

Almost No PNAD News; CAGED Decelerates

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- IBGE's March PNAD household survey indicated a 14.7% unemployment rate in the three months to March, slightly above both our estimate (14.5%) and market consensus (14.6%), implying a 2.5-p.p. rise from the year-ago level (12.2%) and marking a new all-time high in the non-seasonally adjusted series.
- We calculate that the seasonally adjusted jobless rate remained stable, at 14.5%, compared to the February level. The seasonally adjusted unemployment rate's stability stemmed from increases of +0.2% MoM sa in both the employed population and the labor force. The labor market participation rate stood at 56.1% (sa), also stable compared to the February result. The participation rate remains depressed, at 5.0 p.p. below the pre-crisis mark.
- According to the April 2021 CAGED survey, net (unadjusted) formal job creation stood at +120.9k, (versus consensus of +161.8k and Santander's estimate of +206.0k), slightly better than the month's historical average of +112k and below the all-time record for the month (+305k in 2010).
- After consecutive all-time records from September 2020 to February 2021, it is the second consecutive CAGED result that is not an all-time high for the month. We estimate that the seasonally adjusted, net formal job creation decreased to +34.7k in April, from +216.5k in March. In our view, CAGED decelerated at the margin, but the recent trend still points to strong numbers.
- CAGED's deceleration in April is probably due to the tighter social-distancing measures implemented. As mobility levels have increased and some restrictions have been lifted since then, we expect slightly better results for net formal job creation in the coming months.
- In our view, the job market remains fragile, especially considering the pandemic's impact on informal workers, which the CAGED survey does not capture. Despite having pandemic-related issues in the survey, the PNAD is still the only indicator capturing the current precariousness of the informal labor market, which is accountable for over 40% of all jobs in normal times. Furthermore, the following PNAD releases will face additional headwinds, as social-distancing measures were tightened in April. Therefore, in our view, the labor market still has notable slacks that should lessen only with mass vaccinations and a more consistent recovery in mobility.

According to the IBGE National Household Survey (PNAD), the unemployment rate reached 14.7% in the three months to March, slightly above both our forecast (14.5%) and market consensus (14.6%), a rise of 2.5 p.p. in comparison with the year-ago rate. We estimate that the seasonally adjusted unemployment rate remained stable, at 14.5%, compared to the February level, as shown in Figures 1 and 2.A. The seasonally adjusted unemployment rate's stability stemmed from increases of +0.2% MoM sa in both the employed population and the labor force. Figure 2.B shows the recent behavior of the employed and unemployed populations.



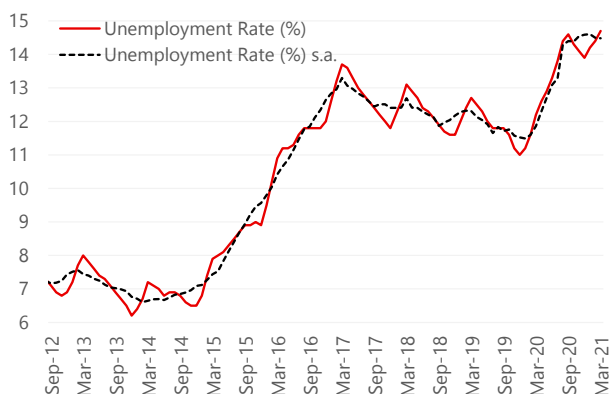
Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Jan-21	Feb-21	Mar-21	Jan-21	Feb-21	Mar-21	Jan-21	Feb-21	Mar-21
Unemployment rate (%)	14.6	14.5	14.5	3.0	2.8	2.5	3.0	2.9	2.9
Participation rate (%)	56.1	56.1	56.1	-4.9	-4.9	-4.2	-5.0	-5.1	-5.0
Labor force (millions)	99.1	99.1	99.2	-5.4	-5.4	-4.4	-5.9	-5.9	-5.7
Employment	84.6	84.7	84.9	-8.6	-8.3	-7.1	-8.2	-8.1	-7.9
Unemployment	14.5	14.4	14.4	19.8	16.9	15.2	2.3	2.2	2.2
Formalization Rate (%)	58.2	58.1	58.2	1.1	1.2	0.6	1.4	1.3	1.3
Formal Workers (millions)	49.3	49.2	49.4	-6.9	-6.5	-6.2	-3.5	-3.5	-3.4
Informal Workes (millions)	35.4	35.5	35.5	-10.9	-10.8	-8.4	-4.7	-4.6	-4.6
Average usual earnings	-	-	-	2.2	1.3	0.8	-	-	-
Average effective earnings	-	-	-	-3.0	-2.2	-	-	-	-
Usual wage bill	-	-	-	-6.9	-7.4	-6.7	-	-	-
Effective wage bill	-	-	-	-11.3	-9.5	-	-	-	-

