

Keeping the Recovery Pace

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 13.7% in the three months to July, slightly below both our estimate and market consensus (13.8% and 13.9%, respectively). We calculate that the seasonally adjusted jobless rate stood at 13.4%, a decrease compared to the June level (13.8%).
- This result stemmed from increases of 1.4% MoM sa and 1.0% MoM sa in the employed population and the labor force, respectively. The labor market participation rate stood at 58.9% (sa), an increase from the June result (58.3%). The participation rate showed a considerable recovery at the margin, but remains at depressed levels, 2.4 p.p. below the pre-crisis mark (February 2020).
- Formal employment posted a +1.6% MoM sa variation, while informal employment grew 1.3% MoM sa, leading the formalization rate to 56.8% (sa), an increase from the June result (56.7%). We believe that the IBGE's efforts in July to increase the survey's response rate could have affected the formal employment level and reduced the underestimation for this class of workers since the pandemic's outset.
- The effective real wage bill posted a 0.8% MoM sa increase in June (data lagged one month relative to other PNAD series), while the usual real wage bill had a 0.3% MoM sa increase in July. The series are 4.3% and 5.9% below the pre-crisis mark, respectively.
- According to August CAGED survey, net formal job creation stood at +372.3k, (versus consensus +300k, Santander estimate +340k), considerably above the historical average (+124.2k) and the all-time record for the month (+299.4k in 2010). We estimate that the seasonally adjusted, net formal job creation decelerated to +243.3k in August, from +304.0k in July.
- Despite some deceleration at the margin, the CAGED survey continued to show robust job creation in August, due to the maintenance of high urban mobility. Since April, a new round of the government's job-supporting program (BEm) has limited layoffs, in our view, and also helped boost net job creation. However, we believe that the end of the program on August 26 has already led to fewer new working hours and salary reduction agreements, which contributed to more layoffs.
- The current batch of labor market data indicates additional improvement, especially for some sectors that are more dependent on social interaction. We expect the maintenance of the current vaccine rollout pace and high urban mobility to be crucial for the labor force and employment recovery in coming months, with sectors more reliant on social interaction still leading the way. The behavior of formal employment in the PNAD survey should also be monitored, as IBGE's effort to increase the survey response rate seems to have already affected July results.
- We believe that the current job market situation still shows considerable slacks that should gradually subside by mid-2022, as both formal and informal employment remain below pre-pandemic levels in the PNAD survey. We estimate an average unemployment rate of 14.1% in 2021 and 13.5% in 2022.



According to the IBGE National Household Survey (PNAD) the unemployment rate stood at 13.7% in the three months to July, slightly below both our estimate and market consensus (13.8% and 13.9%, respectively), implying a 0.1 p.p drop from the year-ago rate (13.8%). We estimate that the seasonally adjusted unemployment rate decreased to 13.4% compared to the June level (13.8%). The seasonally adjusted unemployment rate's behavior stemmed from increases of 1.4% MoM sa and 1.0% 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 14.2% in June. 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.

