

## Recovery Continues, with Possible Deceleration Ahead

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 13.2% in the three months to August, slightly below both our estimate and market consensus (13.3% and 13.4% respectively). We estimate the seasonally adjusted unemployment rate at 13.0%, down from July's 13.4%.
- This result stemmed from increases of 1.0% MoM sa and 0.6% MoM sa in the employed population and the labor force, respectively. With this, the labor force has practically returned to pre-crisis levels (400k below February 2020). The labor market participation rate stood at 59.2% sa, up from July's 58.9%. The participation rate showed additional improvement at the margin, but remains at depressed levels, 2.1 p.p. below the pre-crisis mark (February 2020).
- Formal employment posted a +0.8% MoM sa variation, while informal employment grew 1.4% MoM sa, leading the formalization rate to 56.4% sa, down from July's 56.6%. In our view, while the IBGE's efforts to increase the survey's response rate could have positively affected the formal employment level, the imminent end of the government's job-supporting program (BEm) in August may have already caused a negative impact.
- The effective real wage bill posted a 0.6% MoM sa decrease in July (data lagged one month relative to other PNAD series), while the usual real wage bill had a 0.4% MoM sa drop in August. The series are 5.5% and 6.4% below the pre-crisis mark (February 2020), respectively.
- According to September CAGED survey, net formal job creation stood at +313.9k, (versus consensus +360k, Santander estimate +370k), above the historical average for the month (+157.3k) and the all-time record for the month (+313.6k in 2020). We estimate that the seasonally adjusted, net formal job creation decelerated to +221.7k in September, from +246.1k in August.
- Despite the additional deceleration at the margin, the CAGED survey continued to show robust job creation in September, due to the maintenance of high urban mobility. However, as shown by the PNAD survey, we believe that the end of the BEm program on August 26 is already contributing to more layoffs.
- The current batch of labor market data indicates a continuity in the recovery, led by sectors that are more dependent on social interaction. We expect the maintenance of high levels of urban mobility to be crucial for the employment recovery in coming months. The behavior of formal employment in the PNAD survey should also be monitored, as IBGE's effort to increase the survey response rate is positively affecting the results. However, the end of the BEm program could act as a headwind in the coming months for both the CAGED and the PNAD, which may lead to some deceleration in the job market recovery pace.
- We believe that the current job market situation still shows considerable slacks which should gradually subside by YE2022, as both formal and informal employment remain below pre-pandemic levels in the PNAD survey. We estimate an average unemployment rate of 13.8% in 2021 and 13.7% in 2022.



According to the IBGE National Household Survey (PNAD) the unemployment rate stood at 13.3% in the three months to August, slightly below both our estimate and market consensus (13.3% and 13.4% respectively), implying a 1.2 p.p drop from the year-ago rate of 14.4%. We estimate that the seasonally adjusted unemployment rate decreased to 13.0% compared to the July level of 13.4%. The seasonally adjusted unemployment rate's behavior stemmed from increases of 1.0% MoM sa and 0.6% MoM sa in the employed population and the labor force, respectively. In a counterfactual exercise, if the labor force had remained at the February 2020 level, the unemployment rate would have been at 13.4% in August. It is important to note that the counterfactual rate has dropped significantly since March and is now close to the observed rate, as the labor force has almost returned to pre-pandemic levels. In our view, the new round of the emergency aid is having only minor impacts on labor force recovery, as the normalization process is confirming more dependence on massive vaccinations and mobility recovery.

