

## A Bit Closer to Normal

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- According to the January 2021 CAGED survey, net (unadjusted) formal job creation stood at +260k, (versus consensus +189k, Santander estimate +210k), considerably better than the month's historical average of +51k and above the all-time record for the month (+181k in 2010).
- Seasonally adjusted net formal job creation dropped to 240.3k, from 374.3k in December. Therefore, CAGED had another strong result, despite some deceleration at the margin. The three-month average now indicates a payroll expansion of 328k jobs, pointing to a positive result for the sixth month in a row. With the January result, the 12-month accumulated formal job creation has reached 286k (considering post-deadline declarations up to November), fully offsetting the losses suffered during the pandemic.
- It is important to note that, over the past few months, CAGED data has shown much better results than the IBGE's PNAD survey. Despite some signs of an initial normalization process in January, we believe CAGED results may still be experiencing underreporting in layoffs in the recent period, as the number of responding establishments is below the pre-pandemic average.
- In our view, further proof of this underreporting is the gap between new unemployment insurance claims and CAGED layoff data, which is close to its all-time high (on a 12-month basis), indicating that the level of monthly layoffs should be higher than the figures suggest.
- We consider that, since the beginning of 2H20, IBGE's PNAD survey has painted a more precise picture of the labor market than CAGED data. Therefore, in our view, the job market remains fragile, especially considering the possibility of underreporting in CAGED layoffs and the pandemic's impact on informal workers.

**Figure 1 – CAGED Breakdown (thousands)**

	Headline			Headline (s.a.)			Rec %**		
	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21
<b>Net Creation</b>	<b>414.6</b>	<b>-67.9</b>	<b>260.4</b>	<b>367.8</b>	<b>374.3</b>	<b>240.3</b>	<b>62.3</b>	<b>88.1</b>	<b>114.4</b>
Creation	1532.2	1239.3	1527.1	1581.8	1577.9	1533.5	-	-	-
Destruction	1117.6	1307.2	1266.7	1214.0	1203.6	1293.2	-	-	-
Mining	1.1	-0.5	1.5	1.8	1.1	1.7	49	78	121
Construction	20.7	-43.0	43.5	38.3	33.7	25.0	67	99	130
Manufacturing	49.0	-38.2	87.2	65.4	83.9	45.8	42	62	82
Retail Sales	179.1	62.6	9.8	87.0	65.9	62.3	25	40	67
Agriculture	-15.4	-23.0	33.0	5.4	19.7	23.9	225	289	343
Services	181.7	-8.3	81.3	2.4	170.5	76.2	1	10	34

\* Total Jobs Lost in the crisis

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

Sources: CAGED, Santander.

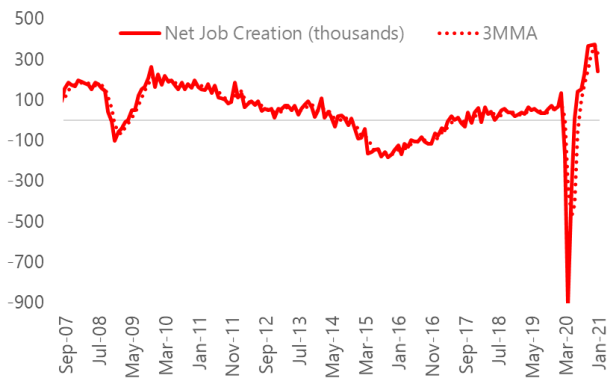
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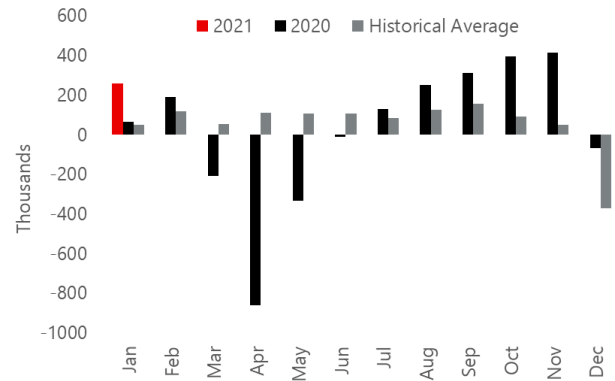
The January 2021 CAGED survey posted a net formal job creation of +260k, above both the market consensus and our estimate (+189k and +210k, respectively). The figure stood at a considerably better level than the month's historical average of +51k, and above the all-time record for the month (+181k in 2010). In seasonally adjusted terms, formal job creation dropped to 240.3k from 374.3k in December. Therefore, CAGED had another strong result, despite some deceleration at the margin. The three-month average now points to a payroll expansion of 328k jobs, also showing some deceleration at the margin, but pointing to a positive result for the sixth month in a row.

