

PNAD Slows Down, CAGED Speeds Up

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- The IBGE's National Household Survey (PNAD) indicated that the unemployment rate stood at 14.2% in the three months to January, below our estimate (14.6%) and slightly above market consensus (14.1%), implying a 3.0 p.p. rise from the year-ago level (11.2%). We calculate that the seasonally adjusted jobless rate moved up to 14.7%, compared to 14.6% in December—a new all-time high for the series.
- The increased seasonally adjusted unemployment rate stemmed from drops of 0.2% and 0.1% MoM sa in employed population and the labor force, respectively. Labor market participation rate stood at 56.0% (sa), a slight decrease compared to the December result (56.2%). The participation rate remains at depressed levels, 5.3 p.p. below the pre-crisis mark. The effective real wage bill posted a 11.1% YoY drop in December (data lagged one month relative to other PNAD series), even worse than November's 10.0% YoY drop.
- On the other hand, CAGED survey showed that net (unadjusted) formal job creation stood at +401.6k in February, (versus consensus +255k, Santander estimate +280k), considerably better than the month's historical average of +117k and the all-time record for the month (+281k in 2011). In seasonally adjusted terms, net formal job creation increased to 331.7k, from 254.2k in January. Therefore, CAGED had another strong result, reversing the deceleration observed in January.
- It is important to note that, 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. Therefore, we maintain our view that, since the beginning of 2H20, IBGE's PNAD survey has painted a more precise picture of the labor market than CAGED. Therefore, we evaluate the current job market situation as fragile and with slacks still notable, especially considering the pandemic's impact on informal workers.

According to the IBGE National Household Survey (PNAD), the unemployment rate reached 14.2% in the three months to January, below our forecast (14.6%) and slightly above market consensus (14.0%), a rise of 3.0 p.p. in comparison with the year-ago level. We estimate that the seasonally adjusted unemployment rate rose to 14.7% in January, from 14.6% in December, as shown in Figures 1 and 2.A. Both the labor force and employed population had drops at the margin. The -0.2% variation in employment more than compensated for the -0.1% fall in the labor force, which explained the slightly higher unemployment rate and points to a still fragile labor market. Figure 2.B shows the recent deceleration both in employed and unemployed populations.

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Figure 1 – PNAD Breakdown

	s.a.			% YoY			% Feb-20*		
	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21	Nov-20	Dec-20	Jan-21
Unemployment rate (%)	14.6	14.6	14.7	2.9	3.0	3.0	3.0	3.1	3.2
Participation rate (%)	56.2	56.2	56.0	-5.4	-5.1	-5.0	-5.2	-5.2	-5.3
Labor force (millions)	98.8	99.0	98.9	-6.3	-5.7	-5.4	-6.6	-6.4	-6.6
Employment	84.4	84.5	84.3	-9.4	-8.9	-8.6	-8.9	-8.8	-8.9
Unemployment	14.4	14.5	14.5	18.2	19.7	19.8	2.2	2.3	2.4
Formalization Rate (%)	58.7	58.4	58.3	2.0	1.4	1.1	2.0	1.8	1.6
Formal Workers (millions)	49.5	49.4	49.2	-6.1	-6.5	-6.9	-3.3	-3.5	-3.7
Informal Workes (millions)	34.9	35.1	35.2	-13.5	-11.9	-10.9	-5.6	-5.3	-5.3
Average usual earnings	-	-	-	4.0	2.8	2.2	-	-	-
Average effective earnings	-	-	-	-1.0	-2.4	-	-	-	-
Usual wage bill	-	-	-	-5.9	-6.5	-6.9	-	-	-
Effective wage bill	-	-	-	-10.0	-11.1	-	-	-	-

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

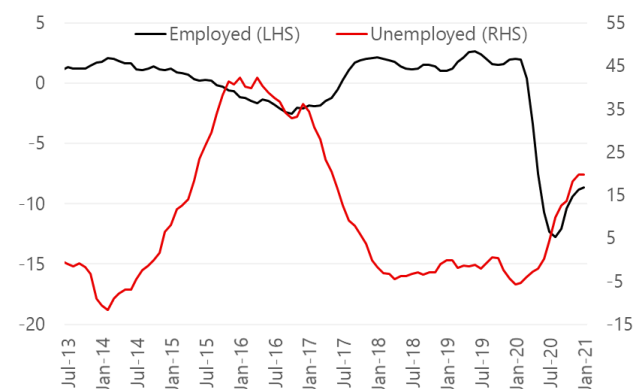
Sources: IBGE, Santander.