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

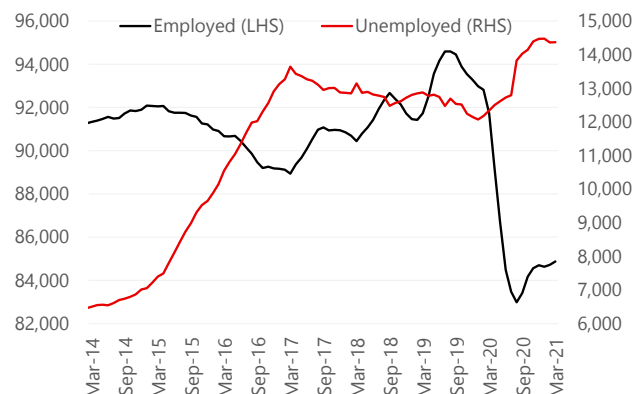
Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

Figure 2.B. Employed and Unemployed (thousands, sa)

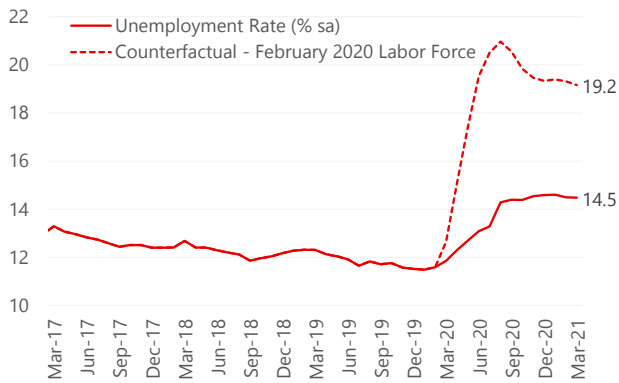


Sources: IBGE, Santander.

The labor market participation rate, which recovered throughout 2H20, has maintained a stable trend since November 2020. The seasonally adjusted figure stood at 56.1% in March, the same level observed in February. In a counterfactual exercise, if the labor force had remained at the February 2020 level, the unemployment rate would have been at 19.2% in March, as shown in Figure 3.A. It is important to note that the convergence of these rates (observed and counterfactual) has halted since January, as the labor force normalization process has decelerated significantly. The end of the first round of the emergency aid in January has had only minor impacts on the labor force, and the normalization process should be dependent on massive vaccinations and mobility recovery, in our view. As social-distancing measures were tightened in April, and a new round of emergency aid began, the labor force should not pick up in the following PNAD releases.

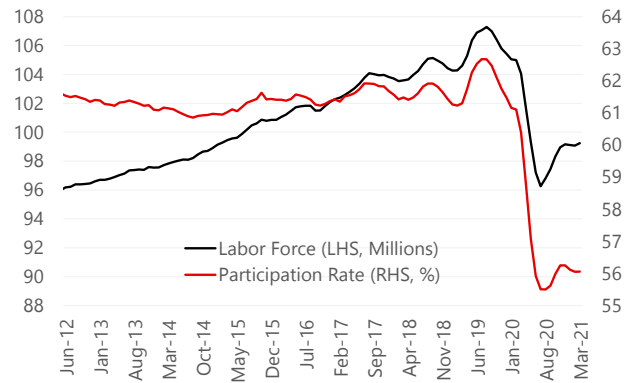


Figure 3.A. Counterfactual Exercise



Sources: IBGE, Santander.