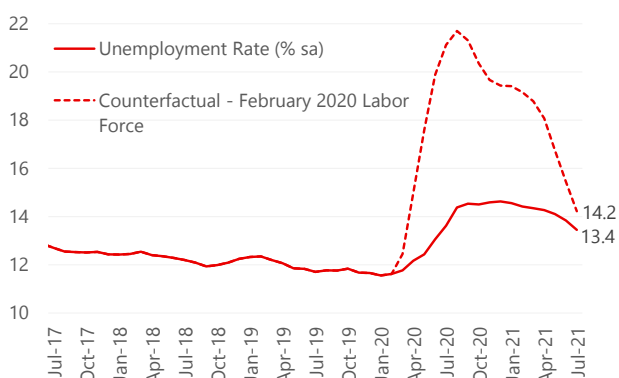
Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21	May-21	Jun-21	Jul-21
Unemployment rate (%)	14.1	13.8	13.4	1.7	0.8	-0.1	2.5	2.2	1.8
Participation rate (%)	57.6	58.3	58.9	0.4	2.4	3.5	-3.7	-2.9	-2.4
Labor force (millions)	102.1	103.3	104.4	2.9	6.3	8.4	-3.2	-2.0	-0.9
Employment	87.7	89.0	90.3	0.9	5.3	8.6	-5.4	-4.0	-2.7
Unemployment	14.4	14.3	14.0	16.4	12.9	7.3	2.2	2.1	1.8
Formalization Rate (%)	57.1	56.7	56.8	-1.9	-3.1	-2.9	0.4	-0.1	0.0
Formal Workers (millions)	50.1	50.5	51.3	-2.4	-0.1	3.3	-2.7	-2.4	-1.6
Informal Workers (millions)	37.6	38.6	39.1	5.7	13.5	16.3	-2.7	-1.7	-1.2
Average usual earnings (BRL)	2,578	2,525	2,498	-3.2	-6.6	-8.8	0.0	-2.0	-3.1
Average effective earnings (BRL)	2,629	2,615	-	0.9	-0.2	-	-1.3	-1.9	-
Usual wage bill (BRL bn)	219.8	219.9	220.6	-2.5	-1.7	-1.0	-6.3	-6.2	-5.9
Effective wage bill (BRL bn)	228.8	230.6	-	6.1	8.4	-	-5.1	-4.3	-

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

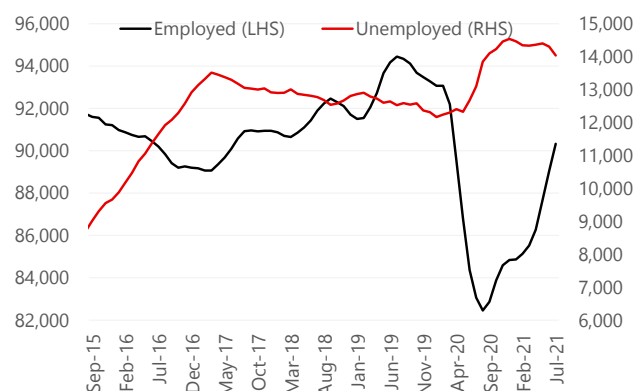
Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

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

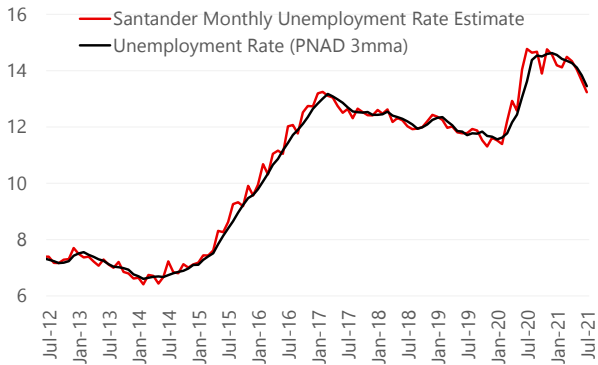


Sources: IBGE, Santander.

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate figure stood at 13.2% (sa) in July, compared to 13.6% in June. This result followed +0.9% and +0.5% MoM sa variations 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 58.9% in June, from 58.3% in June.



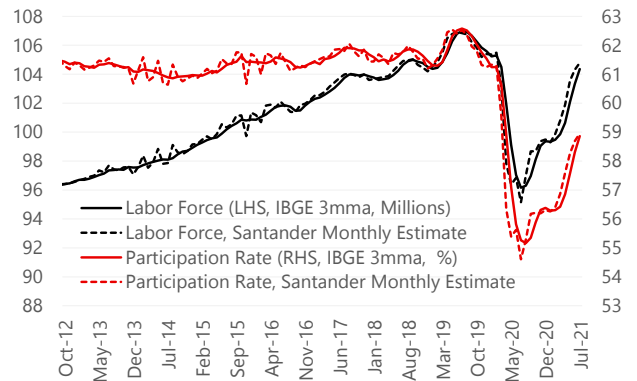
Figure 3.A. Unemployment Rate* (% of the labor force)



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.