**Figure 2.A. Net Formal Job Creation (sa)**



Sources: CAGED, Santander.

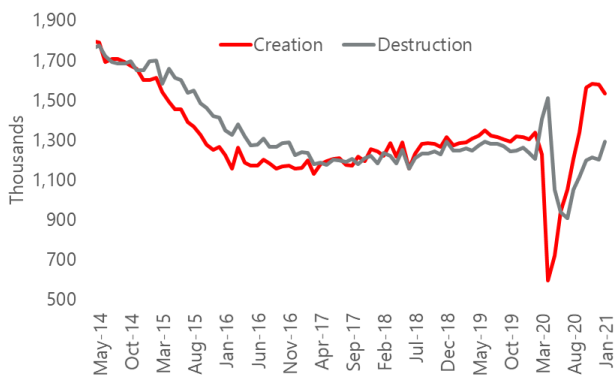
**Figure 2.B. Net Formal Job Creation**



Sources: CAGED, Santander.

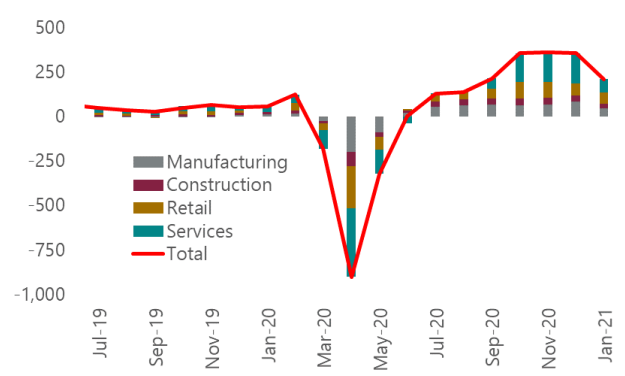
The January result stems from a 2.8% MoM sa drop in hirings, while layoffs posted a +7.4% MoM sa variation. It was the first drop in hirings since April 2020, when the initial impacts of the pandemic hit the job market. On the other hand, layoffs have returned to pre-crisis levels after several months below average. For the seventh month in a row, all the main economic sectors posted positive net job creation results.

**Figure 3.A. Job Creation and Destruction (sa)**



Sources: CAGED, Santander.

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

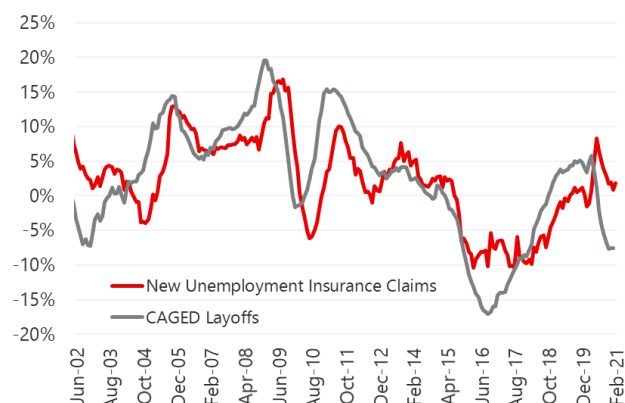


Sources: CAGED, Santander.

