Grupo Santander) and is provided for information purposes only. This document must not be considered as an offer to sell or a solicitation of an offer to buy any relevant securities (i.e., securities mentioned herein or of the same issuer and/or options, warrants, or rights with respect to or interests in any such securities). Any decision by the recipient to buy or to sell should be based on publicly available information on the related security and, where appropriate, should take into account the content of the related prospectus filed with and available from the entity governing the related market and the company issuing the security. This report is issued in Spain by Santander Investment Bolsa, Sociedad de Valores, S.A. ("Santander Investment Bolsa"), and in the United Kingdom by Banco Santander, S.A., London Branch. Santander London is authorized by the Bank of Spain. This report is not being issued to private customers. SIS, Santander London and Santander Investment Bolsa are members of Grupo Santander.

ANALYST CERTIFICATION: The following analysts hereby certify that their views about the companies and their securities discussed in this report are accurately expressed, that their recommendations reflect solely and exclusively their personal opinions, and that such opinions were prepared in an independent and autonomous manner, including as regards the institution to which they are linked, and that they have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report, since their compensation and the compensation system applying to Grupo Santander and any of its affiliates is not pegged to the pricing of any of the securities issued by the companies evaluated in the report, or to the income arising from the businesses and financial transactions carried out by Grupo Santander and any of its affiliates: **Gabriel Couto***.
*Employed by a non-US affiliate of Santander Investment Securities Inc. and not registered/qualified as a research analyst under FINRA rules, and is not an associated person of the member firm, and, therefore, may not be subject to the FINRA Rule 2242 and Incorporated NYSE Rule 472 restrictions on communications with a subject company, public appearances, and trading securities held by a research analyst account.

The information contained herein has been compiled from sources believed to be reliable, but, although all reasonable care has been taken to ensure that the information contained herein is not untrue or misleading, we make no representation that it is accurate or complete and it should not be relied upon as such. All opinions and estimates included herein constitute our judgment as at the date of this report and are subject to change without notice.

Any U.S. recipient of this report (other than a registered broker-dealer or a bank acting in a broker-dealer capacity) that would like to effect any transaction in any security discussed herein should contact and place orders in the United States with SIS, which, without in any way limiting the foregoing, accepts responsibility (solely for purposes of and within the meaning of Rule 15a-6 under the U.S. Securities Exchange Act of 1934) for this report and its dissemination in the United States.

© 2021 by Santander Investment Securities Inc. All Rights Reserved.

