



## Higher Mobility Continues to Push Job Market Recovery

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 14.6% in the three months to May, slightly above both our estimate (14.4%) and the market consensus (14.5%), implying a 1.7 p.p. rise from the year-ago level (12.9%).
- We calculate that the seasonally adjusted jobless rate stood at 14.3%, a slight decrease compared to the April level (14.4%). This result stemmed from increases of 1.6% MoM sa and 1.4% MoM sa in the employed population and the labor force, respectively. The labor market participation rate stood at 57.5% (sa), an increase from the April result (56.8%). The participation rate showed a considerable recovery at the margin, but remains in depressed levels, 3.7 p.p. below the pre-crisis mark (February 2020).
- Formal employment has posted a +0.6% MoM SA variation, while informal employment had a 2.8% MoM sa growth. Informal employment had its highest growth in the post-pandemic period. This result led the formalization rate to 57.0% (sa), a drop from the April result (57.5%).
- According to the June 2021 CAGED survey, net (unadjusted) formal job creation stood at +309.1k, (versus consensus +270k, Santander estimate +267.6k), considerably above the month's historical average of +105.8k and matching the all-time record for the month (+309.4k in 2008). We estimate that the seasonally adjusted, net formal job creation increased to +321k in May, from +274k in April.
- After acceleration in May due to the lifting of some social-distancing measures implemented in March, CAGED maintained a high level of job creation, as urban mobility continues to increase. By limiting layoffs, the new round of the government's BEm program is another factor that boosts net job creation. The services sector accounted for the greatest contribution to the result.
- In our view, the job market remains fragile and with considerable slacks, especially considering the pandemic's impact on informal workers, which the CAGED survey does not capture. However, for the second month in a row, the batch of labor market data indicates an improvement for some sectors that are more dependent on social interaction, as shown by the growth of informal employment in PNAD data and the services sector job creation in CAGED. We expect the vaccine rollout and urban mobility to be crucial for the labor force and employment recovery in coming months, with sectors more reliant on social interaction gaining traction. We estimate an average unemployment rate of 14.2% in 2021 and 13.6% in 2022.

According to the IBGE National Household Survey (PNAD), the unemployment rate reached 14.6% in the three months to May, slightly above both our forecast (14.4%) and market consensus (14.5%), a rise of 1.7 p.p. in comparison with the year-ago rate. We estimate that the seasonally adjusted unemployment rate slightly decreased to 14.3% compared to the April level (14.4%), as shown in Figures 1 and 2.A. The seasonally adjusted unemployment rate's behavior stemmed from increases of 1.6% MoM sa and 1.4% MoM sa in the employed population and the labor force, respectively. Figure 2.B shows the recent behavior of the employed and unemployed populations.

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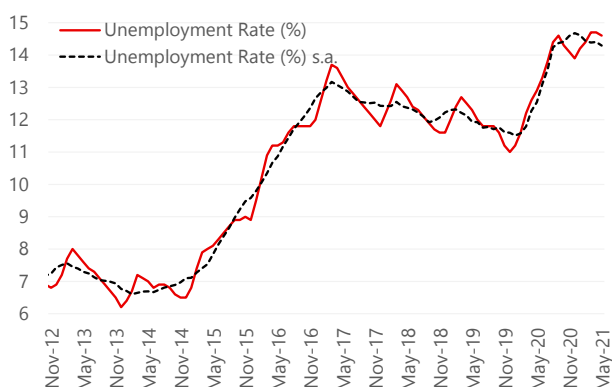
Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Mar-21	Apr-21	May-21	Mar-21	Apr-21	May-21	Mar-21	Apr-21	May-21
<b>Unemployment rate (%)</b>	<b>14.4</b>	<b>14.4</b>	<b>14.3</b>	<b>2.5</b>	<b>2.1</b>	<b>1.7</b>	<b>2.8</b>	<b>2.8</b>	<b>2.7</b>
Participation rate (%)	56.4	56.8	57.5	-4.2	-2.1	0.4	-4.9	-4.4	-3.7
Labor force (millions)	99.9	100.7	102.2	-4.4	-1.3	2.9	-5.4	-4.6	-3.1
Employment	85.5	86.2	87.6	-7.1	-3.7	0.9	-7.6	-6.9	-5.5
Unemployment	14.4	14.5	14.6	15.2	15.2	16.4	2.2	2.3	2.4
<b>Formalization Rate (%)</b>	<b>57.8</b>	<b>57.5</b>	<b>57.0</b>	<b>0.6</b>	<b>-0.6</b>	<b>-1.9</b>	<b>1.1</b>	<b>0.8</b>	<b>0.2</b>
Formal Workers (millions)	49.5	49.6	49.9	-6.2	-4.7	-2.4	-3.4	-3.2	-2.9
Informal Workers (millions)	36.1	36.6	37.6	-8.4	-2.3	5.7	-4.2	-3.6	-2.6
Average usual earnings	-	-	-	0.8	-1.5	-3.2	-	-	-
Average effective earnings	-	-	-	-1.6	0.7	-	-	-	-
Usual wage bill	-	-	-	-6.7	-5.4	-2.5	-	-	-
Effective wage bill	-	-	-	-5.4	1.4	-	-	-	-