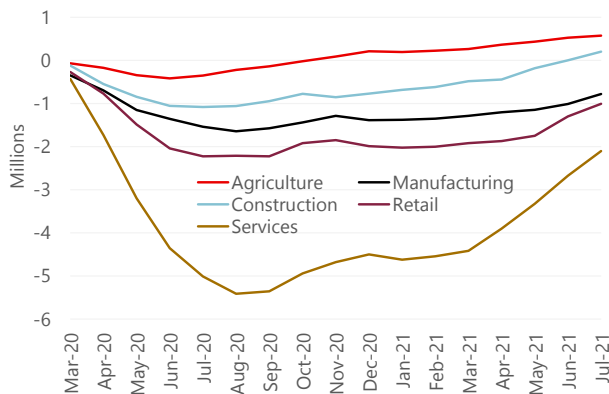
Figure 3.B. Participation Rate* and Labor Force* (sa)



Sources: IBGE, Santander.

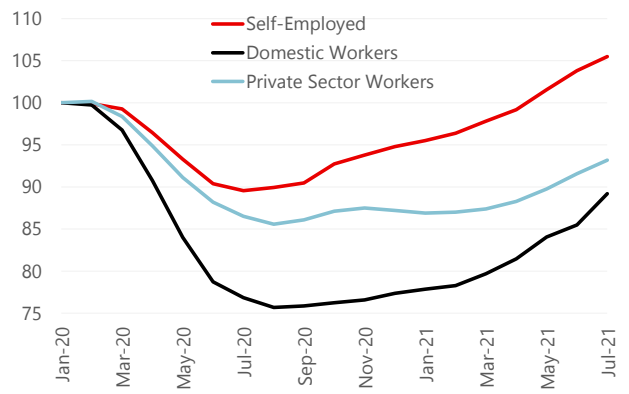
Once again, the main contribution for July's employment growth came from the services sector, which remains at depressed levels, as shown in Figure 4.A. The accumulated job losses in services sector since the beginning of the pandemic is close to 2 million. The highlight in employment recovery since 2H20 is in self-employed workers, which indicates difficult conditions in job market, especially for informal workers. However, domestic workers have shown a considerable growth in July (+4.3% MoM sa), also 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)



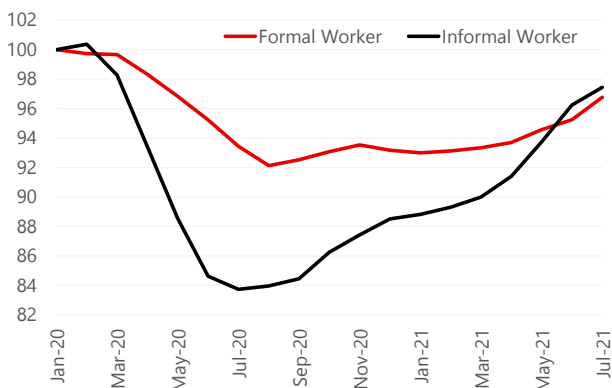
Sources: IBGE, Santander.