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



Sources: IBGE, Santander.

Figure 2.B. Employed and Unemployed (% YoY)

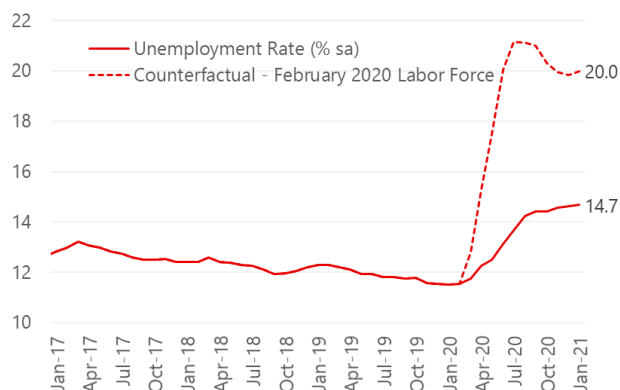


Sources: IBGE, Santander.

Labor market participation rate, which has recovered somewhat in the past few months, has once again dropped at the margin. The seasonally adjusted figure stood at 56.0% in January, from 56.2% in December. In a counterfactual exercise, if the labor force had remained at the February 2020 level, the unemployment rate would be at 20.0% in January, as shown in Figure 3.A. It is important to note that these rates (observed and counterfactual) started to converge in the recent period, but the fall in the labor force halted this movement in January. We believe that, due to the smaller round of emergency aid in 2021 and the higher levels of mobility throughout the year, the labor force and participation rate should come closer to pre-pandemic levels.

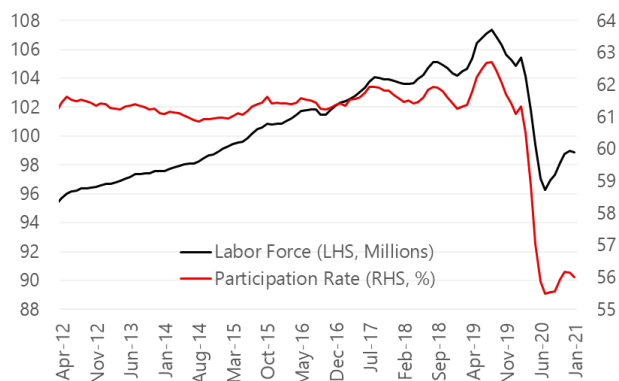


Figure 3.A. Counterfactual Exercise



Sources: IBGE, Santander.

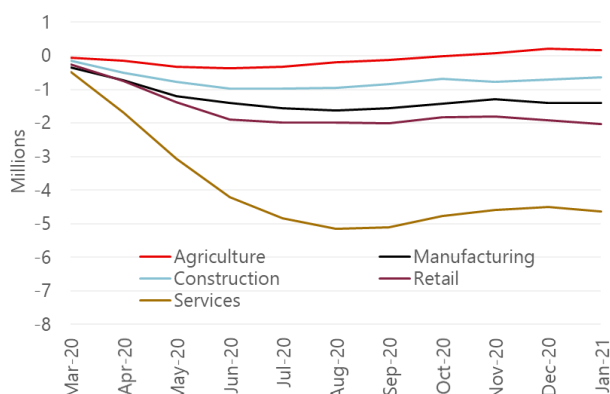
Figure 3.B. Participation Rate and Labor Force (sa)



Sources: IBGE, Santander.