**Figure 1 – PNAD Breakdown**

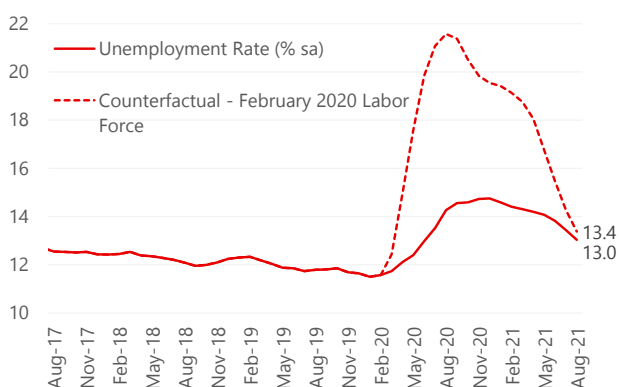
	s.a.			% YoY			% Feb-20*		
	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21
<b>Unemployment rate (%)</b>	<b>13.8</b>	<b>13.4</b>	<b>13.0</b>	<b>0.8</b>	<b>-0.1</b>	<b>-1.2</b>	<b>2.2</b>	<b>1.9</b>	<b>1.5</b>
<b>Participation rate (%)</b>	<b>58.3</b>	<b>58.9</b>	<b>59.2</b>	<b>2.4</b>	<b>3.5</b>	<b>3.9</b>	<b>-3.0</b>	<b>-2.4</b>	<b>-2.1</b>
<b>Labor force (millions)</b>	<b>103.3</b>	<b>104.3</b>	<b>104.9</b>	<b>6.3</b>	<b>8.4</b>	<b>8.8</b>	<b>-2.0</b>	<b>-1.0</b>	<b>-0.4</b>
Employment	89.0	90.3	91.2	5.3	8.6	10.4	-4.1	-2.8	-1.9
Unemployment	14.3	14.0	13.7	12.9	7.3	-1.0	2.1	1.8	1.5
<b>Formalization Rate (%)</b>	<b>56.6</b>	<b>56.6</b>	<b>56.4</b>	<b>-3.1</b>	<b>-2.9</b>	<b>-2.8</b>	<b>-0.2</b>	<b>-0.2</b>	<b>-0.3</b>
Formal Workers (millions)	50.4	51.1	51.5	-0.1	3.3	5.3	-2.5	-1.8	-1.4
Informal Workes (millions)	38.6	39.2	39.8	13.5	16.3	17.9	-1.6	-1.1	-0.5
<b>Average usual earnings (BRL)**</b>	<b>2,543</b>	<b>2,516</b>	<b>2,475</b>	<b>-6.6</b>	<b>-8.8</b>	<b>-10.2</b>	<b>-2.2</b>	<b>-3.2</b>	<b>-4.8</b>
<b>Average effective earnings (BRL)**</b>	<b>2,627</b>	<b>2,585</b>	-	<b>-0.2</b>	<b>-3.0</b>	-	<b>-2.2</b>	<b>-3.7</b>	-
<b>Usual wage bill (BRL bn)**</b>	<b>221.4</b>	<b>222.1</b>	<b>221.3</b>	<b>-1.7</b>	<b>-1.0</b>	<b>-0.7</b>	<b>-6.4</b>	<b>-6.1</b>	<b>-6.4</b>
<b>Effective wage bill (BRL bn)**</b>	<b>231.1</b>	<b>229.8</b>	-	<b>8.4</b>	<b>7.2</b>	-	<b>-4.9</b>	<b>-5.5</b>	-

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

\*\* In real terms

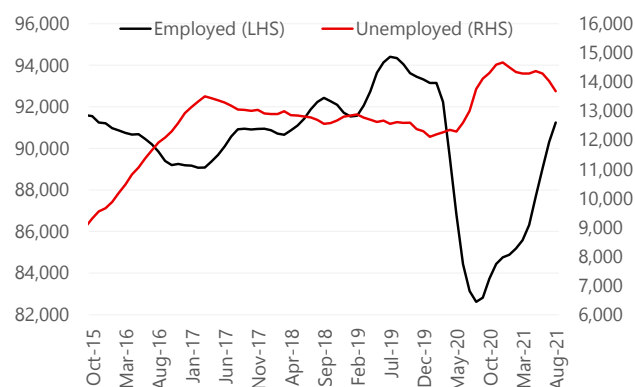
Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

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

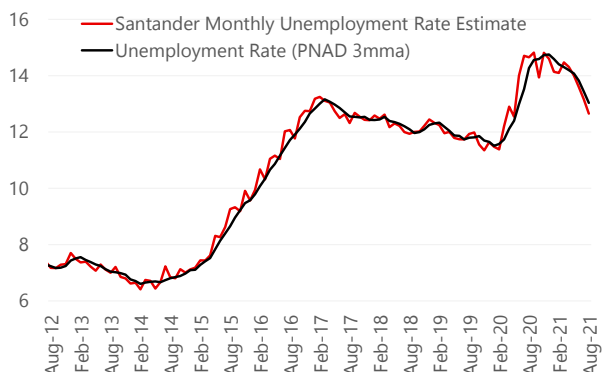


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate figure stood at 12.7% sa in August, compared to 13.2% in July. This result followed +1.1% and +0.6% MoM sa variations in in employed population and the labor force, respectively. This shows that, at the margin, the pace of labor market recovery remains high, as shown in Figures 3.A and 3.B. The labor market participation rate has also maintained the recovery trend started in April, following growth in the labor force. The seasonally adjusted figure stood at 59.2% in August, from 58.9% in July.