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

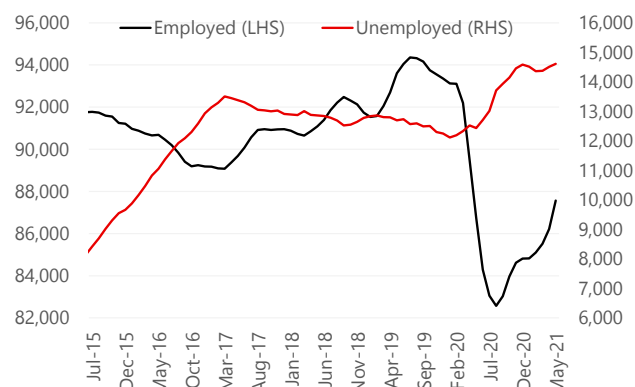
Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

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

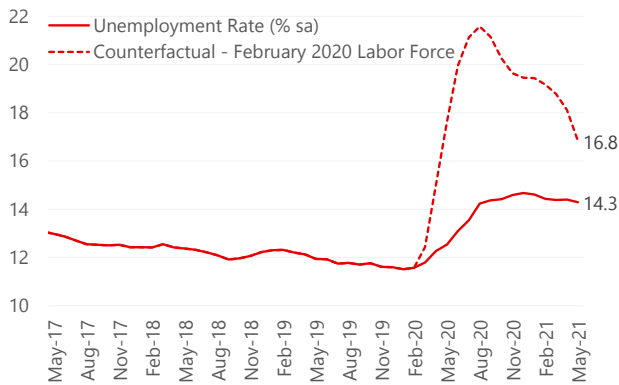


Sources: IBGE, Santander.

The labor market participation rate has maintained the recovery trend started in April, following growth in the labor force. The seasonally adjusted figure stood at 57.5% in May, from 56.8% in April. In a counterfactual exercise, if the labor force had remained at the February 2020 level, the unemployment rate would have been at 16.8% in May, as shown in Figure 3.A. It is important to note that the convergence of these rates (observed and counterfactual) has picked up, with a 1.3 p.p. drop in the counterfactual rate from the April level, as the labor force normalization process accelerated in May. 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.

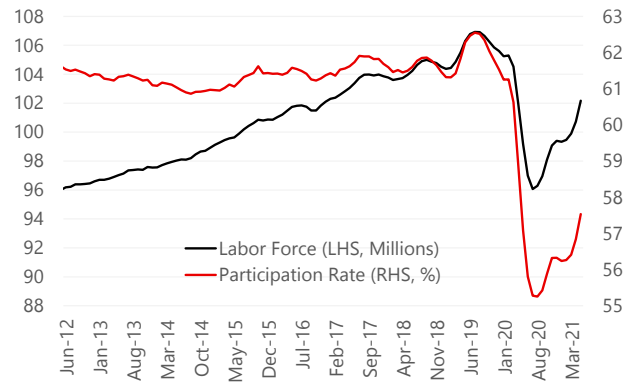


**Figure 3.A. Counterfactual Exercise**



Sources: IBGE, Santander.

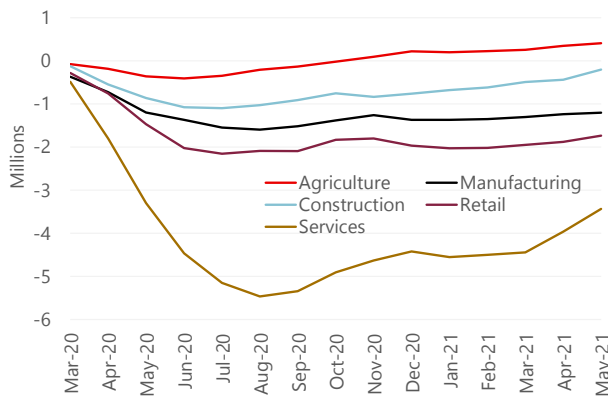
**Figure 3.B. Participation Rate and Labor Force (sa)**



Sources: IBGE, Santander.

