

Labor Market Decelerates as Reopening Effects Weaken

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- According to the IBGE's National Household Survey (PNAD), the unemployment rate stood at 12.6% in the three months to September, slightly below our estimate and the market consensus (both at 12.7%), implying a 2.3 p.p. drop from the year-ago level (14.9%). We calculate that the seasonally adjusted jobless rate stood at 12.8%, a decrease compared to the August level (13.1%).
- The September PNAD release brought a methodological revision on all employment series. There was a slight upward impact over the unemployment rate series, especially during the beginning of the pandemic. This stemmed from positive revisions in both the employed population and the labor force estimates. We think that these changes tend to have little impact on our medium- and long-term labor-market views.
- The decrease in the seasonally adjusted unemployment rate stemmed from increases of 0.6% MoM (sa) and 0.2% MoM (sa) in the employed population and the labor force, respectively. The labor market participation rate stood at 62.2% (sa), stable compared to the August result. The participation rate has also been revised, and is much closer to the pre-crisis mark (down 0.7 p.p. from the February 2020 level).
- Formal employment posted a 1.1% MoM SA increase, while informal employment remained stable. This result led the formalization rate to 57.4% (sa), an increase from the August result (57.2%). In our view, the growth in formal employment still seems to be related to the normalization in the PNAD survey, which has recently resumed in-person interviews, after over one year being done by phone. Informal employment, on the other hand, seems to have lost momentum.
- The effective average real income posted a 1.8% MoM (sa) decrease in August (data lagged one month relative to other PNAD series), while the usual real income had a 1.2% MoM (sa) decrease in September. The series are 5.1% and 6.0% below their pre-crisis mark, respectively.
- According to the October CAGED survey, net formal job creation stood at +253.0k, (versus consensus of +265k, Santander estimate of +217k), above the historical average for the month (+90.2k) but below the all-time record for the month (+395.0k in 2020). We estimate that the seasonally adjusted net formal job creation decelerated to +197k in October, from +220k in September.
- In our view, CAGED shows a slow deceleration, as the end of the formal employment program ("Emergency Benefit for Income and Employment Preservation", or BEm) continues to affect the data, as layoffs remain at recent highs. Furthermore, the positive effects of the reopening process seem to be decreasing, as hiring decelerates.
- The current batch of labor market data indicates continuity in the recovery, but the economic reopening effect seems to be fading, in our view. The revisions in the PNAD series increased the formal employment and labor force estimates, but had little impact on the unemployment rate. The new picture indicates the labor market much closer to pre-crisis levels, but with higher unemployment rates. The labor force is now above pre-pandemic levels in seasonally-adjusted terms (800k above February 2020), and the employed population is 500k workers below its February 2020 level (sa).



September PNAD Main Results

According to the IBGE National Household Survey (PNAD) the unemployment rate stood at 12.6% in the three months to September, slightly below both our estimate and market consensus (both at 12.7%), implying a 2.3 p.p. drop from the year-ago rate of 14.9%. We estimate that the seasonally-adjusted unemployment rate fell to 12.8% compared to the August level of 13.1%. The seasonally-adjusted unemployment rate's behavior stemmed from increases of 0.6% MoM (sa) and 0.2% MoM (sa) in the employed population and the labor force, respectively. It is important to note that the labor force has surpassed pre-pandemic levels. In our view, the normalization process is closely linked to widespread vaccinations and mobility recovery.

Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21	Jul-21	Aug-21	Sep-21
Unemployment rate (%)	13.6	13.1	12.8	-0.4	-1.7	-2.3	1.9	1.5	1.1
Participation rate (%)	61.9	62.2	62.2	4.5	4.5	4.3	-1.0	-0.8	-0.7
Labor force (millions)	106.5	107.0	107.2	9.1	9.0	8.6	0.1	0.6	0.8
Employment	92.0	92.9	93.5	9.6	11.1	11.4	-2.0	-1.1	-0.5
Unemployment	14.4	14.0	13.7	6.0	-3.1	-7.8	2.1	1.7	1.3
Formalization Rate (%)	57.2	57.2	57.4	-2.7	-2.6	-2.3	0.1	0.0	0.3
Formal Workers (millions)	52.7	53.1	53.7	4.7	6.3	7.1	-1.1	-0.6	0.0
Informal Workers (millions)	39.4	39.8	39.8	16.9	18.1	17.7	-0.9	-0.5	-0.5
Average usual earnings (BRL)**	2,518	2,482	2,452	-8.3	-9.4	-8.0	-3.5	-4.9	-6.0
Average effective earnings (BRL)**	2,605	2,557	-	-2.3	-6.0	-	-3.3	-5.1	-
Usual wage bill (BRL bn)**	226.9	225.9	224.3	0.6	0.7	0.0	-5.3	-5.8	-6.4
Effective wage bill (BRL bn)**	235.0	232.2	-	8.6	4.9	-	-4.4	-5.5	-

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

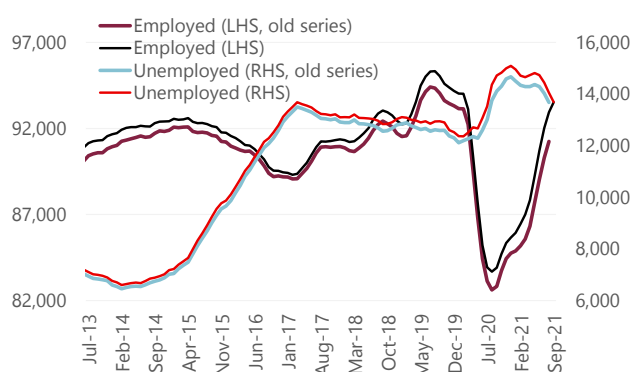
** In real terms

Sources: IBGE, Santander.

Overview on the PNAD methodological revisions

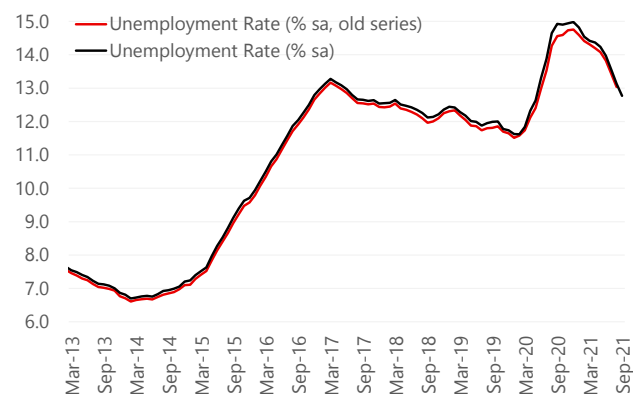
The September PNAD release brought a methodological revision on all employment series. There was a slight upward impact over the unemployment rate series, especially during the beginning of the pandemic. This stemmed from positive revisions in both the employed population and labor force estimates. Although the underestimation problem during the pandemic seems to have been reduced, some of the effects of the return to in-person interviews remain, especially increasing the gains in formal employment in 3Q21.

Figure 2.A. Employment and Unemployment Revisions



Sources: IBGE, Santander.

Figure 2.B. Unemployment Rate Revisions

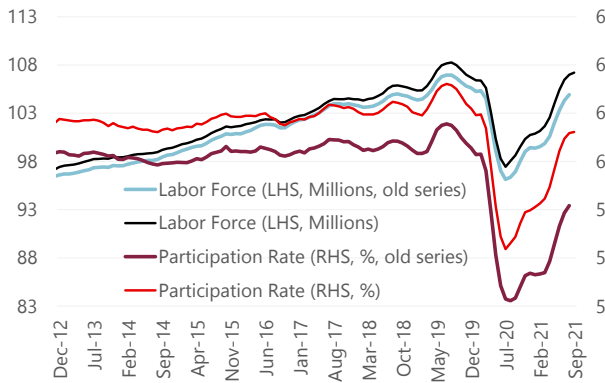


Sources: IBGE, Santander.