Formal employment posted a +1.6% MoM sa variation, while informal employment grew 1.3% MoM sa. The labor market formalization rate stood at 56.8% (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, July data indicated another considerable improvement in informal employment, which should lead the employment recovery as the economy reopens, especially in the services sector. However, the formal sector also had a positive result in July, probably reflecting 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](#)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>

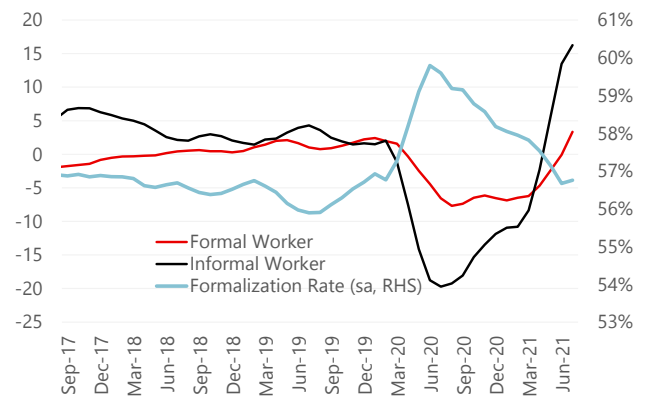


Figure 5.A. Employed Population (sa, Jan-20=100)



Sources: IBGE, Santander.

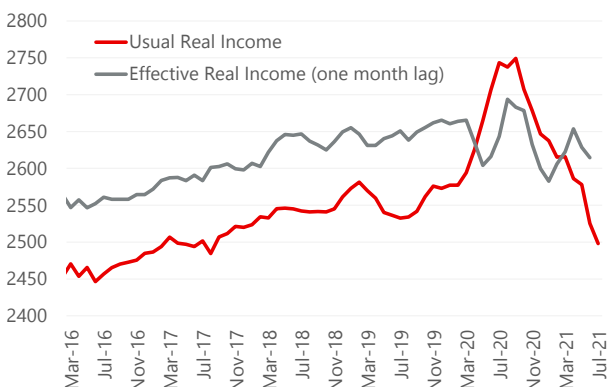
Figure 5.B. Employment by Position (% YoY)



Sources: IBGE, Santander.

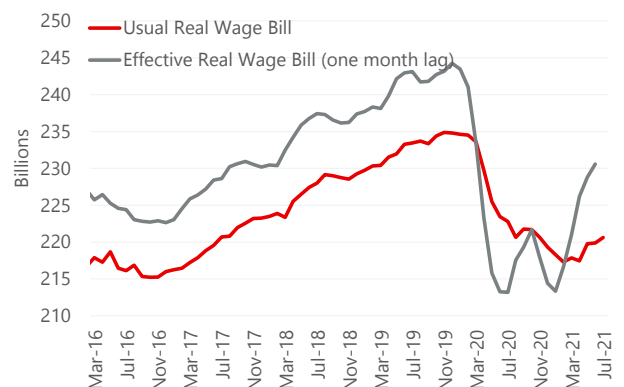
The effective real wage bill posted a 0.8% MoM sa increase in June (data lagged one month relative to other PNAD series), while the usual real wage bill had a 0.3% MoM sa increase in July. The series are 4.3% and 5.9% below the pre-crisis mark, respectively. There has been a decoupling between the usual 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. These differences had decreased in 1Q21, but are once again increasing significantly.

Figure 6.A. Average Real Income (sa)



Sources: IBGE, Santander.

Figure 6.B. Real Wage Bill (sa)



Sources: IBGE, Santander.

According to the August CAGED survey, net formal job creation stood at +372.3k, (versus consensus +313k, Santander estimate +340k), considerably above the historical average (+124.2k) and the all-time record for the month (+299.4.2k in 2010). For the fourth month in a row, CAGED data result surpasses the monthly historical average.