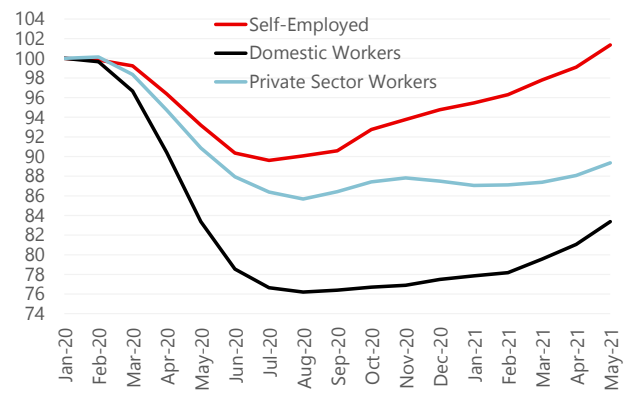
The PNAD survey continues to show that the pandemic has affected individual sectors at varying magnitudes. Once again, the main contribution for May's employment growth came from the services sector, which remains at depressed levels, as shown in Figure 4.A. The accumulated job losses in services sector since the beginning of the pandemic remains above 3 million. The highlight in employment recovery since 2H20 is in self-employed workers, which indicates difficult conditions in job market, especially for informal workers.

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



Sources: IBGE, Santander.

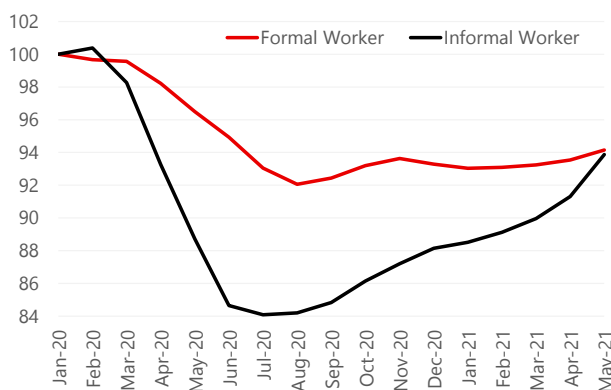
**Figure 4.B. Employment by Position (sa, Jan-20=100)**



Sources: IBGE, Santander.

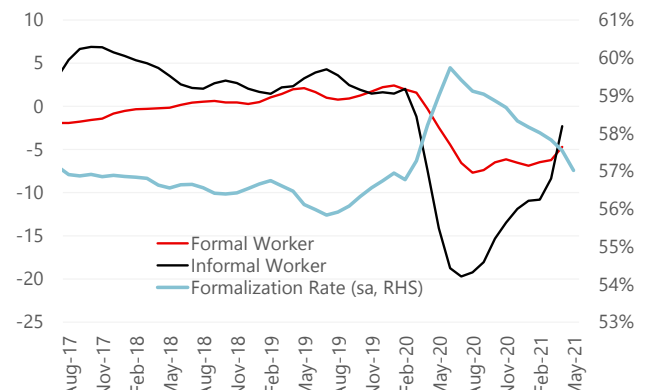
The labor market formalization rate stood at 57.0% (sa), and is now closer to pre-crisis levels, as it remained high due to the stronger impact of the pandemic on informal workers versus formal ones, as illustrated in Figure 5.B. In our view, May data indicated another considerable improvement in informal employment, which should lead the employment recovery as the economy reopens, especially in the services sector.

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



Sources: IBGE, Santander.

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



Sources: IBGE, Santander.



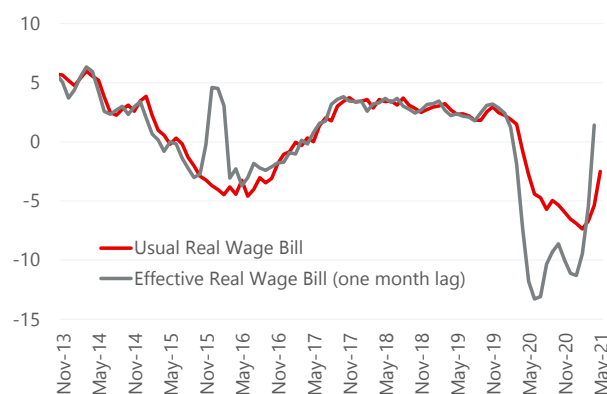
The effective real wage bill posted a 1.4% YoY increase in April (data lagged one month relative to other PNAD series), better than March's 5.4% YoY drop. It is important to note that April 2020 was already hugely affected by the pandemic, which distorts the real wage bill YoY variations due to a depressed base. The usual real wage bill dropped 2.5% YoY in May, from -5.4% in April. There has been a decoupling between the usual and effective real wage bills in 2020, because of a significant rise in real usual income, derived from a composition effect as job losses were concentrated among employees with lower wages. These differences had decreased in April but are once again increasing.