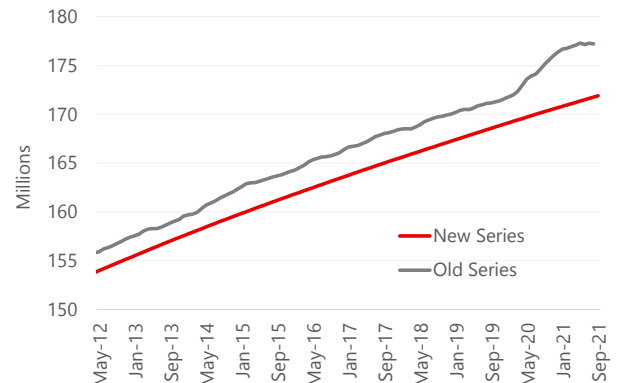
One of the most significant revisions happened in the working-age population estimates, which have shown acceleration during the pandemic, probably a distortion caused by the survey being done by phone. The new series has shown a downward shift, with a more reasonable behavior during 2020. As a result, the labor market participation rate has increased, and is now closer to pre-pandemic levels.

Figure 3.A. Labor Force and Participation Rate Revisions (% of the labor force)



Sources: IBGE, Santander.

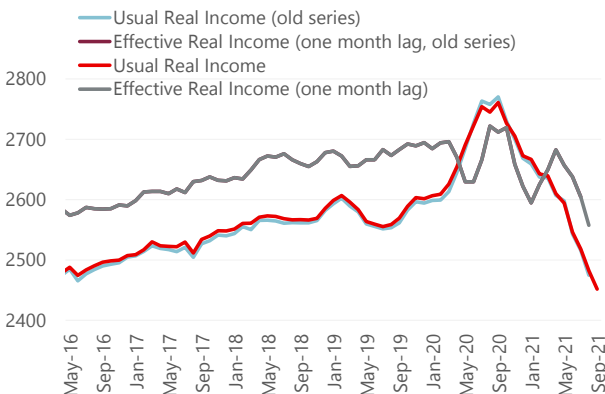
Figure 3.B. Working Age Population Revisions



Sources: IBGE, Santander.

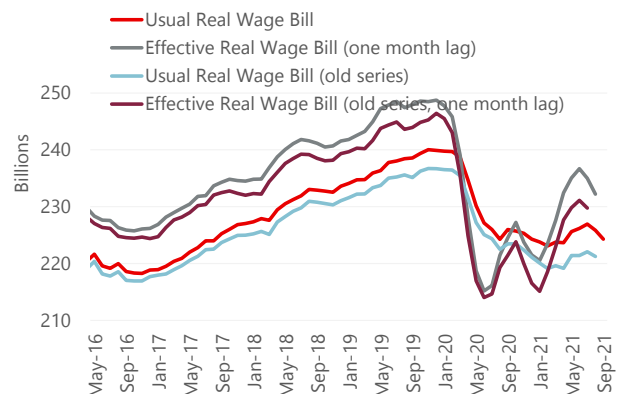
As for the real income indicators, the revisions were marginal. The effective average real income posted a 1.8% MoM (sa) decrease in August (data lagged one month relative to other PNAD series), while the usual real income had a 1.2% MoM (sa) decrease in September. The series are 5.1% and 6.0% below the pre-crisis mark, respectively, and continue to show a negative trend as people returning to the labor market are experiencing lower wages and inflation remains high. The real-wage-bill indicators had a positive impact from the revisions, following the higher figures for the employed population, but also dropped in the September release.

Figure 4.A. Average Real Income Revisions (sa)



Sources: IBGE, Santander.