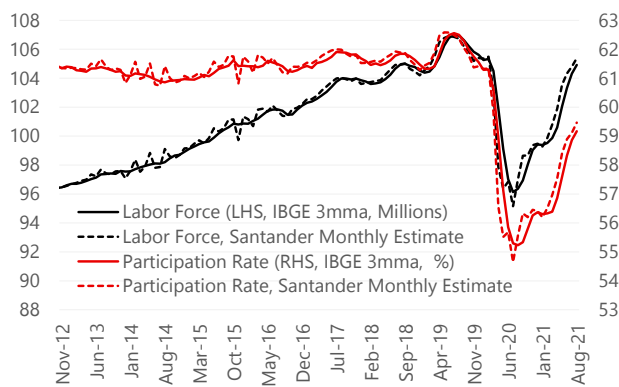
**Figure 3.A. Unemployment Rate\* (% of the labor force)**



Sources: IBGE, Santander.

\*All PNAD data is constructed as 3-month moving averages. We estimate the monthly figures based on a Kalman Filter, according to BCB's methodology.

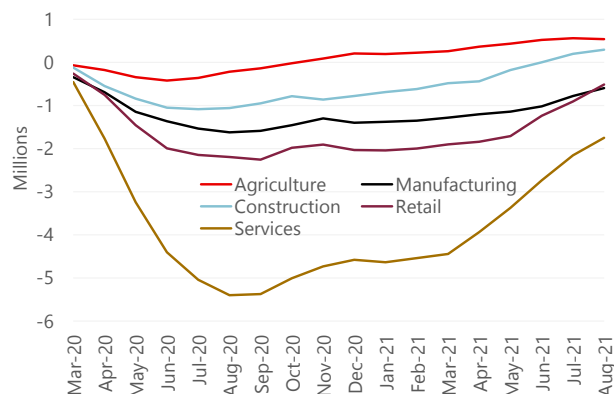
**Figure 3.B. Participation Rate\* and Labor Force\* (sa)**



Sources: IBGE, Santander.

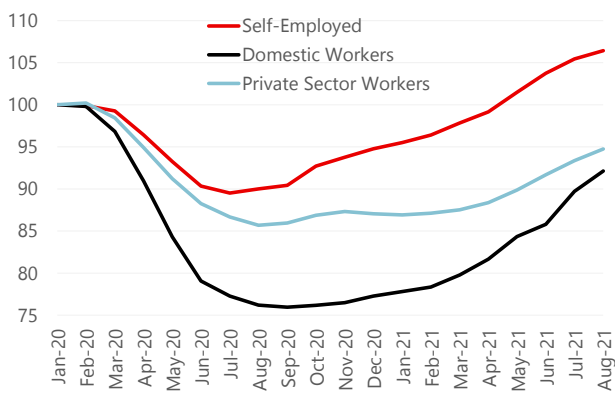
Once again, the main contribution for August employment growth came from the sectors more dependent on social interaction, such as retail and services. However, both sectors remain at depressed levels, as shown in Figure 4.A. The accumulated job losses in services sector since the beginning of the pandemic is close to 2 million. The highlight in employment recovery since 2H20 is in self-employed workers, which indicates difficult conditions in job market, especially for informal workers. However, domestic workers have shown considerable growth in July and August, reflecting advances in the vaccination rollout.

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



Sources: IBGE, Santander.

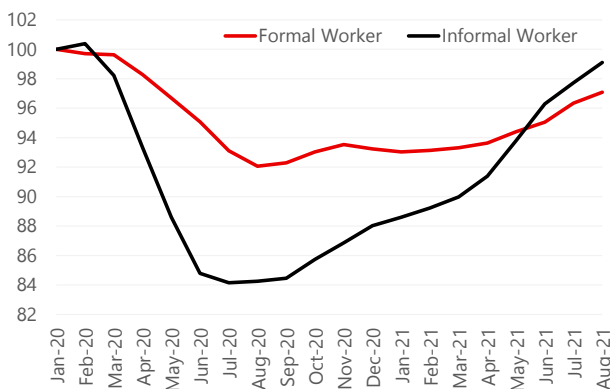
**Figure 4.B. Employment by Position (sa, Jan-20=100)**