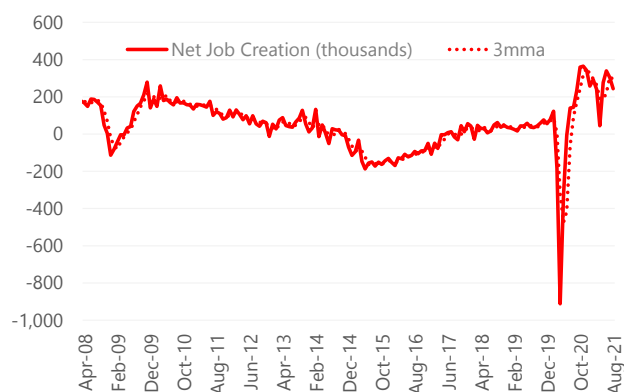
Figure 7 – CAGED Breakdown

	Headline			Headline (s.a.)		
	Jun-21	Jul-21	Aug-21	Jun-21	Jul-21	Aug-21
Net Creation	309.1	316.6	372.3	339.4	304.0	243.3
Creation	1601.0	1656.2	1810.4	1650.2	1679.1	1697.2
Destruction	1291.9	1339.6	1438.2	1310.8	1375.1	1453.9
Mining	2.3	2.1	1.7	1.8	1.7	1.0
Construction	22.5	29.8	32.0	16.8	17.4	15.9
Manufacturing	45.0	54.4	69.3	61.1	49.0	46.0
Retail	72.9	74.8	77.8	91.8	86.8	65.0
Agriculture	38.0	25.4	9.2	8.1	16.5	16.5
Services	125.1	127.1	179.5	137.5	151.1	130.8

Sources: Ministry of Labor, Santander.

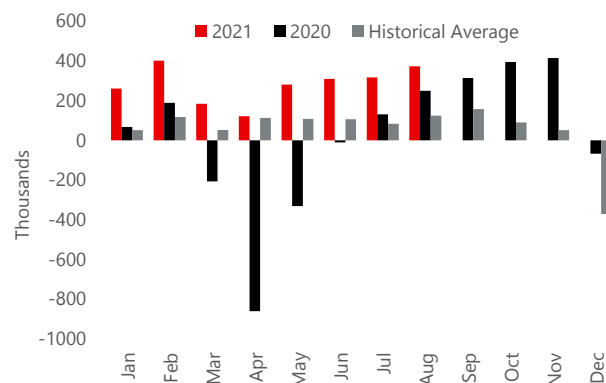
After our seasonal adjustment, net formal job creation decelerated to 243.3k, from 304.0k in July. Therefore, CAGED had a deceleration at the margin, but remains at historically high job creation levels, as mobility consolidates at higher levels. Since April, the new round of the government's job-supporting program (BEm) program is limiting layoffs, in our view, and also helping to boost net job creation. However, we believe that the end of the program on August 26 already led to a deceleration in new working hours and salary reduction agreements, which helped to increase layoffs. The three-month average now points to a payroll expansion of 296k jobs, from 307k in July, as illustrated in Figure 8.A. 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 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 Labor, Santander.

Figure 8.B. Net Formal Job Creation

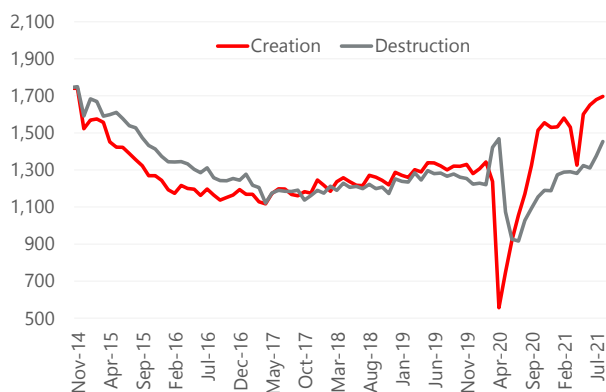


Sources: Ministry of Labor, Santander.

The June net result stemmed from rises in both job creation (+1.1% MoM-sa) and job destruction (+5.7% MoM-sa). Once again, the main contribution for the August result came from sectors more dependent on social interaction, such as services and retail, reflecting high urban mobility. The deceleration in August data has been relatively homogenous among the main sectors, with no individual highlights.