Figure 4.B. Real Wage Bill Revisions (sa)



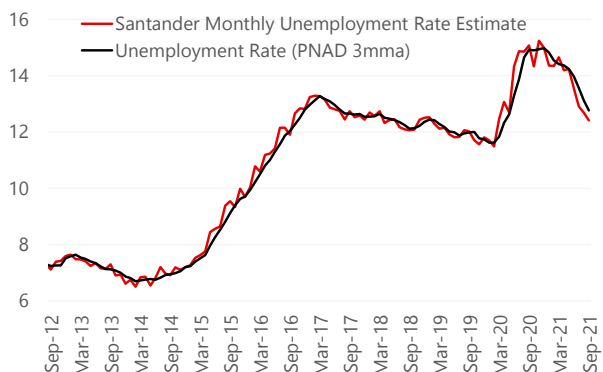
Sources: IBGE, Santander.

Other PNAD Highlights

All PNAD data is based on three-month moving averages. We estimate that the monthly unemployment rate figure stood at 12.4% (sa) in September, compared to 12.7% in August. This result followed a 0.1% MoM (sa) increase in employed population, while the labor force dropped 0.2% MoM (sa). This shows that, at the margin, the pace of labor market recovery has decelerated.



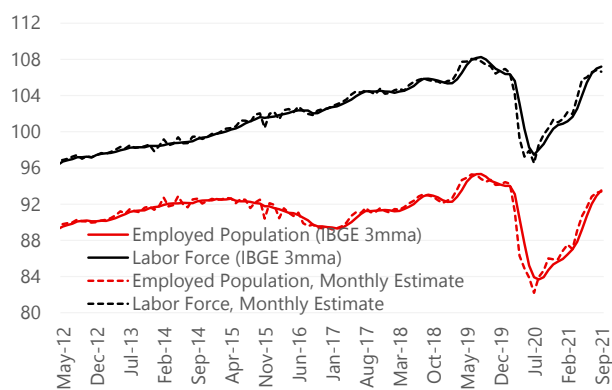
Figure 5.A. Unemployment Rate* (% of the labor force)



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.

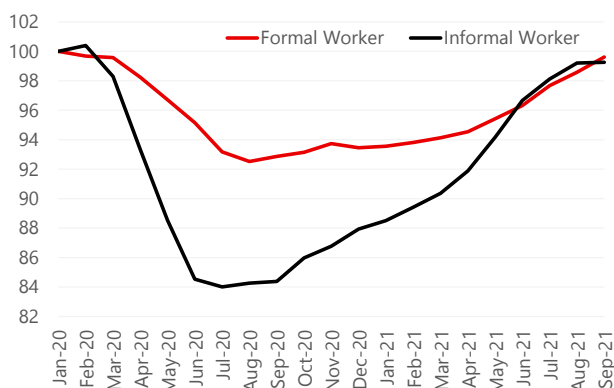
Figure 5.B. Employment* and Labor Force* (sa)



Sources: IBGE, Santander.

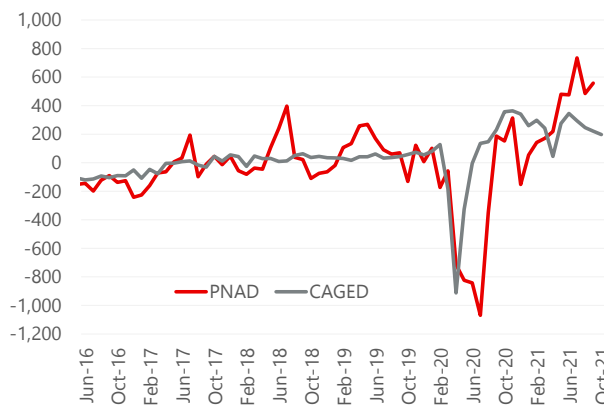
Formal employment has posted a +1.1% MoM SA variation, while informal employment remained stable. This result led the formalization rate to 57.4% (sa), an increase from the August result (57.2%). In our view, the growth in formal employment still seems to be positively impacted by the normalization in the PNAD survey, that has recently resumed in-person interviews, after over one year being made by phone. Informal employment, on the other hand, seems to lose momentum. We evaluate that the end of the formal employment program (“Emergency Benefit for Income and Employment Preservation”, or BEm) in August tends to cause a negative impact over formal employment in the PNAD when the survey normalization effect reduces, and could act as a headwind in the coming months.