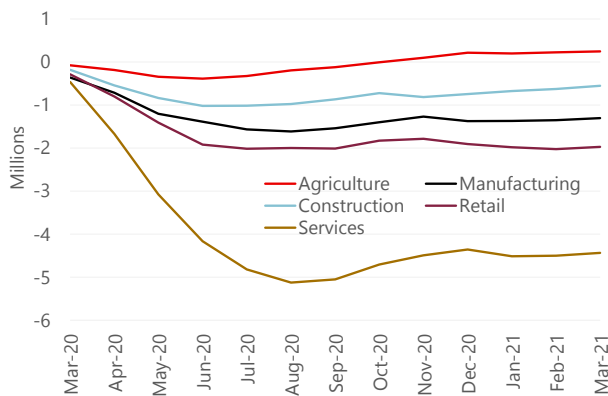
Figure 3.B. Participation Rate and Labor Force (sa)



Sources: IBGE, Santander.

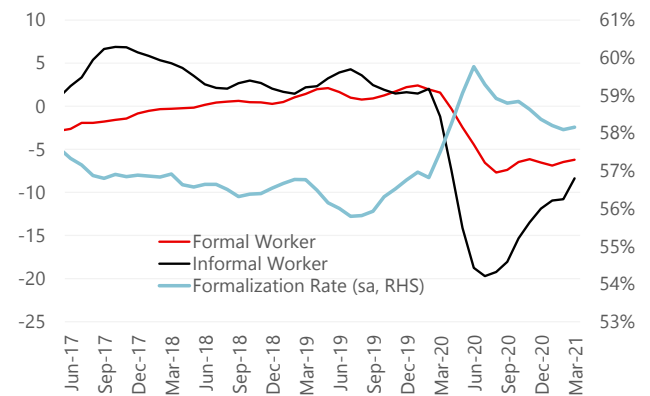
The PNAD survey continues to show that the pandemic has affected individual sectors at varying magnitudes. March data has shown a slight recovery at the margin for some sectors, such as construction, retail, agriculture, and services, as shown in Figure 4.A. The accumulated job losses in services sector since the beginning of the pandemic remain above 4 million. The labor market formalization rate stood at 58.2% (sa), still high due to the stronger impact of the pandemic on informal workers versus formal ones, as illustrated in Figure 4.B. The YoY comparison has picked up for the informal sector mainly because the first pandemic month has left the base (March 2020). In our view, March data indicated a continuity of the discrepancy between formal and informal job markets. 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)

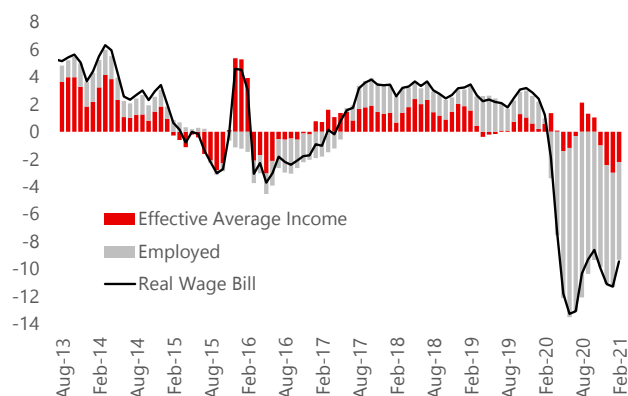


Sources: IBGE, Santander.

The effective real wage bill indicated a slight improvement in February (data lagged one month relative to other PNAD series), with a 9.5 YoY drop, but still in depressed levels. There has been a decoupling between the usual and effective real wage bills, as shown in Figure 5.B, 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.

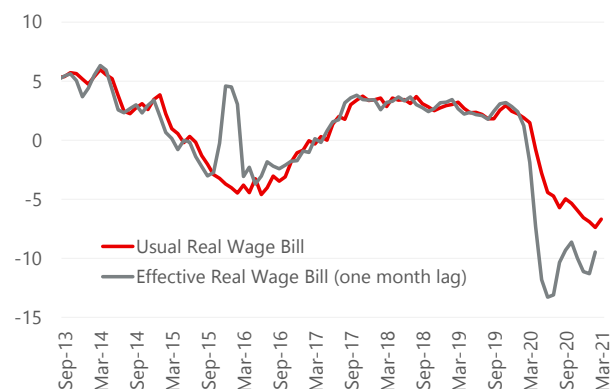


Figure 5.A. Real Wage Bill (% YoY)



Sources: IBGE, Santander.

Figure 5.B. Real Wage Bill (% YoY)



Sources: IBGE, Santander.