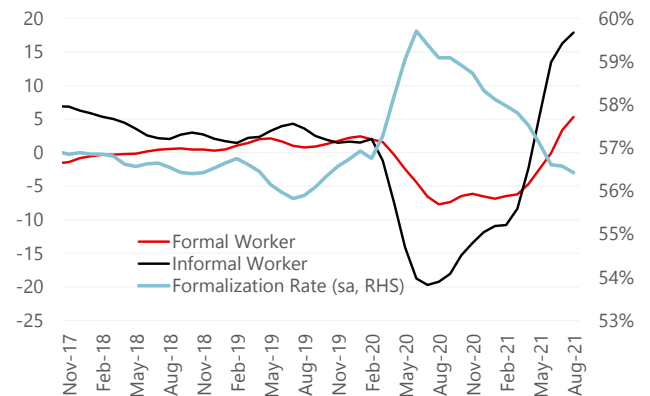
Sources: IBGE, Santander.

Formal employment posted a +0.8% MoM sa variation, while informal employment grew 1.4% MoM sa. The labor market formalization rate stood at 56.4% (sa) and is close to pre-crisis levels, after remaining high due to the stronger impact of the pandemic on informal workers versus formal ones, as illustrated in Figure 5.B. In our view, August data indicated another considerable improvement in informal employment, which should lead the employment recovery as the economy reopens, especially in the services sector. The formal sector data is being positively impacted by the changes made by IBGE in order to reduce the underestimation for this class of workers due to the low response rate in the survey (see link below<sup>1</sup>). However, we evaluate that the imminent end of the formal employment program (“Emergency Benefit for Income and Employment Preservation”, or BEm) in August may have already caused a negative impact over formal employment in the PNAD, and could act as a headwind in the coming months.

<sup>1</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>

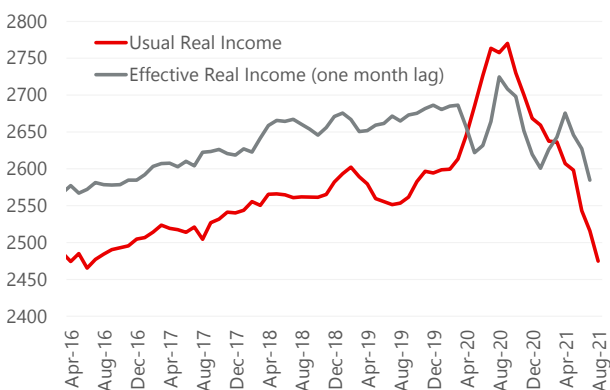

**Figure 5.A. Employed Population (sa, Jan-20=100)**


Sources: IBGE, Santander.

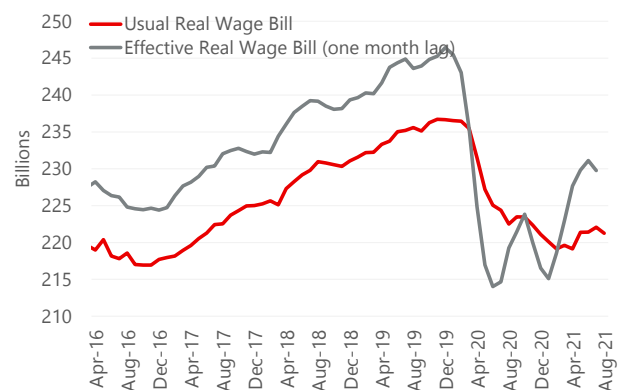
**Figure 5.B. Employment by Position (% YoY)**


Sources: IBGE, Santander.

The effective real wage bill posted a 0.6% MoM sa decrease in July (data lagged one month relative to other PNAD series), while the usual real wage bill had a 0.4% MoM sa decrease in August. The series are 5.5% and 6.4% below the pre-crisis mark respectively. There has been a decoupling between the usual and effective real wage bills, because of a significant rise in real usual income, derived from a composition effect as job losses were concentrated among employees with lower wages. We expect the correction of this composition effect to keep acting as a drag in the average real income, but the real wage bill should resume the recovery path as the increase in employment should overcome the reduction in wages.

**Figure 6.A. Average Real Income (sa)**


Sources: IBGE, Santander.

**Figure 6.B. Real Wage Bill (sa)**


Sources: IBGE, Santander.

According to the September CAGED survey, net formal job creation stood at +313.9k, (versus consensus +360k, Santander estimate +370k), above the historical average for the month (+157.3k) and the all-time record for the month (+313.6k in 2020). Since May, CAGED has been showing results that largely surpassed the monthly historical average.