**Figure 6.A. Average Real Income (% YoY)**



Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

According to the June 2021 CAGED survey, net (unadjusted) formal job creation stood at +309.1k, (versus consensus of +270k and Santander estimate of +267.6k), considerably above the month's historical average of +105.8k and matching the all-time record for the month (+309k in 2008). After a weak result in April and acceleration in May, CAGED has once again shown a result close to the all-time high for the month.

**Figure 7 – CAGED Breakdown**

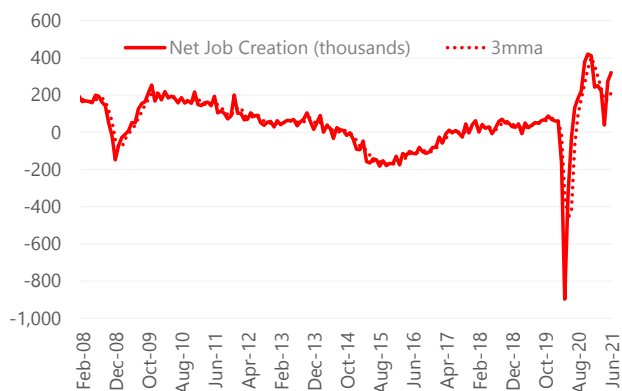
	Headline			Headline (s.a.)		
	Apr-21	May-21	Jun-21	Apr-21	May-21	Jun-21
<b>Net Creation</b>	<b>120.9</b>	<b>280.7</b>	<b>309.1</b>	<b>38.4</b>	<b>274.4</b>	<b>320.8</b>
<b>Creation</b>	<b>1381.8</b>	<b>1548.7</b>	<b>1601.0</b>	<b>1306.5</b>	<b>1504.6</b>	<b>1703.4</b>
<b>Destruction</b>	<b>1260.8</b>	<b>1268.0</b>	<b>1291.9</b>	<b>1268.1</b>	<b>1230.2</b>	<b>1382.6</b>
Mining	2.3	2.5	2.3	1.6	2.3	1.8
Construction	22.2	22.6	22.5	7.4	15.2	16.8
Manufacturing	17.8	39.2	45.0	-0.4	42.1	61.1
Retail	10.1	60.5	72.9	9.5	77.9	91.8
Agriculture	11.1	42.5	38.0	-1.0	7.3	8.1
Services	56.0	109.9	125.1	23.0	127.7	137.5

Sources: Ministry of Economy, Santander.

After our seasonal adjustment, net formal job creation accelerated to 320.8k, from 274.4k in May. Therefore, CAGED accelerated at the margin, consolidating the return to job creation levels close to the observed in 1Q21, as some additional mobility restrictions have been lifted in June. The new round of the government's BEm program continues to avoid a larger number of layoffs. The three-month average now points to a payroll expansion of 211k jobs, from 178k in May, pointing to a positive result for the eleventh month in a row, as illustrated in Figure 8.A. Since July 2020, CAGED has been consistently surpassing monthly historical averages. 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 could be normalizing, pointing to a recovery more aligned with other economic activity indicators.

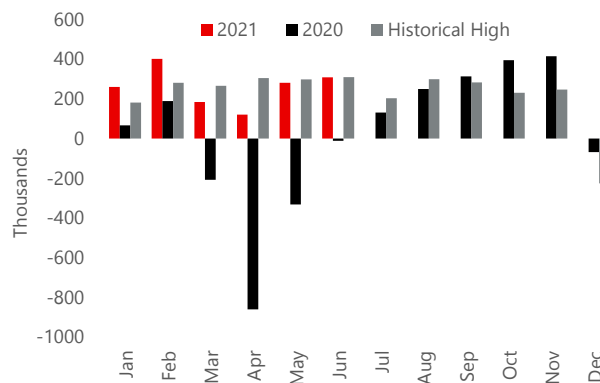


**Figure 8.A. Net Formal Job Creation (sa)**



Sources: Ministry of Economy, Santander.