According to the April 2021 CAGED survey, net (unadjusted) formal job creation stood at +120.9k, (versus consensus of +161.8k and Santander estimate of +206.6k), better than the month's historical average of +112k and below the all-time record for the month (+305k in 2010). After consecutive all-time records from September 2020 to February 2021, it is the second consecutive CAGED result that is not an all-time high for the month. After our seasonal adjustment, net formal job creation decreased to +34.7k, from +216k in March. It is important to note that since February, all key economic sectors in the CAGED data have fully offset the job losses suffered during the pandemic, as shown in Figure 6.

Figure 6 – CAGED Breakdown

	Headline			Headline (s.a.)			Rec %*		
	Feb-21	Mar-21	Apr-21	Feb-21	Mar-21	Apr-21	Feb-21	Mar-21	Apr-21
Net Creation	401.6	184.1	120.9	248.0	216.5	34.7	166.7	169.2	169.2
Creation	1694.6	1608.0	1381.8	1509.2	1599.0	1306.5	-	-	-
Destruction	1293.0	1423.9	1260.8	1261.2	1382.4	1271.8	-	-	-
Mining	2.4	1.4	2.3	1.5	1.2	1.6	404	450	513
Construction	43.5	25.0	22.2	29.9	31.8	7.0	252	281	287
Manufacturing	88.2	39.5	17.8	46.9	34.3	-2.6	171	182	181
Retail	68.1	18.0	10.1	74.5	48.6	9.0	142	156	159
Agriculture	23.1	3.5	11.1	23.7	10.8	-0.9	647	699	695
Services	166.9	92.3	56.0	71.2	88.4	22.3	109	123	126

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

Sources: CAGED, Santander.

In our view, CAGED decelerated considerably in April, but it does not change the recent trend of strong results. The three-month average shows a payroll expansion (+237.9k jobs) for the ninth 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, and is now more aligned with pre-pandemic levels. 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, since January 2021, CAGED releases show that the indicator may be normalizing, pointing to a recovery more aligned with other economic activity indicators.

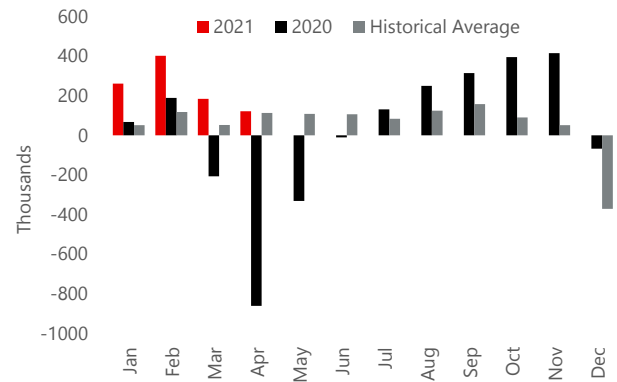


Figure 7.A. Net Formal Job Creation (sa)



Sources: CAGED, Santander.

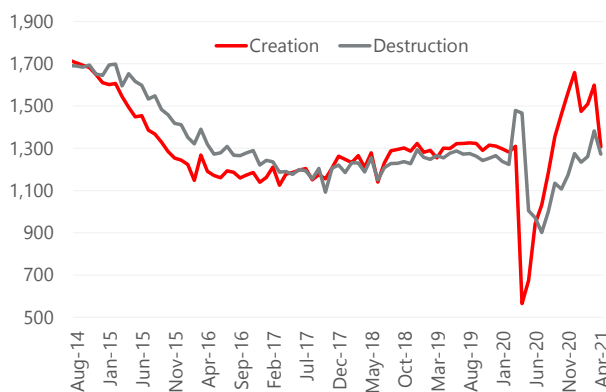
Figure 7.B. Net Formal Job Creation



Sources: CAGED, Santander.