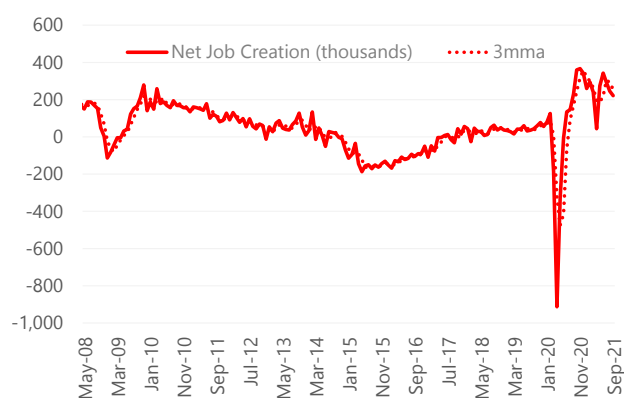
Figure 7 – CAGED Breakdown

	Headline			Headline (s.a.)		
	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21
<b>Net Creation</b>	<b>316.6</b>	<b>372.3</b>	<b>313.9</b>	<b>293.4</b>	<b>246.1</b>	<b>221.7</b>
<b>Creation</b>	<b>1656.2</b>	<b>1810.4</b>	<b>1780.2</b>	<b>1679.9</b>	<b>1698.0</b>	<b>1716.9</b>
<b>Destruction</b>	<b>1339.6</b>	<b>1438.2</b>	<b>1466.3</b>	<b>1386.6</b>	<b>1452.0</b>	<b>1495.2</b>
Mining	2.1	1.7	1.7	1.7	1.0	1.2
Construction	29.8	32.0	24.5	17.4	15.9	8.7
Manufacturing	54.4	69.3	72.8	49.0	46.0	25.8
Retail	74.8	77.8	60.8	86.8	65.0	37.3
Agriculture	25.4	9.2	9.1	16.5	16.5	13.6
Services	127.1	179.5	142.5	151.1	130.8	107.1

Sources: Ministry of Labor, Santander.

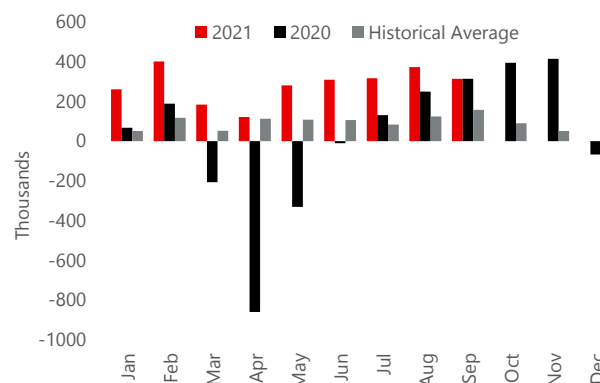
After our seasonal adjustment, net formal job creation decelerated to 221.7k, from 246.1k in August. Therefore, CAGED had a deceleration at the margin, but remains at historically high job creation levels, as mobility consolidates at higher levels. This result stemmed from a 1.1% MoM-sa increase in the number of hirings, while layoffs had a 3.0% MoM-sa increase. We consider that the end of the BEm program on August 26 is already affecting the data, as layoffs are already at levels close to the ones observed in the initial months of the pandemic. We evaluate that the round of the program that started in April has limited layoffs, and also helped to boost net job creation. The three-month average now points to a payroll expansion of 254k jobs, from 294k in August. Since July 2020, CAGED data has been consistently surpassing monthly historical averages. We believe CAGED may have underreported layoffs in the recent period, especially throughout 2H20. However, since January 2021, CAGED data pointed to a recovery more aligned with other economic activity indicators.

Figure 8.A. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

Figure 8.B. Net Formal Job Creation

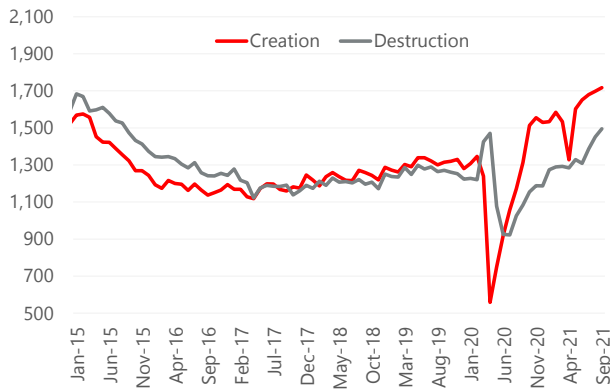


Sources: Ministry of Labor, Santander.