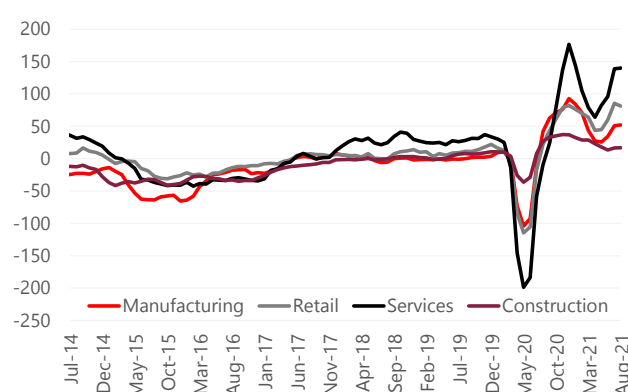


Figure 9.A. Job Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

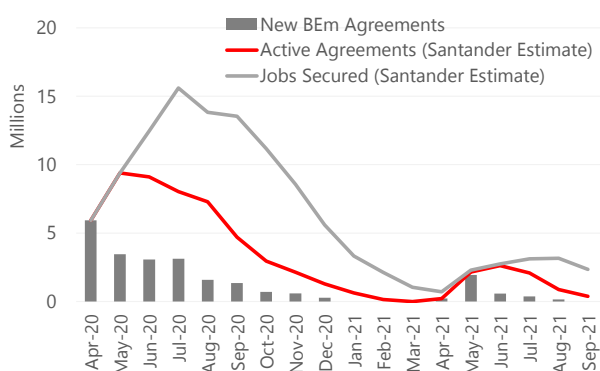
Figure 9.B. Net Formal Job Creation (3mma, sa)



Sources: Ministry of Labor, Santander.

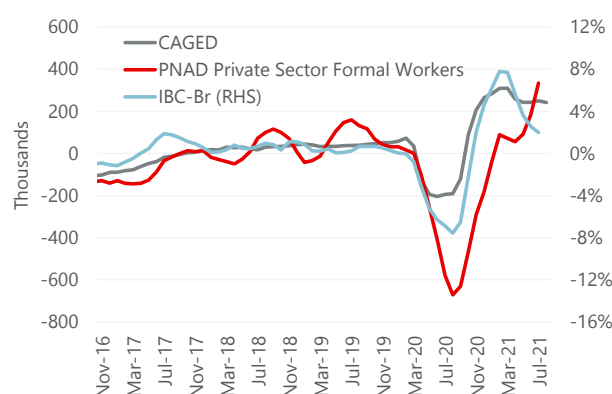
On a 12-month basis, net formal job creation has accelerated to 3.202 million (adjusted to post-deadline declarations), from 3.072 million in June. As the most pandemic-hit months of 2020 left the base of comparison, CAGED tends to indicate large 12-month accumulated results (there was a net accumulated 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. As stated before, the CAGED survey could have underreported layoffs, especially 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. Moreover, the strong net payroll gains could 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, suggesting that the former parties are telling only part of the story about the latter.

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 additional improvement, especially for some sectors that are more dependent on social interaction, as shown by informal employment growth in PNAD data and the services sector job creation in both CAGED and PNAD data. We expect the maintenance of the current vaccine rollout pace and high urban mobility levels to be crucial for the labor force and employment recovery in coming months, with sectors more reliant on social interaction still leading the way. The behavior of formal employment in PNAD should also be monitored, as IBGE’s effort to increase the survey response rate seems to have already impacted the July results and positively influenced the estimates on this class of workers.

We believe that the current job market situation still shows considerable slacks that should gradually subside by mid-2022, as both formal and informal employment remain below the pre-pandemic levels in the PNAD survey. We estimate an average unemployment rate of 14.1% in 2021 and 13.5% in 2022. **For details on Santander’s activity outlook, please refer to our last chartbook².**

² Santander Brazil Economic Activity - “Chartbook – Downgrading the Estimate for 2022” – September 20, 2021 - Available on: <https://bit.ly/Std-chart-econact-set21>



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