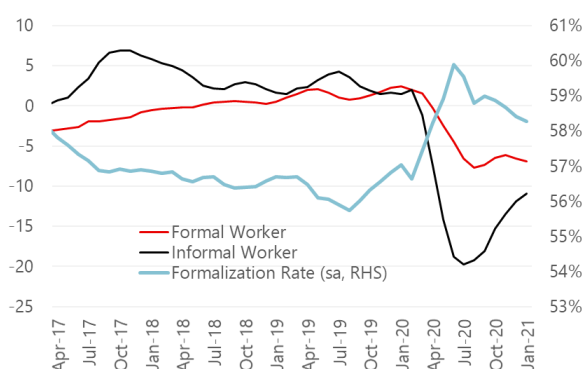
The PNAD survey continues to show that the pandemic has affected individual sectors at varying magnitudes. January data indicated a deceleration of employment at the margin for some sectors, as shown in Figure 4.A. Only the construction sector indicated some improvement at the margin. In the services sector, accumulated job losses remain above 4 million since the beginning of the pandemic, with additional worsening in January. The labor market formalization rate stood at 58.3% (sa), consolidating a trajectory of a slow reduction in the past few months, but still high due to the stronger impact of the pandemic on informal workers versus formal ones, as illustrated in Figure 4.B. In our view, informal jobs will lead the employment recovery as the economy reopens, especially in the services sector.

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



Sources: IBGE, Santander.

Figure 4.B. Employment by Position (% YoY)



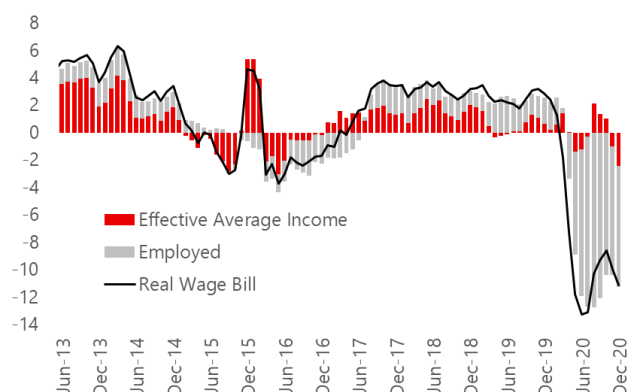
Sources: IBGE, Santander.

The effective real wage bill has worsened additionally in December (data lagged one month relative to other PNAD series), with a 11.1 YoY drop, as shown in Figure 5.A. As discussed in our recent report, [details in the link¹](#), government cash transfers and the emergency aid allowed the “expanded” real wage bill to increase in 2020. We expect the “expanded” real wage bill to have sharply dropped in 1Q21, with the halting of the Emergency Aid program and a falling employment rate. There has been a decoupling between usual and effective real wage bills, as shown in Figure 5.B. This happened due to a significant rise in real usual income, derived from a composition effect as job losses were concentrated among employees with lower wages. In our view, these differences should decrease in the upcoming quarters.

¹ More details on: Santander Brazil Activity and Fiscal Policy – “Labor Market – 2021 Thermometer” – February 4, 2021- Available on: <http://bit.ly/Sant-lbrmkt-040221>

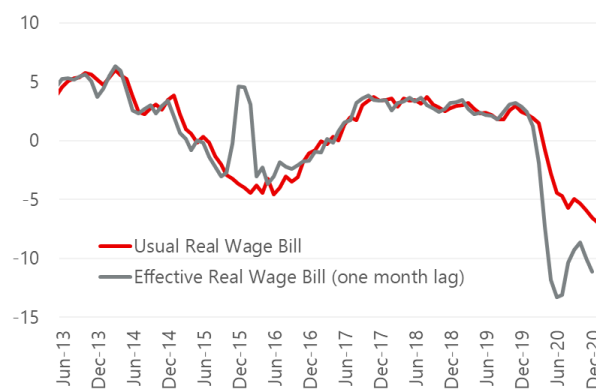


Figure 5.A. Real Wage Bill (% YoY)



Sources: IBGE, Santander.

Figure 5.B. Real Wage Bill (% YoY)



Sources: IBGE, Santander.

According to the February 2021 CAGED survey, net (unadjusted) formal job creation stood at +401.6k, considerably better than market consensus (+255k), our estimate (+280k), the month's historical average (+117k) and the all-time record for the month (+281k in 2011). After seasonal adjustment, net formal job creation increased to 331.7k, from 254.2k in January. It is important to note that, with the February result, all the main economic sectors in CAGED have fully offset the job losses suffered during the pandemic, as shown in Figure 6.