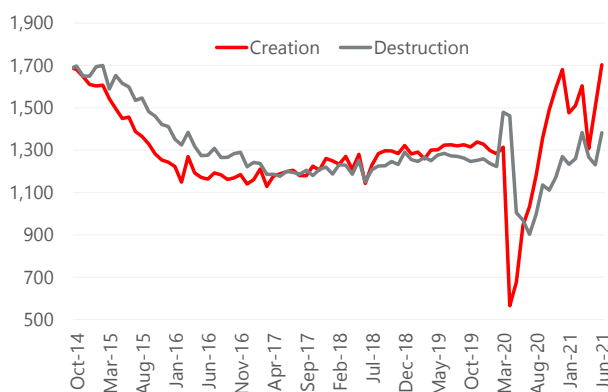
**Figure 8.B. Net Formal Job Creation**



Sources: Ministry of Economy, Santander.

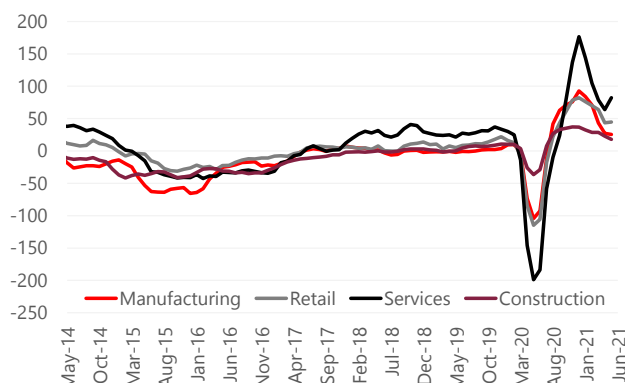
The June net result stemmed from another considerable rise in job creation (+13.2% MoM-sa, from 15.2% in May), whereas job destruction had a slightly lower increase (+12.4% MoM-sa). Once again, the main contribution for the June result came from the services sector, as pictured in Figure 8.B, probably reflecting the continuous improvement in urban mobility.

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



Sources: Ministry of Economy, Santander.

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



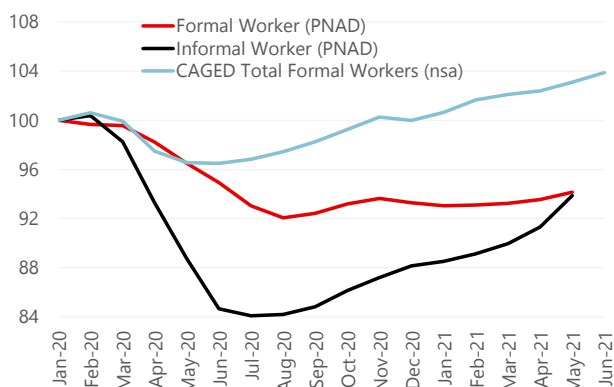
Sources: Ministry of Economy, Santander.

On a 12-month basis, net formal job creation has accelerated to 2.915 million (adjusted to post-deadline declarations), from 2.575 million in May. Apart from the strong results, the acceleration is also due to the exit of the most pandemic-hit months of 2020 from the base, when there was a net accumulated destruction of over 1.5 million 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](#)<sup>1</sup>.

<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>

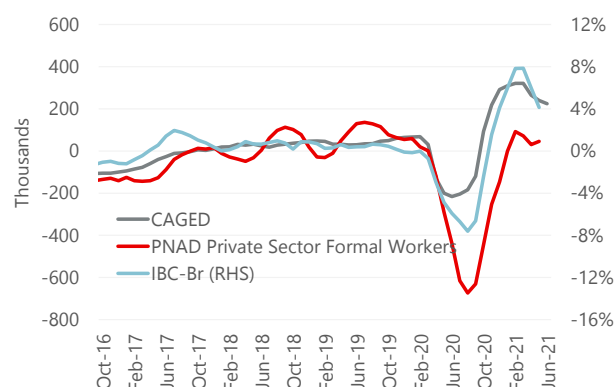


Figure 10.A. Employed Population (sa, Jan-20=100)



Sources: IBGE, Ministry of Economy, Santander.

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



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

In our view, the job market remains fragile and with considerable slacks, especially considering the pandemic's impact on informal workers, which the CAGED survey does not capture. However, for the second month in a row, the batch of labor market data indicates an improvement for some sectors that are more dependent on social interaction, as shown by the growth of informal employment in PNAD data and the services sector job creation in CAGED. We expect the vaccine rollout and urban mobility to be crucial for the labor force and employment recovery in coming months, with sectors more reliant on social interaction gaining traction. We estimate an average unemployment rate of 14.2% in 2021 and 13.6% in 2022. **For details on Santander's activity outlook, please refer to our last chartbook<sup>2</sup>.**

<sup>2</sup> Santander Brazil Economic Activity - "Chartbook - Better Outlook Due to Mobility and Commodities" - July 6, 2021 - Available on: <https://bit.ly/Std-chart-econact-jul21>



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