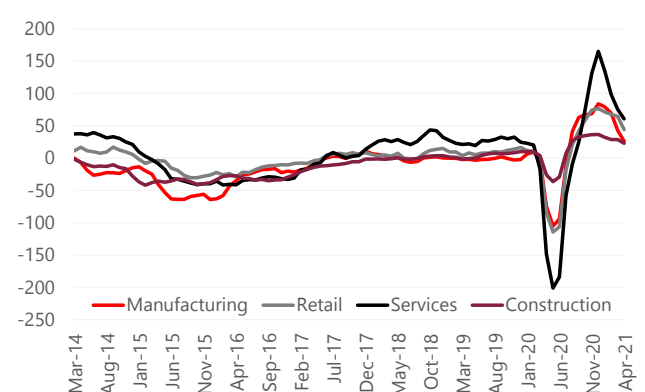
The April net result stemmed from a considerable drop in job creation (-18.3% MoM sa), following the tightening in social distancing measures in the month. On the other hand, job destruction has also dropped (-8.0% MoM sa), indicating that the impact of lockdowns over layoffs should be smaller than in 2020, as companies are now more adapted to the new reality, as shown in Figure 8.A. Most of the main economic sectors have decelerated, as pictured in Figure 8.B, especially the services and retail sectors, which tend to suffer more from social-distancing measures.

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



Sources: CAGED, Santander.

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



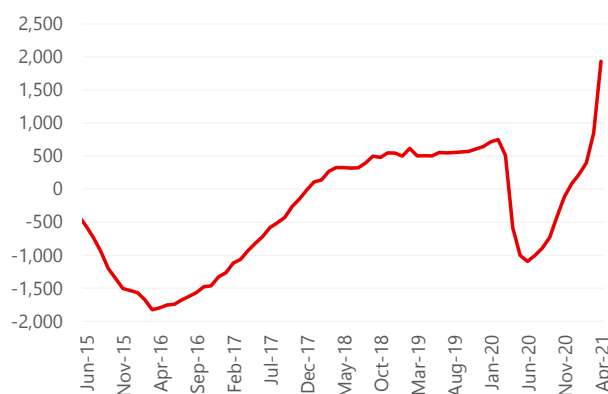
Sources: CAGED, Santander.

On a 12-month basis, net formal job creation has accelerated to 1.936 million (adjusted to post-deadline declarations), from 851k in March. The acceleration is mainly due to the exit of April 2020 from the comparison base, when there was a net destruction of 960k jobs. Since December, CAGED data has fully offset the losses suffered during the pandemic. 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 six-month accumulated results of CAGED and PNAD, it is possible to note that formal jobs had a recovery trend in the past few months, in line with other economic activity indexes, such as the IBC-Br. However, there is still a considerable difference between CAGED and PNAD, as both surveys still have methodological issues, as explored in our recent special report. [See link below](#)¹.

¹ Santander Brazil Labor Market - "CAGED vs. PNAD: Which Labor Survey is Right?" – April 12, 2021 - Available on: <http://bit.ly/STD-pnad-caged-apr21>

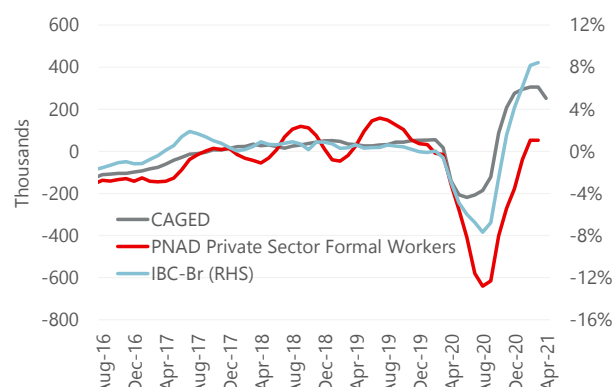


Figure 9.A. CAGED Adjusted for Post-Deadline Declarations (12m, thousands)



Sources: CAGED, Santander.

Figure 9.B. Net Job Creation and IBC-Br (6m, sa)



Sources: IBGE, CAGED, BCB, Santander.

In our view, job market remains in a fragile situation, especially considering the pandemic impact over informal workers, which are not captured by the CAGED survey. Despite having pandemic-related issues in the survey, the PNAD is still the only indicator capturing the current precariousness of the informal labor market, which is accountable for over 40% of all jobs in normal times. Furthermore, the following PNAD releases will have an additional headwind, as social-distancing measures have been tightened in April. Therefore, in our view, labor market still has notable slacks, that should reduce only with mass vaccination and a more consistent recovery in mobility. **For details on Santander's economic activity and labor market scenario, please refer to our latest chartbook².**

² Santander Brazil Economic Activity - "Chartbook - Positive surprises with risks on the upside" – May 25, 2021 - Available on: <http://bit.ly/Std-chart-econact-may21>



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