Figure 6 – CAGED Breakdown

	Headline			Headline (s.a.)			Rec %**		
	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21	Dec-20	Jan-21	Feb-21
Net Creation	-67.9	260.4	401.6	386.1	254.3	331.7	114.4	132.3	155.6
Creation	1239.3	1527.1	1694.6	1589.6	1549.3	1634.8	-	-	-
Destruction	1307.2	1266.7	1293.0	1203.4	1295.1	1303.1	-	-	-
Mining	-0.5	1.5	2.4	1.2	1.7	2.0	232	295	368
Construction	-43.0	43.5	43.5	34.8	25.2	36.1	200	222	254
Manufacturing	-38.2	87.2	88.2	86.5	50.5	69.9	128	144	165
Retail	62.6	9.8	68.1	68.9	70.7	82.2	112	133	157
Agriculture	-23.0	33.0	23.1	20.9	23.3	27.5	539	696	881
Services	-8.3	81.3	166.9	0.7	77.4	113.3	84	96	112

* Total Jobs Lost in the crisis

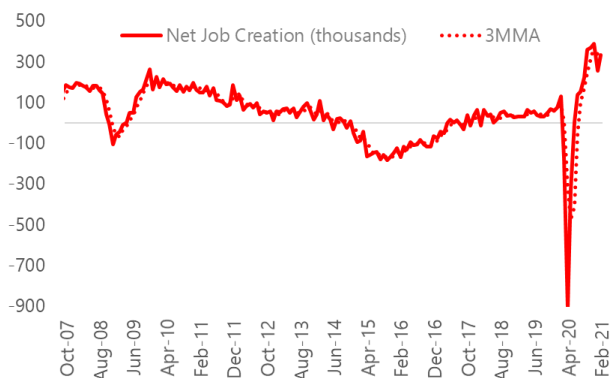
** Percentage of the jobs lost in the crisis already recovered.

Sources: CAGED, Santander.

The increase in seasonally adjusted net job creation took the figure to levels above 300k again, after a slight deceleration in January, as pictured in Figure 7.A. Since July 2020, CAGED has been constantly surpassing monthly historical averages, and, since September, every result has been a monthly all-time high, as shown in Figure 7.B.

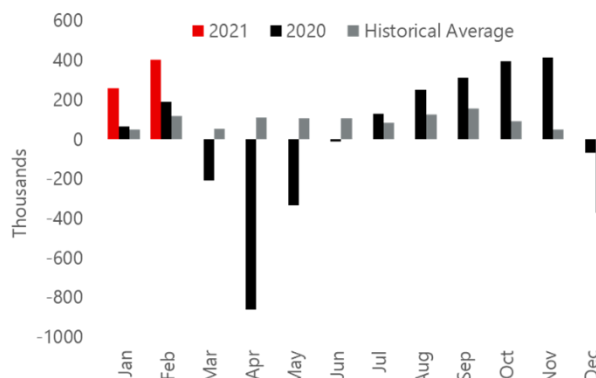


Figure 7.A. Net Formal Job Creation (sa)



Sources: CAGED, Santander.

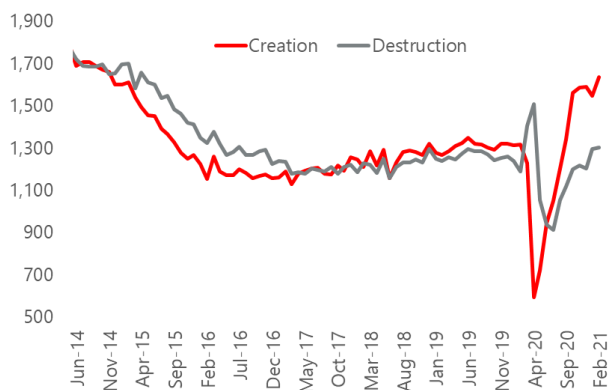
Figure 7.B. Net Formal Job Creation



Sources: CAGED, Santander.