The September net result stemmed from deceleration in net job creation all the main sectors. However, the sectors more dependent on social interaction remain as the highlights in job creation, such as services and retail, reflecting high urban mobility.

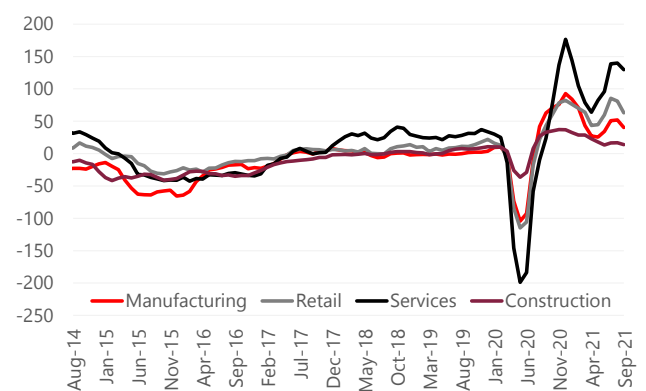


**Figure 9.A. Job Creation and Destruction (sa)**



Sources: Ministry of Labor, Santander.

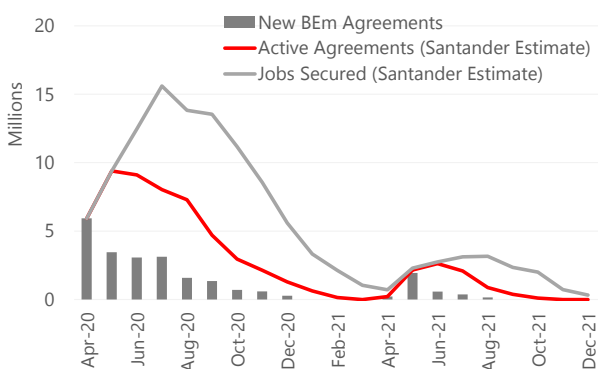
**Figure 9.B. Net Formal Job Creation (3mma, sa)**



Sources: Ministry of Labor, Santander.

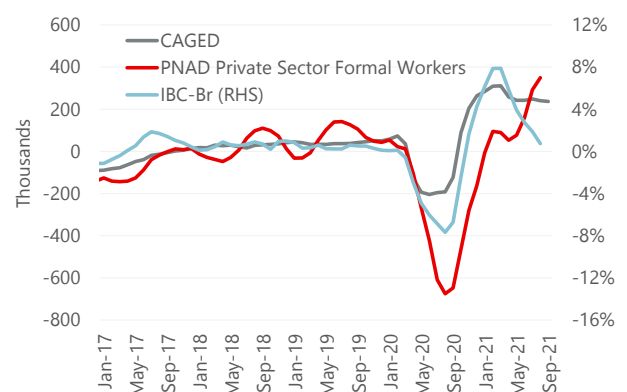
On a 12-month basis, net formal job creation has accelerated to 3.191 million (adjusted to post-deadline declarations), from 3.196 million in August. This was the first reduction in the 12-month accumulated net job creation since the pandemic low (June 2020). As the most pandemic-hit months of 2020 left the base of comparison, CAGED tends to indicate large 12-month accumulated results (there was a net accumulated destruction of over 1.5 million jobs from March to June 2020). Since December, CAGED data has fully offset the losses suffered during the pandemic. 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. Moreover, the strong net payroll gains also reflect the extension of the BEm program, with a recent decoupling between the behaviors of CAGED and PNAD from the IBC-Br broad activity index trend. As the program ended in August, we expect the net formal job creation to decelerate in the coming months

**Figure 10.A. BEm Agreements and Jobs Secured**



Sources: Ministry of Labor, Santander.

**Figure 10.B. Net Job Creation and IBC-Br (6m, sa)**



Sources: IBGE, Ministry of Labor, BCB, Santander.

In conclusion, the current batch of labor market data indicates a continuity in the recovery, still led by sectors that are more dependent on social interaction. We expect the maintenance of high levels of urban mobility to be crucial for the employment recovery in coming months. The behavior of formal employment in the PNAD survey should also be monitored, as IBGE's effort to increase the survey response rate is positively affecting the results. However, the end of the BEm program should act as a headwind in the coming months for both the CAGED and the PNAD, that should cause some deceleration in the job market recovery pace.

We believe that the current job market situation still shows considerable slacks that should gradually subside by YE2022, as both formal and informal employment remain below pre-pandemic levels in the PNAD survey. We estimate an average unemployment rate of 13.8% in 2021 and 13.7% in 2022.





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