Over the past few months, CAGED data has shown much better results than IBGE's PNAD survey. We believe CAGED results may be experiencing underreporting in layoffs in the recent period, as the number of responding establishments is below its pre-pandemic average. Furthermore, the gap between new unemployment insurance claims and layoffs in CAGED is close to its all-time high (on a 12-month basis), indicating that the level of monthly layoffs should be higher than the figures suggest. Although the January results indicated a slight normalization in this picture — as the level of layoffs increased and the number of reporting firms is the highest since March 2020 — the distortions remain, in our view. If this normalization trend persists in the following months, the CAGED data should post results lower than that observed throughout 2H20.

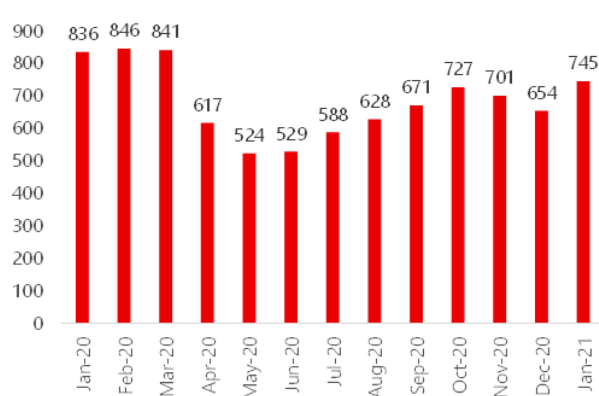


**Figure 4.A. Layoffs and Unemployment Insurance (% 12m)**



Sources: CAGED, Ministry of Economy, Santander.

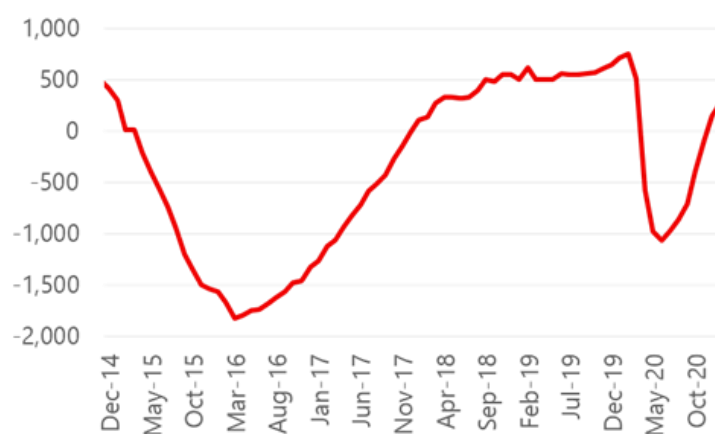
**Figure 4.B. Unemployed: Santander Monthly Estimate (% YoY)**



Sources: IBGE, Santander.

The 12-month accumulated net formal job creation has reached 286k in January (considering post-deadline declarations up to November), showing a clear recovery path. However, the possibility of a normalization in CAGED layoffs, as well as new mobility restrictions following the resurgence in the pandemic, may slow down this recovery pace. On the other hand, the government has already signaled its intention of renewing the Emergency Employment and Income Maintenance Program (BEm), which could mitigate job losses in the following months.

**Figure 5 – CAGED Net Job Creation (thousands, 12m)**



Sources: CAGED, Santander.

All in all, we consider that, since the beginning of 2H20, IBGE's PNAD survey has shown a more precise picture of the labor market than CAGED. Therefore, in our view, the job market remains fragile, especially considering the possibility of underreporting in CAGED layoffs and the pandemic's impact on informal workers — which are not covered by the CAGED survey, [details in the link<sup>1</sup>](#). Over the next few months, we expect some additional deterioration in labor market, especially in PNAD data and in the informal sector, [details in the link<sup>2</sup>](#). However, some of this worsening may spill over into CAGED data, especially if the normalization trend in layoffs persist.

<sup>1</sup> Santander Brazil Labor Market - "Stage Set for Labor Market Deterioration in 1H21" – February 26, 2021- Available on: <http://bit.ly/Sant-labor-260221>

<sup>2</sup> Santander Brazil Economic Activity - "Lingering Impacts to Slow the Recovery" – February 23, 2021- Available on: <http://bit.ly/Sant-econact-chart-fev21>

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