Figure 6.A. Employed Population (sa, Jan-20=100)



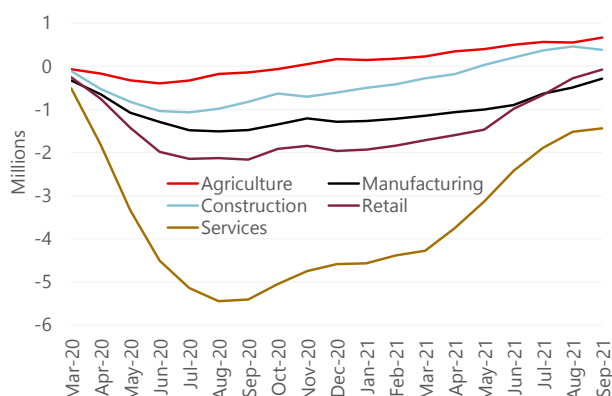
Sources: IBGE, Santander.

Figure 6.B. Net Formal Job Creation (thousands, sa)

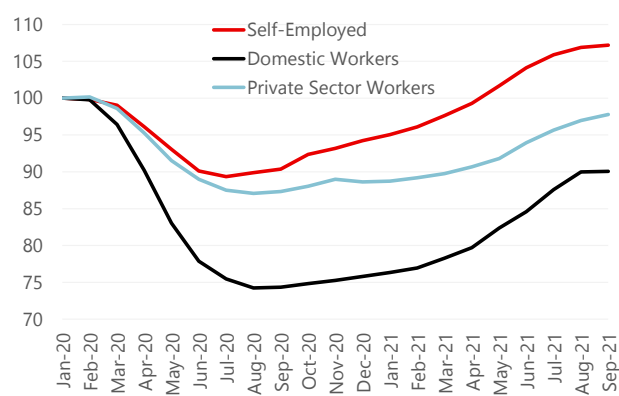


Sources: IBGE, Ministry of Labor, Santander.

The main contributions to the September employment growth came from industry and retail. Some sectors that are more dependent on social interaction, such as services, have shown some deceleration and remain at depressed levels. The accumulated job losses in the services sector since the beginning of the pandemic are close to 1.5 million. The highlight in employment recovery since 2H20 is in self-employed workers, which indicates difficult conditions in the job market, especially for informal workers. Domestic workers showed considerable growth in July and August, but remained stable in September.


Figure 7.A. Post-Pandemic Accumulated Job Losses (s.a.)


Sources: IBGE, Santander.

Figure 7.B. Employment by Position (sa, Jan-20=100)


Sources: IBGE, Santander.

October CAGED results

According to the October CAGED survey, net formal job creation stood at +253k, (versus consensus of +265k and Santander estimate of +217k), above its historical average (+90.2k) and below its all-time record for the month (+395.0k in 2020).