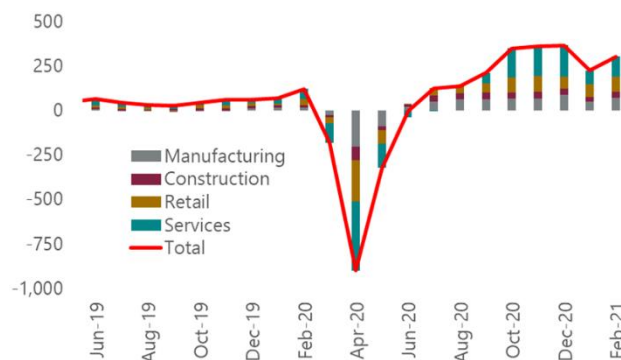
The February net job creation stemmed from an increase in job creation, as job destruction remained close to the January level, and consolidated the return to pre-crisis levels, as shown in Figure 8.A. Once again, all the main economic sectors have posted positive figures, as pictured in Figure 8.B

Figure 8.A. Job Creation and Destruction (sa)



Sources: CAGED, Santander.

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

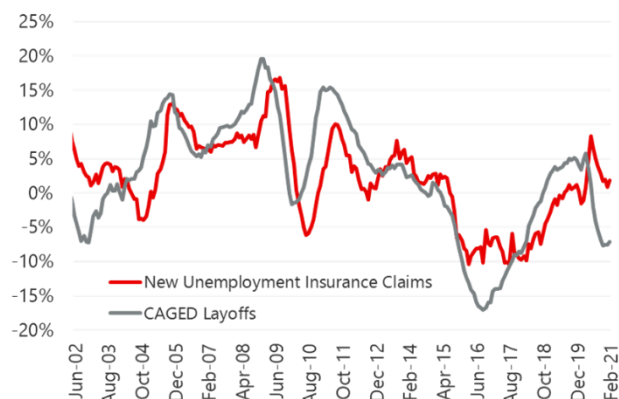


Sources: CAGED, Santander.

Despite the one-month lag between CAGED and PNAD surveys due to the pandemic, most recent data has shown more stark differences in the results. We maintain our view that the CAGED survey may be underreporting layoffs, leading to artificially high net job creation numbers. We highlight that this difference cannot be attributed to the coverage of each survey, since the data on formal workers within the PNAD still is considerably different from what CAGED has been reporting (Figure 9.B). Moreover, new unemployment insurance claims continue to indicate a gap between layoffs as report in CAGED data, suggesting that the latter should be at a higher level (Figure 9.A). We also observe the number of reporting firms in CAGED, which has been consistently lower than average since the pandemic began.

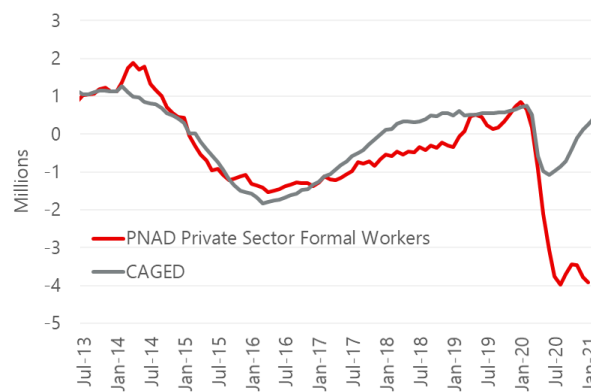


Figure 9.A. Layoffs and Unemployment Insurance (% 12m)



Sources: Ministry of Economy, CAGED, Santander.

Figure 9.B. Net Job Creation (12m)



Sources: IBGE, CAGED, Santander.

All in all, we maintain our view of a precarious labor market situation. As new mobility restrictions took place in March and April, employment should suffer further impacts, and even the CAGED data should indicate some deceleration in the coming months. We expect that most of the workers who became discouraged due to the pandemic will return to the labor force in 1H21, as the new round of government emergency cash transfers is smaller than in 2020, and, more importantly, mobility restrictions are expected to be lifted as the vaccination campaign progresses.



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