Figure 8 – CAGED Breakdown

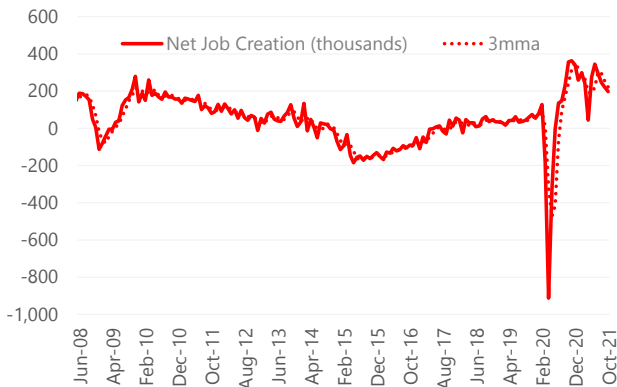
	Headline			Headline (s.a.)		
	Aug-21	Sep-21	Oct-21	Aug-21	Sep-21	Oct-21
Net Creation	372.3	313.9	253.1	245.8	220.5	197.0
Creation	1810.4	1780.2	1760.7	1702.9	1722.7	1728.2
Destruction	1438.2	1466.3	1507.7	1457.1	1502.2	1531.2
Mining	1.7	1.7	1.2	1.0	1.2	1.3
Construction	32.0	24.5	17.2	15.9	8.7	20.2
Manufacturing	69.3	72.8	23.7	46.0	25.8	15.5
Retail	77.8	60.8	70.4	65.0	37.3	43.5
Agriculture	9.2	9.1	-5.8	16.5	13.6	7.5
Services	179.5	142.5	143.7	130.8	107.1	154.7

Sources: Ministry of Labor, Santander.

After our seasonal adjustment, net formal job creation decelerated to 197k, from 220k in September. The number of hirings had a 0.3% MoM (sa) increase, while layoffs had a 1.9% MoM (sa) increase. The three-month average now points to a payroll expansion of 221k jobs, from 253k in September. Despite showing results that largely surpassed the monthly historical average since May, CAGED has continued to decelerate at the margin. We believe that the end of the BEm program on August 26 continued to affect the data, as layoffs remain at levels close to those observed in the initial months of the pandemic. We believe that the round of the program that started in April helped to contain layoffs and boost net job creation. Since July 2020, CAGED data has been consistently surpassing monthly historical averages. We believe CAGED may have underreported layoffs in recent periods, especially throughout 2H20. However, since January 2021, CAGED data's behavior was more aligned with other economic activity indicators.

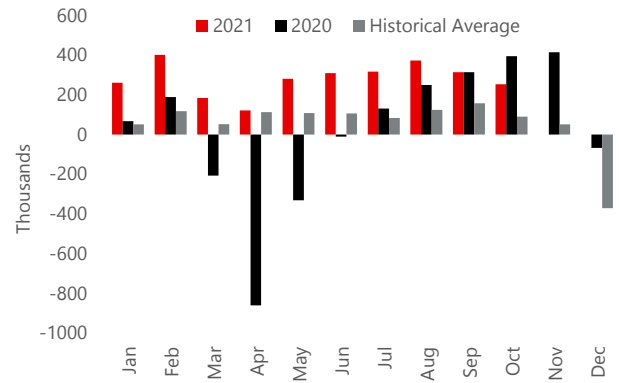


Figure 9.A. Net Formal Job Creation (sa)



Sources: Ministry of Labor, Santander.

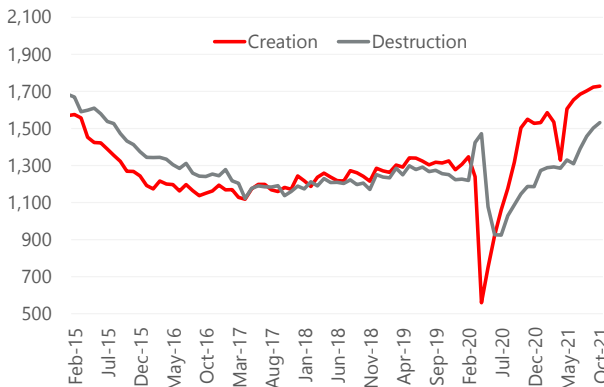
Figure 9.B. Net Formal Job Creation



Sources: Ministry of Labor, Santander.

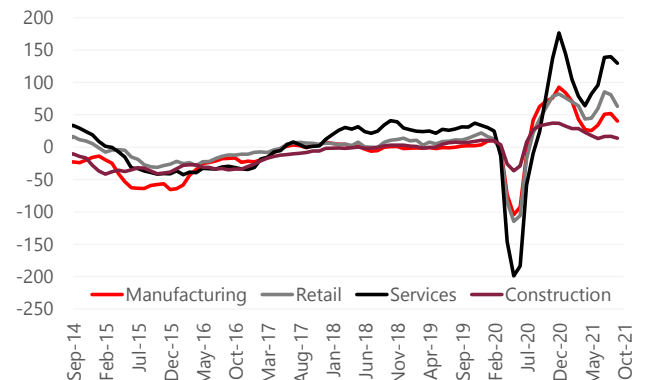
The October net result stemmed from deceleration in net job creation for all the main sectors. However, the sectors that are more dependent on social interaction remain as the highlights in job creation, such as services and retail, reflecting high urban mobility.

Figure 10.A. Job Creation and Destruction (sa)



Sources: Ministry of Labor, Santander.

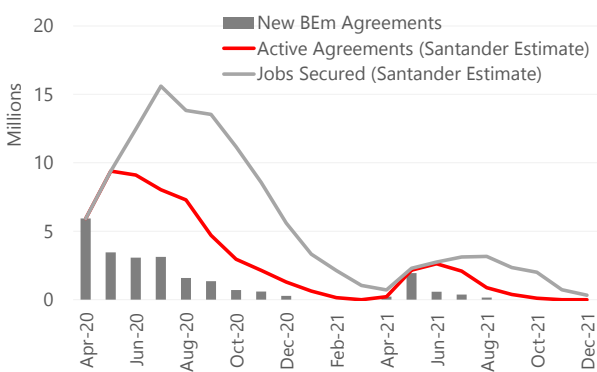
Figure 10.B. Net Formal Job Creation (3mma, sa)



Sources: Ministry of Labor, Santander.

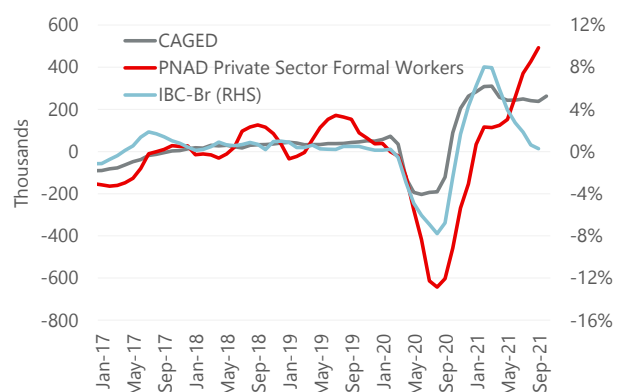
On a 12-month basis, net formal job creation reached 2.863 million (adjusted for post-deadline declarations), from 2.976 million in September. This was the second reduction in the 12-month accumulated net job creation since the pandemic low (June 2020). As the most pandemic-hit months of 2020 have left the base of comparison, CAGED now tends to show large 12-month accumulated results (there was a net accumulated destruction of over 1.5 million jobs from March to June 2020). It is also important to note that CAGED showed signs of underreporting layoffs in 2H20. Since December, CAGED data has fully offset the losses suffered during the pandemic.

Figure 11.A. BEm Agreements and Jobs Secured



Sources: Ministry of Labor, Santander.

Figure 11.B. Net Job Creation and IBC-Br (6m, sa)



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



Final Remarks

In our view, CAGED is now showing slow deceleration because the end of the formal employment program (“Emergency Benefit for Income and Employment Preservation”, or BEm) continues to affect the data, as layoffs remain at recent highs. Furthermore, the positive effects of the reopening process seem to be decreasing, as hirings decelerate.

The current batch of labor market data indicates continuity in the recovery, but the economic reopening effect seems to be fading, in our view. The revisions in the PNAD series increased the formal-employment and labor-force estimates, but had little impact on the unemployment rate. The new picture indicates the labor market much closer to pre-crisis levels, but with higher unemployment rates. Labor force is now above pre-pandemic levels in seasonally-adjusted terms (800k above February 2020), and the employed population is 500k workers below February 2020 (sa).



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